CHAPTER I
INTRODUCTION

Background of the study

The phrase Corporate Social Responsibility was coined in 1953 with the publication of Bowen's 'Social Responsibility of Businessmen'. In the 1950's, the growing power of the large corporations triggered the discussions on the capabilities and limits of the managers who direct the corporations. It was Howard R. Bowen who first defined the social responsibility in respect to the power the corporations possess. In his book 'Social Responsibilities of Businessmen', Bowen defined the social responsibilities of the businessmen as their “obligations” to act in a way “desirable in terms of the objectives and values of the society” when they take decisions and implement their policies.

The evolution of Corporate Social Responsibility is as old as trade and business for any of corporation. Industrialization and impact of business on the society led to completely new vision. By 80’s and 90’s academic Corporate Social Responsibility was taken into discussion. The first company to implement Corporate Social Responsibility was Shell in 1998.

There are a lot of definitions in the literature about the Corporate Social Responsibility. The most accepted one, although with some important exceptions and variations, would be: “Corporate Social Responsibility is considering the impact of the company's actions in society, implying the considerations of its acts and consequences in terms of a whole social system and the responsibility anywhere in that system”.

It is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. Consequently, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation (Michael Hopkins, 1998).
In the current globalized business world, there exist large multinational as well as small local business organizations. Irrespective of the nature of business organizations, they should be ethically bound to their stakeholders, such as customers, owners/investors, government, suppliers and competitors in order to ensure good will, which in turn assure maximum business growth rates. Organizations follow different strategies to ensure their ethics in order to achieve goodwill among their stakeholders. One of such strategies used is Corporate Social Responsibility (CSR). Corporate Social Responsibility consists of a wide-range activities and programs that improve the organization's social, environmental and local economic impact, their influence on society, social cohesion and human rights and fair trade.

The study of CSR is becoming the core focus of companies worldwide, especially with international and national corporations coming under the microscope of scrutiny by its customers, fellow competitors and the government at large. This change adapted by companies can be viewed in a threefold manner. At first, the adoption of CSR can be seen as a concept to mandatorily fulfill legal obligations; secondly, to feather its own nests and promote a good public relation; thirdly, by and large to show its ethical concern. Whatever the primary concern of companies’ maybe, the ultimate requirement of a CSR programme or activity is to promote social responsibility, business responsibility, business citizenship and community relations.

CSR needs to be understood and practiced at two levels; Operational and Conceptual. Focusing on the operational level much emphases’ is given to business and human rights; business and corruption; and much emphasizes to business and tax avoidance. At the conceptual level, CSR provides theories, principles and practices for a higher level of activity in which business obligations can be argued, refined and studied with the society (Craig, S. & Halina, W, 2006).

The notion of CSR has existed for a long time in the UK and has been in the practice of working organizations. Whereas, in India though the aspect of charity and philanthropy were found in the early Vedic period, CSR gradually evolved only in the 1990’s. While, UK is considered to be a leader in the field of CSR, which is home to some of the world’s leading thinkers, practitioners and campaigners, India’s practitioners in the field establish the core essence of CSR activities are sometime very
subtle while a wide spread of activities are found to be as a basic act of charity that some companies now a days use to cancel out their taxes and to better their own nest. The Government aim is to enable top organization with the freedom and good will for them to extend their support towards the development of their organization and the society at large.

**CSR as a tool**

Nurturing a strong corporate culture which emphasizes Corporate Social Responsibility (CSR) values and competencies is required to achieve the synergistic benefits. CSR as a powerful tool enhances the brand image and reputation of the business which leads to improvement in sales and customer loyalty. By adopting the right programmes it increases the ability to attract and retain employees. Used as a right tool it offers manifold benefits both internally and externally.

Internally, it cultivates a sense of loyalty and trust amongst the employees. It improves operational efficiency and is often accompanied by increases in quality and productivity. It serves as a soothing diversion from the routine workplace practices and gives a feeling of satisfaction and a meaning to their lives of the employees. Externally, it aims at establishing positive public relations and earns a special respect amongst its peers. It also provides short term employment opportunities by taking various projects like construction of parks, schools, welfare facilities, etc.

**Common Agendas and Programmes Covered Under CSR Initiatives**

Programmes under CSR flows from the ‘factor’ that drives the company to perform activities either through good will or for just tax exception. However, the philanthropic mode of CSR dominates and therefore firms prefer to contribute to welfare programs under health, education and relief mostly. It would rather critical stating that the philanthropic activities are even non- strategic as companies have failed to achieve human development goals even in their spheres of influence. The multi-stakeholders model of CSR, overarches workplace issues, Human rights issues, customer’s expectation, aspirations, supplier’s issues, environment etc, this has a far way to go in our country India.
The meaning and scope of CSR initiatives in our country is limited to the engagement with the community, which is voluntary action driven mostly by business needs. Programmes dealing with stakeholders are limited to compliance and there have been hardly companies seen taking voluntary and proactive actions on those counts. As regards corporate partnering with NGOs, Partners in Change (PiC)’s survey indicates that 16% companies had worked in partnership with NGOs. Companies like to make cash donations mostly. But, there are companies that have their own institutions, foundations and trusts.

Alternatively, Companies get their CSR programme implemented through their internal functions like HR and Corp Communication. For some companies it is the compliance with the legislation which is the driving factor, whereas some old and large companies do maintain that the philosophy of the founders to be the guiding factors for companies to undertake CSR initiatives.

**The three dimensions of Corporate Social Responsibility – (Yogita Sharma, 2013)**

- Economic aspects.
- Social aspects.
- Environmental aspects.

1. **Economic aspects of CSR**

   The economic aspects of CSR consist of understanding the economic impacts of the company’s operations. The economic aspects of CSR is often mistakenly considered to be synonymous with financial issues, which is why it has been assumed easier to implement than the other two pillars of the temple. However, the economic responsibility is not simply a matter of companies being financially accountable, recording employment figures and debts in their latest corporate responsibility report. The economic dimension of the sustainability agenda should rather consider the direct and indirect economic impacts that the organization’s operations have on the surrounding community and on the company’s stakeholders. That is what makes up corporate economic responsibility.
a) **Effect on Stakeholders**

The economic performance of a company has direct and indirect impacts on all of its stakeholders – including its employees, local governments, non-profit organizations, customers, suppliers, and the communities in which the companies operates. A good economic performance makes it possible to develop operations for the long term and to invest in development and the well-being of employees. The employees of the company get good salaries, from which they purchase goods and services as well as pay taxes. These activities fuel the local service industry, government programs and the community activities. This multiplier effect becomes all the more important if the company is one of the largest employers in the communities.

b) **Through taxes**

Companies are major contributors to the well-being of the area surrounding their operations, for example through the local tax base. Therefore, the question arises: is it responsible for a business to see corporate taxes purely as to cost be avoided, rather than part of their social contract with society? Taxes have a significant impact on the creation and distribution of wealth: tax avoidance, though perfectly legal, deprives the community in the area of the company’s operation of well-being.

c) **Maintaining Trust**

A company’s license to operate depends upon the trust and support of the local communities where it operates. The shift in power from the public the private sector emphasizes the importance of this trust – and the obligations and responsibilities that come with it. Some company activities are potentially very destructive to the trust earned from the community or otherwise cannot be regarded as economically responsible. These should be avoided or at least carefully considered. Example of such harmful company behavior include: bribery and corruption, tax avoidance: and concentration of rewards and incentives of the company’s performance to few individuals only instead of fairer distribution among the personnel. The company should also stop to
consider the economic effects of changes in locations and/or operations to the community.

2. Social Aspects of CSR

Social responsibility is the newest of the three dimensions of corporate social responsibility and it is getting more attention than it has previously had. Many organizations are becoming increasingly active in addressing social concerns social responsibility means being accountable for the social effects the company has on people -even indirectly. This includes the people within the company, in the supply chain of the company, in the community the company is in and as customers of the company which means the whole lot of stakeholder. It refers to the management’s obligation to make choices and take actions that will contribute to the well fare and interests of society as well as those of the organization. The following aspects have been found to be key the social aspects of CSR for an organization.

a) Responsibility of CSR towards Customers

The idea of treating customers with respect and attention is not new to business: often being responsible to customers has a direct positive effect on the company’s profits. There are, however, broader social responsibilities including providing good value for money. These responsibilities may include such issues as the safety and durability of products or services; standard or after sales service; prompt and courteous attention to queries and complaints; adequate supply of products or services; fair standards of advertising and trading; and full and unambiguous information to potential customers.

b) Responsibility of CSR towards Employees

Businesses are major contributors to the employment generation of the community. However, social responsibility to employees extends beyond terms and conditions of the formal contract of employment. Companies need to come up with wider expectations that today’s employees have for the quality of their working life. Such expectations include taking care of the personnel’s welfare and safety at work and upholding their skills and motivation for the work.
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Beyond these expectations, a socially responsible company secures a just treatment and equal opportunities for all its employees, regardless of gender, age, race, or religion.

c) Responsibility of CSR towards the Community

Companies depend on the health, stability, and prosperity of the communities in which they operate. Often majority of the company’s employees and customers come from the surroundings area – especially so for SME’s. The reputation of a company at its location, its image as an employer and producer, but also as an actor in the local scene, certainly influences its competitiveness. Many companies become involved in community causes, for example by providing additional vocational training places, recruiting socially excluded people, sponsoring local sports and cultural events, and through partnerships with communities or donations to charitable activities.

3. Environmental aspects of CSR

Environmental concern and sustainable development is a key pillar of the corporate social responsibility. Environmental and ecological issues have been an important topic of discussion for the past thirty years in the business world – the longest time of the three dimensions corporate social responsibility. The knowledge and issues within the dimensions have progressed across a landscape of changing business realities. Environmental aspects put in place in the 1970s with the first real understanding of the environmental impacts of business.

a) Environmental Impact

Corporate activity may have many types of effects on the environment. Usually environmental impact refers to the negative effects occurring in the surrounding natural environment due to business operations. Such impacts may include: overuse of natural, non-renewable resources of energy, pollution wastage, degeneration of biodiversity, climate change, deforestation etc. Since many business-related environmental problems transcend national boundaries, most companies are thus actors in global environment.
b) **Measuring Environmental Impact**

Environmental impacts can be measured in several ways through environmentally extended input-output tables, material input per service unit (MIPS) calculations, ecological footprint and life cycle assessment, to name a few. Ecological footprint measures the amount of nature’s resources consumed in a given year, and compares it to the resources available in the world. Life cycle assessment (LCA or eco-balance) is used to assess the environmental performance of a product from raw materials in the beginning of the production process all the way to disposal at the end of use. The MIPS value is calculated by dividing the amount of material the product or service causes to move e.g. the amount of earth moved in mining, not just the metal used – during its entire life span by the amount of benefits and value its brings.

c) **Environmental Management**

To truly commit to its environmental responsibilities a company should change its traditional modes operation towards a more environmentally oriented one. The environmentally more responsible perspective could include such issues as an emphasis on increased resource productivity, cleaner production and active dialogue with the company’s stakeholders. Many businesses have found that establishing an environmental management system is the best basis for good environmental performance. Quality, health and safety issues can also be integrated into the same management system.

d) **Environmental Responsibility**

Several individual companies have found that improving environmental performance may also have beneficial effects on the company itself. Using less material and streamlining processes to create less waste may lower the costs of operation significantly. Moreover, the close review of operations, which is needed to improve the environmental performance, may reveal other improvement points, such as risk and material loss. A responsible public image may also attract more customers. State governments can fulfill their role in helping business to identify market opportunities and undertake win-win
investments, the action program also set out a number of other measures aimed at business: establishment of a compliance assistance programmes to help business understand the environmental requirements of the European Community; development of national, but harmonized, company environmental performance reward schemes that identify and reward good performers and encourage voluntary commitments and agreements.

Theories of CSR

Since there is a great heterogeneity of theories and approaches of CSR, discussion in this article is based on a comprehensive analysis and it is compared with a group of theories based on a criterion what role the theories confer to the corporation and society. The most renounced theories are as follows:

i) The Stakeholder Theory

The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization. It was originally detailed by R. Edward Freeman in the book Strategic Management: A Stakeholder Approach, and identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups. In short, it attempts to address the "principle of who or what really counts".

The most relevant model that one could think of when analyzing Corporate Social Responsibility is the well-known and accepted Stakeholder Theory. In essence it proposes that a company needs to take into account the interests and views most if not, all of its stakeholders in order to be accepted and to be successful in the market place. Stakeholder theory recognizes the fact that most of the firms have a large and integrated set of stakeholders (Cochran 1994) to which they have an obligation and responsibility (Spence, Coles, and Harris 2001). The theory challenges the view that shareholders have a privilege over other stakeholders (Orts and Strudler, 2002).

The main stakeholder groups include shareholders, employees, customers, the local community and the environment (Cooper et al. 2001). It also important to note that a single person may have different stakes in the organization, for
example they may be a customer, a prospective employee or an investor (Neville and Menguc 2006).

Stakeholder theory succeeds in becoming famous not only in the business ethics fields. It is used as one of the frameworks in corporate social responsibility methods. The political philosopher Charles Blattberg has criticized stakeholder theory for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. Blattberg argues that this is a product of its emphasis on negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests. He recommends conversation instead and this leads him to defend what he calls a 'patriotic' conception of the corporation as an alternative to that associated with stakeholder theory.

\[ ii) \quad \textit{The Archie Carroll Model} \]

The Carroll’s Corporate Social Responsibility pyramid, a dominant model that has enjoyed wide popularity among business and society scholars. Carroll
(1991) differentiates Corporate Social Responsibilities into four levels: “economic (required), legal (required), ethical (expected), and discretionary (philanthropy)”. The Corporate Social Responsibility pyramid was framed to embrace the entire spectrum of society’s expectations of business responsibilities and define them in terms of categories. According to the model (Figure 1.2) four kinds of social responsibilities constitute total Corporate Social Responsibility: economic (“make profit”), legal (“obey the law”), ethical (“be ethical”), and philanthropic (“be a good corporate citizen”).

Figure 1.2: Carroll’s Corporate Social Responsibility-Pyramid with four kinds of duties, responsibilities for a company. (Source: Carroll, 1991)

According to Carroll, the use of a pyramid to depict the conceptual model of Corporate Social Responsibility is intended to portray that the total Corporate Social Responsibility of business comprises distinct components that, taken together, constitute the whole. The model categorizes the different responsibilities hierarchically in the order of decreasing importance. The most fundamental is economic responsibility, “all other business responsibilities are predicated upon the
economic responsibility of the firm, because without it the others become moot considerations.” Businesses are expected to operate within the framework of law, thus legal responsibility is depicted as the next layer of the pyramid.

Following is ethical responsibility defined in terms of “those activities or practices that are expected or prohibited by society members even though they are not codified into law.” Last in importance, at the top of the pyramid, is philanthropic responsibility, which is discretionary in nature. In the main, the pyramid purports to describe a necessary and sufficient set of obligations that socially responsible businesses should simultaneously fulfill, taking into consideration their decreasing importance.

Nature of Corporate Social Responsibility taking a managerial approach, the four-part pyramid defines Corporate Social Responsibility in terms of social expectations that responsible corporations should strive to meet. Prevailing social norms and expectations provide external criteria against which corporate performance can be measured; thus, the notion of responsibility in the pyramid model is reduced to normative restraints of responsiveness. In other words, Corporate Social Responsibility in the pyramid formulation is basically accommodative. Suggesting that businesses should treat Corporate Social Responsibility not as a goal to be maximized but as a constraint, the pyramid does in effect promote satisfying behavior rather than striving for excellence.

Classification of Theories

Secchi has come up with a group of theories based on a criterion what role the theories confer to the corporation and society. The theories are as follows:

1) The Utilitarian Theory,
2) The Managerial Theory, and
3) The Relational Theory.

On the other hand, Garriga and Mele’s (2004) analysis maps CSR into four types of territories. They are: 1) Instrumental theories, 2) Political theories, 3) Integrative theories, and 4) Ethical theories. Table 2 describes the theories and the
relevant approaches. There is no doubt that some similarities do exist in both conceptualizations of CSR and the discussion will be based on emphases and approaches.

Utilitarian, managerial and relational theories of CSR.

<table>
<thead>
<tr>
<th>Utilitarian Theory</th>
<th>Managerial Theory</th>
<th>Relational Theory</th>
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<tbody>
<tr>
<td>Theories on social costs</td>
<td>Corporate social performance</td>
<td>Business and society</td>
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<td>Functionalism</td>
<td>Social accountability, auditing and reporting (SAAR)</td>
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<td>Social responsibility for multinationals</td>
<td>Corporate global citizenship</td>
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<td>Social contract theory</td>
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Corporate Social Responsibilities Theories and Related Approaches

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<tr>
<th>Types of theory</th>
<th>Approaches</th>
<th>Short description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Instrumental theories</strong> (Focusing on achieving economic objectives through social activities)</td>
<td>Maximization of shareholder value</td>
<td>Long term value of maximization</td>
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<td></td>
<td>Strategies for competitive advantage</td>
<td>• Social investment in a competitive context</td>
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<td>Cause-related marketing</td>
<td>• Firm’s view on natural resources and its dynamic capabilities</td>
</tr>
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<td></td>
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<td>Altruistic activities socially recognized as marketing tool</td>
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<tr>
<td><strong>Political theories</strong> (Focusing on a responsible use of business power in the political arena)</td>
<td>Corporate constitutionalism</td>
<td>Social responsibilities of businesses arise from the social power the firms have.</td>
</tr>
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<td></td>
<td>Integrative social contract Corporate citizenship</td>
<td>Assumes that a social contract between business and society exists</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The firm is understood as being like a citizen with certain involvement in the community.</td>
</tr>
<tr>
<td>Types of theory</td>
<td>Approaches</td>
<td>Short description</td>
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</tr>
<tr>
<td><strong>Integrative theories</strong></td>
<td>Management issues</td>
<td>Corporate response to social and political issues. Law and the existing public policy process are taken as a reference for social performance. Balances the interests of firms’ stakeholders' searches for social legitimacy and processes to give appropriate responses to social issues.</td>
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<td></td>
<td>Public responsibility</td>
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<td>Stakeholder management</td>
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<td></td>
<td>Corporate social performance</td>
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<tr>
<td><strong>Ethical theories</strong></td>
<td>Stakeholder normative theory</td>
<td>Considers fiduciary duties towards stakeholders of the firm. This requires some moral theories. Based on human rights, labor rights and respect for environment. Aimed at achieving human development considering present and future generations. Oriented towards the common good of society.</td>
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<tr>
<td>(Focusing on the right</td>
<td>Universal rights</td>
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<td>thing to achieve a good</td>
<td>Sustainable development</td>
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<td>society)</td>
<td>The common good</td>
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**Source:** Garriga and Mele (2004: p 63-64).

**Corporate Social Responsibility in India**

The concept of social responsibility is not alien to the Indian soil. As a matter of fact, it is deeply rooted in the Indian Culture. From the inception of business in India, the concept of social responsibility of business was reviewed from the religious or moral aspect rather than a Philosophy of Management. CSR concept has evolved time to time in Indian history from Vedic era to Modern day business. During the Vedic and Post Vedic period Social Responsibility was more a spiritual thinking being spread by the various religions and it was more or less spreading of doing good things and not doing bad things. It was more spread by the religious Gurus or Leaders.

It is important to note that during the medieval era, in India traders and bankers enjoyed the wide prosperity and were held in high esteem, and there are countless examples of the help from the business communities (Nagarsheth) help to the society at
the time of natural calamities, disease, protection etc. With the advent of European rule (British, French and Portuguese) in the 18th century in India, Christianity flourished in the country. It too influenced the socio-economic life of the country. Christianity emphasis upon the inner character of man, his motives, will and desire. With regards of the property they contend that it is not an absolute right, and it can be justified only to the extent that welfare of the community is served.

However, in the 18th century when the business was literally captured by the British and the Portuguese, and it had to face greater hardships. To keep business on the toes many unfair practices were developed by the traders. Mortality rate of the Indian industries rose considerably during 1800 to 1900. Independence movement in India was at its pick at the end of 19th century and in the beginning of the 20th century. In spite of unfavorable attitude on the part of British during the era, from 1900 to 1930 revolution started in Indian business. Politics and Business joined hands in this time frame. In 1919, Gandhiji urged capitalist to function as trustees.

India’s historic freedom struggle was characterized to a great extent by concern for the problems like mass poverty, protection for farmers, artisans, inflation, the need for industrialization and reconstruction of entire socio-economic life. In post-independence the image of Indian business leaders was under the criticism for not being sensitive to the society. On one hand the business was and have been resting on the hoarding black marketing, adulteration, profiteering, unethical practices etc, on the other hand social responsibility concept was also emerging during that phase out of all the darkness. Business leaders like Shri. Arvind Mafatlal had remarked that -Businessmen and industrialist should discharge their social responsibilities on a scale and on such diverse lines that they would go beyond the requirements of various law of the country.

In India, now Corporate Social Responsibility has evolved to encompass employees, customers, stakeholders and sustainable development or corporate citizenship. The spectrum of Corporate Social Responsibility includes a number of areas as human rights, safety at work, consumer protection, climate protection and caring for the environment and sustainable management of natural resources. From the perspective of employees, Corporate Social Responsibility activities include providing
health and safety measures, preserving employee rights and discouraging discrimination at workplace. This helps in fostering a healthy environment within the company. Corporate Social Responsibility in India could also be a leverage to top IT Companies to cater and promote its brand image to the public.

CSR in India is at a developing stage, sometimes being one of the least understood initiatives in the Indian industrial sector. Such industries emphasis not on social goods but rather on the policy which needs to be implemented just to show that the industry is performing CSR activities. The number of multinational companies in the last decade has brought the global multinationals and investment houses to India for competing in the domestic and international markets. Infosys a global MNC in India has supported the development of the underprivileged sector of the society by conducting health camps regularly.

**CSR Standards and Practices**

ISO 26000 is the recognized international standard body for CSR. The ISO 26000 standards benefit CSR because they provide clarity on an organization’s concepts, terms and definitions related to social responsibility. ISO 26000 intends to assist organizations in contributing to sustainable development. The standards provide insight into trends and characteristics of social responsibility. ISO 26000 therefore aims to integrate, implement and promote socially responsible behaviour throughout the organization and in its engagement with its stakeholders.

It is important for businesses not only to provide products and services to satisfy the customer, but also to ensure that the business is not harmful to the environment in which it operates. In order for an organization to be successful, the business must be built on ethical practices. Companies are increasingly pressurized to behave ethically. This pressure comes from customers, consumers, governments, associations and the public at large. ISO 26000 was created with this in mind, to provide guidance on the international standards on CSR. It is intended for organizations in both public and private sectors, in developed and developing countries.

These standards motivate businesses to go beyond legal compliance, recognizing that compliance with the law is a fundamental duty of any organization and
an essential part of their social responsibility. Being trustworthy and transparent, however, increases consumers’ preference for a company and its product or service.

**Conceptual Framework**

Corporates interact with society in many ways. They invest in facilities, produce and sell products, employ people and subcontract or in-source many activities. They also have an impact on the environment by the nature of their activities, by using valuable resources, or creating by-products, which influence the physical environment. Their interaction with society is through their employees and the many facets of society around them. Further, corporates may act explicitly as responsible, for either emotional reasons or business purposes. As the organization is a part of the society, it cannot function in isolation. So there is an obligation and responsibility from the part of the corporate to take action that protects and improves the welfare of society as a whole along with their own interest (Keith Davis, 1975). The society plays a pivotal role in the success of any organization. Hence, no organization can achieve long-term success without fulfilling the responsibility towards the society.

From the present theories and reviews, it can be inferred that though the concept of Corporate Social Responsibility has gained much importance and recognition, its holistic ideology is still to be addressed. From the presented theories & reviews, it is evident that there are vast number of studies illustrated, but however these studies are myopic and rather only focus on either the organizations perspective, the employee’s contributions or the community’s involvement. The present conceptual frame work is a novel approach in trying to integrate the above presented entities into a holistic point of view. The concept seeks to understand how the factors dominant in CSR influence the organization, its employees and the community (beneficiaries) at large.
Core Elements

CSR Responsiveness

Corporate Ethics of the Organization

The Social Responsibility of the employee

The Beneficiaries involvement in CSR activities

CSR Practices

The Effectiveness of Programmes Conducted

Figure 1.3: CSR Tree ‘Employees Purview’ – (Clayton and Umesh Samuel, 2014).

Core Elements

The Social Responsibility of the Beneficiaries

The organizations/employees involvement in CSR activities

CSR Practices &

The Effectiveness of the Programmes as rated by the Beneficiaries

Figure 1.4: CSR Tree ‘Beneficiaries Purview’ – (Clayton and Umesh Samuel, 2014).
Figure 1.5: The CSR Tree Conceptual Model – (Clayton and Umesh Samuel, 2014).

The present ‘CSR Tree Conceptual Model’ seeks to integrate the both the employees and the beneficiaries perspective into a holistic advent which would conceptualize the effective practices of CSR. This model was put forth in an attempt to draw meaningful congruence since studies and research have only focused on one area either the employee’s perspective or the beneficiary’s perspective. This approach illustrates that only when there is a mutual integration of efforts pertaining to the CSR Practices of the employees and the beneficiaries the true essence/shade of Corporate Social Responsibility is portrayed. The most essential aspect of the above model is that
the element and factors contributing to CSR can still be integrated into the tree whereby an holistic outreach could be administered.

The Cogwheel Model

A cogwheel is a mechanical part used in machine assemblies. It is also known as a gear and is an essential part of many common devices, including automotive transmissions. The body of the gear rotates just as a wheel does, and its outer edge is lined with protuberances called teeth or cogs; hence the name cogwheel. These cogs allow the gear to transmit energy and direction to the other gears in the machine assembly. It is a basic part that allows much more elaborate machines to operate, and as such is often applied metaphorically to objects or people with similar functions.

Figure 1.6: The CSR Cogwheel - Employee Perspective (Clayton & Umesh Samuel, 2014)

The model developed seeks to understand the outcome of the factors influencing each other with the perspective of Corporate Social Responsibility. The
cogwheel model is an integration of CSR Responsiveness, Corporate Ethics, Social Responsibility, Corporate Social Responsibility, Organizational Support, Involvement and the Effectiveness of the Programmes. These attributes are interdependent of each other and the rotation of the cogwheel delivers the output. This output is thus interpreted and taken together with a notion of both the employee’s perspective and the beneficiaries perspectives of the same.

Figure 1.7: The CSR Cogwheel - Beneficiaries Perspective (Clayton & Umesh Samuel, 2014)

Effectiveness of CSR Activities

Figure 1.8: The CSR Cogwheel – (Clayton & Umesh Samuel, 2014)
The presented attributes though independent in nature of a cogwheel are all interlinked to a common parameter called Corporate Social Responsibility. The larger size cogwheel is the organization and its employees. These specific entities are linked via a chain and is driven by a smaller cogwheel representing the community (beneficiaries). The trust or outcome is thus reflected by the smooth functioning and rotation of the cogwheel driving each other towards the effectiveness of the desired and optimum outcome.

**Corporate Social Responsibility - Responsiveness**

In contrast with corporate social responsibility, corporate social responsiveness is concerned only with the managerial processes of responding in the social sphere: planning and social forecasting, organizing for social response, controlling social activities, social decision making, and corporate social policy (Carroll, 1979, p. 502).

**Corporate Ethics/Business Ethics**

Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations (Alexei Marcoux, 2008).

**Social Responsibility**

Social Responsibility is the obligation of an organization's management towards the welfare and interests of the society in which it operates. Social responsibility is an ethical framework which suggests that an entity, be it an organization or individual, has an obligation to act for the benefit of society at large (Kaliski, 2001, p.1).

**Corporate Social Responsibility**

Corporate Social Responsibility (CSR) refers to operating a business in a manner that accounts for the social and environmental impact created by the business. CSR means a commitment to developing policies that integrate responsible practices into daily business operations, and to reporting on progress made toward implementing these practices (Debra Dunn, 2005).
Support toward Corporate Social Responsibility

CSR practices should be committed in providing a high level of support to its employees and beneficiaries who are part and parcel of the programmes. Technical support staff and the organization determine the nature of how CSR issues are addressed and how effective the programmes are implemented. Commitment to corporate social responsibility (CSR) is an important element of good corporate citizenship, alongside sustainability and good governance.

Organizations/Beneficiaries Involvement in CSR

The success of a CSR Programme relies on the community participation (beneficiaries Involvement) on having a good understanding with the organization and its employees. Effective interventions rely on community participation. Effective interventions are achieved when the community supports the identified needs, priorities, capacity and any barriers to action. They include: preferential government and regulatory treatment; enhanced reputation and brand image in that community; increased profit and customer loyalty; creates new business opportunities; increased ability to attract and retain employees; increased ability to attract and retain employees; innovation in market through cooperation with local communities; and innovation in market through cooperation with local communities (Sofia Ribeiro, 2010).

Effectiveness of CSR Programmes

Effective CSR Policies bring about effective CSR Programmes. The final success of any programme depicting its attributes in relation to Corporate Social Responsibility lies in the influence of the organization, its employees and the community at large. Effective Programmes should address the felt needs of the community and contribute towards the upliftment of the society. The programmes vitality should be verified not only by the employees but also by the beneficiaries.

CSR: Initiatives & HRM

HR functions are embed in CSR values which in the corporate culture is immense and has been underlined. An organization can exhibit a better brand image in the minds of people by presenting itself as an excellent employer which cares for its
people and involves them in the ambit of social responsibility. The involvement of the firm’s valuable resources, the employees indicates the strategic importance of HRM in the CSR initiatives of an organization. Thus, the human resource policies form the framework of the culture in the current business management style which creates awareness towards the need to achieve the business goals in the best possible ethical manner (Agrawal, 2007).

The Human Resource department should take up the responsibility to create a formal policy that involves sustainable practices among the employees. By, creating a code of ethics the organization can stimulate social responsibility to a great extent reinforcing amongst its employees the underlying values of morale practices. Training on code of ethics is the need of the hour and should be undertaken by the organization. Empowerment as a strategy should be left in the decision of the public on their felt needs and this becomes important when an organization has many plants or units at multiple locations around the world.

Proper identification of required recourses armed with the decision making authority of the public and the public relation team would help the organization assess the needs of the people whereby implementing appropriate CSR programmes. CSR activities should be effectively measured, evaluated and reviewed by the Human Resource department since the value added by CSR form direct results relating to economic savings and indirect results relating employee satisfaction with less employee turnover. These factors contribute to improved business performance.

Successful programmes on social responsibility rely heavily on enlightened people management practices. In this context HR department is assumed to be the coordinator of CSR activities in getting the employment relationship right which is a precondition for establishing effective relationships with external stakeholders and thus can orient the employees and the organization towards a socially responsible character.

There is also an increasing trend in the corporate sector which has started leveraging upon employees and their management for exhibiting their commitment towards CSR. Armed with a strong and committed organizational culture reinforced by responsible Human Resource Management practices, the organizations can achieve heights of success by improved profitability, employee morale, customer satisfaction,
legal compliance and societal approval for its existence. Companies should link up their philanthropic or community development initiatives with MDGs towards achieving their goals pertaining to Corporate Social Responsibility.

It is high time for all other organizations which have been paying only lip service to CSR must capitalize upon the existing Human Resource Department in framing such practices, procedures and policies that ensure the internalization of quality, ethics and excellence in the whole system.

**An overview of the Companies Bill 1956 – Mandating CSR in 2013**

Source: C.S. Dhanapal (2013)

The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014.

With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities.
The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure.

The net worth, turnover and net profits are to be computed in terms of Section 198 of the 2013 Act as per the profit and loss statement prepared by the company in terms of Section 381 (1) (a) and Section 198 of the 2013 Act. While these provisions have not yet been notified, is has been clarified that if net profits are computed under the Companies Act, 1956 they needn't be recomputed under the 2013 Act. Profits from any overseas branch of the company, including those branches that are operated as a separate company would not be included in the computation of net profits of a company. Besides, dividends received from other companies in India which need to comply with the CSR obligations would not be included in the computation of net profits of a company.

1. **What is the 2 percent requirement?**

   The act requires that companies set up a CSR board committee, which must consist of at least three directors, one of whom must be independent. That committee must ensure that the company spends “at least 2 percent of the average net profits of the company made during the three immediately preceding financial years” on “CSR” activities. If the company fails to spend this amount on CSR, the board must disclose why in its annual report.

2. **How will the requirement be enforced?**

   The board committee is responsible for reviewing, approving, and validating the company’s investments in CSR. Prior to each annual meeting, the board must submit a report that includes details about the CSR initiatives undertaken during the previous financial year.

   The board’s independent director helps ensure the credibility of this process. However, the act does not provide any guidance on what constitutes acceptable reasons for which a company may avoid spending 2 percent on CSR.
3. **How does the act define “CSR”?**

The act defines CSR as activities that promote poverty reduction, education, health, environmental sustainability, gender equality, and vocational skills development. Companies can choose which area to invest in, or contribute the amount to central or state government funds earmarked for socioeconomic development.

While this definition of CSR is broad and open to interpretation, it clearly emphasizes corporate philanthropy rather than strategic CSR. The act does, however, specify that companies “shall give preference to the local area and areas around where it operates.” – (Chhavi Ghuliani, 2013).

**Summary**

The presented chapter reveals the origin and evolution of Corporate Social Responsibility as a strategic practice that organizations are nowadays adopting. The discussion pertaining to the chapter is from both the theoretical and practical applicability of the concept depicted in the Cogwheel Model. It can be concluded that though CSR is being mandated it is the genuine interest of organization to adhere to its bylaws and not deviate from the same. Today, organizations that want to achieve long-term success must consider the importance of its CSR policies and outreach activities. Because CSR can influence economic, environmental and social factors in a variety of ways, there is no “one size fits all” approach.

An effective CSR strategy must consider alignment with the organization’s business strategy, and sustainability with the community for its optimum impact. In conclusion, by becoming a good corporate citizen, an organization can improve its competitive edge in respect of attracting and retaining investors, clients and employees. CSR focuses on achieving economic success through responsible corporate governance in a company’s core area of business. CSR pushes organizations to do better because their actions affect customers, suppliers, employees, shareholders and the community at large. Partnerships with the communities, particularly those that have been disadvantaged, can help companies build productive relationships and stimulate economic growth in disadvantaged areas.