Chapter-2

Corporate Social Responsibility: A Theoretical Framework, Changing Dimensions and Major Issues
2.1 The Historical Evolution of Corporate Social Responsibility

The last twenty years have seen a radical change in the private sector's relationship both with the sector and civil society. Globalization, deregulation, privatization and a redrawing of lines between state and market have changed the basis on which private enterprise is expected to contribute to the public good. Meanwhile, the relationship between companies and civil society has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society.

The emergence of large corporations during the late 1800s played a major role in hastening movement away from the classical economic view. As society grew from the economic structure of small, powerless firms governed primarily by the marketplace to large corporations in which power was more concentrated, questions of the responsibility of business to society surfaced.¹

Although the idea of corporate social responsibility had not yet fully developed in the 1920s, managers even then had a more positive view of their role. Community service was in the forefront. The most visible example was the Community Chest movement, which received its impetus from business. Morrell Heald suggests that this was the first large-scale endeavor in which business leaders became involved with other non-governmental community groups for a common, non-business purpose that necessitated their contribution of time and money to community welfare projects.² The social responsibility of business, then, had received a further broadening of its meaning.

The 1930s signaled a transition from a predominantly laissez-faire economy to a mixed economy in which business found itself one of the constituencies monitored by a more activist government. From this time well into the 1950s, business’s social responsibilities grew to include employee welfare (pension and insurance plans), safety, medical care, retirement programs and so on. McKie has suggested that these new

developments were spurred both by governmental compulsion and by an enlarged concept of business responsibility.\(^3\)

Neil J. Mitchell, in his book *The Generous Corporation*, presents an interesting thesis regarding how CSR evolved.\(^4\) Mitchell's view is that the ideology of corporate social responsibility, particularly philanthropy, was developed by American business leaders as a strategic response to the antibusiness fervor that was beginning in the late 1800s and early 1900s. The antibusiness reaction was the result of specific business actions, such as railroad price gouging, and public resentment of the emerging gigantic fortunes being made by late nineteenth-century moguls, such as Andrew Carnegie and John D. Rockefeller.\(^5\)

As business leaders came to realize that the government had the power to intervene in the economy and, in fact, was being encouraged to do so by public opinion, there was a need for a philosophy that promoted large corporations as a force for social good. Thus, Mitchell argued, business leaders attempted to persuade those affected by business power that such power was being used appropriately. An example of this early progressive business ideology was reflected in Carnegie's 1889 essay, "The Gospel of Wealth," which asserted that business must pursue profits but that business wealth should be used for the benefit of the community. Philanthropy, therefore, became the most efficient means of using corporate wealth for public benefit. A prime example of this was Carnegie's-funding and building of more than 2500 libraries.

In a discussion of little-known history, Mitchell documents by way of specific examples how business developed this idea of the generous corporation and how it had distinct advantages: it helped business gain support from national and local governments, and it helped to achieve in America a social stability that was unknown in Europe during that period. In Ronald Berenbeim's review of Mitchell's book, he argues that the main

\(^3\) McKie, pp. 27-28.


motive for corporate generosity in the early 1900s was essentially the same as it has been in the 1990s — to keep government at arm’s length.6

The period from the 1950s to the present may be considered part of the modern era in which the concept of corporate social responsibility gained considerable acceptance and broadening of meaning. During this time, the emphasis has moved from little more than a general awareness of social and moral concerns to a period in which specific issues, such as product safety, honesty in advertising, employee rights, affirmative action, environmental protection, and ethical behavior, have been emphasized.

By the late 1990s, many multinational corporations (MNCs) were redefining their role in society and their responsibility to human rights and the environment. As the corporate social responsibility movement grew, many companies pledged to improve their social and environmental performance based on the principles of CSR. Some companies made a business case for CSR, arguing that it can be enhance profitability by reducing the risk of negative publicity, consumer boycotts, and shareholder activism. Other companies made an ethical case for CSR, arguing that corporations have a moral obligation to people and the planet which supersedes the singular pursuit of profit.

The core drivers of CSR are the growth in stakeholder expectations, the shrinking role of the state, responsibility for the supply chain and increasing pressure from shareholders. Envionics’ 2001 CSR monitor, reported that corporate reputation is now based more on social responsibility than brand image, particularly in wealthy countries. The majority of respondents ranked environmental impacts, labour practices, business ethics and social contribution as the most important factors for forming an impression of a company.

These dynamics combined with the macro changes have led to the emergence of a new approach to corporate social responsibility, with companies recognizing that improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term success. Increasingly, high profile companies are implementing CSR processes such as public commitment to standards, community investment, continuous improvement, stakeholder engagement and corporate reporting on

6 Ibid., 62.
social and environmental performance. The basic drivers of CSR consist of: values; a value shift has taken place within business where they not only feel responsibility for wealth creation but also for social and environmental goods. Strategy; being more socially and environmentally responsible is important for the strategic development of a company. Public pressure; pressure groups, consumers, media, the state and the other public bodies are pressing companies to become more socially responsible.

CSR has primarily been the concern of transnational corporations (TNCs) it is increasingly involving small and medium enterprises (SMEs), both as supplier to international companies and markets and as recipients of support through donor-led programmes to encourage economic development. Thus the interaction between CSR and SMEs in developing countries is an important issue, not only for the SMEs and those supporting their development but also for all the actors driving CSR forward. TNCs, civil society organizations (CSOs), governments, and multilateral bodies like the EU and UN, which have incorporated CSR within their strategies. CSR approaches are increasingly being seen alongside other development interventions, as a key way in which donor countries can assist in the development process. Without the incorporation of SMEs into the global social value chain. The aim of CSR to contribute to international development targets will not be met.

The United Nations Industrial Development Organization (UNIDO) has for many years been at the forefront of supporting the development of SMEs in developing countries and has recognized the increasing influence that TNCs now have on that development. UNIDO’s SME Branch ahs therefore initiated this study in order to provide a strategies analysis of the current state and future directions of CSR globally; the implications of CSR for SME development; strategies to support SMEs in responding to the demands of CSR; CSR approaches that support the role of small business in development.

The United Nations itself is working with business in a variety of ways to address social and environmental problems, and there has been an ongoing debate concerning the nature of an overarching relationship with business. This came to the force with the

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announcement by Kofi Annan in 1999 of the UN global compact that formalizes a role for business in social development. Three bodies UNDP, ILO and UNEP are tasked with taking the compact forward.

Although the compact has faced some criticism, mainly from NGOs it has undoubtedly been a strong driver across the UN for a greater level of prominence and debate about CSR issues. Of those more critical of the emerging partnerships with the UN, UNRISD has been particularly skeptical of the role of business in development. Peter Utting of UNRISD has raised concerns that the UN’s principles may be compromised by such partnerships, and that the UN is straining rather than strengthening relationships with an important sector of the NGO community. Jane Nelson, author of a report to the UN General Assembly on global partnerships, recently summed up five key areas to which the United Nations can play a part in promoting CSR. i.e. focus on SME and micro-enterprise development; use its market power and put ethical criteria into its $45 billion procurement process with business; assist companies to interpret UN conventions and translate them into company practices; work with subsidiaries and large local companies to solve local problems; provide the space to develop a public policy framework that addresses such issues and foreign debt, GMOs etc.

For the UN in general and also in case of UNIDO-entering into concrete operational partnerships with private business is a fairly new development. It is a new challenge requiring innovative approaches, openness to new ways of working and certainly time to evolve and mature. It is not business as usual. As a UNIDO Expert meeting convened in October 2000 clearly showed, actors on both sides are still learning how to understand each other and how to ensure that different working cultures can meet to serve the ultimate goal of sustainable development. Accordingly a lot of time and effort is still being spent on creating awareness. Ensuring commitment and identifying

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tools and mechanisms. However, this leads to poverty reduced, employment increased, skills enhanced, competitiveness strengthened or marked accessed.

2.2 Corporate Social Responsibility

Corporate social responsibility is also known by a number of other names. These include corporate responsibility, corporate accountability, corporate ethics, corporate citizenship or stewardship, responsible entrepreneurship, and “triple bottom line”. As CSR issues become increasingly integrated into modern business practices, there is a trend towards referring to it as “responsible competitiveness” or “corporate sustainability”. A key point to note is that CSR is an evolving concept that currently does not have a universally accepted definition. Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society. As issues of sustainable development become more important, the question of how the business sector addresses them is also becoming an element of CSR.

2.2.1 Theories of CSR

This field is riddled with definitions and also presents a landscape of theories, each differing from the other. Garriga and Mele classify them into four main groups.

First are the Instrumental Theories. In their opinion, CSR is seen only as a strategic tool to achieve economic objectives and thereby, wealth creation. These theories have a long tradition and have enjoyed wide acceptance in business. It supports any activity (acting without deception and fraud) that will maximize the shareholder value. Social demands are rejected as they only impose cost to the company. Cause-Related Marketing (CRM) also falls under this category. Typical CRM activities include musical concerts, art exhibitions, or literacy campaigns. This is a win-win situation, as both the company and the charitable organization benefits from the program.

Second are the Political Theories. This looks at the relation between businesses and society in terms of power. In the 1960s, K Davis was one of the first to explore the power that businesses had in a society. He contended that any business is a social
institution and must use power responsibly. With globalization some large multinational corporations became more powerful than some governments. Although the idea of a firm as a ‘citizen’ was not new, it was looked at now with renewed interest. The term ‘citizenship’, taken from political science, is at the core of the notion of ‘corporate citizenship’. In spite of the differences among theories, they converge on a strong sense of business responsibility towards the community, partnerships, and consideration for the environment.

Third are the Integrative Theories. This group proposes that businesses ought to integrate social demands. In the 1970s, the approach focused on social responsiveness and processes to manage them within the organization. The concept of ‘social responsiveness’ was soon expanded with the idea of ‘Issues Management’. This attempts at minimizing surprises which accompany social and political change by serving as early warning for potential threats and opportunities.

The fourth and the final group is that of Ethical Theories. They look at the ethical aspect of the whole issue for example, human rights. In recent years, some approaches based on the human rights were proposed for CSR. One of them is the UN Global Compact, which covers nine principles in the areas of human rights, labor, and environment. This was first presented by Kofi Anan (The then UN Secretary General) in his address to The World Economic Forum in 1999. The Global Compact was launched in 2000 at the UN headquarters in New York. Many companies have since adopted it.

Another popular value-based concept is ‘sustainable development’. This seeks to meet the needs of the present without compromising the ability of the future generation to meet their own needs. Although the idea initially included only the environmental factors, it has now expanded to include the social dimension too.

2.2.2 Phases of CSR in India

Tatjana Chahoud and et al. in their report on CSR on India trace four distinct phases:

The first phase was motivated by charity and philanthropy. In the period up to the 1850s merchants committed themselves to society for religious reasons sharing their wealth in building temples. The business community (Vaishyas) occupied a special place
in ancient Indian society. They also provided relief in times of famine and other calamities. With the colonial rule, Western type of industrialization reached India and changed the nature of CSR. The pioneers of industrialization in those times were families like Tata, Birla, Bajaj, Godrej and Mahindra all who were strongly in favor of philanthropy. But their interests were not necessarily motivated by religious sentiments. The underlying pattern of charity included sporadic donations (to schools and hospitals) without any long-term engagements.

The second phase was dominated by India's struggle for independence. Gandhi's idea of a trusteeship aimed to consolidate and amplify social development. During this period, Indian businesses actively engaged in the social reform processes. Their involvement was stimulated by the vision of free and modern India. The notion of trusteeship encouraged businesses to setup trusts for schools, colleges, and other institutes of higher learning.

In the third phase we see more of a 'mixed economy'. With the emergence of the Public Sector Undertakings (PSUs), there was a shift from corporate self-regulations of business activities. The 1960s is usually described as an "era of strict control", as there were very strict regulations that determined the activities of the private sector. The PSUs were established with the intention of guaranteeing appropriate distribution of wealth to the needy. However, this had its own limitations. Consequently, the private sector grew, and the need for its socio-economic development became indispensable.

In the fourth phase we see CSR at interface between philanthropic and business approaches. Abandoning the traditional philanthropic engagements, Indian companies began integrating CSR in their overall business strategy. In the 1990s, the Indian government took steps to liberalize and deregulate the Indian economy, thus integrating India into the global market. This resulted in a great boom which continues even today.

2.2.3 Development of CSR

Stage 1 Window Dressing

The initial engagement with CSR was to change corporate reporting to indicate a concern for CSR without any actual change in corporate behavior. This is the stage which
led to accusations of greenwashing. It is also the stage which continues to be seen even though, in reality, probably every organization has progressed to a stage of greater maturity.

Stage 2 Cost Containment

Corporations are always looking at their processes and seeking to operate more efficiently, thereby reducing costs. Organizations have realized that some of these can be represented as CSR activity – with issues like energy efficiency or water efficiency being the obvious examples. There is a double imperative for this kind of activity – to improve financial performance and also improve the social responsible image. Not surprisingly, corporations quickly moved from stage 1 to this stage – where action was taken even though it is not necessarily motivated by a sense of social responsibility.

Much of this kind of activity is easy to undertake as it requires very little in the way of capital investment and naturally, this activity is undertaken first. Activity requiring capital investment has a longer payback period and tends to be undertaken more cautiously, with the threat of regulation often being needed to encourage such activity.

Stage 3 Stakeholder Engagement

All corporations are concerned with their important stakeholders and make efforts to satisfy their expectations. Thus, the concern about employees and customers that corporates display, reflect the power of the stakeholder groupings rather than any expression of social responsibility. Often organizations embark upon this task to avoid legislation. For CSR this concern has become formalized, often through the development of a balanced scorecard and such things as customer or employee satisfaction surveys. Most organizations have progressed through this stage also, by embedding such activities into normal ongoing business practice.

Stage 4 Measurement and Reporting

Now most companies – certainly large ones – provide this information in the form of a report. Over time, these reports have become more extensive and more detailed by including a broader range of measures of social and environmental performance. So, most organizations have reached this stage of maturity also. The problem with this stage
is that at the moment, there are no standards of what to report and hence, organizations tend to report different things, thereby hindering comparability. Companies such as AccounAbility, with its AA1000 standard, and the Global Compact have sought to redress this through the introduction of a standard, but none have gained universal acceptance. Consequently, it is probably true to say that this is the current stage of development for most organizations.

Stage 5 Sustainability

The discourse of sustainability has become as ubiquitous as the discourse of CSR report that every firm in the FTSE100, for example, mentions sustainability with 70% of them focusing upon this. Any analysis of these statements regarding sustainability reveals the uncertainty regarding what is meant by it. Clearly, the vast majority do not mean sustainability as defined by Aras & Crowther (2007). A full understanding of sustainability would imply radical changes to business practice and a significant amount of process reengineering. But there is little evidence that this is happening. Most companies are only starting to reach this stage of maturity and to grapple with the issues involved.

Stage 6 Transparency

It is no longer acceptable for a firm to say that what happens in a supplying firm – or even the supplier of a supplier – is not their responsibility. Population opinion counts and hence, we wait for companies to become sufficiently mature to enter this stage so as to hold them responsible for ensuring socially responsible behavior among their suppliers as well as in their own units. Thus, there have been examples of some very large companies – such as Gap or Nike – acknowledging responsibility and taking appropriate action to ensure change. This is an issue, which is growing in importance and is being addressed by the more mature (in CSR terms) companies. Thus it is claimed that some companies are at this stage in their maturing, but still a minority of companies.

Stage 7 Accountability

The final stage represents what our wishes have been so far rather than actuality. It is based upon the fact the multinationals can decide where to locate their operations
and that all high value added operations are located in developed countries. For many, it would be relatively easy to transfer to less developed countries and if that happens, then the company would be making a real contribution towards effecting change.

Essentially, our argument is that CSR must be considered as a process of development for every organization – a process that is still taking place. Furthermore, every organization goes through the same stages in the same chronological order. Thus, the leading exponents of CSR are only now beginning to address stage 6 and possibly consider stage 7. Less developed corporations are at lower stages of development.

Table 2.1: Stages of Maturity of CSR Activity

<table>
<thead>
<tr>
<th>Stage of Development</th>
<th>Dominant Feature</th>
<th>Typical Activity</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Window dressing</td>
<td>Redesigning corporate reporting</td>
<td>Changed wording and sections to reflect CSR language</td>
</tr>
<tr>
<td>2</td>
<td>Cost containment</td>
<td>Reengineering business processes</td>
<td>Energy efficiency programs</td>
</tr>
<tr>
<td>3</td>
<td>Stakeholder engagement</td>
<td>Balanced scorecard development</td>
<td>Customer / employee satisfaction surveys</td>
</tr>
<tr>
<td>4</td>
<td>Measurement and reporting</td>
<td>Sophisticated tailored measures</td>
<td>CSR reports</td>
</tr>
<tr>
<td>5</td>
<td>Sustainability</td>
<td>Defining sustainability: reengineering processes</td>
<td>Sustainability reporting</td>
</tr>
<tr>
<td>6</td>
<td>Transparency</td>
<td>Concern for the supply chain: requiring CSR from suppliers</td>
<td>Human rights enforcement (e.g. Child labor)</td>
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<tr>
<td>7</td>
<td>Accountability</td>
<td>Reconfiguration of the value chain</td>
<td>Relocating high value added activity in developing countries</td>
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</tbody>
</table>

Source: Crowther (2006)

There are factors, which have lead to the increasing awareness among corporate organizations. One of them is companies are facing challenges of changing environment in the context of globalization and in particular internal market. New concerns and expectations from citizens, consumers, public authorities and investors in the context of globalization and large-scale industrial change are emphasizing on need for responsible business practices. Another is to fulfill long run self interest. A better society would
produce a better environment in which the business may aim at long run profit maximization. One is to establish a better public image. Each business organization must enhance its public image to secure more customers, better employees and higher profit. Socially responsible behaviour improves the public image of organization. One strong factor is to avoid government regulation or control by support social activities. The more socially responsible business is, the less government regulation can be expected. Next is to avoid misuse of national resources and economic power. Corporate organizations are obliged to use resources for the common good of society. They must honour social obligations while exercising the delegated economic power. Corporation engaged in genuine community activities exhibit a positive brand image i.e. they help greatly to build brand equity. One another factor is the license for a company to operate and grow comes from the society itself depending on the social contribution, which had made towards the society.

The social responsibility of business was not widely considered to be a significant problem from Adam Smith’s time to the Great Depression. Since 1950s, corporate social responsibility (CSR) has been increasingly researched. Notwithstanding the fact that business produces goods and services that society needs but there is also interdependence between business and society as on going process. Since 1960, the early conservative approach to social responsibility may be denoted by ‘social values’ whereas the new evolving approach is termed as ‘social responsibilities’ school. However, from 1970’s onwards CSR emphasis shifted to welfare and development of society. After this, focus shifted to social responsiveness i.e. the capacity of organization to respond to social pressure and needs.

In recent years, CSR has gained growing recognition as a new and emerging from of governance in business. Corporate social responsibility is qualitatively different from the traditional concept of corporate philanthropy. Traditionally, corporate acknowledged the debt that they owed to the communities within which it operated. It also defined the business corporation’s partnership with social action groups in providing financial and other resources to support development plans, especially among disadvantaged communities.
The emerging perspective on corporate social responsibility focuses on responsibility towards all stakeholders: shareholders, employees, creditors, suppliers, government and community rather than only on maximization of profit for shareholders. Social responsibility may encourage companies to focus on optimum profits rather than maximum profits. Ultimately in the long run both the organization and society gain when the organizations conduct their business in a socially responsible manner. Real CSR involves employees in the private, public and voluntary sectors, going beyond marketing stunts and the compliance with minimum standards legislation and becoming totally committed to their responsibilities to work force.

There are varieties of approaches of corporate social responsibility. Keith Davis and Robert Blomstrom explains corporate social responsibility as social responsibility is the obligation of decision makers to take actions which protect and improve the welfare of society as a whole along with their own interest.\(^{11}\) This suggests two active aspects of social responsibility - protecting and improving. To protect the welfare of society implies the avoidance of negative impacts on society. To improve the welfare of society implies the creation of positive benefits for society. Another approach given by Joseph McGuire is also quite general. McGuire asserts the idea of social responsibility supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society, which extend beyond these obligations.\(^{12}\)

Although this statement is not fully operational either, its attractiveness is that it acknowledges the primacy of economic objectives side by side with legal obligations while also encompassing a broader conception of the firm’s responsibilities. Next approach set forth by Edwin Epstein, relates CSR to business management’s growing concern with stakeholders and ethics. Edwin asserts corporate social responsibility relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems, which have beneficial rather than adverse effects upon pertinent corporate stakeholders. The normative correctness of the products of corporate action has been the


main focus of corporate social responsibility. This approach is helpful because it concentrates on the outcomes, products or results of corporate action for stakeholders, which are only implicit in the other definitions. Each of the aforementioned definitions of corporate social responsibility has its own relevance.

At this point Archie Carroll introduces his four-part approach of CSR that focuses on the types of social responsibilities it might be argued that business has. Carroll’s helps to understand the component parts that make up CSR. The social responsibility of business encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time. Carroll’s four-part approach attempts to place economic and legal expectations of business in context by relating them to more socially oriented concerns. These social concerns include ethical responsibilities and philanthropic responsibilities.

Another approach of corporate social responsibility is CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. Ethically or responsible means treating stakeholders in a manner deemed acceptable in civilized societies. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher standards of living, while preserving the profitability of the corporation for peoples both within and outside the corporate organization. Now, the concept of corporate social responsibility has acquired broad support in various international FERA. Three important international institutions have underlined the need for governments and companies to adhere to the principles of corporate social responsibility. These are the World Business Council for Sustainable Development (WBCSD), the Organization for Economic Cooperation and Development (OECD), and the Dow Jones Sustainability of Group Indexes (DISGI). The WBCSD is a major driving force on the concept of corporate social responsibility established in Jan. 1995. The

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WBCSD is an association of 140 international companies drawn from more than 30 countries representing more than 20 industrial sectors.

The WBCSD describes corporate social responsibility as the continuing commitment by business to behave ethically and contribute to economic development while families as well as of the local community and society at large. According to WBCSD, corporate social responsibility defines what a company has to do, in order for it to win and enjoy the confidence of the community as it generates economic wealth and responds to the dynamics of environmental improvement.

The OECD has also been engaged in developing the concept of corporate responsibility. A critical element of corporate responsibility is the need for government and companies to incorporate all the three dimensions of sustainable development – economic, environmental and social – in their decision making process. The DJSGI also identified social well being (or corporate social responsibility) as one of its sustainability principles which companies must satisfy in order to be listed in the DJSGI. The DJSGI includes over 200 of the top sustainability companies in 68 industries in 22 countries. The total market capitalization of DJSGI is 4.3 trillion USD\textsuperscript{17}. CSR should be seen as a critical challenge to environmental justice as it compels governments and industries to address the distributional inequities of environmental risks, especially in the natural resource sector of the economy.

Further approach is given, as CSR is a powerful way of making sustainable competitive profit and achieving lasting value for the shareholders as well for the stakeholders. CSR and reporting thereof is a win-win opportunity not just for companies and for financial investors but for society at large\textsuperscript{18}.

Bhatia explains corporate social responsibility as social responsibility of business means the obligation of business enterprise to make decision and follow lines of action, which are desirable in terms of the objective, and value of a society. Decision may affect environment, consumers and the community\textsuperscript{19}.

\textsuperscript{17} See Press Release, Dow Jones Sustainability Group Index, Zurich, Sept. 8, 1999, pp. 1.
\textsuperscript{18} \url{www.csreurope.org} visited on 5\textsuperscript{th} Sept, 2006.
2.3 Corporate Social Responsibility Vs Corporate Governance

Corporate governance is also a very important part of corporate social responsibility. Corporate governance is considered a system by which companies are directed & controlled. It is set of standards, which aims to improve the company’s image, efficiency, effectiveness and social responsibility.

Corporate governance issues are beginning to be taken more seriously in recent times. This is due to several factors: the much greater awareness and activism of shareholders for better and more transparent direction and management of their companies. Corporate governance issues fall broadly under three categories: first, accountability of the directors and managers of a corporation to their shareholders and other stakeholders, including accounting and reporting policies and practices and associated transparency; second, role and responsibilities of the board of directors and best practices that contribute to the meaningful discharge of these responsibilities and third, the role of the regulators, investors, professionals and professional bodies, and ultimately the government and society at large in bringing about desired standards in corporate governance.

Corporate governance issues have attracted considerable attention, debate and research world wide in recent decades. Corporate governance has wide ramification and extends beyond good corporate performance and financial propriety. Good corporate governance is the key to efficiency in a competitive environment. In this corporate governance provides a cutting edge. It is good for the shareholders because it is good for the company on which their future depends.

Internationally, corporate governance norms have been initiated through a judicious mix of the three available routes: legislation, regulation and self-discipline. In countries with well-developed economies, capital markets, commercial and citizen awareness, legislative interventions are minimal and not the preferred option. Regulatory agencies such as capital market regulators, professional bodies and central banks play an important role in bringing about an orderly and disciplined regimen among their

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constituents. Self-regulation through persuasion comes about through initiatives taken by industry chambers and business associations.

In India, company legislation has until recently been the main instrument for improving corporate governance. The Companies’ Act 1956 was a consolidating legislation of monumental proportions and for reaching impact that significantly altered the structure of corporate management in India. Changing with the times, industry associations have taken the initiative to come up with guidelines for their member companies in the area of governance. The Confederation of Indian Industry (CII) initiated a formal effort when it produced in 1998 a document titled “corporate governance – a desirable code”. It probably for the first time formally recognized the obligation of listed corporations to create wealth and distribute it among all their shareholders. A similar initiative was mounted by SEBI with the constitution of a committee (KMB) under the chairmanship of Shri Kumar Mangalam Birla. Its report recommending guidelines on corporate governance published in February 2000 that will stand corporates in good stead in their governance – improvement endeavors. The constitution by the Department of Company Affairs (DCA) of a study group to report on improving corporate excellence through governance is also in itself a further initiative in the direction of enhancing the corporate image of India. DCA is currently engaged in the exciting task of enabling Indian companies to excel in a globally competitive market, create wealth for the shareholders and to the nation by promoting an investor friendly environment.

2.4 Framework for Corporate Social Responsibility

This framework could serve as the starting point for any company in identifying its current position, problems and management actions with respect to corporate social responsibility. The framework may see simple, but internalizing and managing CSR would definitely be a complex task that would require commitment, time and resources. This framework is not totally reflective of corporate reality and therefore needs to be checked and verified.

Generally speaking, this framework can serve as a starting guide for any company that considers pursuing and managing social responsibility. As such, the initial step
would lead to the identification of the main areas of CSR and identification of social parameters relevant to the company. An assessment of the parameters would lead to the decision whether or not to pursue CSR management. A proactive decision to pursue CSR would likely entail commitment, time, resources, managerial skills and effective cooperation. This framework could also serve to create an integrated management system (IMS) framework that would cover the three aspects of corporate responsibility – economic, environment and social.

2.5 Business-Society Interface

Business may be defined as the collection of private, commercially oriented (profit-oriented) organizations, ranging in size from one-person proprietorships (such as Peking Restaurant, Gibson’s Men’s Wear, and Zim’s Bagels) to corporate giants (such as Microsoft, BellSouth, Coca-Cola, and UPS). Between these extremes, of course, are many medium-sized proprietorships, partnerships, and corporations.

When we refer to business in its relationship with society, therefore, we may focus our attention too much on large businesses in particular industries. But we should not lose sight of the fact that small and medium sized companies also are important. In fact, over the past decade, problems have arisen for small business because they have been subjected to many of the same regulations and demands as those imposed by government on large organizations.

Society may be defined as a community, a nation, or a broad grouping of people having common traditions, values, institutions, and collective activities and interests. As such, when study speaks of business/society relationships, it means business and the local community (business and Atlanta), business and the United States as a whole, or business and a specific group of people (consumers, minorities, shareholders).

When study refer to business and the entire society, it think of society as being composed of numerous interest groups, more or less formalized organizations, and a variety of institutions. Each of these groups, organizations, and institutions is a purposeful aggregation of people who have banded together because they represent a common cause or share a set of common beliefs about a particular issue. Examples of interest groups or purposeful organizations are numerous: Friends of the Earth, Common
Cause, chambers of commerce, national association of manufacturers, people for the ethical treatment of animals, and Ralph Nader's consumer activists.

Our society's pluralistic nature makes for business/society relationships that are more interesting and novel than those in some other societies. Pluralism is a condition in which there is diffusion of power among the society's many groups and organizations. Joseph W. McGuire's straightforward definition of a pluralistic society is useful for our purposes: "A pluralistic society is one in which there is wide decentralization and diversity of power concentration."

Knowing that society is composed of so many different semiautonomous and autonomous groups. Business/society relationships, usually refer either to particular segments or subgroups of society (consumerists, women, minorities, environmentalists, youth) or to business and some system in our society (politics, law, custom, religion, economics). These groups of people or systems may also be referred to in an institutional form (business and the courts, business and Common Cause, business and the church, business and the AFL-CIO, business and the Federal Trade Commission).

**Figure 2.1. Business and Selected Stakeholder Relationships**

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Figure displays in graphic form the points of interface between business and some of these multiple publics, systems, or a stakeholder, with which business has social relationships. Stakeholders are those groups or individuals with whom an organization interacts or has interdependencies. If sheer numbers of relationships are an indicator of complexity, we could easily argue that business’s current relationships with different segments of society constitute a truly complex environment.

The past two decades have been characterized by increasing specialization on the part of interest groups representing all sectors of society – consumers, employees, communities, the natural environment, government, and business itself. One newspaper headline noted that “there is a group for every cause”. Special-interest groups not only have grown in number at an accelerated pace but also have become increasingly activist, intense, diverse, and focused on single issues. Such groups are increasingly committed to their causes.

The consequence of such specialization is that each of these groups has been able to attract a significant following that is dedicated to the group’s goals. Increased memberships have meant increased revenues and a sharper focus as each of these groups has aggressively sought its narrow purposes. The likelihood of these groups working at cross-purposes and with no unified set of goals has made life immensely more complex for the major institutions, such as business, that have to deal with them.

2.5.1 Business Response: Concern and Changing Social Contract

Growing out of criticisms of business and the idea of the power/responsibility equation has been an increased concern for the social environment on the part of business and a changed social contract. As firms have sensed that the social environment and the expectations of business are changing, they have realized that they have to change, too. The social contract is that set of two-way understandings that characterizes the relationship between major institutions – in our case, business and society. The social contract is changing, and this change is a direct outgrowth of the increased importance of the social environment. The social contract has been changing to reflect society’s expectations of business, especially in the social and ethical realms.
The social contract between business and society, as illustrated in figure, is partially articulated through laws and regulations that society has established as the framework within which business must operate and shared understandings that evolve as to each group's expectations of the other.

Figure 2.2. Elements in the Social Contract

![Diagram of social contract]

**Source:** Carroll Archie B. and Buchheltz Ann K. (2003), *Business and Society: Ethics and Stakeholder Management,* (Thomas, South Western: USA).

It is clear how laws and regulations spell out the "rules of the game" for business. Shared understandings on the other hand, create more confusion and room for misunderstandings. In a sense, these shared understandings reflect mutual expectations regarding each other's roles, responsibilities, and ethics. These unspoken components of the social contract represent what Donaldson and Dunfee refer to as the normative perspective on the relationship (that is, what "ought" to be done by each party to the social contract.  

A parallel example to the business/society social contract may be seen in the relationship between a professor and the students in his or her class. University regulations and the syllabus for the course spell out the formal aspects of this relationship. The shared understandings address those expectations that are generally understood but not necessarily spelled out formally. An example might be "fairness." The student expects the professor to be "fair" in making assignments, in the level of work expected, in grading, and so on. Likewise, the professor expects the student to be fair in evaluating him or her on teaching evaluation forms, to be fair by not passing off someone else's work as his or her own, and so on.

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An editorial from Business Week on the subject of the social contract summarizes well the modern era of business/society relationships: “Today it is clear that the terms of the contract between society and business are, in fact, changing in substantial and important ways. Business is being asked to assume broader responsibilities to business exist to serve society, its future will depend on the quality of management’s response to the changing expectations of the public”. More recently, a 2000 Business Week editorial commented on the new social contract by saying “Listen up, Corporate America. The American people are having a most serious discussion about your role in their lives.” The editorial was referring to the recent criticisms coming out in the early 2000s about abuse of corporate power. Such a statement suggests that we will continue to witness changes in the social contract between business and society.

2.6 Corporate Responsiveness and Corporate Social Responsibility

The concept of social responsiveness makes a clear departure from the social responsibility concept and denotes responsiveness of a firm to change social environment, expectations and requirements. Socially responsiveness firm responds to social demands, needs and problems and has a system or mechanism for the same. The responsiveness is shown by its behavioural pattern. Study consider the views of several writers to develop the idea of corporate social responsiveness – the action-oriented variant of CSR.

2.6.1 Ackerman and Bauer’s Action View

A general argument that has generated much discussion over the past several decades holds that the term responsibility is too suggestive of efforts to pinpoint accountability or obligation. Therefore, it is not dynamic enough to fully describe business’s willingness and activity – apart from obligation – to respond to social demands. For example, Robert Ackerman and Raymond Bauer criticized the CSR term by stating, “The connotation of ‘responsibility’ is that of the process of assuming an obligation. It places an emphasis on motivation rather than on performance.” They go on


to say, "Responding to social demands is much more than deciding what to do. There remains the management task of doing what one has decided to do, and this task is far from trivial." They argue that "social responsiveness:" is a more apt description of what is essential in the social arena.

Their point was well made, especially when it was first set forth. Responsibility, taken quite literally, does imply more of a state or condition of having assumed an obligation, whereas responsiveness connotes a dynamic, action-oriented condition. We should not overlook, however, that much of what business has done and is doing has resulted from a particular motivation — an assumption of obligation — whether assigned by government, forced by special-interest groups, or voluntarily assumed. Perhaps business, in some instances, has failed to accept and internalize the obligation, and thus it may seem odd to refer to it as a responsibility. Nevertheless, some motivation that led to social responsiveness had to be there, even though in some cases it was not articulated to be a responsibility or an obligation.

2.6.2 Sethi's Three-Stage Schema

S. Prakash Sethi takes a slightly different, but related, path in getting from social responsibility to social responsiveness. He proposes a three-stage schema for classifying corporate behaviour in responding to social or societal needs: social obligation, social responsibility, and social responsiveness.

Social obligation, Sethi argues, is corporate behavior in response to market forces or legal constraints. Corporate legitimacy is very narrow here and is based on legal and economic criteria only. Social responsibility, Sethi suggests, "implies bringing corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations." He argues that whereas the concept of social obligation is prescriptive in nature, social responsibility is prescriptive in nature. Social responsiveness, the third stage in his schema, suggests that what is important is "not how corporations should respond to social pressure but what should be their long-run role in a dynamic social

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system." He suggests that here business is expected to be "anticipatory" and "preventive". Note that his obligation and responsibility categories embody essentially the same message we were attempting to convey with our four-part conceptual definition of CSR.

2.6.3 Frederick’s CSR₁, CSR₂, and CSR₃

William Frederick has distinguished between corporate social responsibility, which he calls CSR₁, and corporate social responsiveness, which he terms, in the following way:

Corporate social responsiveness refers to the capacity of a corporation to respond to social pressures. The literal act of responding, or of achieving a generally responsive posture, to society is the focus. One searches the organization for mechanisms, procedures, arrangements, and behavioral patterns that, taken collectively, would mark the organization as more or less capable of responding to social pressures.²⁸

Frederick further argued that advocates of social responsiveness (CSR₂) "have urged corporations to eschew philosophic questions of social responsibility and to concentrate on the more pragmatic matter of responding effectively to environmental pressures". He later articulated an idea known as CSR₃ — corporate social rectitude — which addressed the moral correctness of actions taken and policies formulated.²⁹ However, we would argue that the moral dimension is implicit in CSR, as we included it in our basic four-part definition.

2.6.4 Epstein’s Process View

Edwin Epstein discusses corporate social responsiveness within the context of a broader concept that he calls the corporate social policy process. In this context, Epstein emphasizes the process aspect of social responsiveness. Epstein asserts that corporate social responsiveness focuses on the individual and organizational processes "for determining, implementing, and evaluating the firm’s capacity to anticipate, respond to,

²⁷Ibid., pp. 62-63.


and manage the issues and problems arising from the diverse claims and expectations of internal and external stakeholders."\textsuperscript{30}

Several other writers have provided conceptual schemes that describe the responsiveness facet. Ian Wilson, for example, asserts that there are four possible business strategies: reaction, defense, accommodation, and proaction.\textsuperscript{31} Terry McAdam has likewise described four social responsibility philosophies that mesh well with Wilson’s and describe the managerial approach that would characterize the range of the responsiveness dimension: “Fight all the way,” “Do only what is required,” “Be progressive,” and “Lead the industry”.\textsuperscript{32} Davis and Blomstrom describe alternative responses to societal pressures as follows: withdrawal, public relations approach, legal approach, bargaining, and problem solving.\textsuperscript{33} Finally, James Post has articulated three major social responsiveness categories: adaptive, proactive and interactive.\textsuperscript{34}

Thus, the corporate social responsiveness dimension that has been discussed by some as an alternative focus to that of social responsibility is, in actuality, an action phase of management’s response in the social sphere. In a sense, the responsiveness orientation enables organizations to rationalize and operationalize their social responsibilities without getting bogged down in the quagmire of definition problems, which can so easily occur if organizations try to get an exact determination of what their true responsibilities are before they take any action.

In an interesting study of social responsiveness among Canadian and Finnish forestry firms, researchers concluded that the social responsiveness of a corporation will proceed through a predictable series of phases and that managers will tend to respond to

\textsuperscript{30}Epstein, 107.


\textsuperscript{33}Davis and Blomstrom, pp. 85-86.

the most powerful stakeholders. This study demonstrates that social responsiveness is a process and that stakeholder power, in addition to a sense of responsibility, may sometimes drive the process.

The response to a social issue changes dramatically in the corporation with time. Adaptation is forced by increasing top management expectations and a progressively more exacting environment. The response process passes through three distinct phases i.e. policy (what position should the corporation adopt with regard to a social demand? Specifically, should it attempt to lead social expectations?), learning (what has to be understood about the social demand, the alternatives available for responding to it, and the economic and organizational implications of implementation?) commitment (how is the organization to be applied to implementation in the face of dilemmas in locating responsibility, controlling and measuring performance and evaluating managers?). The phases are marked by comparative stability in the approach taken to meet the social demand. To be sure, traces of more than one phase may be visible simultaneously and some divisions may exhibit more advanced behaviour than others. It involves through phase as the issue passes through its zone of discretion as figure suggests.

Figure 2.6.Pattern of Corporate Responsiveness

The transitions are a second, and in some respects more important, part of the process. The complexity of the implementation job is underscored by the tendency on the part of managers to accept the first two phases in twin as the last. The transition from the second to the third phase is particularly significant and difficult, for it is during this period that the organizational barriers to responsiveness are frontally assaulted. There is,

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then, an adaptive process which describes how policy on a social issue is defined and implemented.

2.7 Corporate Social Responsibility vs. Business Profitability: Arguments Against and for Social Responsibility

CSR broadly represents the relationship between a company and the wider community within which the company operates. It is recognition on the part of the business that for profit entities do not exist in a vacuum, and that a large part of any success they enjoy is as much due to the context in which they operate as factors internal to the company alone. In an effort to provide a balanced view of CSR, consider the arguments that traditionally have been raised for and against it. It appears that the critics are viewing CSR more narrowly as only the efforts of the organization to pursue social, noneconomic/nonlegal goals (ethical and philanthropic categories). Some critics equate CSR with only the philanthropic category. The debate among business people more often centers on the kinds and degrees of CSR and on the subtle ethical questions, rather than on the basic question of whether or not business should be socially responsible.

2.7.1 Arguments against CSR

The traditional view holds that management has one responsibility: to maximize the profits of its owner or shareholders. The classical economic school, led by economist Milton Friedman, argues that social issues are not the concern of the business people and that these problems should be resolved by the unfettered workings of the free market system. Further, this view holds that if the free market cannot solve the social problem, then it falls upon government and legislation to do the job. Friedman softens his argument somewhat by his assertion that management is “to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical customs.” When Friedman’s entire statement is considered, it appears that he accepts three of the four categories of the four-part model—economic, legal and ethical. The only item not specifically embraced in his quote is the

37bid., 33.
voluntary or philanthropic category. In any event, it is clear that the economic argument views corporate social responsibility more narrowly than we have in our conceptual model.

A second major objection to CSR has been that business is not equipped to handle social activities. This position holds that managers are oriented towards finance and operations and do not have the necessary expertise (social skills) to make social decisions.\(^{38}\) Although this may have been true at one point in time. Closely related to this argument is a third: If managers were to pursue corporate social responsibility vigorously, it would tend to dilute the business's primary purpose.\(^{39}\) The objection here is that CSR would put business into fields not related to their "proper aim".\(^{40}\) A fourth arguments against CSR is that business already has enough power-economic, environmental and technological – and so why should we place in its hands the opportunity to wield additional power?\(^{41}\) In reality, today, business has this social power regardless of the argument. Further, this view tends to ignore the potential use of business's social power for the public good.

One other argument is social overhead cost. Cost on social responsibility is considered to be a social cost which will not immediately benefit the business. Why spend money on an object, the benefits of which will be realized only in the future. It is the heavy social overhead cost which is one of the reasons for the dismal performance of some of government undertakings goals lack support from all groups in society. If business does become socially involved, it will create so much friction among dissident parties that business cannot perform its social assignment.

The arguments presented here constitute the principal claims made by those who oppose the CSR concept, as it once was narrowly conceived. Many of the reasons given


\(^{39}\)Keith Davis (1973), 'The Case For and Against Business Assumption of Social Responsibilities', *Academy of Management Journal*, pp. 312-322.


\(^{41}\)Davis, pp. 320.
appear quite rational. Value choices as to the type of society the citizenry would like to have, at some point, become part of the total social responsibility.

2.7.2 Arguments for CSR

Thomas Petit’s perspective is useful as our point of departure in discussing support of the CSR doctrine. Petit says that authorities have agreed upon two fundamental points: (1) industrial society faces serious human and social problems brought on largely by the rise of the large corporations, and (2) managers must conduct the affairs of the corporation in ways to solve or at least ameliorate these problems. This generalized justification of corporate social responsibility is appealing. It actually comes close to first argument for CSR-namely, that it is in business’s long-range self-interest to be socially responsible. Petit’s argument provides an additional dimension by suggesting that it was partially business’s fault that many of today’s social problem arose in the first place and, consequently, that business should assume a role in remedying these problems. It may be inferred from this that deterioration of the social condition must be halted if business is to survive and prosper in the future. The long-range self-interest view holds that if business is to have a healthy climate in which to exist in the future, it must take actions now that will ensure its long term viability. Perhaps the reasoning behind this view is that society’s expectations are such that if business does not respond on its own, its role in society may be altered by the public.

One of the most practical reasons for business to be socially responsible to ward off future government intervention and regulation. Today there are numerous areas in which government intrudes with an expensive, elaborate regulatory apparatus to fill a void left by business’s inaction. To the extent that business policies itself with self disciplined standards and guidelines, future government intervention can be some what forestalled. Keith Davis has presented two additional supporting arguments that deserve mention together: “Business has the resources” and “let business try”. These two views maintain that because business has a reservoir of management talent, functional expertise, capital and because so many others have tried and failed to solve general social problems,

43Davis, pp. 316.
business should be given a chance. These arguments have some merit, because there are some social problems that can be handled, in the final analysis, only by business. Examples include a fair workplace, providing safe products and engaging in fair advertising. One of the most potent arguments for social responsibility is that public expectations from business have changed. It is respond that the institutions of business exist only because it satisfied the valuable needs of society. Society gave business its charter to exist, and the charter can be amended or revoked at any time that business fails to live up to society's expectations. Another argument favouring social responsibility is that it creates a better environment for business. This concept rationalizes that a better society produces environmental conditions move favourable for business operations. The firm, which is most responsive to improvement of community quality of life, will as a result have a better community in which to conduct its business. One other argument in favour of social responsibility is that it improves public image. Each individual firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets, and other benefits. Next may be the citizenship argument. Corporations are institutional members of society. If individual members of society have an obligation to improve society to leave the world better than they found it, corporations also has this responsibility.

Another argument is that "proacting is better than reacting". This position holds that proacting is more practical and less costly than simply reacting to problems once they have developed. A final argument in favour of CSR is that the public strongly supports it. A 2000 Business Week/Harris poll revealed that, with a stunning 95 percent majority, the public believes that companies should not only focus on profits for shareholders but that companies should be responsible to their workers and communities, even if making things better for workers and communities, even if making things better for workers and communities requires companies to sacrifice some profits.44

2.8 CSR as a Business Strategy

CSR is an important business strategy because, wherever possible, consumer want to buy products from companies they trust; suppliers want to form business partnerships with companies they can rely on; employees want to work for companies they respect; and NGOs, increasingly, want to work together with companies seeking feasible solutions and innovations in areas of common concern. Satisfying each of these stakeholder groups allows companies to maximize their commitment to another important stakeholder group like investors. The business most likely to succeed in the globalization would will be those best able to combine the often conflicting interests of its multiple stakeholders, and incorporate a wider spectrum of opinions and values within the decision-making process and objectives of the organization. CSR is increasingly crucial to maintaining success in business by providing a corporate strategy around which the company can rally, but also by giving meaning and direction to day-to-day operations.

CSR as a strategy is becoming increasingly important for business today because of three identifiable trends:

Changing Social expectations: Consumer and society in general expect more from the companies whose products they buy. This sense has increased in the light of recent corporate scandals, which reduced public trust of corporations, and reduced public confidence in the ability of regulatory bodies and organizations to control corporate excess.

Increasing affluence: Affluent consumers can afford to pick and choose the products they buy. A society in need of work and inward investment is less likely to enforce strict regulations and penalize organizations that might take their business and money elsewhere.

Globalization: These three trends combine with the growing importance of brands and brand value to corporate success to produce a shift in the relationship between corporation and consumer in particular, and between corporation and all stakeholder groups, in general. The result of this mix is that consumers today are better informed and feel more empowered to put their beliefs into action. From the corporate point of view, the market parameters within which companies must operate are increasingly being
shaped by bottom-up, grassroots campaigns. NGOs and consumer activities are feeding, and often driving, this changing relationship between consumer and company.

CSR is particularly important within a globalizing world because of the way brands are built – on perceptions, ideals and concepts that usually appeal to higher values. CSR is a means of matching corporate operations with stakeholder values and demands, at a time when these values and demands are constantly evolving. CSR can therefore best be described as a total approach to business. CSR creeps into all aspects of operations. Like quality, it is something that you know when you see it. It is something that business today should be genuinely and wholeheartedly committed to the dangers of ignoring CSR are too dangerous when it is remembered how important brands are to overall company value; how difficult it is to build brand strength, yet how easy it can be to lose brand dominance. CSR is, therefore, also something that a company should try and get right in implementation.

CSR is about common sense policies that represent a means of integrating a complete ‘social perspective’ into all aspects of operations. The goal is to maximize true value and benefit for an organization, while protecting the huge investments corporations make today in their brands. CSR asks companies to ensure their business operations are clean and equitable, and contribute positively to the society in which they are based otherwise, they leave themselves open to too much danger from a potential consumer backlash. CSR is a good business sense, and a total approach to doing business, in a globalizing world where companies are increasingly relying on brand strength to add value and product differentiation, and where NGO-driven consumer activism is increasing. Many believe the issue of how corporations integrate CSR into everyday operations and long-term strategic planning will define the business marketplace in the near future. It will become a key point of brand differentiation, both in terms of corporate entities and the products that carry their brands. Corporations today are best positioned when they reflect the values of the constantly shifting and sensitive market environment in which they operate. It is vital that they are capable of meeting the needs of an increasingly demanding and socially-aware consumer market, especially as brands move front and center of a firm’s total value. Global firm with global lifestyle brands have the most to lose if the public perception of the brand fails to live up to the image portrayed.
Integrating a complete 'social perspective' into all aspects of operations will maximize true value and benefit for an organization, while protecting the huge investments companies make in corporate brands.

2.9 Determining Optimum Level of Corporate Social Responsibility

Most of the large and professionally organized firms realize the economic logic behind social responsibility. In any case, they prefer to project their image as socially responsive organizations, alive to the needs and problems of society. As pointed out earlier, socially responsible behaviour is essential for the survival and growth of a firm. A major portion of the responsibility is met in the process of complying with corporate laws, business codes and government instructions issued from time to time with reference to social obligations of business. Modern firms often go beyond obligatory level and build goodwill assets.

Building goodwill and credibility assets through socially responsible activities makes sound business sense. Firms possessing such assets economise on advertisement expenditures as the consuming masses have faith in the utility of their products. The firms, on the strength of such assets, are able to raise resources and industrial supplies adequately, cheaply and on more favourable terms. They can establish distribution channels for their new products more easily and at lower costs, as they already possess a wide customer base. These factors contribute a lot towards keeping the firm competitive in the market through economies of scale and cost reduction.

Nevertheless, fulfillment of social responsibility involves commitment of financial and other resources, which impact negatively on the profits. It is obvious that the social commitment and responsibility of a firm cannot be limitless. It has to target a particular level of social responsibility to be discharged over a particular period of time. The target responsibility level involves a careful cost-benefit analysis of social responsibility expenditure. In a pure business sense, a firm can maximize its return of social expenditures as shown in the diagram below
Om is the minimum social expenditure that a firm has to make to comply with the legal requirements. As the level of responsibility increases, total cost to the firm on this account also increases and is represented by the line TCr. Total return on responsibility (approximated in financial terms) is represented by Rr which increases initially and tends to peak off subsequently. Vertical distance between TCr and Rr shows return on social responsibility expenditure, which is maximized at ab corresponding to the responsibility level of Or1. This level of responsibility makes a perfect business sense. However, a firm may go beyond this level and attain Or2 level of social responsibility with no net cost or return to it. This can be a part of the firm’s business strategy in which it seeks to reap its benefits in subsequent periods. The responsibility levels Or1 and Or2 show the two limits which a firm can choose as per its own objectives and strategy. Any responsibility level beyond Or2 will cause a net reduction in the firm’s net return from social responsibility expenditure.
2.10 Dimensions of CSR

The Commission of the European Communities identifies two main dimensions of CSR, an internal dimensions relating to practices internal to the company and an external dimensions involving the external stakeholders.

2.10.1 Internal Dimensions

This relates to practices internal to the company, which need to be modified to incorporate CSR practices. The various components of the internal dimensions of CSR are shown in Figure.

Figure 2.3. Internal Dimensions of CSR
2.10.1.1 Human resources management

CSR can be successfully implemented in an organization through precise management of its own work force. The internal dimensions of CSR includes elements like providing an environment for life long learning for employees, employee empowerment, better information flow, improving the balance between work, family, and leisure, diversified work force, profit sharing and share ownership schemes, concern for employability as well as job security among others. Active follow up and management of employees who are off work due to disabilities or injuries have also been shown to result in cost savings for the companies. Moulding of recruitment policies to include people from ethnic minorities, older workers, women and the long-term unemployed would be a significant step forward to incorporating CSR practices in Human Resources Management. Under this responsibility towards shareholders, employees.

Responsibilities toward shareholders, Shareholders are the owners of a business firm who have a direct stake in it. They have risked their capital and it is the responsibility of a firm to protect the capital and provide a fair or reasonable return to the owners in the long run. Shareholders have a right to know how their resources are being used and how the business of the firm is conducted. That means there has to be a reasonable degree of transparency in the business operations of the firm.

Responsibilities towards employees, Employees are the resources of a firm and it has a major responsibility towards their well-being and growth. The firm must provide a fair compensation system including wages and salaries, facilities amenities and prerequisites commensurate with work requirements and status. The firm must provide suitable training and development facilities so that employees can show increase in productivity and have opportunities for career growth. There should be provision for proper recognition, appreciation and encouragement of special skills and capabilities of the workers. The installation of an efficient grievance handling system. An opportunity for participating in managerial decisions to the extent desirable.
2.10.1.2 Work Safety and Health Measures

Worker safety and labour health have been documented to be having a direct impact on productivity of the labour force. Although legal measures exist in most nations on maintaining standards for ensuring worker safety and providing health benefits, recent trends have made it imperative for companies to adopt a proactive approach to this issue.

The increased focus on safety standards and employee welfare has led to the development of standards across industries. Mechanisms are being designed especially in emerging markets for measuring, documenting and communicating these qualities thereby saving time, work and costs in the purchasing process.

2.10.1.3 Adaptation to Change

A recent trend in the global business scenario has been the widespread use of mergers and acquisitions for business expansion. Also downsizing has been used, often ineffectively, as a cost cutting measure by firms in their relentless push for profits. According to the Commission of the European Communities “Restructuring in a socially responsible manner means to balance and take into consideration the interests and concerns of all those who are affected by the changes and decisions. In practice the process is often as important as the substance to the success of restructuring. In particular this involves seeking the participation and involvement of those affected through open information and consultation. Furthermore, restructuring needs to be well prepared by identifying major risks, calculating all the costs, direct and indirect, associated with alternative strategies and policies and evaluating all of the alternatives which would reduce the need for redundancies”.

2.10.1.4 Management of Environmental Impacts

The importance of this aspect of CSR cannot be overemphasized. Optimization of resource utilization and reducing environmentally damaging effluents can reduce the environmental impact. This will also enable the firms to affect significant cost savings in energy bills and pollution costs. Many firms in emerging markets have had to face serious repercussions from the state and society for over exploitation of natural resources and disregard for environmental safety measures. Studies by Consultancy and Research for Environmental Management on practices of Dutch multinational companies in India (2004) highlight the importance attached by the companies to maintenance of
environmental standards. Many multinational companies are realizing to their cost that early compliance with accepted standards will provide strategic advantages in the long run even though cost inefficient in the near future.

2.10.2 External Dimensions

This dimensions related to practices concerning external stakeholders. The significance of this dimensions of CSR has come to the forefront with the advent of globalization leading to the development of international standards for business practices.

Figure 2.4. External Dimensions of CSR

2.10.2.1 Local Communities

The development of positive relations with the local community and thereby the accumulation of social capital is particularly relevant for non-local companies. Multinational companies to support the integration of their subsidiaries into various markets in which they are present are increasingly using these relations. Deep understanding of the local community and social customs is an asset, which can be utilized by the companies to gain strategic advantage.

2.10.2.2 Business Partners

Building long-term relationships of sound ethical foundation with suppliers, customers (and even competitors in rare occasions) will enable companies to meet customer expectations better while reducing complexity and costs. Companies should realize their CSR practices will be judged taking into account the practices of their partners and suppliers throughout the supply chain. The effect of corporate social responsibility activities will not remain limited to the company itself, but will also touch
upon their economic partners. Under these responsibilities towards consumers, suppliers and competitions:

Responsibilities towards consumers, it has been widely recognized that customer satisfaction shall be the key to satisfying the organizational goals. Most of the countries have legislated consumer protection measures against business malpractices. Firms do research and development, to improve quality and introduce better and new products. Firms should take appropriate steps to remove the imperfections in the distribution system including black marketing. To supply goods at reasonable prices even when there is a seller's market. To provide the required after sales services. Firms must ensure that the product supplied has no adverse effect on the consumers, to provide sufficient information about product, including their adverse effects, risks and care to be taken while using the products.

Responsibilities towards suppliers, a good relation with suppliers is essential for lower cost and continuity of operations. An ethical business organization does not break contracts, makes timely payments, does not seek legal loopholes in supply contracts to take advantages and encourages suppliers to build long term business relationship. It even seeks to dovetail its sourcing or procurement network with the marketing channels of suppliers to reduce sourcing and marketing costs to the advantage of both the parties.

Responsibilities towards competitors, a socially responsible firm plays a fair game in competition. It engages itself in healthy competition by learning the good business strategies and practices of its competitors. Such a firm supports free and fair competition and does not indulge in monopolistic, restrictive or unfair trade practices.

2.10.2.3 Human Rights

According to Robins (2000), “Companies operating in countries where human rights are regularly violated may experience a climate of civil instability and corruption that makes for uneasy relations with government officials, employees, local communities and shareholders”. Amnesty International states:” Companies have a direct responsibility to ensure the protection of human rights in their own operations. They also have a responsibility to use their influence to mitigate the violation of human rights by governments, the forces of law and order or opposition groups in the countries in which
they operate”. The Caux Round Table Principles state that companies have a responsibility human rights and democratic institutions; and promote them wherever practical. Under these responsibilities towards government and community.

Responsibilities towards government, Business organization, which are socially responsible are good corporate citizens. Then business operations are legally conforming and contribute to the development of the industry and the economy. These units are fair and regular in payment of various taxes and charges, provide data as may be required by government from time to time and help in implementation of various practices and schemes of the government. Good relation with the government help firms to obtain new licenses, credit from public sector banks and supply orders from government organizations.

Responsibilities towards community, a business organization has a lot of responsibility to the community around its location and to the society at large. The business organization can compensate by way of developing local infrastructure like paved roads and water supply, providing civic facilities like parks and sanitation, establishing educational institutions and dispensaries and providing employment. The organization must show responsible behaviour towards the media, public interest groups and trade associations.

2.11 Corporate Social Responsibility in the Governance Context

Over the past 40 years, the depth, scope, and direction of government’s involvement in business has made the business/government relationship one of the most hotly debated issues of modern times. Government’s role, particularly in the regulation of business, has ensured its place among the major stakeholders with which business must establish an effective working relationship if it is to survive and prosper.

Business has never been found to government’s having an activist role in establishing the ground rules under which it operates. In contrast, public interest has been cyclical, going through periods when it has thought that the federal government had too much power and other periods when it has thought that government should be more activist.

The government’s role in influencing business. Exploring this relationship carefully will provide an appreciation of the complexity of the issues surrounding business/government interactions. From the prospective manager’s standpoint, one needs
a rudimentary understanding of the forces and factors that are involved in these issues before one can begin to talk intelligently about strategies for dealing with them. Unfortunately, more is known about the nature of the problem than about the nature of solutions, as is common when dealing with complex social issues. In the next chapter, we will discuss how business attempts to influence government and public policy.

2.11.1 Interaction of Business, Government and the Public

This offers a brief overview of the influence relationships among business, government, and the public. This should be helpful in understanding both the nature of the process by which public policy decisions are made and the current problems that characterize the business/government relationship. Figure illustrates the pattern of these influence relationships.

Government/Business Relationship: Government influences business through regulation, taxation, and other forms of persuasion. Lobbying, in one form or another, is business’s primary means of influencing government.

Public/Government Relationship: The public uses the political processes of voting and electing officials (or removing them from office) to influence government. It also exerts its influence by forming special-interest groups (farmers, small business owners, educators, senior citizens, truckers, manufacturers, etc.) to wield more targeted influence. Government, in turn, uses politicking, public policy formation, and other political influences to have an impact on the public.

Business/Public Relationship: Business influences the public through advertising, public relations, and other forms of communication. The public influences business through the marketplace or by forming special-interest groups (for example, American Association of Retired Persons, Friends of the Earth, American Civil Liberties Union) and protest groups.
In our society, determining the public interest is not a simple matter. Whereas government may be the official representative of the public, we should not assume that representation occurs in a straightforward fashion. As we saw in figure, the public takes its own initiatives both with business and with government. The three major groups, therefore, are involved in a dynamic interplay of influence processes that determine what is currently considered to be in the public interest.

Here central concern is with government’s role in influencing business, how government is a major stakeholder of business. Government’s official priority is in representing the public interest as it sees and interprets the public’s wishes. But, like all large bureaucratic organizations, government also takes on a life of its own with its own goals and agenda.
Government has a significant impact on business by virtue of the fact that it has a large payroll and is a major employer itself. At all levels, government employs millions of people who, as a consequence of being government employees, see things from the government's perspective. Government is also in the position of being a standard-setter. For example, the 8-hour workday began in the federal government. After a decade of emphasis on the private sector, the role of government is certain to expand in response to the attack on the World Trade Center: Bailouts of troubled industries, increased defense spending, a shift of R&D money toward defense purchases, and higher spending on the social safety net will all give government a larger role in the U.S. economy.45

Government is one of the largest purchasers of goods and services produced in the private sector. Some key industries, such as aerospace, electronics, and shipbuilding, are very dependent on government purchasing. Government can exert significant influence over the private sector by its insistence that minorities be hired, depressed areas be favored, small businesses be favored, and so on. Changes in government policy can dramatically change a firm's business environment.46 For some firms in narrow markets, such as defense, the government dominates and controls whether or not those firms have a good year — indeed, whether or not they survive at all.47

Government influences the behaviour of business through the use of subsidies in a variety of ways. Generous subsidies are made available to industries such as agriculture, fishing, transportation, nuclear energy, and housing and to groups in special categories, such as minority-owned enterprises and businesses in depressed areas. Quite often these subsidies have special qualifications attached.

Government also influences business, albeit indirectly, by virtue of its transfer payments. Government provides money for social security, welfare, and other entitlement

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45 Magnusson Paul (2001), 'Suddenly, Washington's Wallet is Open,' Business Week, p 34.
programs that totals hundreds of billions of dollars every year. These impacts are indirectly but they do significantly affect the market for business’s goods and services.\footnote{Ibid., pp. 6-8.}

Government is a major competitor of business. Organizations such as the TVA compete with private suppliers of electricity; the government printing office competes with private commercial publishers and printing firms; and the United States Postal Service competes with private delivery services. In areas such as health, education, recreation, and security, the competition between government and private firms runs the gamut of levels—federal, state, and local.

Government loans and loan guarantees are sources of influence as well. Government lends money directly to small businesses, housing providers, and energy companies. Often such loans are made at lower interest rates than those of private competitors. Loan guarantee programs, such as the one provided to Chrysler, is another way in which government’s influence is felt.\footnote{Ibid.}

Taxation, through the Internal Revenue Service, is another example of a government influence. Tax deductibility, tax incentives, depreciation policies, and tax credits are tools that are all at the disposal of the government. A critical example of the government’s taxing power occurred when a “luxury tax” was added as a minor part of the government’s deficit reduction package in the early 1990s. This new luxury tax ended up virtually crippling the boat-building industry. It led to massive layoffs and adversely affected dozens of related industries. Ironically, the luxury tax resulted in lower tax revenues than those industries had produced.\footnote{Keyes Alan (1992), ‘Why ‘Good Government’ Isn’t Enough’ \textit{Journal of Imprimis,} Vol. 21, No. 10, p. 2.}

Finally, moral suasion is a tool of government. This refers to the government’s attempts, usually through the president, to “persuade” business to act in the public interest by taking or not taking a particular course of action. These public-interest appeals might include a request to roll back a price hike, show restraint on wage and salary increases, or exercise “voluntary” restraints of one kind or another. When New York Mayor Rudy Giuliani exhorted businesses to open back up, customers to return to buying, and tourists to return to New York City, he was exerting moral suasion.

\footnote{48 Ibid., pp. 6-8.}
\footnote{49 Ibid.}
\footnote{50 Keyes Alan (1992), ‘Why ‘Good Government’ Isn’t Enough’ \textit{Journal of Imprimis,} Vol. 21, No. 10, p. 2.}
For more than two decades, government regulation has been the most controversial issue in the business/government relationship. Government regulation has affected virtually every aspect of how business functions. It has affected the terms and conditions under which firms have competed in their respective industries. It has touched almost every business decision ranging from the production of goods and services to packaging, distribution, marketing, and service. Most people agree that some degree of regulation has been necessary to ensure that consumers and employees are treated fairly and are not exposed to unreasonable hazards and that the environment is protected. However, they also think that government regulation has often been too extensive in scope, too costly, and inevitably burdensome in terms of paperwork requirements and red tape.

Business cannot be discussed without considering the paramount role played by government. Although the two institutions have opposing systems of belief, they are intertwined in terms of their functioning in our socio-economic system. In addition, the public assumes a major role in a complex pattern of interactions among business, government, and the public. Government exerts a host of non-regulatory influences on business. A more specific influence is the fact that government is a major employer, purchaser, subsidizer, competitor, financier, and persuader. These roles permit government to affect business significantly.

One of government’s most controversial interventions in business is direct regulation. Government regulates business for several legitimate reasons, and in the past two decades social regulation has been more dominant than economic regulation. There are many benefits and various costs of government regulation.

2.12 CSR Measurements and its Difficulties

Measuring CSR initiative is important to ensure effective implementation of planned strategy and to determine future action plans. Each company can design measuring strategies based on their selected CSR focus areas. These are several ways to measure impact of CSR initiatives.
Measurement of community initiatives includes cash value of community support as a percentage of pre-tax profit, impact of evaluations carried out on community programmes, project progress, perception measures, positive and negative media comments.

Measurements of workplace initiatives include workplace profile, staff absenteeism, legal non-compliance, staff grievances, and staff turnover.

Measurement of environment initiatives includes overall energy consumption, water usage, quantity of solid waste produced, and use of recycled material, environment impact.

Measurement of marketplace initiatives includes number of product complaints regarding products and services, advertising complaints upheld, complaints about upheld, complaints about late payment of bills, upheld case of anti corruptive behaviour, customer retention.

Social audit is also a tool for evaluating how satisfactory a company has discharged its social responsibilities. Social audit enables the public as well as the company to evaluate the social performance of the company. It involves identification of the firm’s activities having potential social impact, assessment and evaluation of the social costs and social benefits of such activities, measurement of the social costs and benefits, reporting i.e. presenting in a proper format and manner, the social performance of the company.

2.13 Issues of CSR

2.13.1 Company CSR management issues include Does the company have separate department/cell for CSR initiatives? Does the company produce an annual sustainable CSR report? How does the vision of company integrate CSR issues? How does the organization propose to meet future economic, environment and social challenges?

2.13.2 Marketplace: products/services/business operations issues includes give the unique selling features of products highlighting following points – innovative issues, ensuring safety, ensuring health issues. Has the company conducted a feedback survey to gauge public perception/customer satisfaction of its products/services/business operations, to assess the social and environmental impact of its activities? Does the company have management systems that
address customer redressals/grievances? Does the company adhere to any specific eti standards for its advertising campaigns?

2.13.3 Workplace CSR practices issues includes Does the company have policy/policies? Does the company have a policy company of the following: HIV/AIDS, C labour, business ethics, environment and quality? What active steps are taken to incr awareness of company policies among employees? Is your company an equal opportu organization? Have any special measures been taken to improve gender representation in organization? What are the indicators used in monitoring the implementations of policies?

2.13.4 Governance and legal issues includes What steps are undertaken by the comp to enhance corporate governance in the organization? Are issues like transparency integra fulfillment of CSR policy? Has the company been involved in litigation involving break corporate law in past four years? Have any managers been convicted of illegal activities? any demand been pending against the company from any tax and or any revenue authorities? the company compiled with SEBI corporate governance guidelines?

2.13.5 Employee welfare/human resource practices includes Does the company has clear employee guidelines concerning recruitment, termination, and career development performance appraisals? What are the motivational incentives provided by the company to employees? What are mechanisms installed to identify training needs of employees?

2.13.6 Labour relations/health and safety measures issues includes Has the comp faced labour disputes (strikes, dharnas, lockouts) and what are the average number of work d lost? Does the company report on labour practices? What are the steps taken to monitor implementation of fair labour practices? What employee welfare programmes are organized company?

2.13.7 Social and community initiatives issues includes Is there any establish/NGO set up by the company to implement social activities? What are the ko positive impacts provided by the companies, which benefit the community? What strategies the company adopted to undertake developmental activities marginalized/underprivileged/poor communities? What is the mode of dialogue for NGOs, lo governments and local communities? What percentage of annual profits is allocated as funds community development works? What are the kinds of partnerships that are created with ci society/NGOs for social development—Healthcare/Education, literacy promotion/improv;
rural infrastructure/community development? Does the company encourage employee giving for imparting skills to local community, secondments and time off for employees? How are social projects monitored and reported?