Chapter 2

Review of Literature

Preview: This chapter consolidates the academic and industrial research on CSR conducted in developed and developing nations. This chapter presents a detailed view on CSR activities and its impact on employees, customers, financial performance, environment, stakeholders and overall business sustainability. CSR practices and its impact on overall business is well introspected in developed countries. Further, this chapter showcases prior literature related to issues and challenges of CSR in India. Over the last three decades corporations have been spending a considerable amount of time and resources on social, environmental and health issues. This chapter reviews whether this expense is directly or indirectly influencing the overall business. Also this chapter looks at those possible gaps in the studies and tries to formulate a strategy and approach for the study. The gaps need not be the short coming of the studies reviewed, but are the possible direction in which the present study structures its further enquiry.

2.1 Impact of CSR on financial performance of business and financial access

Mcguire et al., (1988) assessed the impact of CSR on Firm’s financial performance. In this study data on corporate social responsibility were obtained from Fortune magazine's annual survey of corporate reputations. Fortune has conducted the survey each fall since 1982 and published summary results each January. The survey covers the largest firms in 20-25 industry groups (the number of industry groups varies from year to year). Over 8,000 executives, outside directors, and corporate analysts are asked to rate the ten largest companies in their industry on eight attributes: financial soundness, long-term investment value, use of corporate assets, quality of management, innovativeness, quality of products or services, use of corporate talent, and community and environmental responsibility. Ratings are on a scale of 0 (poor) to 10 (excellent). The correlation and regression results presented in this study suggest several conclusions. Although performance tended to predict corporate social responsibility better than risk, measures of risk also explained a significant portion of the variability in social responsibility across firms. The study noted earlier that theoretical arguments can be made for a relationship between social responsibility and firm risk. Lack of social responsibility may expose a firm to significant additional risk from lawsuits and fines and may limit its strategic options. Rather than looking
for increased profitability from socially responsible actions, managers and those interested in the financial impact of social responsibility might look toward reduced risk.

The data, however, suggest that firms low in social responsibility also experience lower stock-market returns than firms high in social responsibility. Results show that a firm's prior performance, assessed by both stock-market returns and accounting-based measures, is more closely related to corporate social responsibility than its subsequent performance. Results also show that measures of risk are more closely associated with social responsibility.

Aupperle et al., (1985) in their study, “An Empirical Examination of the Relationship between CSR and Profitability”, state few interesting reviews of previous studies.

Table 2.1: Studies examining the relationship between CSR and Profitability

<table>
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<th>Study</th>
<th>Methodology</th>
<th>Performance Criteria</th>
<th>Finding Implications</th>
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<tr>
<td>Moskowitz (1972)</td>
<td>Simplistic comparison of stock price increases in Moskowitz’14 firms with “perceived” high CSR with the average increase in the Dow-Jones Index</td>
<td>Stock price increases over time (six months)</td>
<td>High CSR firms outperform the Dow-Jones industrials</td>
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<td>Bragdon &amp; Martin (1975)</td>
<td>Seventeen firms in the paper and pulp industry were related on a pollution index developed by the Council of Economic Priorities. Each firm’s index was compared to its ROE</td>
<td>Return on equity (ROE)</td>
<td>The better the pollution index, the higher the ROE</td>
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<td>Bowman &amp; Haire (1975)</td>
<td>Eighty-two food processing firms classified into low, medium, and high CSR categories based on the number of lines devoted to the topic of CSR in corporate annual reports. The CSR categories are</td>
<td>Five-year return on equity</td>
<td>Existence of a U-shaped performance curve; the highest performing firms being those found in the middle range of</td>
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<tr>
<td>Source</td>
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<td>Eilbirt (1975)</td>
<td>The researchers’ previous CSR survey was assumed to be CSR firms. The profitability of 80 of these firms compared to the Fortune 500</td>
<td>Income, profit margin, ROE and EPS</td>
<td>Assures the 80 CSR firms proved to be more profitable</td>
</tr>
<tr>
<td>Vance (1975)</td>
<td>Two-fold:</td>
<td>Stock Price increases over time</td>
<td>CSR firms are determined not to be good investments; negative correlation between CSR and stock price increases</td>
</tr>
<tr>
<td>Heinz (1976)</td>
<td>Correlating CSR ratings of 29 firms from a Business and Society Review survey with ROE</td>
<td>Several measures such as ROA, ROE, and profit margins.</td>
<td>A significantly positive correlation between CSR and ROE</td>
</tr>
<tr>
<td>Sturdivant &amp; Ginter (1977)</td>
<td>A population of 67 high CSR firms as identified by Moskowitz in the Business and Society Review are used in a CSR survey. Twenty three firms returned 130 questionnaires. The 67 firm population is also reduced down to 28 firms and reclassified</td>
<td>10 year EPS growth</td>
<td>High CSR firms (Best and Honorable Mention) outperform low CSR firms. Honorable mention CSR firms have the best performance and supports findings of Bowman.</td>
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Waddock and Graves (1997) attempted to address what has become a perennial question: whether corporate social performance (CSP) is linked to financial performance and, if so, in what direction the causation runs. The authors explored whether or not strategic linkages exist between CSP behavior and financial performance. Authors considered CSP as both dependant and independent variable and then assessed the relationship between social and financial performance. The sample included most of the Standard and Poors 500 firms. The authors found, that there is a positive relationship between CSP and financial performance. Clearly, firms that are in financial trouble may have little ability to make discretionary investments in traditional CSP activities such as philanthropy, while those doing well financially have resources to spend in ways that may have more long-term strategic impacts, such as investments in improved local schools or community conditions to improve a workforce. Such resource allocations may be strategically linked to improvements in long-term image and relationships with the communities with which it must interact. If, CSP is redefined to encompass critical stakeholder relations, then expenditures on CSP activities are far from discretionary and may actually be strategic. Further, it was found that financial performance also depends on good social performance, suggesting that there is something about performing well in social arenas that may be simply linked to good managerial practice.

Balabanis et al., (1998) in their study conducted in London found that CSR may not always attract investor. Authors stated the hypothesis of the “ethical investor” (that capital markets tend to reward socially responsible firms) is not necessarily empirically supported by this research. Quite the opposite, findings suggested that the capital market seems to be rather indifferent to firms that undertake some CSR activities. Even more surprisingly the degree to which a firm discloses CSR information had a negative effect on capital market participants (postulated to be one of the main motives and targets of disclosure). Overall, the findings seem to suggest that other factors than CSR concerns were more important determinants of investors’ behavior. Obviously the relationship is more complex than what has been suggested. The authors mention that the future research should examine the impact of CSR concerns in conjunction with other factors which might affect decision making and expectations formation of different segments of investors. In this study economic performance data were divided into three periods: 1984-1987 (pre-assessment period); 1988-1989 (concurrent period); and 1990-1994 (post-assessment period). Communicating CSR is also a very important factor. CSR disclosure and financial
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performance is correlated in this study. CSR disclosure was found to be associated with concurrent financial performance. In particular, gross profit to sales ratio was found to affect disclosure positively. A combination of high CSR performance and high disclosure was also found to have positive effects on firms’ overall profitability. In contrast, low CSR disclosure combined with good CSR performance or high CSR disclosure combined with poor CSR performance were found not to be economically-rewarding strategies. Even poor CSR performance accompanied by low level of disclosure was found to be a better strategy (than the other combinations) in the short term (concurrent period). However, this effect seems to fade away in the longer run (i.e. subsequent periods).

Nath (2003) attempted to clarify CSR as strategy. Corporate success assumes that strategy matches internal competencies with the external environment (stakeholder expectations), within the constraints of mission and vision. The implementation of strategy, however, rests upon corporate operations being successful. Finance, accounting, human resources, and other operational aspects must be executed effectively, if the strategy is to be successful at matching competencies to opportunities in the environment. To improve overall performance, therefore, leaders create strategic objectives that aim to strengthen these corporate operations. To ensure sufficient financial resources, for example, strategic objectives may be set for accounting department to accelerate the collection of accounts receivables. Or, marketing might be tasked with the strategic objectives of gaining 5% market share. These strategic objectives, however, must be viewed as strategic (must do) imperatives, key players must undertake strategic initiatives in the form of action-oriented projects. The head of accounting, for example, might create a task force charged with a project that identifies and tracks clients who are slow to pay their bills. A similar action-oriented task force might also be created in marketing to evaluate the firm’s advertising as a first step to gaining market share. However these action-oriented projects performance, they must do so by achieving strategic CSR imperatives; otherwise, larger threats to the firm’s visibility arise. As societies in general become more affluent, societal expectations evolve, and communication technologies become even more widespread, greater and greater demands for CSR will result – undoubtedly prompting more action oriented projects intended to achieve strategic CSR imperatives. Certainly moral and rational arguments exist for companies to act in a socially responsible manner; however, a strong economic incentive also exists to be perceived as a net contributor within a society. CSR, therefore, is a competitive differentiator for
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a firm, as well as a form of brand insurance, in which the brand represents the perception of the company by each of its key stakeholder groups. The sophisticated level to which the crises management industry has evolved in advanced economies further demonstrate the values of reputation. In addition, increasingly, investors are willing to give higher valuations to companies that are deemed good citizens. Put another way, investors give some companies with good track records the benefits of the doubt.

Orlitzky et al., (2003) conducted a meta-analysis of 52 studies showing relationship between corporate social relationship between corporate social performance (CSP) and Corporate Social Responsibility (CSR). This meta-analysis has shown that - (1) across studies, CSP is positively correlated with CFP, (2) the relationship tends to be bidirectional and simultaneous, (3) reputation appears to be an important mediator of the relationship, and (4) stakeholder mismatching, sampling error, and measurement error can explain between 15 percent and 100 percent of the cross-study variation in various subsets of CSP–CFP correlations. Corporate virtue in the form of social and, to a lesser extent, environmental responsibility is rewarding in more ways than one.

Margarita (2004) reviewed the relationship between CSR and Corporate Financial Performance. There is an extensive debate concerning the legitimacy and value of being a socially responsible business. There are different views of the role of a firm in society and disagreement as to whether wealth maximization should be the sole goal of a corporation. Most people identify certain benefits for a business being socially responsible, but most of these benefits are still hard to quantify and measure. This study attempts to address the question whether corporate social performance is linked to financial performance. Using empirical methods, the authors tested the sign of the relationship between corporate social responsibility and financial performance. The study used extensive data covering a five year period, 1996-2000. The dataset included most of the S & P 500 firms. Results indicate that the sign of the relationship is positive, which supports those studies that found positive linkages in the past (Waddock and Graves, 1997; McGuire et al., (1988, 1990); Auperle, et al., (1985). Different explanations for this result depend on the direction of the causality between CSR and profitability.

Arguments exist that support the view that firms which have solid financial performance have more resources available to invest in social performance domains, such as employee relations,
environmental concerns, or community relations. Financially strong companies can afford to invest in ways that have a more long-term strategic impact, such as providing services for the community and their employees. Those allocations may be strategically linked to a better public image and improved relationships with the community in addition to an improved ability to attract more skilled employees. On the other hand, companies with financial problems usually allocate their resources in projects with a shorter horizon. This theory is known as slack resources theory (Waddock and Graves, 1997). Other arguments propose that financial performance also depends on good or socially responsible performance. According to Waddock and Graves (1997), meeting stakeholder expectations before they become problematic indicates a proactive attention to issues that otherwise might cause problems or litigation in the future. Furthermore, socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners. Socially responsible companies also have less risk of negative rare events. Companies that adopt the CSR principles are more transparent and have less risk of bribery and corruption. In addition, they run less risk of having to recall defective product lines and pay heavy fines for excessive polluting. They also have less risk of negative social events, which could damage their reputation and costs millions in information and advertising campaigns or litigation. The two different explanations of this relationship depend on its causality. This study did not explore the direction of the causal connections. Nevertheless, the findings indicate that CSR is positively related to better financial performance and this relationship is statistically significant, supporting, therefore, the view that socially responsible corporate performance can be associated with a series of bottom-line benefits. Some other studies which focused on CSR and financial performance includes -Tsoutsoura, 2004; Rapti,2009; Palmer,2012; Flammer,2013.

Scholtens (2008) studies the interaction between financial and social performance. The research is about the overall social strengths and concerns of firms as well as strengths and concerns with respect to firms' community involvement, employee relations, diversity, environment and product. Using a sample of 289 firms from the US covering the period of 1991–2004 the author analyzed whether social performance precedes financial performance or financial performance precedes social performance. The most important finding is the support for a positive and significant interaction between financial and social performance. More specifically, it appears that financial performance (both risk and return) in general terms precedes social performance.
(both strengths and concerns) much more often than the other way around. However, the different themes of CSR (community involvement, employee relations, diversity, environment, and product) do not all have the same type of interaction with financial return and risk. Furthermore, it sometimes is a specific theme that precedes risk.

Brammer and Willingten (2008) analyze the relationship between CSR and Corporate Social Performance. This study has investigated the link between corporate social and financial performance using a distinctive empirical approach. Specifically, the study estimated a model of the determinants of the intensity of corporate charitable contributions and subsequently analyzed the financial performance characteristics of firms that make donations at a significantly different rate than expected on the basis of their firm and industry characteristics. The study identified significant differences in the stock market performance of firms that make unexpectedly high or low rates of contributions to charity and show how these differences vary over time. The key findings concerned the significance of deviation from ‘expected’ or ‘optimal’ rates of social performance for a firm’s financial performance and the longitudinal variability in the link between CSP and CFP. It was found that firms with both unusually high and low social performances have higher financial performance than other firms with unusually poor social performers doing best in the short run, and unusually good social performers doing best over longer time horizons. The significantly higher financial performance of young firms with poor social performance active in new and rapidly growing industries is of particular interest since it suggests that the industry life cycle may play an important role as a contingency in the relationship between CSP and CFP.

According to Caroll (2010) many previous studies by Vogel, 2005, Jackson 2004, Laszlo 2003, Scott and Rotman 1992 and Waddock 2002, promote the ‘responsibility-profitability connection’ and assert that CSR leads to long-term shareholder value. Mason and Simmons (2011) demonstrate ‘CSR at tipping point’ thesis by conflicting views of Corporate Social Responsibility as essential for Business and Societal sustainability against those that see CSR as unaffordable or irrelevant in the current economic climate. Further they derive two research prepositions:
i) There is a positive relationship between the deterioration in firm’s corporate financial performance (CFP) and a reduced level of involvement in Corporate Social Responsibility.

ii) There is a positive relationship between a firm’s level of involvement in CSR activities at the corporate level and those found in the firm’s marketing, HRM and performance management functions.

From time to time the attempt has been made to understand the impact of CSR on business and especially its financial performance and access to finance.

Berad (2011) investigated few questions. Can shareholder money be used for a company's corporate social responsibility (CSR) practices? Shouldn’t shareholders have a say in the CSR activities of the company they are invested in? There are many obstacles emerging while adopting successful CSR strategies including the difficulty in making a business case for CSR, difficulty in integrating CSR with organizational values and practices and the lack of organizational buy-in and commitment to CSR. Other obstacles reported the lack of time and financial resources to pursue CSR practices are directly related to the above three. When an organization finds it hard to make a business case for CSR or link it to core organizational operations, it will be reluctant to commit and allocate resources or time, to such practices. Moreover, these obstacles also point to another set of findings in the report: respondents view CSR more so as means to manage regulatory impacts, reduce risk, and respond to stakeholders concerns, and to a lesser extent as a strategic source of competitive advantage. Further it was stated in his study that investors are changing the way they assess companies' performance, and are making decisions based on criteria that include ethical concerns.

Shrivastava et al., (2012) attempted to clarify the benefits of CSR while conducting study of TATA group. They found as business is an integral part of the social system, it has to care for varied needs of the society. Business which is resourceful has a special responsibility to the society. Social involvement of business would enhance a harmonious and healthy relationship between the society and business seeking mutual benefit for both. Social involvement may create a better public image and goodwill for the company, which further becomes instrumental in attracting customers, efficient personnel and investors.
Accounting to the study conducted on 253 Indian firms that are listed on S&P ESG 500 India Index, by Tyagi et al., (2013) indicate that Indian CSR is typically associated with philanthropy and charity. But strategists have revealed that a prominent and increasing number of firms are reporting CSR performance to their stakeholders. Further they observe that CSR not only strengthens core of business, but also creates value along with cost and risk reduction. As for Indian firms, CSR is not really a new course of action. While identifying the stage of the best practice behavior of the firms, the analysis showed that 38% respondents considered their firms as leading in CSR practices and believed that their firm was the first mover of best CSR practices, setting an example and standards for other firms, and 35% consider themselves as CSR follower. This reflects that overall 73% Indian firms are practicing mature CSR and further it was also a sign of encouragement that firms are growing and accepting CSR principles into their business practices. The results also revealed the facts of the organization under the curtain of CSR. Though 32% firms believed that their CSR activities were nothing more than but ‘giving something back to Society’, other firms believed that CSR help in gaining competitive edge (24%) and visibility in the market (22%) while only 16% believed that CSR improves Financial Performance of business.

The exploratory study conducted by Prabhakar and Mishra (2013) assessed that investors are changing the way they assess companies' performance, and are making decisions based on criteria that include ethical concerns. The Social Investment Forum reports that in the US in 1999, more than $2 trillion worth of assets invested in portfolios that used screens linked to the environment and social responsibility.

Luo and Bhattacharya (2013) reviewed the previous studies and stated the relationship between CSR and firms performance. Although studies in strategy and finance have explored the relationship between CSR actions and firm performance, empirical evidence to date has been rather conflicting (for a review, see Orlitzky, Schmidt, and Rynes 2003; Pava and Krausz 1996). For example, the returns to CSR are found to be positive in some studies (e.g., Fombrun and Shanley 1990; Soloman and Hansen 1985) but negative in others (e.g., Aupperle, Carroll, and Hatfield 1985; McGuire, Sundgren, and Schneeweis 1988). Margolis and Walsh (2003) conclude that the relationships between CSR and financial performance are decisively "mixed."
Cheng et al., (2014), investigate whether companies can have better access to finance, if their performance on CSR is superior. They found that firms with better CSR performance face significantly lower capital constraints. The data was collected with Environmental, Social and Governance (ESG) performance score, which was obtained from Thomson Reuters Asset4, a company that conducts surveys. This empirical study found that transparency of CSR performance and engaging stakeholders reduce capital constraints.

Filatotchev and Nakajima (2014) found that executives taking the CSR–related decisions on the Principle of “Shared Value”, consider CSR to be an integral part of organizational capabilities. The study found that, CSR activities can be the best interests of the firm and its stakeholders, if aligned with the strategic goals of the company. Santoso and Feliana (2014) found that CSR activities have positive impact to the corporate financial performance. The study of 500 companies conducted by Gupta and Singh (2010) indicated that CSR is now presented as a comprehensive business strategy. Using a large sample of publicly traded firms over 15 years, Ioannis and Serafeim (2014) confirmed that in the early 1990s, analyst issue more pessimistic recommendations for firms with high CSR ratings.

2.2 Impact of CSR practices on Customer Satisfaction and Retention

Kotler and Lee (2005) observe that 2002 Cone Corporate Citizenship study reported that 80 percent of Americans said they would be likely to switch brands to one associated with a good cause, if the Price and Quality are similar.

Hassan et al., (2013) found that there is a significant and positive impact of CSR dimensions of ethical and philanthropy on both customer satisfaction and retention. They further found that legal CSR has positive and significant impact on customer intention to retain with the retailer.

Pai et al., (2013) state that empirical evidence demonstrates that when making their buying decisions, industrial buyers are influenced not only by tangible attributes such as price and quality, but also by intangible features such as trust and brand association as well. They found the positive relationship between CSR and brand advocacy is stronger when industrial buyers interpret the CSR behavior as driven by internal motives.
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A study conducted in Indian context by Planken et al., (2010) indicated that the Indian consumers may not value philanthropic CSR as highly as other CSR initiatives and this may in turn influence their attitudes to different marketing communication strategies. This study concludes that all the six CSR marketing communication strategies proposed by Kotler and Lee (2005) influence educated Indian consumers’ attitude to the company as well as their purchasing intention.

A study conducted by Smissen, (2012) in Ghent discovered that consumers don’t always recognize the CSR activities of companies if they are not conducted in accordance with product development. The CSR activities in the product related activities category seem to be the ones that the respondents most often recognize, while the activities of the Philanthropy category are recognized the least.

Agrawal, (2013) argue that if firms ignore the ethical and health attributes to farmers, the consumers will be less committed to the firm. The result of this study also suggests that consumers are influenced by ethical issues and their level of influence varies depending on the type of product and the issue in question. Consumers are willing to pay a higher price for a particular ethical attribute but this willingness to pay varies between products and the issue in question. This difference in willingness to pay is influenced by the consumer’s perception about the different attributes the firm is speaking about.

Kumar et al., (2011) conducted study in banking sector. This study reveals that if banking service quality is high, then the customer satisfaction can be further enhanced with the positive influence of Corporate Social Responsibility.

Okewemba et al., (2014) have taken government policy as an intervening variable and found that there was a significant positive relationship between bank performance based on customer retention and philanthropic responsibilities, environmental responsibilities and ethical responsibilities of the banks.

Results of study conducted by Naqvi et al., (2013) show that majority of consumers give preference to Unilever (Multinational Company known for FMCG) due to high quality products and its Corporate Social Responsibility. Company can use CSR as a tool to implement long term strategy and can help improve its relationship with community as well as economic performance.
Using correlation analysis Naqvi et al., (2013) concluded that the correlation between CSR and brand satisfaction, brand loyalty and brand awareness is significant. This shows that corporate social responsibility is positively related to dimensions of brand image.

Mishra et al., (2014) have conducted a very interesting study on ITC notebooks to understand the consumer psychology or Consumer Social Responsibility (as they call it) for cause related brand. In this study Mishra et al., (2014) developed a conceptual framework showing the impact of CSR, firm’s donation and attitude toward cause related marketing that eventually develops Brand loyalty. The first question in this study was to understand the effect of CSR. In answering this question, regression test was conducted, and the results indicate that customers who had high concern for CSR orientation, were highly impacted and were ready to give reward to those companies by buying their product and checkout their advertisements very interestingly.

Hypotheses were developed by Abdusalam (2013) to test the relationship between CSR initiatives and societal benefit, using Chi-square method. The findings suggest that the practice of CSR enhances consumer loyalty and patronage towards a particular firm and also by investing in CSR, a firm could achieve a positive outcome in terms of its financial performance. Analysis of data indicated that CSR is of great importance in the following areas- Consumer Patronage, Society, Consumer Satisfaction, retaining and building loyal consumers, increase in market share, increase in sales revenue and sales volume.

Khan (2014) predicted in the Hypothesis that CSR initiatives will create significant positive impact on the attitude and behavior of banking customer. This study found that, the independent variables i.e. Customer centric initiatives, Environmental initiatives and Philanthropic initiatives impact positively on customer’s attitude and behavior. The impact measured is quite significant at 0.01 level calculated using progression analyses.

Pornpratang et al., (2013) conducted a study on relationship between CSR and Real Estate business in Thailand. The study emphasizes that Thai condominium developers can be more responsible for their environmental impacts through their CSR programs that increase consumers trust and encourage customer demand. In their study they bring forward the concepts of affects based trust, cognition based trust and disposition based trust and its relationship with CSR.
Further, in this study Pornpratang et al., (2013) established relationship between local community, environmental sustainability, trust of consumer and purchase intention. Ali et al., (2010) find no relationship between CSR and customer retention. The study has analyzed the linkage between corporate social responsibility and customer attitude regarding purchase intention and retention with corporation in future. The study also combined the effects of service quality and customer satisfaction. This study was conducted in cellular industry of Pakistan, which is fastest growing sector in Pakistan. Moreover consumers are also more aware and conscious in selection of service provider in cellular industry. The study found very low awareness level in customers regarding CSR activities. No linkage was found between CSR activities and customer purchase intentions. This depicts that customers in Pakistan do not consider corporation’s contribution towards society in their buying decisions. Significant relationship was found between service quality and customer satisfaction. Service quality also included reasonability and variety of pricing schedules, call clarity, network coverage. It shows that customer pay more attention to pricing strategies than CSR activities of service providers. No relationship exists between customer satisfaction and purchase intention and customer purchase intentions and consumer retention. It means that customer in cellular looks towards best packages of service providers and do not build strong and long-term associations with corporations rather they often look towards better options to enjoy best packages on more cheaper rates.

2.3 The impact of Corporate Social Responsibility on Employee Engagement, Employee Retention, Job Attitudes and Behavior

A number of in-depth studies have been carried out regarding benefits of CSR in developed countries. Apart from financial and customer perspectives, research is also conducted on impact of CSR on employees (Chin et al., 2013; Hahn et al., 2014; Bauman et al., 2012; Griffin et al., 2014).

Dan (2010) indicate that CSR has significant effect on employees work attitude and behavior. This study is conducted in China and the results show that a philanthropic activity, although not directly connected to employees, has influence on work attitudes and behavior. He further emphasizes on relationship between CSR and organizational commitment and mentions that
previous studies indicated that employees self concept is affected by policies and activities of organization. The employee develops sense of pride and self concept is more likely to be enhanced in an organization that engages in CSR.

Mason and Simmons (2011) observe in their study that the recruitment, retention and employee commitment are the benefits that accrue to socially responsible employers. Figure 2.1 explains the model of CSR drivers and constraints presented by this study.

**Figure 2.1: Corporate social responsibility drivers and constraints**

![CSR Drivers and Constraints Diagram](image)

Orchun et al., (2014) observe that Forbes has cited use of CSR as a means to enhance employee performance as a major trend. He further quotes practitioners such as Diane Melley, Vice-President of Citizenship at IBM, “CSR is a new and different way to motivate employees to deliver superior client service”. They also suggest that CSR communicates the underlying values of the company, which can lead people to form a strong psychological bond with organizational identification and thereby trigger company-benefiting behavior.

Bhattacharya et al., (2011) suggests that CSR communicates the underlying value of the company, which can lead people to form a strong psychological bond with it (i.e. organizational identification) and thereby trigger company-benefiting behavior.

Cheng et al., (2014) found that many scholars have argued that CSR can have a positive impact by providing better access to valuable resources (Cochran and Wood, 1984, Waddock and Graves, 1997) and attracting and retaining higher quality employees (Turban and Greening 1997). The study conducted by Ali and Ali (2011) confirms the significant relationship between CSR and employee engagement. CSR produces direct and indirect link to employees’ behavior and job attitude. As found by Gupta, (2011) positive workplaces reinforce job-related attitudes and behavioral outcomes. Meta analysis and empirical studies suggest that organizational trust precedes job satisfaction and organizational commitment (Coloquit, Scott and Lepine, 2007; Dormann and Zagg, 2001; Meyer and Hers Covitch, 2001).

In the white paper of Gross and Holland (2011) addressed the relationship between CSR and employee engagement. Various studies are compiled in this paper. Studies show that CSR is an emerging and increasingly important driver of employee engagement. Survey findings are mentioned below:

- 44% of young professionals said they would discount an employer with a bad reputation and nearly half said corporate social responsibility policies should be compulsory.
- 80% of respondents would prefer working for a company that has a good reputation for environmental responsibility. Interestingly, respondents were more concerned about working for an environmentally responsible company than purchasing from one.
- Working for an organization whose employees positively view corporate responsibility efforts has a significant, favorable impact on how they rate their pride in the organization,
their overall satisfaction, their willingness to recommend it as a place to work and their intention to stay.

- When employees view their organization’s commitment to socially responsible behavior more favorably, they also tend to have more positive attitudes in other areas that correlate with better performance, such as customer service and leadership from management.

- Seven out of 10 employees in organizations that are viewed by employees as socially responsible rated senior management as having high integrity compared with just one in five employees who were negative about their employer’s CSR record.

- CSR is the third most important driver of employee engagement overall, and an organization’s reputation for social responsibility is an important driver for both engagement and retention.

- A company’s reputation as a good employer ranks sixth as an attraction driver. Accordingly, “organizations with a reputation for CSR can take advantage of their status and strengthen their appeal as an attractive employer by making their commitment part of their value proposition for potential candidates.”

- Over time, Americans have become more likely to consider a company’s reputation when making purchase, employment and investment decisions.

Further they stated the survey conducted by Towers Perrin®. Towers Perrin’s (now known as Towers Watson) Global Workforce Study is the largest polling study on the views of the global workforce. It includes 88,600 individual responses, including 5,000 from Canada. The survey covers a range of workplace practices, but focuses particularly on the drivers of attraction, retention and engagement at mid to large sized companies. The survey found that CSR is the third most important driver of employee engagement overall, and that an organization’s reputation for social responsibility was an important driver for both engagement and retention among all age groups except 18-24 years of age. It is also found that a company’s reputation as a good employer ranks sixth as an attraction driver. Accordingly, the report’s authors noted “organizations with a reputation for CSR can take advantage of their status and strengthen their appeal as an attractive employer by making their commitment part of their value proposition for potential candidates. The study also found that when employees view their organization’s commitment to socially responsible behavior more favorably, they also tend to have more
positive attitudes in other areas that correlate with better performance, such as customer service and leadership from management. For example, 82% of these employees say their organization’s senior management supports new ideas and new ways of doing things.

As part of its annual Best Employers in Canada survey, Hewitt Associates\textsuperscript{vii} teamed up with CBSR\textsuperscript{viii} (Canadian Business for Social Responsibility), gathering opinions from over 100,000 employees and 2,000 leaders at more than 230 Canadian work places. The survey found “a strong correlation between employee engagement and employee views of their employers’ record on corporate social responsibility.

“Eighty six per cent of employees at organizations with high engagement agreed or strongly agreed with the statement that they worked for an employer that was socially and environmentally responsible, compared to 71% at employers with moderate engagement and only 60% at those with low engagement.” When executives were asked what they viewed as the potential benefits of investing in or pursuing socially and environmentally responsible practices, their top three responses were a positive organizational reputation, higher or sustained employee engagement and eliminating waste/reducing their impact on the environment.

Bhattacharya \textit{et al.}, (2007) attempted to clarify the relationship between employee identification. Further they bring down the following observations:

- Corporate social initiatives (CSR) can serve as a highly effective component of internal marketing programs by fulfilling employee needs and drawing them to identify strongly with the company. Thus, CSR activity is capable of yielding substantial returns to both the employee and the company.
- Evidence is mounting that a company’s corporate social responsibility (CSR) activities are a legitimate, compelling and increasingly important way to attract and retain good employees.
- Increasingly, employees seek out socially responsible companies.
- Practitioners and theorists are increasingly turning to internal marketing as the rubric under which CSR can be used to acquire and retain employees.
- In the case of the internal stakeholder group of employees, the ability of CSR to serve as an effective internal marketing lever is limited by four related issues:
Companies often keep their employees at an arm’s length.

Companies formulate their CSR programs without explicitly considering the diverse set of employee needs potentially fulfilled by such programs.

Companies do not fully understand the psychological mechanisms linking their CSR programs to anticipated positive returns from their employees (e.g., pro-company behaviors, higher productivity, longer tenure, etc.).

Companies take a top-down approach in the formulation, execution and maintenance of their CSR programs, often mandating employee participation rather than soliciting them to get involved on their own terms.

Companies need to shift their approach to CSR management if they are to fully realize the returns that CSR promises. Study’s authors recommend that managers take the following steps in order to maximize their return on investment in CSR initiatives in the employee domain:

Carey et al., (2008) opined that the recruitment, retention and employee commitment benefits that accrue to socially responsible employers. Brammer et al., (2006) were also of the opinion that recruitment and retention are the key CSR drivers.

Kotler and Lee (2005) found that CSR increased the ability to attract, motivate and retain employees. The attention for CSR results from the need to get a license to operate from the society. Firms that do not meet these expectations may see their market shares and profitability go down. Companies only succeed in convincing the stakeholders by investing enough in CSR. Indeed, CSR is very much a way of building up a good reputation. This is seen by many cases in various parts of world, in which companies started to pay attention to CSR after an incident that damaged their reputation.

Patil and Sharma (2009) state that CSR programme can be seen as an aid to recruitment and retention, particularly within the competitive graduate student market.

Agrawal (2008) quotes a Senior Director of an MNC working in India, that ‘CSR creates a dedicated workforce with high levels of self-accomplishment-people who take pride in themselves and their company. It encourages a spirit of volunteerism amongst colleagues and boosts morale, builds self-worth, and fosters team spirit’.
Stancy et al., (2011) cites that CSR activities have an impact on current employee’s commitment towards their employers. The impact of Corporate Social Responsibility on employees is becoming more present in the business world. Shrivastava et al., (2011) conclude that social involvement may create a better public image and goodwill for the company which further becomes instrumental in attracting customers, efficient personnel and investors.

Mishra and Suar (2010) opine that higher CSR towards employees in terms of employee – sensitive policies and practices by firms enhances employee productivity, reduces absenteeism and facilitates recruitment and retention of better quality employees. Ali et al., (2011) found significant influence of Corporate Social Responsibility on Corporate Reputation and building higher level of employee engagement. This study suggests that employees conceptualize CSR on different perspectives, such as how well it communicates with its environment and how ethically it provides benefit to its stakeholders through its products and services. Gupta, (2012) found that three themes that emerged from the data help to elucidate the benefits of CSR- Employee Retention, Employee Commitment and Employee Loyalty.

The role of corporate social responsibility on employees is becoming more present in the business world, one of the reasons being that successful companies should attract, retain the best work force. By creating a good working environment and developing the internal marketing strategies, companies can stimulate productivity and satisfaction among employees. If employees are satisfied and attached to the company, they will recommend to friends and family as a good employer (Bhattacharya et al., 2008). On one hand, companies are starting to engage in CSR activities in order to respond to an external demand, and also taking into consideration the positive effects of CSR. On the other hand, their CSR activities have an impact on current employees commitment towards their employer (Turker, 2008) and on the attractiveness of an employer in the mind of prospective employees (Greening and Turban, 2000). Also, it is highlighted that employees have sufficient power, legitimacy, and urgency to become salient stakeholders to management (Mitchell et al., 1997); therefore they are considered to be a relevant group of Stakeholders for each organization.

In the classical approach, many companies consider that the client is only interested in the final product that he buys, and not necessarily in how it is produced. Currently, however, consumers begin to evaluate companies in terms of working conditions of the company. Quality of products
or services of a company depends to an extent of the degree of motivation and training of its employees. That is why the company should look at employees from the stakeholder theory perspective and consider their requests. Marketing science developed the concept of internal marketing, which involves targeting the marketing efforts within the company to its employees. In this context, promoting corporate social responsibility inside the company and encouraging employees to participate in these activities, allows the companies to develop a strong relation with its internal stakeholders (Harwood et al., 2008). When the level of the quality of relationship between a company and employees improve, the customer satisfaction increases as well, and this cycle of success leads to an improved profit margin (Schlesinger and Heskett, 1991).

Mirvis (2012) addressed the relationship between CSR and Employee engagement. Companies are doing many different things to engage their employees through CSR. There has, for example, been an increase in traditional forms of corporate volunteerism-supporting employees, who mentor schoolchildren; care for the homeless, elderly, or disadvantaged; participate in disaster relief; build community playgrounds or habitat-for-humanity housing; and so on, along with more “skill-based” engagement efforts, wherein employees use their technical and commercial know-how to address social concerns. On the operational front, more employees today are engaged in sustainable supply chain management, cause-related marketing, and green business initiatives, in effect doing social responsibility on-the-job. Meanwhile, leading firms have launched global service programs where employees travel to emerging markets and work hand-in-hand with local management in small businesses or social enterprises to transfer their business acumen and help to address economic, social, and environmental challenges. This study explores three different ways that companies design and manage their efforts: a transactional approach, where programs are undertaken to meet the needs and interests of those employees who want to take part in the socially responsible efforts of a company; a relational approach, where an organization and its employees together make a commitment to social responsibility; and a developmental approach, where a company aims to more fully activate and develop its employees and the firm to produce greater value for business and society. Each of these models is grounded in a “psychological contract” between a firm and its employees. This study argues the business case of CSR & observes which model of employee engagement through CSR is best suited. The author suggests that transactional model is appropriate for the companies where the
local working units can independently participate in volunteering & bring socio & eco-innovations in their local markets. The relational model works where the workers seeking CSR are recruited. This study observes that throughout Asia, there is a nascent tradition of “company sponsored” volunteerism. The relational model also works where CSR is imbibed in ethos of company. The developmental model is apt for companies that are rapidly innovating in CSR. The study observes that companies like Unilever, Nestle and P&G today are competing on CSR platform, to create more loyal customers & engaged employees.

2.4 Impact of CSR on reputation of firm and brand management

Caroll and Shabana (2010) conclude that the rationale for the business case of CSR may be categorized under four arguments. One of the four important arguments is that CSR helps strengthening legitimacy and reputation. The study conducted by Ali and Ali (2011) confirms the significant relationship between CSR and corporate reputation.

Ghosh and Ghosh (2011) argued that Government alone cannot battle with social upliftment. Giving examples of UNDP report 2011, they explore the benefits of CSR in Brand Management. The concept of corporate social responsibility has gained prominence from all avenues. Organizations must realize that government alone will not be able to get success in its endeavor to uplift the downtrodden of the society. The present societal marketing concept of companies is constantly evolving and has given rise to a new concept of Corporate Social Responsibility. Many of the leading corporations across the world had realized the importance of being associated with socially relevant causes as a means of promoting their brands. It stems from the desire to do good and get self satisfaction in return as well as societal obligation of business. The other school of thought suggest that better governmental and international regulation and enforcement, rather than voluntary measures, are necessary to ensure that companies behave in a socially responsible manner. The reason behind Government of India making CSR mandatory must be in the background of same school of thought. CSR could prove to be a valuable asset in an age of Mergers and Acquisitions, as it helps firms spread their brand name. A range of scholars question, whether CSR can be adapted into meeting the needs of the poor. The very idea of business playing a role in development is subject to considerable debate, because it implies the acceptance that you can meet social and environmental challenges through market-based solutions, and that the private sector is better at optimizing resources than the public sector.
Werther and Chandeler (2005) argue that globalization trends, growing affluence and shifting social expectations make CSR a strategic consideration in brand-based strategies because CSR helps establish an organization’s social legitimacy. In turn, social legitimacy strengthens the brand’s sustainable competitive advantage among key stakeholder groups, particularly socially conscious consumers. As a result, global brands have become so pivotal to corporate success that their financial value forms an important component in evaluating the overall value of the firm. CSR as brand insurance is needed because even the most prestigious brands have substitutes. Do Nike’s shoes do the job any better than Adidas’? Is Starbucks’ coffee any better quality than the coffee served at Tully’s? Would car engines run any less efficiently if, instead of BP’s gasoline, they had to run on Shell’s? A CSR mindset throughout the organization heightens the brand-user bond, reducing the brand’s vulnerability to internal management lapses. Non-governmental organizations (NGOs) and consumer activists that know how to engage the always-on media are able to multiply the impact of CSR lapses. These groups can carry the threat of conveying detailed and often emotive evidence of CSR lapses further and faster than ever before. The reason why firms need CSR is not because they necessarily have pressing problem at the moment but to avoid (or at least lessen) problems that can potentially undermine their brand going forward. The right balance of strategy, Brand management and CSR leads to a sustainable competitive advantage for the firm. For this result to occur, CSR must be effectively integrated throughout the business’ operations. Conceptually, CSR must be introduced from the top down, from the very highest levels of the strategic decision making process.

Carroll and Shabana (2010) reviewed the concepts, research and practices and brought business case of CSR to a perspective. They propagate that ever since the debate over CSR began, supporters and detractors have been articulating the arguments for the idea of CSR and the arguments against the concept of CSR. These arguments have been discussed extensively elsewhere, but a brief recapitulation of them makes sense as we lead up to presenting the ‘business case’. Embedded in the arguments both for and against CSR are points which have been made previously, perhaps on a piecemeal basis, supporting the business case. Reputation and legitimacy arguments maintain that firms may strengthen their legitimacy and enhance their reputation by engaging in CSR activities. CSR activities enhance the ability of a firm to attract consumers, investors and employees due to enhanced reputation. An example of a CSR activity which is directed at developing reputation and legitimacy is Cause marketing. Cause marketing
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is a strategy, where, in addition to emphasizing product advantages, product benefits are linked to appeals for charitable giving. The benefits of this strategy include creating purchasing incentives and enhancing company and product images. Through cause marketing, companies are able to illustrate that they can, mutually, pursue their profitability goals and meet the needs of the different stakeholders in society. Therefore they are able to demonstrate that they ‘belong’ to society.

Agrawal (2008) presented a survey conducted in 2005 in the UK that found personal income is not a determinant of or a barrier to giving. Its findings reveal that support to charity or social causes is high across all income groups and increases with an increase in income. The research demonstrated that there is a genuine willingness among the public to support charities and causes. It also confirmed that people believe that business should play its part, particularly by using the power of its brands and products to support charities or causes.

2.5 Corporate Social Responsibility: Issues and Challenges

Arora and Garg (2013) suggest creation of awareness about CSR amongst the general public to make CSR initiatives more effective. They further recommend an accreditation mechanism be put in place for companies through an independent agency for mainstreaming and institutionalizing CSR in the main business framework of the companies. Pandya and Marvadi (2014) conclude that CSR is at the primitive stage in India and hence they justify the need of the new mandatory CSR norm.

The findings from an online survey conducted by Stancy et al., (2011) reflect that women are more likely to engage in CSR activities compared to men. This survey was conducted in Romania. It further finds that employees are aware about CSR activities but very few are involved.

Measuring CSR is a huge challenge. Ebrahimi et al., (2014) used Shannon’s Entropy and VIKOR methods to assess CSR. This study could rank the companies as per their CSR performance. They found that nowadays companies are faced even more with the increased demands in terms of corporate social responsibility (CSR) towards the economic, social, cultural and ecological environment. Thus, development of tools for measuring progress in this field is crucial in order to show responsible behaviors in social terms.
Kaur (2012) reviewed various issues of CSR in India and presented an important model of CSR. The model in this study presents the five stage maturity model of the best practice of Corporate Social Responsibility.

1. **Defensive** - In the defensive stage, the company is faced with often unexpected criticism, usually from civil activists and the media but sometimes from direct stake-holders such as customers, employees, and investors. The company's responses are designed and implemented by legal and communications teams and tend to involve either outright rejections of allegations or denials of the links between the company's practices and the alleged negative outcomes.

2. **Compliance** - At the compliance stage, it's clear that a corporate policy must be established and observed, usually in ways that can be made visible to critics. Compliance is understood as a cost of doing business; it creates value by protecting the company's reputation and reducing the risk of litigation.

3. **Managerial** - At the managerial stage, the company realizes that it's facing a long-term problem that cannot be swatted away with attempts at compliance or a public relations strategy. The company will have to give managers the core business responsibility for the problem and its solution.

4. **Strategic** - Every company, at the strategic stage learns how realigning its strategy to address responsible business practices can give it a leg up on the competition and contribute to the organization's long-term success.

5. **Civil** - In this stage, companies promote collective action to address society's concerns. This is linked directly to strategy, in most of the cases.

Orlitzky *et al.*, (2003) attempt to assess whether CSR to be made mandatory. They suggest that Government Regulation may not be needed. If the statistical relationship between CSP and CFP were negative, bottom-line considerations might constitute barriers to outcome desired by the public, which in turn would make government intervention, which serves the ‘public interest’, a necessity. Yet, with CSP, the case for regulation and social control by government (acting on behalf of ‘society’ or ‘the public’) is relatively weak because organizations and their shareholders tend to benefit from managers’ prudent analysis, evaluation, and balancing of multiple constituents’ preferences. Therefore, these actions are most likely adopted voluntarily,
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based on managers’ cost-benefit analyses of a firm’s investments. In contrast, ‘socially responsible’ command-and-control regulation may prescribe inflexible means-ends chains that are inappropriate for a particular firm’s non-market and market environment.

Auditing of CSR was always a challenge. How to assess CSR performance? What are the criteria for CSR audit always remained a challenge?

While examining the CSR disclosure in annual reports of a sample of large national US commercial banks using content analysis, the findings suggest that key characteristics of the board of directors are significantly associated with CSR disclosure. In particular, our research indicates that board independence and board size are positively and significantly related to CSR disclosure by US banks. These findings highlight that effectively designed boards can contribute to safeguarding the interests of all stakeholders, and not merely the shareholders who appoint them. This highlights the need for stakeholders and their representatives to take a much closer interest in corporate governance mechanisms, which are likely to affect the effectiveness of the board of directors and not to limit their concerns to directly CSR-related corporate governance features, such as CSR committees. Findings also suggest that CEO duality is positively and significantly related to CSR disclosure by US banks. However, we are unable to establish the reasons for this positive relationship. It would be helpful if future research would explore whether this positive relationship is determined by the competitiveness of relevant goods, labor and capital markets in the banking sector, and therefore, an indication of the effectiveness of a self-regulating system of corporate governance, or whether it is a sign of managerial risk aversion. In order to gain a better understanding of the circumstances in which corporate governance mechanisms designed to protect shareholders can be helpful or harmful to the protection of the interests of other stakeholders, it would be beneficial to explore the relationship between corporate governance and CSR disclosure in a much wider range of industries and countries, with different levels of public scrutiny, regulation and competitive pressures. While our research does not provide any evidence for a significant change in CSR disclosure by US commercial banks between 2009 and 2011, it might further be of interest to explore in future, how CSR disclosure and corporate governance of US commercial banks have developed over a longer time horizon, possibly including the period before the sub-prime mortgage crisis.
2.6 Few other relevant studies on CSR

In the global operating environment it becomes very difficult for multinational companies to connect with the community, society and nation at large. CSR becomes one tool to reach out to general public. The companies that operate in the new global environment need to adhere to social, cultural and community practices of the local communities.

Kytle (2005) opine that Risk Management by global companies should be adopted to include Corporate Social Responsibility programs. CSR provides the framework and principles for stakeholder engagement, supplies a wealth of intelligence on emerging and current social issues/groups to support corporate risk agenda and ultimately serves as a counter measure for social work.

Dutta and Durgamohan (2009) cite that a growing number of companies in many sectors and geographic regions have discovered concrete value and comparative advantage from socially responsible practices in pollution prevention, energy efficiency, environmentally oriented design, supply chain management, health and sustainable agriculture initiatives, among others. For these firms, CSR has had positive impacts on profits (Adenekan, 2007; Joyner and Payne, 2002). Further they observe the same holds good for some of the Indian companies as well, like Hindustan Unilever Limited and Reliance ADAG group. They conclude that HUL’s CSR strategy can be viewed as a twin-pronged strategy wherein they are empowering the women and working for a social cause and along with they are also creating enhanced sales.

Li et al., (2010) in their study measure the extent to which employees are involved in marketing programs related to a case in a company. This study focuses on a company's internal stakeholders - employees, and the degree of their involvement in the selection of social campaigns. While the difficulties of running a business that has lost legitimacy in the eyes of employees are well known, there isn’t as much understanding on the extent to which managers and non-profit partners are considering the opinions of employees, and involve them in choosing the causes. The involvement of employees in cause related marketing campaigns and benefits of such action by telephone interviews with non-profit organizations and top managers of companies in services was further investigated. Results showed the following:
Degree of participation of employees varies significantly from company to company;
Large marketing campaigns linked to a central question tend to be driven with a relatively low employee participation than with smaller campaigns; and
Financial services companies are more willing to make decisions regarding marketing linked to a central question with a relatively small participation of employees than retailers.

Starting from these limitations and challenges, observed in the international literature review, Li et al., (2010), in their article, aim to explore employees` perception on social responsibility and to present the results of a quantitative research conducted inside the companies. The findings from an online survey reflects several important aspects; Firstly, the majority of respondents consider that respecting the employees rights, fair wages and safety at work are the most prevalent dimensions in the image of a responsible employer; Secondly, the research shows that women are more likely to engage in CSR activities compared to men; Thirdly, most of the employees are aware of the CSR activities of their employer, but fewer are actually involved in these activities. A possible explanation for this third aspect is that CSR activities are vaguely presented and introduced in the companies.

Patil and Sharma (2009) mention that CSR can also help to improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fund-raising activities or community volunteering. According to the literature, there are a variety of benefits of engaging in CSR, such as improving a firm’s reputation and increasing competitive advantage, as well as attracting talent and increasing the firm’s profitability (Branco and Rogrigues, 2006; Nelling and Webb, 2009; Scholtens, 2008). One of the supposed key benefits for corporations that engage in CSR is that it fosters a positive image of the firm among consumers (Brown and Dancin, 1997). Many organizations adopt social causes assuming that they will be rewarded by consumers (Levy, 1999). Corporations often believe that their engagement in socially responsible activities will be supported by consumers (Levy, 1999). Yet, according to Branco and Rogrigues (2006), CSR can impact a corporation’s reputation both negatively and positively.
Megha Gupta (2012) - A corporate reputation enhanced by CSR can act as a competitive advantage as it distinguishes the company from others. Indeed, the literature has addressed several benefits of engaging in CSR, but as mentioned earlier, most of the studies were conducted with companies in developed countries. The benefits that CSR brings to a company in a developed country, necessarily, may not be the same as those within a developing country. Thus it is crucial to study whether the benefits of CSR outweigh the costs in the context of specific countries.

Ackerman (1973) suggests that for the long term, successful corporations need a balanced focus on social and economic dimensions; however, the literature reveals varying views on the relationship between CSR and financial gain. Nareeman and Hassan (2013) opine that there is a strong correlation between 4 dimensions of CSR – economic, legal, and ethical and philanthropy as developed by Caroll (1991) & customer satisfaction & retention. With the sample of 101 respondents & using regression & correlation analysis, the study concluded that improving customer perception of CSR practices will improve customer satisfaction & retention. Authors opine that managers working in retail sector of foreign MNCs in Malaysia should take initiatives to improve CSR perception of customer. New definitions of CSR have emerged in this process.

CSR practices pertaining to enhancing profits, shareholders wealth, operational efficiency & lowering cost is Economic CSR.

Legal CSR is CSR in terms of the company’s image about abiding rules, regulations & law of the land. It also emphasizes on fulfilling legal obligations regarding companies’ goods & services.

Ethical CSR is the extent the organization adjusts themselves to emerging moral norms & ethical standards.

Philanthropic CSR is the highest level of CSR, where the organization thrives towards community development, charity, contribution towards art & culture & in general improving quality of life of people. Figure 2.2 explains the conceptual framework mentioned in this study.
Alam and Rubel (2014) using factor analysis as a statistical tool for their study establishing the relationship between CSR and Customer Satisfaction in Telecom industry in Bangladesh, presented the conceptual framework. The details are given in Figure 2.2. Alam and Rubel adopted this framework from the study conducted by Nareeman and Hasan (2013).

**Figure 2.2: Conceptual Framework – Impact of CSR dimensions on customer satisfaction and retention**

The study conducted by Mc Williams and Siegel (2000) establish the relationship between CSR and investment in research and product development. They opine that, investment in CSR promotes product differentiation at the product and firm levels. Some firms will produce goods or services with attributes or characteristics that signal to the consumer that the company is concerned about certain social issues. Also, many companies will try to establish a socially responsible corporate image. Both of these strategies will encourage consumers to believe that, by consuming the product, they are directly or indirectly supporting a cause. These strategies are effective with those consumers who wish to champion firms that devote resources to CSR. Consequently, many products have labels that indicate the use of certain ingredients and production methods that promote CSR. For example, natural food companies place labels on their products signifying the use of organic, pesticide-free ingredients; cosmetic firms boast of animal-free testing; manufacturing companies display "made in the USA" stickers; and radio and television commercials tell us to "look for the union label." Labels that refer to CSR attributes also create new (socially responsible) product categories in the perception of consumers. The
examples above apply to process and product innovations, both of which are valued by some consumers. For instance, the "organic, pesticide-free" label simultaneously indicates the use of organic methods, which constitute a process innovation by the farmer, and the creation of a new product category, or a product innovation by the natural foods retailer. If the natural foods company is vertically integrated, it engages in both CSR-related process and product innovation simultaneously. Each of these examples underscores the point that some consumers want the goods they purchase to have certain socially responsible attributes (product innovation), while some also value knowing that the goods they purchase are produced in a socially responsible manner (process innovation). Consumer-oriented CSR may also involve intangible attributes such as a reputation for quality or reliability. The presumption is that firms that actively support CSR are more reliable and their products are of higher quality. This is especially important for food products. For example, some restaurants serve "free range" chicken and beef. "Free range" meat products are perceived to be of higher quality than conventional meat products. Presumably, this is because they have a more natural taste, due perhaps to their closer proximity to a natural state (in the sense that the animals roam more freely or because they are not injected with hormones or antibiotics. By promoting their use of "free range" chicken and beef, restaurants signify to their patrons that they are concerned about product quality (use of the finest ingredients) and also about more humane treatment of animals.

Jenkins (2005) addressed the relationship between CSR and poverty reduction. They state that there are a number of reasons for doubting the claim that adopting CSR will make growth more inclusive and more equitable, and thereby reduce poverty. As at present constituted, CSR initiatives do not include poverty reduction as a major objective, focusing rather on environmental issues and labor and human rights. These are undoubtedly important issues, and this paper should not be read as a criticism of this orientation. However, given the lack of an explicit focus on poverty reduction, the first question that needs to be addressed is whether or not CSR as it is currently practiced helps indirectly reduce poverty. The evidence presented here suggests that CSR is unlikely to have a significant impact on poverty in the South, except in a limited number of rather specific cases. A key factor constraining the impact it is likely to have on the production side is the relatively small number of people employed in developing countries by the leading TNCs that have adopted CSR. Similarly, on the consumption side, most of these companies do not produce goods for the poor. This is not to deny that TNCs may well contribute
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to poverty reduction through social projects of a charitable nature, but this should not be confused with the adoption of CSR, which involves the integration of environmental and social considerations into core business strategies. The second question to consider is whether the CSR agenda can be extended to incorporate poverty reduction as a key element, along with labor rights and environmental protection. While there is some (debated) evidence that high environmental and labor standards are associated with better financial performance, there is no reason to suppose that a similar relation will exist between company actions to reduce poverty and profitability. A second limitation lies in the origins of the current CSR movement as a response to criticism of the environmental and social impacts of TNCs. This has led to a definition of CSR largely in negative terms - firms should not harm the environment, not employ child labor, not discriminate in employment, not be complicit in human rights abuses, or at best permissive terms: they should allow freedom of association and collective bargaining. Tackling global poverty would require a much more positive commitment, e.g. to favor the poor in employment or to provide goods to the poor at discounted prices. Finally, the centrality of stakeholders within CSR also limits its usefulness in approaching poverty. Almost by definition, the poor are those who do not have a stake. When a TNC invests in a country’s capital city, the poor in remote rural regions will not be considered stakeholders; moreover, the decision of many investors to concentrate in the capital both reproduces their poverty and excludes them from being stakeholders. In conclusion, then, CSR as currently practiced is unlikely to play a significant role in reducing poverty in developing countries, despite the enthusiasm of many development agencies. It is also doubtful whether reform of CSR can make it more amenable to achieving this objective.

Fetscherin et al., (2010) conducted study on CSR communication and importance of governance environment. This study examines how country-level, industry-level, and firm-level factors affect the extent of corporate communication about CSR in Brazil, Russia, India and China (BRIC). In particular, using the data of 105 largest MNCs from BRIC, the authors investigate the CSR motives, processes and stakeholder issues discussed in corporate communications.

- On the country level, we use a newly developed framework of the governance environment which differentiates between rule-based and relation-based governance. Our
study reveals that the governance environment of a country is the most important driving force for the communication intensity about CSR.

- Our results show that firms communicating more CSR tend to be from more rule-based societies, in the manufacturing industry, and of larger size. They also tend to have stronger corporate governance as measured by a high proportion of outside board directors and, specifically, the separation of the roles of the chairman and the CEO.

Sweeney, (2009) has proposed a model of CSR and financial performance relationship that includes all other benefits of CSR. To conclude this chapter the following model is appropriate representation of benefit of CSR practices.

**Figure 2.3: Proposed Model of CSR and Financial Performance Relationship**

![Diagram of CSR and Financial Performance Relationship]


**Conclusion:** The figure 2.3 summarizes this chapter. The business of business is business and CSR helps in enhancing financial performance as suggested in figure 2.3. Better financial performance is also acquired through the positive impact of CSR on employees, customers, reputation and access to capital.
Chapter Notes

1 Fortune magazine: An American business magazine published globally by Time Inc. and founded by Henry Luce in 1929. The magazine is in the national business magazine category and distinguishes itself with long, in-depth feature articles. The magazine is best known for the Fortune 500, a ranking of companies by revenue that it has published annually since 1955.

2 Corporate Social Performance (CSP) is an increasingly important concept used to ensure the private sector has a positive impact on communities, employees and consumers. This is especially so in geographies where basic governance, the rule of law and accountability mechanisms are lacking or limited.

3 Standard & Poor's Financial Services LLC (S&P) is an American financial services company. It is a division of McGraw Hill Financial that publishes financial research and analysis on stocks and bonds. S&P is known for its stock market indices such as the U.S.-based S&P 500.

4 In statistics, meta-analysis comprises statistical methods for contrasting and combining results from different studies in the hope of identifying patterns among study results, sources of disagreement among those results, or other interesting relationships that may come to light in the context of multiple studies.

5 Cone Corporate Citizenship study 2002 evaluate the cause branding phenomenon.

6 Towers Perrin: Towers Perrin was a professional services firm specializing in human resources and financial services consulting, which merged in January 2010 with Watson Wyatt to form Towers Watson.

7 Hewitt Associates was an American provider of human capital and management consulting services. It operated 500 offices in 120 countries providing consulting, outsourcing, and insurance brokerage services. Hewitt was founded in 1940 and ceased to exist as an independent entity at the completion of its purchase by the Aon Corporation in October 2010. Hewitt's operations were merged at that time with some elements of Aon's consulting arm to become a new subsidiary of the Aon Group called Aon Hewitt.

8 CBSR: Founded in 1995, Canadian Business for Social Responsibility (operating as CBSR) is a non-profit member organization with a mission to accelerate and scale corporate social and environmental sustainability in Canada and challenges the "business as usual" model. We believe companies are ready for this challenge and many are actively rethinking their business models to create long term shareholder and societal value.