Chapter III
Conceptual framework of Corporate Governance and Corporate Social Responsibility


Introduction
The tool of Corporate Social Responsibility (hereafter referred to as 'CSR') has been introduced under the Companies Act, 2013 (hereafter referred to as ‘CA13’), effective from April 1, 2014, to address the social obligations of the corporate world. The objective of CSR is a noble one and necessary for a robust and sustainable development. The general reaction of the corporate industry towards the reform has been positive. Various companies have undertaken extensive projects addressing the socio-economic problems, facing the society at large. In light of the reform, the present paper endeavours to provide a detailed analysis of CSR regime in India.
Framework of the Corporate Social Responsibility Under the Companies Act, 2013

The vehicle of CSR has been driven into CA13 in order to bridge the gap of inequality and fulfil various social obligations that require certain amount of capital and other resources. CSR is basically an obligation towards the nation at large, which attempts to preclude confinement of the fruits of benefits to certain consumers or shareholders. It is a legal responsibility that casts upon a corporate body to address the umpteen number of socio-economic-environment concerns plaguing the country. Although proper implementation of CSR will definitely add to the grandeur of the nation, detractors have questioned the need of such obligations in a nation such as India where generally all the policies of the government focus on striving socio-economic equality and development. The reason for imposing such obligations appears to be twofold, firstly, that the protracted problems of socio-economic equality and environmental concerns have proved to be chronic and secondly, the past endeavours demonstrate clearly that a greater extent of participation is needed for reaching the roots of such problems. Bringing the corporate world into the fold of socio-economic obligations would prove to be beneficial for the masses as well as the corporate world.

Section 135 of CA13 pertaining to CSR reads as follows:
"Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director."
Applicability
Every Indian company including its holding or subsidiary company and a foreign company (body incorporated outside India, which has a place of business in India whether by itself or through an agent, physically or through electronic mode, and which conducts any business activity in India in any other manner) having its branch or project office in India, would be required to constitute CSR committee from amongst the Board if it fulfils any one of the criteria in the above mentioned provision during any of the preceding three financial years. The mandatory requirement of Section 135 will cease to be operative in respect of a company which falls outside the purview of the threshold requirement of annual turnover or net worth or net profit as envisaged under Section 135(1) of CA13 for three consecutive years. According to Section 135, the companies are mandatorily required to spend at least two percent of its average net profits made during the three immediately preceding financial years. In order to have proper channelization and utilization of such amount, CA13 provides that the profits accounted as CSR will be primarily directed to local areas around which the company operates. The Companies (Corporate Social Responsibility Policy) Rules, 2014 (hereafter referred to as 'Rules') framed under CA13 do not require the appointment of a director on the CSR Committee of the Board of an unlisted company or a private company. The private company comprising of only two directors shall constitute the CSR Committee with such directors. In case of a foreign company, the CSR Committee shall comprise of at least two persons wherein one should be resident in India and the other person nominated by the foreign company.
Quantification of Net Profit
All the companies incorporated under CA13 will have to report the net profits accrued to it for the purpose of evaluating the criteria mentioned in Section 135(1). There are separate set of regulations governing the Indian and Foreign Company in this respect.

**Indian Company:** The computation of net profit has been specifically provided in the CSR Rules. For the computation of the ‘net profit’, profits made by the company from its overseas branches or dividend income received from another Indian company have to be excluded. Moreover, the amount of 2% CSR is to be computed as 2% of the average net profits made by the company during the preceding three financial years.

**Foreign company:** The net profit of a foreign company incorporated in India shall be calculated in consonance with the balance sheet and profit and loss account of a foreign company which will be prepared in accordance with Section 381(1)(a) read with Section 198 of CA13.

Implementation of CSR
Under CA13, the activities underscored in Schedule VII can be implemented in the following ways:
(i) It must be undertaken within India;
(ii) It may be conducted as programmes, projects or activities which may either be new or ongoing;
(iii) It may be undertaken through a registered trust, registered society or charitable company operating within India which is set up by the contributing company, its parent, subsidiary or associate company; or which is not set up by the contributing company, its parent, subsidiary
or associate company if it has a track record of at least three years in undertaking similar programs14;
(iv) It may be undertaken in collaboration with other companies provided that each company falling within the criteria of Section 135 is able to individually report its CSR projects or programs.

**Penalty**
Although the compliance of Section 135 is mandatory in nature, there are no specific penalties stipulated under CA13 for non-compliance. The section is based on a 'comply or explain' model meaning that in the event of contravention of Section 135, the company is required to submit the report recording the reasons for failure of implementation in the report by the Board of Directors. The CEO or managing director or director as the case may be, the chairman of the CSR committee, and in case of foreign companies, the authorized person to accept court notices, has to sign the report. The non compliance of Section 134 attracts a fine which shall not be less than fifty thousand rupees but which may extend to twenty five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees or with both.16 Furthermore, the implementation of CSR being a board function reckons that any non-compliance with the provision should attract the penalties provided for breach of directors’ duties. In addition to that, the general penalty clause provided in CA13, which operates as the default clause for sections that do not specify any penalty, may also be attracted in the event of violation of any provision pertaining to CSR.
The Purview of Activities under Schedule VII of CA13

Schedule VII of CA13 provides the various activities which may be undertaken by the body corporates in India. Apart from the enumerated activities, the Government may prescribe any other activity which it thinks proper to be included within the ambit of CSR. Following are the activities encompassed by CA13:

Activities relating to- (i) eradication of extreme hunger and poverty; (ii) promotion of education; (iii) promotion of gender equality and empowering women; (iv) reduction of child mortality and improvement of maternal health; (v) combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases; (vi) ensuring environmental sustainability; (vii) employment enhancing vocational skills; (viii) social business projects; (ix) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and (x) such other matters as may be prescribed by the Government of India.

The Ministry of Corporate Affairs, in order to provide lucidity to the implementation of CSR, has elucidated the activities which do not fall within the scope of CSR. The following do not constitute as activities falling under CSR:

i. Activities undertaken outside India;
ii. Activities meant exclusively for employees and their families;
iii. One-off events such as marathons/ awards/ charitable contribution/ advertisement/ sponsorships of TV programmes etc. would not be qualified as part of CSR expenditure.
iv. Expenses incurred by companies for the fulfilment of any Act/Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under CA13.

v. Contributions made to political parties under Section 182 of CA13.19

**The Dissection Surrounding Corporate Social Responsibility**

Since the introduction of CSR in CA13, considerable amount of debate has taken place regarding the notion of CSR being detrimental to the corporate regime. The extant fears of corporate world have rendered certain companies to adopt a reluctant attitude towards the policy. Moreover, much disapproval also stems from the fact that the imposition of CSR as a mandatory requirement is unique to India while the global community has left it to the discretion of the companies.20 The trepidation surrounding the new legislation generally pertains to profitability, taxation and limit on activities that fall under the ambit of CSR.

**Effect on the Profitability of the Company**

An extensive debate has taken place pertaining to the unwarranted encumbrance placed upon the corporate sector due to the CSR expenditure specified in the CA13. The CSR concept has been denounced by the corporate bodies for the reason that the expenditure on CSR negatively affects the profitability of companies. However, it is not absolutely correct since CSR spending helps in building a positive image in the eyes of consumers, suppliers and the government and consequently, leads to increase in the profits. The companies whose business activities lead to harmful emissions can carry out their operations without protest movements and future stringent governmental regulations through proper implementation of CSR initiatives of
improving the environment. The concept of CSR is beneficial as consumers may take CSR spending as a constructive sign. The consumers may start willing to contribute to the righteous causes pursued by the company through its CSR spending by purchasing the company's products. It has also been found that among prosecuted firms, the courts and authorities have handed lenient penalties to those with the most comprehensive CSR programmes. As result, CSR leads to risk minimization and stability in the business operations. Therefore, the concept of CSR per se is not destructive to the corporate community. As a matter of fact, there exists a positive relationship between CSR and revenue generation. The concept of CSR has unfolded and developed from a mere philanthrophical experiment to a strategic community development. The example of Coca-Cola Company, which started a program to empower young women entrepreneurs, is an apposite one to lend merit to the argument that implementation of CSR proves to be beneficial for the companies. The objective of the 5by20 program of Coca Cola is to bring five million women in the developing world into its business by 2020 and it has proved to be a huge success for the company. Research suggests that the cumulative effect of such an initiative will lead not only to substantial increase in revenues and workers for businesses but also to better-educated, healthier families and eventually more prosperous communities.23 Another instance is that of Visa, which has for the purpose of financial inclusion built partnerships with local governments and non-profits. These associations have proved to be pragmatic and have led to positive impact on the economic framework of the developing world. Research by the Gates Foundation and others have shown that the employment of such initiatives enable poor people to lead a sustainable life by withstanding setbacks to their finances, building assets while connecting them to the wider economy.
B. Obscurity in the tax implications
The absence of clarity in the regulations pertaining to CSR and no subsequent amendment to the Income Tax Act, 1961 ('IT Act'), after the introduction of CA13 has led to perturbation in the corporate community. The primary concern pertains to the application of the IT Act to the CSR contributions under CA13 since CSR spending has been held to be taxable in umpteen numbers of judicial pronouncements. Considering the IT Act, the predominant position has been to allow tax deduction for donations, contributions, etc., made for charitable purposes.26 According to CA13, the CSR activities do not constitute activities undertaken in pursuance of its normal course of business. Thus, arises the predicament of taxability of such expenditures when such expenditure on CSR is not one contemplated under Section 37 of the IT Act which provides for allowance of any expenditure not being in the nature of capital expenditure or personal expenses of the assessee laid out exclusively for the purposes of the business or profession.27 The vicious circle of taxation is clearly evident since if any expenditure on CSR is considered as not expended wholly or exclusively for the purposes of the business in the light of the CSR rules which explicitly excludes “activities undertaken in pursuance of the normal course of business of the company”, the question arises as to whether this contribution be considered as permissible CSR spending. Recently, the Income Tax Appellate Tribunal concluded that expenditure on hospital and medical college although situated at significant distance from the unit is deemed to be in the regular course of business.28 This approach is dangerous since it obfuscates the approach to distinguish between the expenditure on CSR and regular business activities. Furthermore, Section 37(1) of the IT Act contemplates deduction for expenditure which is not of capital nature. The companies land up in a quandary in
the event of CSR expenditure resulting in creation of capital assets. Although all donations towards the Prime Minister's National Relief Fund have already been notified for 100% deduction from taxable income under Section 80G of the IT Act, the concerns regarding taxation still exist in the business markets. The issue of taxation with regard to CSR spending is a prime concern and appropriate amendments or regulations are warranted in these muddled circumstances.

**Apparent crevices in the regulatory framework of CSR vis-a-vis Foreign Contribution**

A notable feature of CSR principle is that it allows foreign companies to spend on the activities falling under Schedule VII. However, a contentious issue goes deep to the roots of governance. The definition of foreign source contemplated in the Foreign Contribution Regulation Act, 2010 (“FCRA”) encompasses companies with more than one-half of the nominal value of its share capital being held by a citizen of a foreign country or a foreign corporation or a foreign company. Under FCRA, it is imperative for any foreign contribution received from any foreign source to be approved from the Ministry of Home Affairs. Hence, any contribution or expenditure under CSR on behalf of foreign company will fall within the folds of FCRA and therefore, require approval from Ministry of Home Affairs. Indubitably, the ensuing statutory quagmire is conspicuous and has created ambiguous business environment for the corporate faction. 30 Foreign Contribution (Regulation) Rules, 2011, Rule 2 where "foreign source" includes,--

vi. a company within the meaning of the Companies Act, 1956, and more than one-half of the nominal value of its share capital is held, either singly or in the aggregate, by one or more of the following, namely:--
A. the Government of a foreign country or territory;
B. the citizens of a foreign country or territory;
C. corporations incorporated in a foreign country or territory;
D. trusts, societies or other associations of individuals (whether incorporated or not), formed or registered in a foreign country or territory;
E. foreign company;

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**Obscurity surrounding Computation of Financial Accounts of Foreign Companies**

Although there are rules governing computation of net profit in case of a foreign company as discussed in Part II of this note, there is no clarity regarding the calculation of net worth of a branch or project office of a foreign company. This lacuna gives rise to an intricate problem of calculation of CSR under CA13. Hence, the eligibility criteria for foreign companies under the CSR regime is currently unclear to this extent.
The model of CSR strategic management

In defining a model of analysis for strategic control in CSR, this paper uses an integrative systemic approach (Anthony, 1965; Forrester 1968). This approach was chosen based on the fact that studies of CSR include a gap in explaining the integration of CSR into strategic management; in CSR studies, motivations that lead companies to integrate social responsibility into strategic management systems do not appear adequately explained nor do the implications of such integration. The development of a model and formulation of the main propositions on which the same model is based require: an identification and analysis of the antecedents (contextual factors) that are the basis for a company’s
assumption of responsibility and CSR; an identification and analysis of the elements of the CSR strategic control system; an analysis of consequences (social performance) and an analysis of cause-effect relationships. The model used is multilevel type, aimed at integrating micro and macro perspectives (Aguilera et al., 2007; Lindgreen and Swaen, 2010). Particularly, in this case, the multilevel analysis focuses on explaining the trans-versal relationships between elements at an organizational level and micro and macro environment (Aguinis et al. 2011). The model incorporates mediator and moderator (Aguinis and Glavas, 2012): the former enables us to make explicit the indirect relationships between concepts, and, therefore to better understand the antecedents of a phenomenon; the latter identifies the conditions which determine the intensity of the relationships.

**Systems of corporate governance**

These arise at a higher-order level and contribute to the institutional structure of the firm; they concern mechanisms that ensure the proper functioning of the governance system and that, in general, handle power allocation and the use. Concerning CSR (Johnson and Greening, 1999), the concept of expanded corporate governance is certainly more appropriate (Blair, 1995), as the centre of attention is expanded to key stakeholders; the expanded view refers to the adaptation of stakeholders’ interests and the mechanisms for allocating power, conferred to those who are able to wield it (Coda, 1997). From this perspective, the structures and mechanisms protecting the interests of stakeholders are expanded; the structure and functioning of the Board of Directors is accompanied by legislation, internal auditing systems, ethics committees, information systems, reward systems and so on.
**Value control systems**

These systems, defined as those controlling company values, contain two elements (Simons, 1995): belief systems (values, beliefs), which specify in a positive sense, the ideals and values pursued and rewarded by the organization and boundary systems, which specify in a negative sense what should not be done to avoid excessive risk to the organization. Belief and boundaries systems are often formalized in documents such as the code of ethics, code of conduct, and so on (Stevens, 2008).

**Diagnostic systems**

Diagnostic systems for measuring performance are one of the most important tools/mechanisms for strategic control (Anthony, 1965). During the execution of strategic objectives, performance measurement tools must be used taking into account both a pragmatic and semantic perspective (Mason and Swanson, 1979). In particular, the pragmatic view involves the identification of which objects should be measured, since the measurement tool should aim to guide the behaviours of managers (Flamholtz, 1996). The semantic perspective is more often adopted, with reference to the analysis, diagnosis and evaluation of implemented strategies: in this case, the measurement tool should aim to identify a “system of symptoms” that can monitor the progress of implemented strategies in relation to the desired situation (Hofer and Schendel, 1978). The informative function of measurement tools is part of a feedback mechanism, which activates if a strategy out of line with that planned should be implemented and includes corrective actions to change managerial behaviour (Horovitz, 1979). The strategic management of CSR requires the identification of a different structure of diagnostic control systems. A different configuration can be achieved
(Atkinson et al., 1997) by: inputting CSR measures in a non-systemic way into financial diagnostic systems; adapting financial diagnostic systems in a structured way; creating specific diagnostic systems for CSR; designing new diagnostic systems oriented toward CSR.

**Accountability and social disclosure systems**

In CSR strategic control, accountability and social disclosure tools are used to improve relations with stakeholders (Morsing and Schultz, 2006) and to enhance credibility, confidence and legitimacy in the context of reference (Suchman, 1995); together these elements, in turn, improve the corporate image (Hooghiemstra, 2000). These tools enable communication processes that require the disclosure of information beyond legal obligations. Voluntary disclosure is linked to two interrelated elements: the expansion of stakeholder categories on the one hand, and on the other the extent and quality of contents communicated. Voluntary disclosure can include any data or information relevant to those stakeholders not included in the obligatory disclosure.

**Intelligence systems**

Intelligence tools (Schreyogg and Steinmann, 1987) facilitate the broad-spectrum monitoring of the socio-environmental context, so as to highlight emerging opportunities and latent threats; reference sources are established, particularly for case studies, best practices, newspapers, periodicals, magazines, websites and so on. structure, the operative mechanisms are moderators in the relationship identified in *Proposition 5*; larger and more structured firms, with advanced operative systems are more ready to implement advanced strategic control systems also for CSR (Greening and Gray, 1994; Sharma, 2000). Moreover, system
elements are mediators between CSR orientation and social performance.

CSR strategic control tools serve to monitor implementation strategies, control the validity of strategic assumptions and support analysis and strategic diagnosis processes. In this field each tool plays a special role. Strategic corporate CSR uses, from a dynamic perspective, different strategic control tools that support processes for identifying the contents of the strategy and the conditions for its implementation, monitoring the implemented strategy and verifying the validity of its structure. Using limited tools is incompatible with the full integration of CSR in strategic management as this would only partially manage (and, therefore, without full integration) the overall strategic dynamics. In the case of strategic business CSR, being basically referred to as an integration of CSR in exclusive competitive dynamics, models for performance measurement and environmental monitoring need to be adopted in order to take into account the social aspects related to the achievement of a competitive advantage. Operational CSR is not integrated into strategic management as it only covers operations; in this case some parameters of the process related to CSR are simply monitored and disclosure tools that communicate their own CSR profile can be used. In the case of formal CSR, the use of certain tools (Codes of Ethics, Social Reports, Ethical Committees) is not linked with integration processes in strategic management, but is the result of CSR policies implemented without real conviction (Mathews, 1987): in some cases for public relations (Frankental, 2001), in others simply following the “fashion” or “vanguard” (Hinna, 2005) and in other ones to artificially modify the perception of the company by stakeholders (Puxty, 1986). Some firm characteristics, such as dimension, the organizational.
Corporate social responsibility and financial performance

From a theoretical perspective, stakeholder theory (McGuire et al., 1988) sets the framework for the relationship between CSR and FP; interest groups claim company resources, and in so doing implicitly require proper company behavior, such as consideration for the environment and concern for fair and just labor relations. In those cases in which the company does not act with social responsibility, resultant costs could become significant and represent a financial burden likely to reduce profits, leading to a less socially aware entity. In contrast, if companies that adopt socially responsible policies are more profitable, then socially responsible investments will provide an incentive for businesses to increase investments in CSR programs (Pava, 2008). Numerous studies (Cochran and Wood, 1984, Aupperle et al., 1985, McGuire et al., 1988, Waddock and Graves, 1997, McWilliams and Siegel, 2000, Orlitzky et al., 2003, Smith, 2003 and Ortas et al., 2014) testify to the ever-present dichotomy between CSR and FP; however, there exist no clear-cut conclusions that clarify the positive, negative or inexistential correlation. The reasons lie in the imperfections of the studies (caused by problems in measuring FP and CSR), the omission of significant latent variables in the formulation of the models, the absence of causality analysis, the lack of rigor in the methodology, and by a shortfall in the theory underpinning the study (Margolis and Walsh, 2003). Nonetheless, Stanwick and Stanwick (1998) reviewed studies that examined the effects of CSR on FP and concluded that there exists a positive, albeit weak, relationship. Moreover, other authors (Wood and Jones, 1995 and Akpınar et al., 2008) have argued about the existence of a “misalignment” problem in the interest groups as a cause for the variance in the results; the solution lies in identifying the major interest groups most important to the company. In this regard, Alniacik
et al. (2011) conclude that positive information on company CSR leads to both employment desirability at the firm, and to an improvement in purchase and investment intentions. Akpinar et al.’s (2008) contribution settled the question as to whether all interest groups held the same importance; his study, based on interest group theory, concluded that the relationship was positive if the measurement of CSR took into account the relative importance of each interest group.

Customers, employees, suppliers, shareholders, and society as a whole represent interest groups for the corporation; however, instrumental theory posits that investors lean toward those companies with superior social behavior when all other factors remain constant, and the information on social responsibility is independently available. The theory further postulates (Choi et al., 2010) that the level of effort the companies dedicate to the different areas of CSR depends on the importance given to them by each of the interest groups. In the same sense, Brammer and Pavelin (2006) introduce the aggregate concept of corporate reputation that reflects the perceptions of a host of individual stakeholders. Demonstrating a high degree of social responsibility may therefore require a diverse range of social activities, each of which may have a separately identifiable impact upon reputation. Furthermore, stakeholder groups have differing expectations regarding firm behavior (Fombrun and Shanley, 1990), and the salience of each stakeholder group varies across industries. Therefore, the impact of CSR activism on reputation is jointly contingent upon which type of CSR activity is undertaken. Sternberg (1999) points out that the interest group approach presents two major drawbacks: first, the need to resolve the conflict between the values, objectives, and interests of the stakeholders; and second, the need to correctly account for responsibility, stressing that in the traditional corporation the directors are accountable to the
shareholders, whereas the employees and other agents are responsible, through the top level executives, to the directors. However, this doctrine explicitly rejects both types of responsibilities. This rejection is one of the distinguishing features of the stakeholder approach, which instead proposes a diffuse and ineffective structure of responsibilities. McWilliams and Siegel (2000) reach an interesting conclusion: the lack of correlation between financial profitability and CSR is caused by errors in the statistical analyses and the non-inclusion of investment in the Research & Development (R&D) variable; the latter correlates modestly with CSR. They point out that investment in R&D correlates with both FP and CSR; this correlation is due to the relationship between investment in R&D and innovation of products and services.

The reviews of Choi et al. (2010) show the results to be mostly positive, although some are negative, mixed, or uncorrelated. Margolis and Walsh (2003) reached the same conclusion in the reviews of 127 studies, carried out between 1972 and 2002; the results showed a mostly positive correlation independently of whether CSR was the independent (109 studies) or the dependent variable (18 studies).

A positive correlation was observed in those studies in which the instrumental theory of interest groups was used to solve the problem of misalignment. Based on the work of Akpınar et al. (2008), and taking as reference the KEJI Index, Choi et al. (2010) analyzed a sample of 1222 Korean companies between the years 2002 and 2008 in order to perform their statistical analysis – using two types of indices to measure the social behavior of corporations: they calculated first, an equal weighted responsibility index (“Equal-weighted CSR Index”), and second, an index weighted according to the importance of the interest groups (“Stakeholder-weighted CSR Index”). The outcome showed a positive relationship between FP and the second index, illustrating that when
companies focus their CSR policies toward those interest groups that hold greater importance for the company, financial results improve. McGuire et al. (1988) introduced a time lag factor to further investigate the relationship between financial profitability, over several years, and social behavior. Using as a measure of CSR a Fortune magazine corporate behavior index, they concluded that CSR showed a higher correlation with financial results of previous years. CSR vs. financial results of subsequent years displayed a lower correlation. Of note, Schuler and Cording (2006), while recognizing the profound importance of the Corporate Social Performance (CSP) and corporate FP linkage, alert to the unclear nature of the relationship. They suggest that (1) empirical shortcomings may distort the CSP-FP relationship, and (2) large deficiencies exist in the theoretical models used (most assume a direct link between CSP and FP). However, in defining the CSP-FP link and its constructs in greater detail, they advance how CSP leads FP. Recently, Callan and Thomas (2009) respond to these issues in an updated study of this relationship by examining two different approaches to measuring CSR, controlling for key variables identified in the literature, and testing for the non-linearity of certain variables. Their main conclusion asserts that a positive CSR–FP relationship exists.

**Corporate Governance Theories**

**Agency Theory**

Agency theory is a main theory in Corporate Governance literature (Kholeif, 2009). The theory placed shareholders as the most important stakeholder (Lan & Heracleous, 2010); (Daily, Dalton, & Cannella, 2003). Chartered Institute of Management Accountants (CIMA) defined Agency theory as premise surrounding the relationships that exist between the owners (principals) of organizations and the managers or
directors (agents) of organizations. The interest of agents might be in conflict with the interest of principal in achieving the organizational goal.

**Shareholder Theory**
Milton Friedman argued that if business organizations were to be morally responsible then, their moral obligations or social responsibilities will be nothing, other than shareholders wealth maximization. Shareholders entrust their capital to organizations’ managers, they are expected to use the capital for only organizations’ purpose to increase shareholders returns (Dittmar, Mahrt-Smith, & Servaes, 2003). Shareholder theory as proposed by Milton Friedman assert that corporate organizations’ one and only one social responsibility is to use its resources and invest in business that will maximize its profits so far that, the business is open and free competition and with no deception or fraud (Lee, 2008).

**Stakeholder Theory**
Stakeholders are defined as any person (it can be individual or company) who is affected by organization’s decisions or activities (Bryson, 2004). They are groups or individuals that benefit or harmed, and whose rights are violated or respected by organization operations (Freeman, 2010). Stakeholder theory is concerned with the idea that business organizations should be concerned about the interest of other stakeholders when taking strategic decisions (Mainardes, Alves, & Raposo, 2011). In contrast to shareholder theorists that called for shareholder wealth maximization, stakeholder theorists campaigned for satisfying stakeholders interests. From stakeholder perspective, shareholders are one of the important members of stakeholder.
Shareholders have stake and are affected by organization’s operations and achievement, same with other stakeholders such as employees, customers, suppliers, and environment and so on. The stakeholder theorists claimed that, as business owes special and particular duties to shareholders, it also has various responsibilities towards other stakeholders (Heath & Norman, 2004).

The Proposed Holistic Governance Framework

This study proposed a holistic approach to corporate governance framework, which attempts to integrate stakeholders’ interests including shareholders, considering ethical behaviour among management, understanding how organization activities or operations affect environment, economic and social and government.

Figure No:-3.2

Basic components of the proposed holistic corporate governance framework
Stakeholders
As rightly defined by (Bryson, 2004) stakeholders are any person either individual or company that are affected by organization’s decision or operations. They benefit or harmed, or their rights are been violated or respected by organization’s operations (Freeman, 2010). Some examples of main stakeholders are: shareholders, creditors, employees, directors, suppliers, government, and the community from which organization tapped their raw materials. It takes two to tango. It is very hard for a single man to perform fraud in an organization. In an organization where employees wellbeing is taken seriously, and employees interest are been considered in decision making, there is possibility that it will be difficult for employee in such organization to collide for fraud. Likewise, organizations that give ethical instructions to their suppliers and that only associate their self with ethical suppliers; there is possibility that this will reduce the rate at which suppliers will source for resource unethically.

Ethics
Ethics is a system of moral principles (Beauchamp & Childress, 2001). It is concerned with behavioral ideas regarding what is morally good or bad (Treviño, Weaver, & Reynolds, 2006). This holistic model proposed that ethics should be incorporated into corporate governance framework. Corporate governance is about how organizations are been controlled and directed. Who is behind organizational control and direction? Management, who are the management? People that are in charge of affair of the organization, therefore there should be moral principles
guiding these people in the realm of affair to govern the organization ethically. Holistically, corporate governance should be concerned with moral behavior of people in the realm of affairs of organizations. The reason is that, these are people that make decisions for organizations. Hence, if they are of good moral, it will influence their decision on the organization. This could lead to better governance for organizations. Therefore, there is need to integrate or incorporate ethics into corporate governance.

**Economic, Environment and Social**

Economic, Environment and Social concerns are concept that was coined by John Elkinton in 1994 (Elkington, 2004). This concept holistically adds two more concerns, environment and social to organizations bottom line. In accounting, the phrase “bottom line” refers to organization’s profit or loss, this is because both profit and loss are usually recorded at the bottom line of organization income statement (Henriques & Richardson, 2013). The additions of these two concerns to bottom line make it to be referred to as triple bottom line. The argument for this concept is that, its shows organizations real economic profit (Henriques & Richardson, 2013). For instance, under the traditional accounting concept of profit, most organizations show profit after deducting cost of goods sold from net revenue and less other operating expenses. Meanwhile, the cost of generating the organization’s net revenue might be more than the cost of goods sold and other operating expenses. For example, if an organization is into mining business, and during the cause of its mining operations, some of its employees have been exposed to asbestos which resulted to death of the employees and also their mine pollutes a river; hence, the cost to clean-up the river need to be accounted for and the cost incurred to treat those employees also
need to be accounted before arriving at net profit. If not, the net profit for the year does not reflect the real profit for the organization. Therefore, organizations need to first measure profit – the bottom line of the profit or loss account. The second bottom line is the organization’s people account. This measures how socially responsible an organization is, in its operations toward its employees and other people in its environs. The third bottom line is the organization’s planet account (Henriques & Richardson, 2013). This measures how environmentally responsible an organization is, in its operations towards the environment. Thus triple bottom line consists of profit, people and planet. Meanwhile, since the triple bottom line reveal the real economic status of organization, then it is worthwhile to embed the triple bottom line concept into corporate governance. This is because if organizations reveal the single bottom line profit to shareholders and in real sense there are other costs that needs to be accounted for but are not recorded, this does not show the real picture of the organization. That means the organization does not fully disclose its financial stand and this can result to fraudulent activities within the organization such as over stating the profit and under stating the expenses (Lamberton, 2005).

**CSR disclosure theories**

Holder-Webb et al. (2009) assert that “it is not enough for corporations to simply engage in CSR activities but it is also important and desirable to make information about these activities available to stakeholders”. Additionally, the call for disclosure of non-financial information has grown in response to the awareness that financial statement omits salient information about the firm (Adams et al., 2011; Adams, 2002). The financial statement actually portrays a limited picture of the firm through providing merely financial metrics. Therefore, the relevance of
non-financial information has increased significantly over the years. The emergence of non-financial reporting can be seen as an attempt to increase transparency with respect to corporate actions concerning social and environmental issues (Nielsen and Thomsen, 2007). Further, it is acknowledged that the disclosure of non-financial information is essential to reduce information asymmetry that exists between management and key stakeholders as well as to allow investors to better assess key areas of performance and support a broader view of corporate performance that encompasses society at large (Huang and Watson, 2015). Along with the increased interest to engage in CSR activities, today, corporations across the world are more voluntarily disclosing information about their CSR performance. Unquestionably, numerous motivational bases can explain companies’ involvement in CSR reporting practices (Holder-Webb et al., 2009). As CSR, the voluntary commitment for non-economic goals going beyond legal requirements, comes more and more to the center of public and academic debates (Schmitz and Schrader, 2015), therefore, we provide a comprehensive and analytical review of the theoretical perspectives on corporate social responsibility disclosure. Further, we discuss the context in which the theories used to explain the CSR disclosure practices including legitimacy theory, stakeholder theory, social contract theory, and signalling theory are more appropriate. *Legitimacy theory* Deegan and Unerman (2011) assert that the legitimacy theory relies upon the notion that there is a “social contract” between an organization and the society in which it operates. Therefore, corporation try to legitimize their corporate actions by engaging in CSR reporting to get the approval from society (societal approach) and thus, ensuring their continuing existence. The social contract as explained by Deegan (2002), represents myriad of expectations that society has about how an organization should conduct
its operations. O'Donovan (2002) argues that the legitimacy theory stems from the idea that for corporations to continue operating successfully, it must act within the bounds and norms of what society identifies as socially responsible behavior. Maignan and Ralston (2002) provide that legitimacy of a firm is dependent on the maintenance of reciprocal relationship with its stakeholders, given that the firm has obligations including moral obligations to a broad range of stakeholders in to their shareholders (Adams et al., 1998).

According to Kytle et al. (2005), CSR reporting practices have become a key management tool to the growing complexity to multinational business management. They further argue that CSR reporting helps to integrate CSR activities into companies’ strategic risk management so that the impact of CSR activities can be maximized. Waddock et al. (2002) argue that employee’s perceptions about how a corporation accepts and manages its responsibilities are often part of the employee’s decision about where to work. Therefore, publication of sustainability related information can play a role of positioning a firm as an „employer of choice” and as such, this status can enhance loyalty, reduce staff turnover and increase a firm’s ability to attract and retain high quality employees. Margolis and Walsh (2003) claim that corporation’s engagement in CSR activities and its disclosure can foster corporate performance and as such their research conclude a positive relationship between CSR performance and financial performance (shareholder approach). Roberts (1992) asserts that one way that firms consider CSR disclosure is to increase access to capital and shareholder value by satisfying stakeholder’s expectation. Investors are choosing to invest in organizations that are demonstrating a high level of CSR. Branco and Rodrigues (2008) argue that CSR disclosures play an important mechanism to enhance the effect of CSR on corporate
reputation as well as representing a signal of improved social and environmental conduct. Bayoud et al. (2012) confirm that a high level of CSR disclosures is strongly associated with corporate reputation for stakeholder group (stakeholder approach).

**Stakeholder theory**

Consistent with stakeholder approach, organizations are not only accountable to their shareholders but should also consider the contrasting interest of all other stakeholders that can affect or be affected by the achievement of organization’s objective (Freeman, 1984). The stakeholder theory is used to analyze those groups to whom a firm should be responsible. Boatright (2003) affirms that corporations are operated or ought to be operated for the benefit of all those who have a stake in the firm. Hence, like shareholders invest their money in enterprises, employees invest their time and intellectual capital, customers invest their trust and repeated business and communities provide infrastructure and education for future employees (Graves et al., 2001). The stakeholder theory embraces that business organizations must play an active role in society in which they operate. Consequently, Wicks et al. (2004) assert that corporations should consider the effect of their actions upon stakeholders who have an interest or "stake" in the corporations. Wearing (2005) provides that stakeholder theory stresses the importance of all parties, who are affected, either directly or indirectly, by a firm’s operation. The stakeholder theory can also be explained using managerial and ethical branches (Deegan, 2013). The managerial branch posits that organizations will respond to those stakeholders who can have necessary economic impact upon the organization (O'Dwyer, 2003) or those who are not directly engaged in the organization's economic activities but have an interest in the actions
of the organization and can influence it (Savage et al., 1991). On the other hand, the ethical branch simply provides that all stakeholders have a right to know about social and environmental implications of an organization's operations at all times (Deegan, 2013).

Social contract theory
Social contract thinking has its historical precedence in Hobbes (1946), Rousseau (1968), and Locke (1986). Donaldson (1982) views the business and society relationship from the philosophical thought. He argues that there exist an implicit social contract between business and society and this contract implies some indirect obligations of business towards society. Social contract thinking is explicitly recognized as a form of post conventional moral reasoning (Rest, 1999). The social contract theory is further extended by Donaldson and Dunfee et al. (1999) who in turn propose an integrative social contract theory as a way for managers to take decision in an ethical manner. According to the societal approach, firms are responsible to society as a whole, of which they are an integral part. The main idea behind this view is that business organizations operate by public consent in order to serve constructively the needs of society to the satisfaction of society (Van Marrewijk, 2003). The societal approach appears to be a strategic response to changing circumstances and new corporate challenges previously not occurred such as CSR. Ramanthan (1976) proposes to define the concepts of social components, social equity, and net social contribution. Social components are different of social groups to which the company is supposed to be bound by a social contract. Each of these groups can measure changes in its rights with respect to the company, resulting from social transactions: thus, he defines social equity. Finally, it is possible to define the net social contribution of a firm as the
aggregation of its non-market contributions to the welfare of the Society, less non-market withdrawals made by the firm on the resources of the society (Toukabi et al., 2014). As Dunfee (2006), social contact theory will suit an emerged economy where individuals are able to direct scarce resources to their highest valued use, where government is limited to its efficient ends, where free-moving prices are allowed to signal the relative value of alternate uses for scarce resources without the distortion of taxes, where the value of money is predictable, and where private property rights and contracts between individual decision makers are enforced in an unbiased fashion (Rest, 1999).

**Signaling theory**

Signaling theory explains why firms have an incentive to report information voluntarily to the capital market: voluntary disclosure is necessary in order for firms to compete successfully in the market for risk capital. Insiders know more about a company and its future prospects than investors do; therefore, investors will protect themselves by offering a lower price for the company (Omran and El-Galfy, 2014; Thorne et al., 2014). However, the value of the company can be increased if the firm voluntarily reports (signals) private information about itself (i.e., CSR) that is credible and reduces outsider uncertainty (Connelly et al., 2011; Mahoney, 2012).

Although the signalling theory was originally developed to clarify the information asymmetry in the labor market (Spence, 1973), it has been used to explain voluntary disclosure in corporate reporting (Ross, 1977). As a result of the information asymmetry problem, companies signal certain CSR information to investors to show that they are better than other companies in the market for the purpose of attracting investments and enhancing a favorable reputation (Verrecchia, 1983).
CSR disclosure is one of the signaling means, where companies would disclose more CSR information than the mandatory ones required by laws and regulations in order to signal that they are better (Mahoney, 2012; Thorne et al., 2014). Toms (2002) suggests that implementation, monitoring, and disclosure of environmental policies and their disclosure in annual reports contribute significantly to the creation of environmental reputation as prior financial performance has no impact and there is no evidence that environmental reputation is created by a financial halo effect or by the availability of slack financial resources. Hasseldine et al. (2005) integrate quality-signalling theory and the resource based view of the firm to test the differential effects of the quantity and quality of environmental disclosures on the firm's environmental reputation. Thorne et al. (2014) suggest that quality of CSR disclosure rather than mere quantity has a stronger effect on the creation of environmental reputation amongst executive and investor stakeholder groups. Connelly et al. (2011) provide a concise synthesis of the signalling theory and its key concepts; review its use in the management literature, and put forward directions for future research that will encourage scholars to use signalling theory in new ways and to develop more complex formulations and nuanced variations of the theory (Mahoney, 2012).

**Interaction between corporate governance and CSR**

**Triple bottom line**

Today we think in terms of a “triple bottom line,” focusing on economic prosperity, environmental quality, and – the element which business had preferred to overlook – social justice. (Elkington 1999 p.70) By looking at and including aspects such as human rights, workers’ rights and environmental protection companies have discovered that they can meet
different stakeholders’ interest but still achieve profit maximization (Gill 2008). Elkington (1999 p.12) explains the importance of corporate governance in the work towards a sustainable business market with an approach to the triple bottom line: “The better the system of corporate governance, the greater the chance that we can build towards genuinely sustainable capitalism”.

The ethics of narcissus
As mentioned in the background, Roberts (2001) addresses “the ethics of narcissus” which emphasizes that companies only have a desire to be perceived as ethical, which is considered to be the contrary of actually being ethical. Due to the importance of others perception of the company, its corporate governance is characterized by a narcissistic obsession with the company itself. A distorted self-image derived from that the company’s desired image is what it identifies itself with, becomes a crucial part of the corporate governance (Roberts 2001). When the perception of a company does not match with the reality regarding the implementation of CSR, it is called window dressing or green wash (Holme 2010).

Implementation barriers
Garavan et al. (2010) addresses several different types of barriers for companies when it comes to adopt and implement CSR and corporate sustainability. Two of them are individual and organizational barriers:

□ **Individual barrier** depends on how the employees react to CSR initiatives. Knowledge and awareness about what CSR and sustainability means and how they perceive that the support these issues
is two examples of individual barriers that can complicate the implementation of these kinds of questions (Garavan et al. 2010).

- **The organizational barrier** depends more on the culture within the organization. It can be reward systems or the degree of internal communication that can affect CSR and sustainability implementation (Garavan et al. 2010).

**Black Economic Empowerment**
During the apartheid almost every company in South Africa was owned by white investors and the black people lived under constant oppression. Therefore, the government raised the program Black Economic Empowerment (BEE) which should encourage companies to sell its equity to black investors and increase black ownership. Companies that complied with the BEE and took its responsibility got rewarded in form of preferential contracts from the government and an increased social legitimacy (Alessandri et al. 2011). BEE is essentially a growth strategy that targets the South African economy's weakest point: inequality (South Africa 2012). Alessandri et al. (2011) believes that BEE actions have become a CSR strategy for companies to signaling that they are committed and care about social needs. organization

**Conceptualization of Complementarily between CSR and Innovation**
The literature review suggests there remains a lack of understanding about how CSR initiatives can be based on innovation processes by improving the performance of SMEs. The purpose of this contribution is to better understand the links that might exist between innovation and CSR practices in the context of SMEs and highlight the added value that
can benefit business interaction. On the basis of key determinants put forward in this approach and connections between them, we propose a hypothetical conceptual framework, represented in the form of a figure, which allows clearer understanding of the link between innovation and CSR. does innovation bring about CSR? Or on the contrary, is it societal commitment that leads to an innovation process? Do they become so innovative in order to achieve their goals of sustainability? This rotary figure can be analysed according to two trajectories which differ by the nature of the SME concerned (innovative or not). Both of these two trajectories lead to integration of the three axes of profitability (Planet, Profit and People) on which CSR is based. They are distinguished, however, on the basis of their innovative strategy. For the first trajectory, we take the starting-point of our process to be an ordinary (non-innovative) SME. At the head of this enterprise, there is the will of the manager. That is, a manager aware of sustainable development issues and concerned about integrating the three poles of profitability to make the company aware of its responsibilities. This is due to pressure from some stakeholders (PS) on the manager and on the firm that the manager wants to engage in sustainability. These durable intentions (which are explained by our approach by the theory of planned behavior (TPB)) are manifested at the level of the determined enterprise. To pursue these sustainable goals, the SME implements innovative activities which may enable it to become more responsible. The innovation process is considered a necessary business tool to integrate CSR. Nevertheless, we consider a certain hierarchy in the integration of the three pillars of CSR. The SME, while meeting its requirements of profitability, will choose to invest in environmental and/or social actions. In familiarizing themselves with innovation activities, small businesses will also become innovative businesses. It is possible
however that the entreprise may repeat this cycle several times to fully integrate the three pillars of sustainable development (SD) and really have an overall approach to CSR.

**The institutional framework of CSR**

Innovative approaches to business pioneered by the California Public Employees' Retirement System (CALPERS) lists five basic corporate principles: accountability, transparency, equity, voting methods, and codes of best practices. Long-term vision implies that the company has a clear idea of how it will develop in the future. It is logical that the inevitable expansion liability company follows the expansion of their business impact. Pressure state authorities and society to companies in terms of their social responsibility is increasing. However, we believe that the formation of a new paradigm of corporate social responsibility is not possible without creating a solid institutional framework. For now, there are some essential prerequisites for its formation, as corporate citizenship, social investment and social partnership. It seems that the consistency of the new paradigm of social responsibility corporations mentioned elements should be added to a clear and binding institutional framework. Why? The corporate governance and CSR involves many players: shareholders (owners, ownership state; individual and institutional), wage workers (managers and employees), managers (internal and external) and corporate units (firms, banks). Their mutual relationships are complex and are determined by the institutions - the rules of the game, both formally and informally. It is therefore logical that the appropriate institutional environment and institutional competition requires effective corporate governance and the new paradigm of sustainable development. After all, if it is proven to have effective institutions precondition of economic development, it is
logical to assume the same cause-and-effect relationship, and when it comes to corporate governance and CSR. Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way in which a corporation is directed, administered or controlled. Draskovic and Stjepcevic (Ibid.) Point next to the above mentioned control relationships, which are generally more formal in character; there may also be informal institutions that play a role in corporate governance. Such informal institutions may be firm specific norms and values, management ethos and codes of conduct in business, as well as more general norms and values existing in society at large, self-regulation within a certain industry, and the reputation of a firm in its relations with its competitors, suppliers and customers. The specifications of corporate governance indicate that corporate governance institutions are aimed at supplementing formal contracts between different stakeholders.

The problem of CSR in transition countries

It is not easy to define a model appropriate and effective management at all levels at which figures: companies, regions, industries, companies and other subjects that make up the complex economic reality. Corporate Governance and CSR has long been the subject of theorists and practitioners attention with an emphasis in large corporations. This task is very difficult because researchers are faced with information barriers, trade secret regime, but no data available on the actual number of employees, the structure of relations in the corporation, social engineering, management and other indicators. In modern society, and the economy happened a shift to flexible organization processes, adaptive network organizational structure, extensive use of new information technologies and electronic communications, and global
strategies such as outsourcing and others. Qualitative complexity of the object of management, caused the development of the subject management and development model of interaction equal subject-subject, which is the essence of modern corporate governance. Corporate governance has a special relevance and significance in transition countries. In them, a noticeable active, indiscriminate and uncritical “borrowing” some elements from different Western models of management organizational schemes, including those that are not compatible, with the specific conditions of transition (primarily institutional, and then the nature of the company, their work ethic, social orientation, corporate culture, work motivation, ownership structure, management style, work motivation, corporate communications, customer relations and similar). If the institutional framework is missing in the Western concept of CSR, it can be imagined the situation in this regard in the transition countries, where many problems are expressed in terms of institutional change. Modern western ("market") is the dominant (mixed) pluralist society type in institutional meaning. In many transition countries neoliberal institutional monism type are pushing. It is clear that these are two completely different institutional frameworks, the factors influencing the formation, operation and development of corporate management. Discard the analysis of neoliberal practices, in terms of whether it institutional monistic, or pseudomonistic. However, the above elaboration becomes more important when viewed through the prism of the indisputable fact that the corporate governance in the West formed the socio-economic institutions. It is systemic integrated into the appropriate system (institutional plural) social order. In this context, it is clear why establishment of the institutions of corporate management has not experienced a complete (rather bigger) realization in many transition
countries. It actualizes problem of institutional conflicts between artificial (not to say interest) forced market monism and natural, objective, proven in practice and only possible institutional pluralism. The absence of institutional competition in years (decades) of transition reforms meant isolation of corporate management and its links with other areas of life. Reform of every society includes intensive flows of innovation in all social, political, economic, legal, cultural spheres, all levels of management and all aspects of life. This statement per se is proving to be an institutional pluralism, and that every institutional sidedness (especially if it has the pseudo prefix) results in systemic inefficiencies, contradictions and imbalances, which in extreme lead to crisis situation. As much as it was viewed in isolation, the microeconomic and macroeconomic environment is part of the overall institutional milieu. If these ambient in many ways does not correspond to the character of the Institute of Corporate Management, which by definition requires a pluralistic harmony of elements, then import other people's recipes has no chance of success. This is especially impossible in terms of monist institutional dominance pseudo market, pseudo-ownership, of pseudo-governmental and pseudo-control structures, which, looking at them individually, often represent a vulgarization of the monist institutional structures. About their pluralistic combination cannot be discussed, because rhetorically neo liberalism by definition excludes such a possibility. Of course, these are anti-civilization construction, which contradicts not only the development but also common sense. We will not engage in the evaluation and analysis of the above ant institutional scenario. It is enough to ascertain that institutional monism has no chance of success in modern pattern of social, economic, informational, and other relations, not to mention its vulgarized pseudo-institutional structures. If nothing else, it is obvious
at first sight she interrupts and deforms natural relations between microeconomics and macroeconomics; which eliminates the possibility of positive and rational activity of corporate management, and therefore the basic conditions for CSR and sustainable development. Adaptation of the Western rich experience in corporate management and CSR is only possible in conditions of transition selective methods, which need be adapted to specific institutional and systemic conditions. It is objectively possible only under conditions of institutional pluralism, which essentially provides an effective framework for the development of corporate management and CSR in developed countries. Any reduction of institutional pluralism and its reduction to the formal institutional monism (and essentially rhetorical, vulgarized and / or pseudo form) does not provide even elementary conditions for the development of corporate management and CSR.

Many theoretical and methodological aspects of corporate management and CSR in most transition countries have not developed sufficiently. Especially, not in the area of depend on to corporate management on institutional theory of economic change. Besides the legal dimension, which dominates in the scientific research of the phenomenon of corporate management and CSR, we need fundamental research which observes the mentioned phenomenon in terms of socio-economic and property relations.

**Political Systems**

The key distinguishing feature of American and European political systems is the power of the state. This has tended to be greater in Europe than in the USA (Lijphart, 1984) and European governments have been generally more engaged in economic and social activity (Heidenheimer et al, 1990). Some have nationalized insurance systems
for health, pensions and other social commodities and others have mandated corporations to assume responsibility in these areas. In America there is greater scope for corporate discretion as government has been less active therein. Even where American governments have been active this has often been through the creation of incentives to employers to provide social benefits through negative tax expenditures.

Financial Systems
In the USA the stock market is the central financial source for companies. Most of the larger, publicly owned companies obtain their capital there and shareholding is relatively dispersed among shareholders (Becht & Röell, 1999; Coffee, 2001). With the stock market being the most important source of capital, corporations have to provide a high degree of transparency and accountability to investors. In the European model of capitalism, corporations tend to be embedded in a network of a small number of large investors, among which banks play a major role. Within this network of mutually interlocking owners, the central focus is the long-term preservation of influence and power. More significant for our argument is that within the European model, stakeholders other than shareholders also play an important role, sometimes even equivalent to or above that of shareholders (Fiss & Zajac, 2004).

Education and Labour Systems
Europe and the USA have differed in the regulation and production of human resources at the post-secondary school level. In Europe there have been publicly-led training and active labour market policies in which corporations have participated according either to custom or regulation, whereas in the USA this has been an area in which
corporations themselves have developed strategies. This contrast not only reflects different state strategies but also the contrast between the relatively integrated, nation-wide and hierarchical European structures of business and labour interests which in the USA are generally poorly and sporadically represented in national policy-making terms. Historically higher levels of union membership in Europe resulted in labour related issues being negotiated at a sectoral or national, rather than corporate level. Likewise European corporations have shown a greater propensity to pursue collective interests through national business associations or federations (Molina & Rhodes, 2002; Schmitter & Lehbruch, 1979).

**Cultural Systems**

The US and European cultural systems have generated very different broad assumptions about society, business and government. Compared to Europeans, Americans are regarded as having: a relative capacity for participation (De Tocqueville, 1835/1956); a relative capacity for philanthropy (Bremner, 1988); and a relative capacity of business people for philanthropy (Dowie, 2001); relative skepticism about big government (King, 1973); and relative confidence about the moral worth of capitalism (Vogel, 1992). Thus there is the much stronger American ethic of stewardship and of ‘giving back’ to society epitomized in Carnegie’s (2006/1889) view that ‘the duty of the man of wealth [was to] consider all surplus revenues… best calculated to produce the most beneficial results for the community’. The social responsibility of the wealthy busineesperson evolved into that of the corporation (Heald, 1970). This contrasts with the greater European cultural reliance on representative organisations, be they political parties, unions, employers’ associations or churches, and the state (Lipset & Rokkan,
1967). These institutional factors have informed the US and European NBSs, specifically in terms of the nature of the firm, the organisation of market processes and coordination and control systems (Whitley, 1999)

**Nature of the Firm**
The institutional framework of a country determines key structural features of the firm including: the degree to which private hierarchies control economic processes; the degree of discretion owners allow managers in running the company; organizational capabilities to respond to changing and differentiated demands. While the USA has been more reliant on market based forms of contract based ownership, European countries, especially Scandinavian and Continental ones, have had a large amount of direct ownership or alliance ownership, most notably through networks of banks, insurance companies or even governmental actors (Coffee, 2001). European countries, notably France and the UK, have historically had high levels of public ownership and public investment in private industry. Thus, European corporations have had a range of embedded relations with a relatively wide set of societal stakeholders.

**Organization of Market Processes**
A decisive feature of a NBS is how the economic relations between actors are organized and coordinated, the two extremes here being markets and alliances. Characteristic features here would include: the extent of long term cooperation between firms within sectors; the role of intermediaries in establishing market transactions; the role and influence of business associations; the role of personal relations; and trust in establishing market transactions. In the USA, greater prominence has been given to market self-organisation, upheld by governments and the
courts through anti-trust laws, for example. In Europe markets tended to be organised by producer group alliances which either reflect consensual representation and mediation of labour and capital or, particularly in the case of France, strong government-leadership. The way these relations are organized touches on a significant number of CSR issues, such as consumer protection, product stewardship, and liability for production and products.

**Coordination and Control systems**

Finally, NBSs differ considerably in the way companies are governed. Key characteristics of NBSs would include: degree of integration and interdependency of economic processes; anonymity of employer-employee relations; the degree to which delegation takes place and trust governs relationships; the level of discretion in the task environment of employees; the degree of responsibility of managers towards employees. In the context of this paper coordination and control systems significantly impact on the role of employee stakeholders for the company. For example, European employee representation and participation is covered by dense employment regulation and protection covering a significant number of issues which in the US would be part of explicit CSR. Notwithstanding their similar commitments to democracy, capitalism and welfare, the USA and Europe have different historically grown institutional frameworks and NBSs. These are vital to a comparative understanding of CSR. Pasquero (2004) argued that American CSR is embedded in American institutions and culture, particularly in the traditions of individualism, democratic pluralism, moralism and utilitarianism. We argue that the distinctive elements of European CSR are embedded in the European NBSs, such as industrial relations, labor law or corporate governance. A conceptual framework
for understanding differences in CSR. We have argued that US-style CSR has been embedded in a system which leaves more incentive and opportunity for corporations to take comparatively explicit responsibility. European CSR has been implied in systems of wider organizational responsibility which have yielded comparatively narrow incentives and opportunities for corporations to take explicit responsibility. We therefore identify two distinct elements of CSR, the explicit and the implicit. By explicit CSR we refer to corporate policies which assume and articulate responsibility for some societal interests. They normally consist of voluntary programs and strategies by corporations which combine social and business value and address issues perceived as being part of their social responsibility by the company. A recent example was the response of Walmart, FedEx, Home Depot and other US companies to provide disaster relief to the victims of hurricane Katrina in 2005 which - with more than $792m raised by September 2005 (Roner, 2005) - in speed and scope exceeded the initial response by the US government. Explicit CSR

**Concluding Remark:**
With the incorporation of CSR mandate in CA13, the government has laid down its intention of distributing the fruits of development to all the sectors. However, there are certain lacunae as discussed above such as the limited set of activities provided in Schedule VII of CA13 which may impede the bonafide endeavours of the companies since it does not bequeath the freedom of choice on the companies with respect to activities which are not covered in the Schedule VII of CA13. Additionally, clarification is necessitated with regards to the regulations *viz-a-viz* the foreign companies. Nevertheless, the CSR is not only a philanthropic experiment but also a successful marketing strategy with
the lofty motive of resolving the socio-economic problems. Although there are certain ambiguities, they should not be allowed to become impediments in implementing the true spirit of CSR which brings good by doing good. Therefore, the legislature and the corporate world need to work hand in hand for a smooth implementation while taking into consideration, each other's concerns.

References


