CHAPTER - III
CONCEPTUAL BACKGROUND OF CORPORATE SOCIAL RESPONSIBILITY

3.1 Social Responsibility

Social Responsibility, also known as corporate social responsibility (CSR), is understood as the obligation of decision-makers to take actions that protect and improve the welfare of society as a whole along with their own interests. Every decision the business person makes and every action he or she contemplates has social obligations. Be it deciding on diversification, expansion, opening of a new branch, closure of an existing branch, or replacement of men by machines, the society is affected in one way or the other. Even routine matters like overtime and night shifts, sub-contracting, outsourcing, and laying off employees due to fall in demand have a social impact. Whether the issue is significant or not, the manager should keep his or her social obligation in mind before contemplating any action. Hence, CSR makes a corporation accountable for any of its actions that affect people, their communities, and their environment.

CSR extends beyond its regular activities that are carried out in a lawful manner. The social actions which a firm undertakes in the name of its CSR occur “beyond the factory gate” and will benefit the society in general. Successful companies need a healthy society. Education, health care, and equal opportunity are essential to a productive workforce. Safe products and working conditions attract customers and minimise the costs to accidents. Efficient utilisation of land, water, energy and other natural resources make businesses more productive. Ultimately, a healthy society creates additional demand for business, as more human needs are met and aspirations grow. Any business that pursues its ends at the expense of the society in which it operates will find its success to be illusory and short-lived.

A healthy society needs successful corporations. No social programme can rival the business when it comes to creating jobs, wealth, and innovation that improve standards of living and social conditions (Aswathappa K, 2010).\textsuperscript{117}

3.2 Arguments for social responsibility of business

3.2.1 Sub-system of Society:

It is a fact that business is a sub-system of the society. It exists on the inputs, which are drawn from the society. Thus to maintain or sustain relationship between business and society, the business should be socially responsible. Without using the resources of the society, the business cannot survive; hence it has a responsibility to the society.

Integral part of the social system: business is an integral part of the social system. Thus, it should care for the varied needs of the society. It means society and business cannot be separated from each other. They rather depend upon each other.

3.2.2 Resourcefulness of business:

As a matter of fact, the business is quite resourceful and therefore it should be especially responsible to the society.

3.2.3 Mutual Benefits:

If the business were socially responsible it would develop a harmonious and healthy relationship between the society and the business. This relationship would mutually benefit both the society and the business.

3.2.4 No additional government regulations:

The social responsibility of business will discourage additional government regulations and interventions. In most of the cases the government intervenes when the business does not discharge its social responsibility. The government keeping in view the interest of the society has framed most of the additional rules and regulations for business. These will not be needed in case the business discharges its social obligations.

3.2.5 Public image:

The business can create a better public image, if it discharges its social responsibility sincerely. This image of a company or enterprise may attract more customers, investors and better personnel. For a business a good public image is its valuable asset, which benefits it immensely.
3.2.6 Business as Coalition of Several Groups:

Business is a coalition of several interest groups such as shareholders, customers, employees, suppliers etc., and the business should, therefore, work for the interest of all of them rather than for the benefit of its owners alone. The services of business discharged to all these groups faithfully come with its social responsibility.

3.2.7 Social power of business:

By the multifarious operations, large companies have acquired great social power. If the social power is used without social responsibility, it may be very harmful for the society. Undoubtedly, the social power grows the social responsibility and thus, the social power should not ignore the social responsibility. Keith Davis has rightly remarked “in the long run those who do not use power in a manner that society considers responsible will lose it. This is the iron law of responsibility”.

3.2.8 Self-interest of businesses:

It is in the self-interest of business to discharge social responsibility. Economic objectives of business are promoted and advanced by social responsibility. If the businesses participate in improving the social life and behave a responsibility towards society, it can obtain good customers; employees etc., which may benefit the business in several ways.

3.2.9 Threat of government Regulations and Control:

If the business does not voluntarily discharge its social responsibility, the government may force it through rules, regulations and control. The private business can no longer service, if it does not discharge its social responsibility. The business can avoid it government regulations and control by behaving in a socially responsible manner. Thus, it is always in the better interest of business to discharge its social responsibility freely and without any hitch.

3.2.10 Competent business managers:

In solving the economic problems, the managers of several business organisations have proved their competence and capability. Thus, the society
expects that such managers use their competence, capacity and skill in solving the social problems.

The managers should display a keen interest in serving the society as a whole. It is a professional demand from managers.

It may be very conveniently argued in favour of the social responsibility of business that if the business organisations discharge their social responsibility earnestly, it can go a long way in strengthening the position of the country economically and socially.

3.3 Arguments against Social Responsibility of Business

3.3.1 The only goal:

It is said that business should confine to its own business. If the business accepts it social responsibility; it will compromise with economic goals. Business is an economic activity and therefore its only responsibility is to maximise profits for the benefit of its owners. There is no other responsibility of business.

3.3.2 Concept of social responsibility not clear:

The concept of social responsibility is not clear. There is no unanimity on its meaning, scope and goals. Under these circumstances it would be very futile to accept the social responsibility.

3.3.3 Adverse effect on business:

The involvement of business social responsibility can adversely affect business activities of an enterprises. The higher expenditure made on discharging the social responsibility by a business may lay a severe burden on its financial resources. It is therefore, not in the interest of the owners of the business.

3.3.4 Burden on Consumers / owners:

If the cost of social responsibility of business is passed on to the consumers in the form of higher prices or owners bear it, it would be taxing for them unnecessarily. This may also show the net loss to an enterprise, which will not be in the interest of the society.
3.3.5 Effect on competitiveness:

The social involvement of a business may increase the price of the products. This factor could affect the competitiveness of business both in the internal and external markets. It will not be in the interest of the society in general.

3.3.6 Dominance of business on society:

If the business is socially involved, it could increase the influence or dominance of business on society. This portion may adversely affect the society in general.

3.3.7 Business organisation already responsible:

It is argued that business organisations are already serving the society by providing goods and services and contributing to the national income through tax payments. The business organisations also generate employment and develop technology. Thus, it would be not fair to overburden them with social responsibility.

3.3.8 Misdirection of corporate resources:

The social responsibility will involve diversion of managerial time and competence on social activities. It may result in misdirection of valuable corporate resources.

3.3.9 Lack of skill for social activities:

Business managers are not aware with social activities. For social services, there are separate organisations such as government, non-government organisations (NGOs) etc. Which deal with social problems more efficiently.

3.3.10 Social role to other organisation:

The business should use its resources and efficiency to earn best possible return on investment within the rules and regulations implemented by the government. It means the business should confine to its economic performance and leave the social activities to other organisation.
3.3.11 Social responsibility without power:

Business enterprises possess only the economic power and therefore, it would not be justified to impose social responsibility on them. If business intervenes in social affairs, it will not be in the interest of the society.

3.3.12 Controversial decision making powers:

For decision making in business the profitability is main criteria. If the profitability criteria of business is clashed with social responsibility, it would make the decision making process complex and controversial.

There are several arguments in favour or against the social responsibility of business. However, economists, government and general public feel that the business enterprises should assume the social responsibility and discharge it honestly. It is in the interest of all the groups which are directly or indirectly associated with business.

3.4 Limitations to Social Responsibility of business

There are certain limits to social responsibility, which should be understood clearly. These limitations are as follows:

- The business enterprises, while assuming social responsibility should ensure that its profitability is sufficient. An enterprise, which is in loss, cannot discharge its social responsibility.

- While perusing social responsibilities the business enterprise should confine its activities in the areas of its competence. If the enterprise carries out such social programmes in which it is not competent it may cause serious damage to the enterprise.

- The management should conduct a social cost-benefit analysis before undertaking social programmes. If the social costs exceed the social benefits there would be no use of taking such programmes.
Social responsibility concept is a reciprocal concept. If the business discharges its social responsibility to various groups, these groups are expected to support the business.

The enterprise should balance the social responsibility with social economic power of the enterprise. A big enterprise has a greater responsibility than a small one.

Only those social programmes should be undertaken by an enterprise in which its management has legitimate authority. It means the business management should not encroach upon the authority of other social organisations, government etc.

It is very clear that profit motive and social responsibility are not contradictory to each other. Rather they are complementary to each other. If a business enterprise fails to earn profit it will not survive for long. In that case it will not be able to discharge its social responsibility. The main goal of an economic enterprise is profit. Profit initiates hard work and risk taking. Economic performance thus is as overall measure of social contribution by business. A business organisation that earns profit can serve the society well. Thus, profit is the main factor that contributes to social welfare and public interest.

On the other hand, social responsibilities of business contribute to the better economic performance of business organisations. The expenditure on social activities in the short run may reduce the profit of an enterprise but in the long run such expenditure improves the socio-economic environment of business. Thus there is no conflict or controversy between profit motive and social responsibility of business. For the growth of social responsibility, growth of profit of business is essential (Babita Agrawal and C. A. Anil Agrawal, 2009)\(^{118}\)

3.5 Corporate Social Responsibility

\(^{118}\)Babita Agrawal and C. A. Anil Agrawal (2009), “Social Responsibility of Business Enterprises”, ABD Publishers, Jaipur, India
Corporate social responsibility is a concept that implies that organizations consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. This obligations seems to extend beyond the statutory obligation to comply with laws and legislations and sees the corporation voluntarily taking further steps to improve the quality of life for employees and their families as well as for the local community and the society at large. The scale and nature of corporate social responsibility can vary depending on the nature of the corporation.

It is a known fact that the primary objective of business is to earn money and acquire wealth. A business corporation that does not earn money in terms of profits cannot survive for long. Profits are also essential for its growth and expansion.

Though profit making is an essential objective of business, yet a business corporation cannot blindly pursue profits without any regard to other objectives, which are human as well as social objectives.

Once these business corporations were expected to denote their efforts to produce and distribute goods and services as efficiently as possible and to make innovations and improvements in products and processes and to create more and more customers with the ultimate objective of maximization of profits. But nowadays business corporations are increasingly called upon to promote a variety of social purposes in addition to these long standing economic ones.

A business does not exist in a vacuum. A business corporation is not just a collection of material resources such as land, building, plant, machinery, capital etc., it is a community of human beings. So it is a part of society and can achieve its main objective of profit maximization only by having deep roots in the society. Thus, business is not only an economic entity, it is a social institution as well. And like any other social institution, a business corporation too has some responsibilities towards society.

3.6 Definition of CSR

A few definition of CSR as a concept has been given below:
The idea of CSR assumes that a company does not only have economic and legal obligations but also certain responsibilities toward society—responsibilities that extend above and beyond these other obligations. (McGuire, 1963).

CSR consists of using resources and committing to activities destined to increase profits as long as the company plays by the rules of the game, i.e., as long as it commits to open and free competition without acting in a misleading or fraudulent manner (Friedman, 1970).

CSR involves companies incorporating and responding to all kinds of demands transcending economic, technical and legal requirements to achieve social as well as economic objectives (Davis, 1973).

CSR is the obligation for managers to act to protect and improve society’s broader welfare alongside the interests of their organization (Davis and Blomstrom, 1975).

CSR covers the economic, legal, ethical, and discretionary expectations that society has of organizations at a given moment in time (Carroll, 1979).

CSR is the notion that companies have an obligation toward societal constituencies other than shareholders, above and beyond any legal codes or union contracts (Jones, 1980).

CSR is a mechanism in which companies assume the economic, legal, ethical, and discretionary responsibilities that various stakeholders have imposed upon corporate activities (Maignan, Ferrell and Hult, 1999).

The CSR concept refers to corporate activities and commitments relating to perceptions of its obligations toward society or parties with a stake in its activities (Brown and Dacin, 1997; Sen and Bhattacharya, 2001; Luo and Bhattacharya, 2006).

CSR refers to corporate actions that are conducive to societal welfare, above and beyond the company’s own interests or legal obligations (McWilliams and Siegel, 2001).
Social responsibility concerns all the relationships that a firm maintains with its stakeholders. The elements of social responsibility in question include investment in the community, employee relations, job creation and preservation, environmental concerns and financial performance (Gendron, 2002).

CSR is the commitment by a company to improve the welfare of its community by implementing certain discretionary practices and increasing the availability of its resources (Kotler and Lee, 2005).

CSR is an over-arching strategic concept that is rooted in globalization; the desire to control multinational companies’ activities; and the international community’s self-imposed goal of sustainable development. It brings into the business arena a number of previously distinct themes; human rights, labour standards, environmental protection and sustainable development, consumer protection and more recently, the fight against corruption and corporate governance (De CannartD’Hamale et al., p. xv).

CSR consists of managing a company in such a way as to meet or exceed the ethical, legal, commercial and public expectations that society has of the business world (CSR Europe, www.csreurope.org).

(Valerie Swaen and Ruben Chumpitaz C, 2008, pp.7-33.)

3.7 Development of the CSR concept

The concept of CSR has a long and varied history. It is possible to trace evidences of the business community’s concern for society for centuries. Formal writings on CSR, or social responsibility (SR) are largely a product of the 20th century, especially the past 50 years. In addition, though it is possible to see footprints of CSR thought and practice throughout the world, mostly in developed countries, formal writings have been most evident in the United States, where a sizable body of literature has accumulated.

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A significant challenge is to decide how far back in time we should go to begin discussing the concept of CSR. A good case could be made for about 50 years because so much has occurred during that time that has shaped theory, research, and practice. Using this as a general guideline, it should be noted that references to a concern for Social Responsibility (SR) appeared earlier than this, and especially during the 1930s and 1940s. References from this earlier period worth noting included Chester Barnard’s 1938 publication, The Functions of the Executive, J.M. Clark’s Social Control of Business from 1939, and Theodore Kreps’s Measurement of the social Performance of Business from 1940, just to mention a few.

In the early writings on CSR, the concept was referred to more often as just SR rather than CSR. This may have been because the age of the modern corporation’s prominence and dominance in the business sector had not yet occurred or been noted. The 1953 publication by Howard R. Bowen of his landmark book “Social Responsibilities of the Businessman” is argued by many to mark the beginnings of the modern period of CSR.

Bowen went on to argue that CSR or the “social consciousness” of managers implied that business people were responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-and-loss statements. It is fascinating to note that when Bowen referenced the Fortune article cited earlier, it reported that 93.5% of the businessmen agreed with this idea of a wider SR. Because of his early and seminal work, Bowen might be called the “Father of corporate social responsibility”.

In 1979, Archie B. Carroll proposed a four-part definition of CSR. He noted that previous definitions had alluded to business’s responsibility to make a profit, obey the law and to go beyond these activities. Also, he observed that, to be complete, the concept of CSR had to embrace a full range of responsibilities of business to society. In addition, some clarification was needed regarding that component of CSR that extended beyond making a profit and obeying the law. Therefore, Carroll proposed that the SR of business encompassed the economic, legal, ethical and discretionary expectations that society had of
organisations at a given point in time (Sage Brief Guide to Corporate Social Responsibility, pp.2-9)\textsuperscript{120}

3.8 Models of CSR

3.8.1 Archie Carroll Model

Carroll (1979; 1991; 1999; Carroll and Buchholtz, 2006) put forward a seminal, more detailed four-part definition to CSR. He stated that CSR “encompasses the economic, legal, ethical and discretionary expectations that society has of organisations at a given point of time”. These four areas of responsibilities are hierarchical in nature, reminiscent of Maslow’s hierarchy of needs. These four areas of responsibility, which are required, expected or desired leads to the corporate social performance (CSP) of firms. In this definition, it is also suggested that CSR is not static, as society’s expectation may differ across time and between societies.

Fig., 3.1
Archie Carroll Model

3.8.2 Four models of CSR

\textsuperscript{120}Sage Brief Guide to Corporate Social Responsibility, SAGE Publications, India Pvt. Ltd. pp.2-9
A latest survey by the Tata Energy Research Institute (TERI) called ‘Altered Images: the State of Corporate Responsibility in India Poll’ traces back the history of CSR in India and suggests that there are four models of CSR.

3.8.2.1 Ethical Model

The origin of the first ethical model of corporate responsibility lie in the pioneering efforts of 19th century corporate philanthropists such as the Cadbury brothers in England and the Tata family in India. The pressure on Indian industrialists to demonstrate their commitment to social development increased during the independence movement when Mahatma Gandhi developed the notion of ‘trusteeship’, whereby the owners of property would voluntarily manage their wealth on behalf of the people. Gandhi’s influence prompted various Indian companies to play active roles in nation building and promoting socio-economic development during the 20th century. The history of Indian corporate philanthropy has encompassed cash or kind donations, community investment in trusts and provision of essential services such as schools, libraries, hospitals, etc., Many firms, particularly ‘family-run businesses’, continue to support such philanthropic initiatives.

3.8.2.2 Statist Model

A second model of CSR emerged in India after independence in 1947, when India adopted the socialist and mixed economy framework, with a large public sector and state-owned companies. The boundaries between the state and society were clearly defined for the state enterprises. Elements of corporate responsibility, especially those relating to community and worker relationships, were enshrined in labour laws and management principles. This state sponsored corporate philosophy still operates in the numerous public sector companies that have survived the wave of privatization of the early 1990s.

3.8.2.3 Liberal Model

Indeed, the worldwide trend towards privatization and deregulation can be said to be underpinned by a third model of corporate responsibility-that
companies are solely responsible to their owners. This approach was encapsulated by the American economist Milton Friedman, who in 1958 challenged the very notion of corporate responsibility for anything, other than the economic bottom line. Many in the corporate world and elsewhere would agree with this concept, arguing that it is sufficient for business to obey the law and generate wealth, which through taxation and private charitable choices can be directed to social ends.

3.8.2.4 Stakeholder Model

The rise of globalisation has brought with it a growing consensus that with increasing economic rights, business also has a growing range of social obligations. Citizen campaigns against irresponsible corporate behavior along with consumer action and increasing shareholder pressure have given rise to the stakeholder model of corporate responsibility. This view is often associated with R. Edward Freeman, whose seminal analysis of the stakeholder approach to strategic management in 1984 brought stakeholding into the mainstream of management literature (Freeman, 1984). According to Freeman, “a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organisation’s objectives.” (Babita Agrawal and C. A. Anil Agrawal, 2009)121

3.9 Responsibility of Business Corporation towards Different interest groups

After getting some idea about the concept and importance of social responsibility of business let us look into the various responsibilities that a business has towards different groups with whom it interacts. The business generally interacts with owner, investors, employees, suppliers, customers, competitors, government and society. They are called interest groups because by each and every activity of business, the interest of these groups is affected directly or indirectly.

3.9.1 Responsibilities towards Shareholders:

Shareholders provide capital and bear risks. They are the owners of the business corporation and their claim on a corporation’s resources is considered superior to the claims of other interest groups. Therefore, shareholders have a direct stake in business. The responsibilities of a business corporation towards its shareholders are:

- To ensure safety of their investment
- To provide a fair, regular and high rate of return on their investments in terms of interest or dividend.
- To offer a steady and reasonable amount of capital appreciation on their investment through optimum utilisation of resources.
- To provide regular, accurate and adequate information on the financial position of the business operations of the corporation,
To provide reasonable opportunities for participation to shareholders in the decision making process and
To treat all the shareholders equally.

3.9.2 Responsibilities towards Employees:

The employees of a business corporation are their biggest and greatest asset. And these business corporations own certain obligations towards these employees. The employees, whether they are a part of the managerial posts or the workforce, should be treated as honorable individuals and should be justly rewarded for their work. They should be fairly encouraged, motivated, fully informed and properly assigned. Their jobs should provide them both economic and psychological satisfaction as well as a sense of belonging.

Business Corporation has the following responsibilities towards its employees:

- To provide fair, reasonable and regular rates of pay,
- To provide good working condition by creating a healthy work climate, by improving working conditions and by making the workplace safe and pleasant.
- To improve the quality of working life of employees by providing opportunities of education and self-development.
- To develop a sense of belonging and dignity of labour,
- To ensure welfare facilities like housing, medical care, etc.,
- To protect trade union rights including the right of participation in management and
- To recognize the social needs of workers and to provide adequate participation to employees in matters affecting their lives.

3.9.3 Responsibility towards Competitors

Competitors are the other businessmen or organisations involved in a similar type of business. Existence of competition helps the business in becoming more dynamic and innovative so as to make itself better than its competitors.
It also sometimes encourages the business to indulge in negative activities like resorting to unfair trade practices. The responsibilities of business towards its competitors are:

- Not to offer exceptionally high sales commission to distributors, agents, etc.,
- Not to offer to customers heavy discounts and /or free products in every sale.
- Not to defame competitors through false or ambiguous advertisements.

3.9.4 Responsibilities towards Customers:

Customers are usually a business corporation’s largest interest group. In a free society like India, it is ultimate consumer who determines what goods shall be produced. And these goods are produced and services are provided with an ultimate objective of satisfying the consumer’s wants. The customers not only determine the incomes of business corporations but also directly affect their success and survival.

The responsibilities of a business corporation towards its customers are:

- To provide goods and services which are able to satisfy the needs and desires of different classes and tastes of consumers and with different purchasing power,
- To ensure regular and adequate supply of goods,
- To provide goods and services of a reasonable quality which provide satisfaction to consumers,
- To charge fair and reasonable prices
- To serve as a friend and guide by providing prompt and courteous services,
- To ensure a fairly wide distribution of goods among all sections of consumers at all times.
- To handle consumer’s complaints and grievances quickly.
- To educate consumer about the company, new products and services, new uses of existing products, etc.
To avoid unfair and anti-social social trade practices such as black-marketing, hoarding, etc, and

To avoid deceitful and false, highly exaggerated advancements and high pressure advertising and publicity gimmicks aimed at wooing the customers.

3.9.5 Responsibilities towards Community:

Local community has a stake in the performance of business corporations because employment, housing and the general well-being of a community is strongly affected by the success or failure of local business corporations. Thus, these business corporations should work for the economic and social well-being of the community. It should work towards improving the quality of life and also contribute towards social welfare.

The main responsibilities of a business corporation towards the community are:

- To develop constructive relationships with those in the community
- To preserve and improve the environment by reducing the level of all types of pollution,
- To make optimum utilization of natural resources,
- To assist local bodies in providing safe and livable communities with good housing and amenities like portable drinking water, sanitation, efficient transport etc.,
- To provide more and more employment opportunities
- To participate in community activities and to promote community welfare,
- To promote social institutions like hospitals, educational and religious institutions, sports bodies etc.,
- To help the weaker sections of the society and the backward regions of the country, and
- To help in elimination of poverty, illiteracy, etc.,
3.9.6 Responsibilities towards Government:

The government has several claims on a business corporation. It controls the roles of good business practice and has the power to punish any business corporation that breaks those rules by taking legal action against it.

Business corporations have the following responsibilities towards government:

- To abide by the laws of the land
- To follow fair trade policies and practice
- To adopt fair dealings in foreign trade
- To discourage unhealthy practices like obtaining licences in order to kill the competition.
- To pay taxes promptly, regularly and honestly,
- To avoid all monopolistic and restrictive trade practices and
- To cooperate with the state in solving national problems such as poverty, illiteracy, over-population, backward regions, etc.

3.9.7 Responsibilities towards suppliers:

Suppliers are important interest groups that have a direct effect on the organisation’s efficiency and indirect effect on its ability to attract customers. Suppliers contribute to a business corporation by providing reliable raw materials and component parts that allow the business corporations to reduce uncertainty in its technical and production operations and also reduce production costs.

A business corporation should discharge the following responsibilities towards it suppliers:

- To ensure a reasonable price for the articles supplied,
- To make fair and regular payments to the suppliers,
To adopt fair trade practices regarding price, quality and service etc., and

To promote a healthy atmosphere where suppliers are treated as patterns in a cooperative endeavour.

Thus, it can be said that the social responsibilities of a business corporation include high level of employment, swift economic progress, high standard of living, economic stability and national security.

3.10 Benefits of CSR Policies and practices

Over the past decade, a growing number of companies have recognised the business benefits of CSR policies and practices. There is a growing body of quantitative and qualitative evidence that demonstrates the bottom-line benefits of socially responsible corporate performance in the following terms

Fig 3.3
Benefits of CSR Policies and practices

Though there have been a lot of benefits derived from the CSR, the main benefits are explained below;
3.10.1 Reduced operating Costs

Some CSR initiatives can reduce operating costs dramatically. For example, many initiatives aimed at improving environmental performance—such as reducing emissions of gases that contribute to global climate change or reducing use of agrochemicals—also lower costs. Many recycling initiatives cut waste-disposal costs and generate income by selling recycled materials. In the human resources arena, flexible scheduling and other work-life programmes that result in reduced absenteeism and increased retention of employees often save companies money through increased productivity and reduction of hiring and training costs.

3.10.2 Enhanced Brand Image and Reputation

Customers often are drawn to brands and companies with good reputations in CSR-related areas. A company considered socially responsible can benefit both from its enhanced reputation with the public as well as its reputation within the business community, increasing a company’s ability to attract capital and trading partners.

3.10.3 Increased sales and customer loyalty

A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must first satisfy customers’ key buying criteria—such as price, quality, availability, safety and convenience—studies also show a growing desire to buy (or not buy) because of other values-based criteria, such as ‘sweatshop-free’ and ‘child-labour-free’ clothing, lower environmental impact, and absence of genetically-modified materials or ingredients.

3.10.4 Increased productivity and quality

Company efforts to improve working conditions, lessen environmental impacts or increase employee involvement in decision-making often lead to increased productivity and reduced error rate.
3.10.5 Increased ability to attract and retain employees

Companies perceived to have strong CSR commitments often find it easier to recruit and retain employees, resulting in a reduction in turnover and associated recruitment and training costs.

3.10.6 Reduced Regulatory Oversight

Companies that demonstrably satisfy or go beyond regulatory compliance requirements are given more free reign by both national and local government entities. In many cases, such companies are subject to fewer inspections and paperwork, and may be given preference or ‘fast-track’ treatment when applying for operating permits, zoning variances or other forms of governmental permission.

3.11 Business and Society in India

The debate on corporate social responsibility and sustainability in the contemporary global economy is about half a century old. The literature on these themes developed prominently in Europe, North America and UK. The roots of CSR can be traced to corporate philanthropy, which was a popular concept and practice in North America and to some extent in Western Europe in the 1950s. This concept implied charitable activity for public welfare causes; it was usually given as one-time donation.

Over the decades, the form and content of giving changed according to the political, social and economic conditions in India.

According to PushpaSundar (sundar, 2000), corporate giving developed in three phases in India; during the first phase of philanthropy (1850-1914), the new business groups in India set up trusts and institutions for social and humanitarian purposes. In 1892, Jamshedji Tata established scholarships for students who wanted to study overseas. Leaders of those times were also active in social and labour reforms. In 1912, the Ratan Tata Foundation was set up in the London School of Economics. It is now known as the Department of Social Sciences.

A group of industrialists led by G D Birla and J R D Tata developed the Bombay Plan in 1944, which recognised the role of the Congress Party as the
alternative governance mechanism to the British rule in India. After independence several industrial houses supported social activities and set up educational institutions.

By the early 1970s, there were landmark developments as banks were nationalised to shift focus from class banking to mass banking. Sick textile mills were nationalised by the 1980s and a model of decentralised development was adopted, which emphasized the importance of small and medium industries, as also the ancillary sector.

From the 1980s, industrial growth was significant in the chemicals and allied sectors and the process of decentralised development had gathered momentum. Development was guided by the government’s Five-Year Plans. By the mid-1980s assessment by experts and international agencies of the plan process indicated certain shortfalls in the physical and institutional capacity of the government to fulfil the growing needs of economic, social and administrative services. Newer types of organisations, such as non-government organisations (NGOs) emerged. These were either welfare or empowerment oriented and they started addressing poverty and labour issues in the unorganised sector. Until, the mid-1980s as such there was no regulation of the NGO sector but the government introduced new legislation for regulating and monitoring the funds received by the NGOs. The Financial Act of 1983 restricted the funding they could receive from industries. More recently (2006-07), the Government of India passed legislation on foreign funds/donations to the NGOs, which are now to be routed through the Ministry of Home Affairs.

In the 1990s, the industry federations in India also joined the national debate on social responsibility of business. Social actions and initiatives were to be taken by the industries on a self-regulated and voluntary basis. In the public enterprises, the policy of reservation had already been in place since their inception.

In the Indian context, four models of CSR have emerged. They are ethical, that is, voluntary commitment to public welfare (M K Gandhi); statist, that is, state ownership and legal requirement (J L Nehru); liberal, that is, corporate responsibility limited to private owners (Friedman 1970) and stakeholder, that is, companies respond
to needs of the stakeholder, employees, communities etc., (Freeman 1984) (Sood and Arora). The later two practices in India are still in the nascent stages, because corporate governance and shareholder activism of the type prevalent in Western countries has yet to evolve; and secondly, the practice of identifying various stakeholders and then preparing CSR schemes was very slow to emerge. In fact, it has still not evolved in a significant manner as also is evident from the findings of the study. By the end of the 20th century, several leading NGOs, as also technical research and social research organisations had carried out extensive surveys of corporate responsibility of the Indian as well as foreign firms in India to draw attention of the public and also the government on the then emerging issues.

At the international level, the concept of socially relevant corporation became increasingly debated in North America in the 1970s and extreme views for and against were expressed and advocated. The entire focus of the debate then was on meeting the shareholder’s expectations, as they were the suppliers of capital to the modern corporation. This particular stand was reinforced by the advocacy on separation of ownership and control of corporations.

However, by the mid-1980s a view was emerging on the need to take into account a variety of stakeholders, including the shareholders since it was felt that the modern corporation takes resources from the society and in return it should give back something to society. Of course, the initial debate did not focus on where and in what proportion the corporation should give back to society. The stakeholder theory focused on meeting the diverse range of expectations of the stakeholders.

In the developing economies, economic development issues are different and characterised by issues of poverty, unemployment, healthcare, social security, and basic civic and industrial infrastructure. Industrial growth is slower and broader governance issues persisted. As a result of this, business systems and modern enterprise struggle to meet the minimal legal and regulatory framework requirements. The issues of governance and social obligations get further compounded in the context of market and state failures of various types. Even after the macroeconomic reforms one critical segment of the Indian economy is still to be
addressed by government policy, that is, the labour market. Since, a significant proportion of labour is still in the unorganised sector it will require a certain amount of innovative regulation and legislation to mainstream this segment of the economy. It is in this particular context that CSR activities become relevant, especially in the primary education and health sector.

Some developing countries like India had the advantage of early industrial houses like the Tatas who started with corporate philanthropy and social responsibility programmes as early as the beginning of the 20th century. CSR leadership of an unprecedented type was provided by the Tatas, who initiated employee welfare measures such as medical leave and eight-hour working shifts. The Tatas contributed to the national freedom struggle and supported Mahatma Gandhi’s movement in South Africa and other relevant national causes in India. They partnered in the advocacy of Gandhi’s concept of trusteeship. The group companies have over a period of time incorporated in their vision, the need to be socially relevant in the emerging markets like India.

There were, of course, other industrial houses which also supported nationalist movements. We are mentioning this aspect of India’s modern economic and political history because we believe that the issue of corporate social responsibility is intrinsically linked with the economic and political systems of the country. The tasks before the early industrialists were to create wealth for society to facilitate economic independence. Nation building in this sense was one of the implicit objectives of the industrialists in this period.

Since the Second Five Year Plan (1956-61), the Government of India adopted a strategy of industrialisation that was import-substituting and inward-looking, relying on heavy industries to provide a basis for industrial development. The public enterprises were started with the essential idea of developing industrial and social infrastructure, such that in the long run, private capital could be attracted. Since the Third Five-Year Plan (1961-66), decentralised strategy with focus on growth of small-scale industries was mooted, followed by bank nationalisation that focused on priority sector lending and social inclusion.
With increasing deregulation and competitive forces coming into play since the early 1990s, it became clear to the players in the organised sector that there was a need to devise ways and means by large corporations to contribute to inclusive growth, which would take care of the social, economic, and administrative services of the unorganised sector, which had obviously no bargaining power. Bridging the social and economic divide between these segments became a very important prerequisite of India’s development process.

From the 1990s, the issues of human rights, child mortality, women’s empowerment, community development and environment conservation began to be increasingly pursued by NGOs and social activists. This has led to a growing debate and better understanding of these issues, which are intrinsically linked to the issue of sustainability. (C. V Baxi, Rupamanjari Sinha Ray, 2012)

### 3.12 Mandatory Provision on CSR

CSR in India tends to focus on what is done with profits after they are made. On the other hand, sustainability is about factoring the social and environmental impacts of conducting business, that is, how profits are made. Hence, much of the Indian practice of CSR is an important component of sustainability or responsible business, which is a larger idea, a fact that is evident from various sustainability frameworks. An interesting case in point is the NVGs for social, environmental and economic responsibilities of business issued by the Ministry of Corporate Affairs in June 2011. Principle eight relating to inclusive development encompasses most of the aspects covered by the CSR clause of the Companies Act, 2013. However, the remaining eight principles relate to other aspects of the business. The UN Global Compact, a widely used sustainability framework has 10 principles covering social, environmental, human rights and governance issues, and what is described as CSR is implicit rather than explicit in these principles.

Globally, the notion of CSR and sustainability seems to be converging, as is evident from the various definitions of CSR put forth by global organisations.

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genesis of this convergence can be observed from the preamble to the recently released draft rules relating to the CSR clause within the Companies Act, 2013, which talks about stakeholders and integrating it with the social, environmental and economic objectives, all of which constitute the idea of a triple bottom line approach. It is also acknowledged in the Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises issued by the DPE in April 2013. The new guidelines, which have replaced two existing separate guidelines on CSR and sustainable development, issued in 2010 and 2011 respectively, mentions the following:

“Since corporate social responsibility and sustainability are so closely entwined, it can be said that corporate social responsibility and sustainability is a company’s commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable manner that is transparent and ethical”.

**Why is the CSR clause of the new Companies Act, 2013 so critical?**

By requiring companies, with a minimum net profit of 5 crores INR, to spend on CSR activities, the Companies Act, 2013 is likely to bring in many companies into the CSR fold. This will usher in a fresh set of challenges to a sector that is increasingly being asked by its B2B customers to comply with environmental and social standards, while remaining competitive in terms of price and quality.

**3.12.1 Clause 135, Companies Act, 2013**

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, which will be applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director.

The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry’s draft rules, that
have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India.

The Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

The draft rules (as of September 2013) provide a number of clarifications and while these are awaiting public comment before notification, some of the highlights are as follows:

- Surplus arising out of CSR activities will have to be reinvested into CSR initiatives, and this will be over and above the 2% figure.
- The company can implement its CSR activities through the following methods:
  - Directly on its own
  - Through its own non-profit foundation set-up so as to facilitate this initiative
  - Through independently registered non-profit organisations that have a record of at least three years in similar such related activities.
  - Collaborating or pooling their resources with other companies.

Only CSR activities undertaken in India will be taken into consideration. Activities meant exclusively for employees and their families will not qualify. A format for the board report on CSR has been provided which includes amongst others, activity-wise, reasons for spends under 2% of the average net profits of the previous three years and a responsibility statement that the CSR policy, implementation and monitoring process is in compliance with the CSR objectives, in letter and in spirit. This has to be signed by either the CEO, or the MD or a director of the company (Handbook on corporate social responsibility in India, confederation of Indian industry).\(^{123}\)

3.13 Corporate Social Responsibility and Consumer Behaviour

Consumers feel more responsibility towards their buying behavior and their demand for products with less or even no negative impact on nature increases. Also companies start realizing that “doing good”, is not only the “right thing to do”, but it also leads to “doing better” because of its positive effects on key stakeholder groups (Bhattacharya, 2004). Engaging in these so called Corporate Social Responsible activities might bring forward several advantages for companies. For instance, stakeholders might get a positive attitude which increases their purchases or investments. In the long, run, companies might build corporate image and strengthen their relationships with stakeholders.

The increasing importance of corporate social responsibility did not go unnoticed. Several researches have been conducted towards the CSR behavior of companies. Most of these studies tried to define the concept of CSR while others tried to investigate the impact of CSR on consumers’ purchasing behavior. Several of these researches had limitations due to the lack of consumer knowledge and awareness regarding CSR. To increase consumer knowledge and awareness, companies use the internet, radio and television to confront stakeholders with their CSR activities. More than 80% of the Fortune 500 companies address their CSR activities on their websites. This research will try to gain more insight in the actual awareness of consumers regarding the CSR initiatives of companies.

### 3.13.1 Consumer Behaviour

There is a positive link between CSR and purchase behavior only when a variety of contingent conditions are satisfied: When the consumer supports the issue central to the company’s CSR efforts, when there is a high company to issue/cause fit, when the product itself is of high quality, and when the consumer is not asked to pay a premium for social responsibility. (Bhattacharya C B and SankarSen, 2004).

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3.13.2 Satisfaction

Satisfaction, as defined by Egan (2000), is a psychological process of evaluation of perceived activity result based on preconceived expectations. As satisfaction mainly depends on preconceived expectations, it is possible to state that consumer satisfaction with products of socially responsible companies depends on their requirements not only for the product, but also for CSR initiatives. Luo and Bhattacharya (2006) give evidence that CSR affects consumer satisfaction, which in turn affects a company’s market value. They provide three approaches, indicating the reasons why a company’s CSR initiatives lead to greater consumer satisfaction. The first approach is based on the fact that the majority of consumers are members of various stakeholder groups, consumers tend to be more satisfied by products and services of socially responsible companies. The second notion is related to consumers’ identification with the socially responsible companies. And the third approach summarizes factors, which influence consumer satisfaction with a socially

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responsible company: perceived value and consumer knowledge (Luo and Bhattacharya, 2006)\textsuperscript{127}.

3.13.3 Trust

Lacey and Kennett-Hensel (2010)\textsuperscript{128} suggested description of trust: “trust is the consumers’ belief that the company is reliable, stands by its word, fulfils its promises, and is sincere”. The first result of a company’s CSR initiatives is consumer trust. If a consumer perceives a company being socially responsible, he or she feels a higher level of trust in that company and its products (Piercy and Lane, 2009)\textsuperscript{129}. Consumers’ trust on the fairness of a company’s CSR initiatives affects how they evaluate the company and their purchase intentions (Mohr and Webb, 2005)\textsuperscript{130}. Thus, trust is the mediator between consumer perceptions of CSR and behavioural intentions (Pivato, Misani and Tencati, 2008)\textsuperscript{131}.

3.13.4 Loyalty

Luo and Bhattacharya (2006)\textsuperscript{132} convince that satisfied consumers tend to be more loyal to a socially responsible company, they are willing to pay for the products of such company, and they get involved in positive word-of-mouth. Perez (2009)\textsuperscript{133} argues that consumers, who support a company’s CSR initiatives and are affectively committed to the socially responsible company, feel more motivated not only to repeatedly purchase its products, but also to get involved in a closer long-term relationship with such company.