CHAPTER 1

1.1. Introduction

The economic performance of a company has direct and indirect impacts on all of its stakeholders – including its employees, local governments, non-profit organizations, customers, suppliers, and the communities in which the companies operate. For example, a good economic performance makes it possible to develop operations for the long term and to invest in development and the well-being of employees. Companies are also major contributors to the well-being of the area surrounding their operations, through the local tax base among other things. Taxes have a significant impact on the creation and distribution of wealth. Therefore organizations are in an advantageous position to bring about remarkable creativity, innovation, opportunity and production to society resulting in an unparalleled standard of living.

The total economic impact which an organization creates on society, both financial and non-financial is an extremely important concern which cannot be ignored by the corporate sector. However for long it was only the financial impact that remained foremost on the minds of business leaders. It was from 1945 onwards that social responsibility and social impact started getting equal if not more attention than it had received previously.

Many organizations have shown an increasing responsiveness in addressing social concerns. Social responsibility means being accountable for the social effects the company has on people. This includes the people within the company, in the supply chain of the company, in the community where the company is operating and as customers of the company. Thus an organization has to address the needs of a wide range of stakeholders. Social responsibility also refers to the management’s obligation to make choices and take such actions that will contribute to the welfare and interests of society as well those of the organization.

This transformation that took place within organizations, of thinking beyond financial parameters and becoming increasingly active in addressing social issues for the overall development of a society, started taking place, because in recent times, there has seen been profound changes in global political and economic arrangements. The rise of the European Union in particular has influenced expectations in the realm of corporate responsibility or corporate social responsibility.

1.2. The Drivers behind CSR

Globalization: Globalization of the economy and even the operations of smaller companies is a major factor in contemporary perspective. Globally operating companies are confronted with a wide range of new issues (cultural and regulatory differences, labour and child labour standards, bribery and corruption, health crises, human rights, deforestation, to name a few.)

Non-governmental Organizations (NGOs): The civil society organizations (CSOs) and nongovernmental organizations (NGOs) often stand as a counterpoint to blind profit –seeking corporate behaviour. This has partly induced companies to respond with CSR activities. NGOs at the centre of the grass root level social welfare activities are extremely heterogeneous in terms of their goals. These range from questioning the fundamental power of corporations to augmenting /reducing beneficial / detrimental impacts, from confrontation to engaging strategies, from stand alone operations to highly sophisticated coalitions among NGOs.

Government-related Initiatives: Political pressure has prompted CSR initiatives in governmental and intergovernmental organizations. Proposals came up to prioritize CSR, within the United Nations, the International Labour Organization (ILO), the OECD, the governments of the United Kingdom, France, and the European Union-to name a few. The
WTO has also been a focal point for debate about the scope of business responsibilities since the WTO sets the rules for the global trade. The range of issues is equally diverse, encompassing those relating to environment, labour rights, human rights, trade, corruption, corporate governance, health, transparency and disclosure etc.

Public Opinion: Societal values today, more so than sixty years ago, appear to emphasize the responsibility of companies to improve society and to improve the environment. Shifts in public values and opinion can be related to the growth of NGOs, changing informal standards as well as legal prescriptions for business conduct, emergence of cause-related marketing, and linkage between a company’s reputation and its responsibility and commitment towards community involvement.

MORI (Market Opinion Research International), the largest market research company in Great Britain, Gallup, Harris and other polling organizations in different countries provide data on the public’s changing values and expectations. A MORI poll series on public opinion between 1998 and 2002, found that the proportion of consumers, who believed that in buying a product or service it is very important that the company must disclose a high degree of social responsibility, rose from 28 percent to 44 percent. Various studies have been conducted to capture suppliers, executives and consumer opinions (BSR 2001; Holmes, 1976; Lea 2002).

Pervasive corporate attention to CSR has not been entirely voluntary. Many companies responded to it only when caught by surprise due to public responses to issues they had not previously thought were part of their business responsibilities. Nike, for example, faced an extensive consumer boycott after the New York Times and other media outlets reported abusive labour practices at some of its Indonesian suppliers ‘units in the early 1990s. Shell Oil’s decision to sink the Brent Spar, an obsolete oil rig, in the North Sea led to Greenpeace protests in 1995 and to international headlines. Pharmaceutical companies discovered that they were expected to respond to the AIDS pandemic in Africa even though it was far removed from their primary responsibilities, product lines and markets. Nowadays fast-food and ready to eat food companies are being held responsible for obesity and poor nutrition. Activist organizations and civil societies of all kinds, both with rightist and leftist learning’s have grown much more aggressive and effective in bringing public pressure to bear on corporations for becoming sensitive to socio-environmental issues. (Porter & Kramer, 2006).

Socially Responsible Investment (SRI): The growth of a strong "Socially Responsible Investment” movement gives distinct advantages to companies performing well on sustainability criteria and therefore provides a key driving force for improved corporate responsibility practices. Socially responsible investment grew out of grassroots efforts to restrict investment in South Africa as a means of opposing apartheid. Other issues capturing the attention of ethical investors have been: the environment, military armaments, alcohol, tobacco and community or economic development, among others. SRI investors and analysts have increasingly pressured companies to disclose social, environmental and ethical risks that may impact business and to report regularly on social and environmental as well as financial results, popularly known as the “triple bottom line.”

Codes and Standards: While some codes and standards have emerged from business leaders themselves (e.g., the Caux Round Table Principles for Business), many codes are products of consumer and NGO advocacy and public dissatisfaction with corporate conduct. In some instances, companies have become partners in multi-sector initiatives to develop standards. Some are grounded in governmental conventions such as the UN Declaration on Human Rights or the several ILO conventions on labour. Standards advanced by NGOs, religious groups, business, and others (some with government involvement) include: The Sullivan
Principles, the CERES Principles, the Bellagio Principles Toward Sustainable Development, the Minnesota Principles, Voluntary Principles on Security and Human Rights, the White House Apparel Industry Code of Conduct, and the UN Global Compact, to note a few. Developments of such standards are also considered to be some of the drivers of CSR.

1.3. Business Case for CSR

With the spread of the phenomenon of globalization more than ever before, business leaders began to realize that we live in an inter-connected world where mutual interdependence forms the basis of our existence and progress. For the survival and sustained growth of business itself, apart from anything else, it is not sufficient to limit our thoughts and concerns within the boundary of the organization. Thus, the spectrum of initiatives around CSR is an ever-expanding one that may start from employees and shareholders, but include customers, suppliers, the social milieu, the government, the natural environment and even competitors. Moreover, with increasing thrust on responsible corporate governance, there has been a shift from a preoccupation with the interests of shareholders to an engagement with the concern for multiple stakeholders from diverse constituencies. At a micro level, with transparency being regarded as a value that demands availability and the smooth flow of information, companies can no longer afford to manipulate the customers and arm-twist the vendors. At a macro level, corporate leaders are compelled to consider the impact of their business decisions on the community and the environment at large the distant others. Further, with increasing dependence on the stock market for equity financing, there is also the growing need to attract and fulfill the expectations of conscious investors who value the goodwill of companies that invest in CSR initiatives. Corporate Social Responsibility today is not just a part-time philanthropic activity, but a strategic imperative directly linked to business results for long-term sustainability of organizations. It may also be mentioned that the scope of CSR is no longer limited to monetary donations for a social cause. Companies need to reconsider their new role as partners and facilitators in development and participate in capacity building programmes for the disadvantaged sections of society. This will raise the overall standard of living, increase the purchasing power of the people, and thereby expand the markets for selling their own products and services.

Incidentally, such initiatives by any company also boost the morale of employees by instilling in them a sense of pride and ownership. This has a direct and positive impact on their levels of motivation, and enhances their productivity and contribution towards the achievement of organizational goals and objectives. After all, engagement with CSR activities does make “good business sense”.

It may be mentioned here that companies in which the level of employee satisfaction is low are likely to be the least effective in CSR initiatives. It is not possible to generate goodwill in the external environment without taking good care of the needs and aspirations of the employees.

Besides the financial costs of unethical business practices domestically and globally runs sky-high. Unethical business practices produce intangible costs as well; including stakeholder dissatisfaction reduced co-operation and support for business initiatives and eroded domestic and global business reputations. Business leaders who neglect to control such tangible and intangible losses are and will continue to be held accountable economically, legally and ethically.

Domestic and global business stakeholders have begun to demand that businesses exhibit higher levels of ethical performance and social responsibility. In addition to the conventional stakeholder expectations of business making a profit, paying taxes, creating jobs, and obeying the law, business stakeholders are increasingly demanding that business set higher ethical standards of self regulated performance and improve society rather than merely privatize gains.
and externalize costs onto public tax-payers. Progressive business leaders acknowledge that when corporations uphold ethical standards, consumers will conduct more business with them and investors in turn will benefit.

Being ethical and CSR-oriented builds stakeholder trust for business leaders and if this trust is broken, the unethical party may be shunned, ignored and marginalized, thereby depriving the business, of the benefits of future business partnerships. The opportunity costs of lost cooperation can be overcome by sustaining trustworthy relations with market and non-market stakeholders through demonstrated ethical behaviour on a regular basis.

Being ethical and socially responsible allows business to operate more efficiently in a domestic and global free market. When business acts unethically, it invites excessive external government regulation oversight that protects victimized business stakeholders by increasing standards of accountability, transparency and punishment that inevitably increase the cost of doing business. When this unethical business activity becomes prevalent in global environments, institutionalized corruption adds to the cost of doing business resulting in the loss of high quality human and financial capital.

Besides, ethical business leaders who build principled organizations in morally sound environments are able to attract and retain the highest quality human and financial capital. Business market stakeholders want to do business with an ethical company and business non-market stakeholders provide the supportive social capital to nurture future business success. Therefore, in the long run, being ethical and CSR-oriented pays.

There is an accumulating body of evidence suggesting that ethical and socially responsible behaviour increases the trustworthiness of a firm and strengthen its relationships with various stakeholders. These positive stakeholder relationships are likely in turn to decrease transaction costs according to Barnett (2007) and lead to financial gain (as in increased employee commitment and motivation, decreased turnover, union avoidance and increased customer loyalty). In the words of Fombrun et al, (2000), ethical and responsible business conduct helps a company build reputational capital and enhances long-term competitive advantage.

1.4. The Concept of CSR

The concept of CSR has been developing from decades earlier. Leaders and scholars have struggled to define and conceptualize CSR. However with all the evolution there is no single commonly accepted definition of CSR, thereby the interpretation of CSR one makes influences the dialogue between governments, private sector and civil society. This results in defining implications among various stakeholders regarding the legitimacy, obligations and impact of corporate social responsibility standards, stakeholder being defined in this case as employees shareholders, the customers, the suppliers, the social milieu, the government, the natural environment and even the competitor. One has to be careful in understanding and deferring the term "CSR" because it is sometimes mistakenly equated with either corporate philanthropy or simply compliance with law.

CSR is the internal obligation of each business entity to account for the way its activities impacts the economic, social and environmental dimensions of its environs and to ensure that this impact generates equitable and sustainable benefits and there is no harm to all the stakeholders involved. From the time the concept of CSR has gained momentum various groups and leaders have tried to define the concept in their own manner. Corporate social responsibility is an evolving concept with unclear boundaries and without precise definitions (Frankental, 2001, Lantos, 2001). Therefore, no universal definition of CSR exists. It is in general difficult to know what companies should be responsible for regarding CSR (Tullberg, 2005).
According to Fortune Magazine Survey, social consciousness (of businessmen) meant, businessmen were responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-and-loss statements. Note: ninety three percent of businessmen responding agreed with this statement. (Fortune Magazine survey (1946), cited in Bowen 1953, p. 44).

According to Bowen CSR refers "to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society."(Bowen, 1953)

Frederick in 1960 had stated [Social Responsibilities] mean that businessmen should oversee the operation of an economic system that fulfils the expectations of the public. This means in turn that production and distribution should enhance total socio-economic welfare. Social responsibility, in the final analysis, implies a public posture toward society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms. (Frederick, 1960, p. 60, cited in Carroll, 1999).

David's notion of CSR was worth noting. He noted a priority in business obligations: first, to make the business effective, second to make the business organization itself a good and just society (a healthy organization) and, third, to operate in ways that respect and contribute to external communities and organizations - in other words to be constructive. According to him, social responsibility signifies "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest."(Davis, 1960, p. 70; cited in Carroll, 1999)


Distinguishing social obligation, social responsibility, and social responsiveness, Sethi suggested: "Thus social responsibility implies bringing corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations of performance." (p. 62).Social responsiveness by contrast is... “the adaptation of corporate behaviour to social needs.” ( Sethi, 1975; cited in Carroll, 1999)

According to Preston and Post "....the term social responsibility to refer only to a vague and highly generalized sense of social concern that appears to underlie a wide variety of ad hoc managerial policies and practices." (Preston and Post, 1975; cited in Carroll, 1999)

From the point of view of Carroll "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time." (p. 500)"It is suggested here those four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be' depicted as a pyramid." (p. 40) and - "The CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen."( Carroll, 1979, p.43)

Drucker suggested that 'social responsibility' of business is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into
human competence, into well-paid jobs, and into wealth.”(Drucker, 1984, p. 62; cited in Carroll, 1999)

Michael Hopkins defines CSR as something “concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. Consequently behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation.(Michael Hopkins, 1998)

Lohaman and Stenholtz regard CSR as a combination of three separate parts: sustainability, corporate accountability and corporate governance of the numerous definition of CSR. (Lohaman & Stenholtz, 2003)

Therefore, in all the above definitions the relevance of sustainability, corporate accountability to all its stakeholders and good corporate governance have been highlighted since these three terms hold the key to economic development and the question of survival of corporations in the long run.

1.5. Conclusion

To advance CSR, we must root it in a broad understanding of the inter-relationship between a corporation and society at large. Successful corporations need a healthy society. Education, health care, proper drinking water and sanitation facilities, proper infrastructures and creation of more employment opportunities are essential for rapid economic development. Safe products and working conditions not only attract customers but lower the internal costs of accidents. Efficient utilization of land, water, energy, and other natural resources makes business more productive. Good government, the rule of law, and property rights are essential for efficiency and innovation. Strong regulatory standards protect both consumers and competitive companies from exploitation. Ultimately, a healthy society creates expanding demand for business, as more human needs are met and aspirations grow. Any business that pursues its ends at the expense of the society in which it operates will find its success to be illusory and ultimately temporary.

At the same time, a healthy society needs successful companies. No social programme can rival the business sector when it comes to creating the jobs, wealth, and innovation that improve standards of living and social conditions over time. If governments, NGOs, and other participants in civil society weaken the ability of business to operate productively, they may win battles but will lose the war, as corporate and regional competitiveness fade, wages stagnate, jobs disappear, and the wealth that pays taxes and supports non-profit contributions evaporates.

Leaders in both business and civil society have focused too much on the friction between them and not enough on the points of intersection. The mutual dependence of corporations and society implies that both business decisions and social policies must follow the principle of shared value. That is, choices must benefit both sides. If either a business or a society pursues policies that benefit its interests at the expense of the other, it will find itself on a dangerous path. A temporary gain to one will undermine the long-term prosperity of both. To put these broad principles into practice, a company must integrate “a social perspective into the core frameworks it already uses to understand competition and guide its business strategy.” (Porter & Kramer, 2006)
expand the nature and scope of CSR interventions beyond financial contribution. Sometimes it becomes necessary to partner with non-governmental organizations (NGOs), and social and cultural organizations to address those needs of the community that do not come within the core competence of the organization. The Tatas, HLL, ITC, Infosys, Excel Industries, TVS Group and Dr Reddy's Laboratories are some such organizations that have demonstrated their commitment to CSR though active and creative initiatives over long years.

Corporate social responsibility is an evolving concept with unclear boundaries and without precise definitions (Frankental, 2001, Lantos, 2001), no universal definition of CSR exists. Therefore for the purpose of our research, CSR has been defined as corporate discourse and/or programs that constitute responsibility to the environment and responsibility to community development (Besser, 1999). The array of terminology to be used within the broad CSR realm includes corporate social responsibility, corporate citizenship, stakeholder engagement, community development, social contribution, philanthropy. (Waddock, 2004).

CSR has now slowly acquired a new momentum amongst the business houses because the best index of a company’s success is longevity and it comes from living in harmony with the society. Society is an important stakeholder for corporation. Long-term success of any corporation requires it to earn the goodwill and this goodwill can be achieved by showing its responsiveness towards social responsibility. This would help them to enter new markets and build up a reputation which in turn would have a positive impact on their products. Therefore examining the transformation from a stage of mere individual philanthropy to the stage of corporate social responsibility and into its related areas such as stakeholder theory, business ethics, sustainability, and corporate citizenship in the global and the Indian context is the focal point of the next chapter.