CHAPTER – II
CORPORATE SOCIAL RESPONSIBILITY AND ORGANIZATIONAL PERFORMANCE

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2.1 Understanding the basic concept of CSR

CSR is a multidisciplinary concept and falls into a domain that covers diverse fields of studies such as sociology, economics, social work, public administration, environmental studies and academics. The definition of the term CSR has varied over different periods of time and has led to diverse understandings across different commercial activities and geographical locations. Absence of concrete definition has been due to continuous evolution of the concept itself over course of time and gets influenced by the rapid changes in business practices. Numerous interpretations of the concept of CSR have emerged in the past three decades. The scholarly expressions of CSR as a concept have varied from corporate social responsibility to sustainable development, from business ethics to corporate social responsibility, from corporate accountability to business in society and from corporate citizenship to corporate governance. These themes display the innate richness of the concept itself. (Carroll, 1999; Ougaard and Nielsen, 2002)

Definitions of CSR range from highly conceptual to very practical or managerial statements. It is also essential to understand the concept of stakeholders in the context of CSR. A stakeholder can be defined as ‘an individual, community or organization that affects, or is affected by the operations of the business. Stakeholders could be both internal and external. While the term internal stakeholder refers to employees, external stakeholders refer to customers, suppliers, shareholders, non-governmental organizations, certifiers, financiers, local community etc. A systematic stakeholder dialogue along with the CSR activities can result in building up intangible assets in the form of ‘Social capital’. (Social capital refers to the network of people with shared norms, values and understandings that facilitate cooperation among groups) (Sumati Reddy 2002). Some of the most frequently used definitions of CSR across the last fifty years has been compiled and depicted in Table 2.1.
<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bowen (1953)</td>
<td>Calls for mandatory obligation of individuals in business to pursue policies and undertake actions in the best interest of society.</td>
</tr>
<tr>
<td>Frederick (1960)</td>
<td>Defines CSR as necessary public posture to address the society’s economic as well as social issues and willingly use the resources at disposal not just for narrow considerations of corporation but for broad social ends.</td>
</tr>
<tr>
<td>Friedman (1962)</td>
<td>is of the opinion that it is fine for every corporation to use the society’s resources and engage in activities that are designed to increase profits as long as it stays within the rules of the game. It means the corporation has to engage in open and free competition without deception or fraud.</td>
</tr>
<tr>
<td>Davis and Blomstrom (1966)</td>
<td>views the CSR involvement as a firm’s responsible consideration of its obligation to make choices that affect society positively, which are simply beyond the narrow walls of economic, technical, legal requirements and traditional economic gains.</td>
</tr>
<tr>
<td>Sethi (1975)</td>
<td>Argues that CSR provides the platform under which corporate behavior can be moulded in order to align with the prevailing social norms, values, expected performance, incorporating ethical, legal and social dimensions in the process.</td>
</tr>
<tr>
<td>Carroll (1979)</td>
<td>Emphasizes that social responsibility of business includes the economic, legal, ethical and discretionary expectations of a society from any organizations at any given point of time.</td>
</tr>
<tr>
<td>Jones (1980)</td>
<td>Describes the term CSR as a “notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract”.</td>
</tr>
<tr>
<td>Wood (1991)</td>
<td>Simplifies that business and society are not two different entities but interwoven with each other.</td>
</tr>
<tr>
<td>Maignan (1997)</td>
<td>Stresses on “Economic citizenship” referring to meeting customer needs; legal citizenship refers to operating within legal framework; “Ethical citizenship” refers to following of established moral standards and discretionary citizenship refers to contribution towards societal well being.</td>
</tr>
<tr>
<td>McIntosh et al., (1998:20)</td>
<td>Defines it as concerned with the relationship between companies and society. It includes both the local community, which surrounds a business and whose members interact with its employees, and the wider and increasingly worldwide community, which touches every business through its products, supply chain, dealer network and its advertising among other things.</td>
</tr>
</tbody>
</table>
Baker (2003) Delineates that CSR is all about the way the business processes are managed by companies to create an large positive impact on society.

Kotler and Nancy Lee (2005) Corporate Social Responsibility is a commitment to improve community well being through discretionary business practices and contributions of corporate resources

*Survey: Author compilation*

There have been numerous interpretations of CSR over the years by different stakeholders in business, government and society. They are depicted in Table 2.2:

**Table 2.2: Interpretations of CSR**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institute of Directors(^9) (UK) (2002)</td>
<td>Business which includes the interactions with employees, suppliers, customers and communities in which they operate and goes beyond legal obligations to make an impact on environment as well as society.</td>
</tr>
<tr>
<td>World Business Council for Sustainable Development (WBCSD) (2003)</td>
<td>Business commitment towards sustainable economic development and to work towards improving the quality of life of the employees, their families, the local community and society at large.</td>
</tr>
<tr>
<td>CSR Europe(^10)(2003)</td>
<td>Efforts in which the company strategizes to generate value for both its shareholders and its stakeholders and thus enhance its social and environmental impact.</td>
</tr>
<tr>
<td>Organisation for Economic Co-operation and Development (OECD)(^11) (2003)</td>
<td>Business in society are expected to go beyond their core function of yielding adequate returns to owners of capital by identifying and developing promising investment opportunities. Besides providing jobs and producing goods and services that consumers want to buy, they are expected to obey the various laws directly applicable to them and respond to societal expectations that are not written down as formal law.</td>
</tr>
</tbody>
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9 Institute of Directors (UK) is an independent association of business leaders in UK representing 34,500 organizations
10 CSR Europe is a leading European business network for Corporate Social Responsibility. Through its network of around 70 corporate members and 41 National CSR organizations, it gathers over 10,000 companies, and acts as a platform for those businesses looking to enhance sustainable growth and positively contribute to society.
11 The Organization for Economic Co-operation and Development (OECD) is an international economic organization of 34 countries, founded in 1961 to stimulate economic progress and world trade. It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identify good practices and coordinate domestic and international policies of its members.
<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amnesty International – Business Group (UK)(^{12}) (2002)</td>
<td>Business strategies and norms should be acceptable to the global society which increasingly regards protection of human rights as a condition for corporations to operate. Companies should recognize that their capability to offer products and generate economic prosperity is accepted provided they follow the locally accepted norms.</td>
</tr>
<tr>
<td>The Corporate Responsibility Coalition (CORE)(^{13}) (2003)</td>
<td>Responsibility to safeguard human rights within their direct sphere of operations and serve the society.</td>
</tr>
<tr>
<td>Novethic(^{14}) (2003)</td>
<td>Integrates three dimensions of sustainable development principles: an economic dimension (efficiency, profitability), a social dimension (social responsibility) and an environmental dimension (environmental responsibility). Companies should pay respect to these principles and pay more attention to all the stakeholders which includes the expectations of the civil society.</td>
</tr>
<tr>
<td>Unilever(^{15}) (2003)</td>
<td>Interactions of the company with society in three distinct areas namely; impact through the value chain, impact of business’s direct operations and Voluntary contributions.</td>
</tr>
<tr>
<td>Novo Nordisk (^{16}) (2003)</td>
<td>Considers the impact of business on the global society and the local community. It is a business imperative and more than a virtue.</td>
</tr>
</tbody>
</table>

Survey: Author compilation

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12 Amnesty International (commonly known as Amnesty and AI) is a non-governmental organisation focused on human rights with over 7 million members and supporters around the world. The stated objective of the organisation is "to conduct research and generate action to prevent and end grave abuses of human rights, and to demand justice for those whose rights have been violated."

13 CORE is the UK civil society coalition on corporate accountability. They bring together extensive experience and expertise on international development, the environment and human rights from NGOs, academics, trade unions and legal experts.

14 Novethic, a Media and Research Centre based in Paris, provides information and publishes studies on Europe's responsible investment market. It aims to raise awareness among financial professionals and encourage the diffusion of responsible investment practices.

15 Unilever is a British-Dutch multinational consumer goods company co-headquartered in Rotterdam, Netherlands, and London, United Kingdom. Its products include food, beverages, cleaning agents and personal care products. It is the world's third-largest consumer goods company measured by 2012 revenue.

16 Novo Nordisk is a leading Danish multinational pharmaceutical company headquartered in Bagsværd, Denmark, with production facilities in seven countries, and affiliates or offices in 75 countries.
There are few viewpoints which are common among the definitions of CSR mentioned in the earlier tables. To start with, there is a concurrence that CSR activities require to be in lawful boundaries. It necessarily means that for any company to be considered as an organization which is socially responsible and CSR compliant, it is essential that all business and non business activities that the company engages must adhere to the law of the land. This feature has been emphasized by Sethi (1979) and Caroll (1979). Further, the aspect of responsibility to various stakeholders including community and environment is a common element in almost all definitions. It refers to needs of different stakeholders being contradictory many times and hence the organization might find it complicated to meet the demands of all stakeholders. Lastly, most definitions stress that the objective of all CSR activities is to do good to the society at large which means companies invariably should act to benefit society and be socially responsive.

2.2 Moral and Economic argument behind CSR

There are numerous arguments explaining the existence and requirement of CSR. They can be segregated into two sets of arguments, one is the moral argument and the other is the economic argument to justify CSR activities. CSR is an attempt to recognize the inter-dependence between the two entities, namely business and society and a means of reaffirming the obligation of business towards society. It means that the purpose of business ought to stretch beyond just maximization of efficacy and earnings but also satisfy societal expectations which are beyond the narrow shareholder concerns of traditional bottom line. It is important to note that one of the most important resources of business which are the employees, are sourced from the local community. CSR suggests that neither the society nor the business exists in isolation and believes that business has a responsibility to equally contribute to the community from which it derives its existence.

The economic argument of CSR is based on self interest. Debates revolve around the fact that CSR is just a strategy and that there is financial payback to organizations which pursue it. It is crafted in such a method to influence business managers who are not convinced by the moral argument. The advocates of economic argument suggest that CSR represents a holistic approach to business and good policies of CSR will seep into all aspects of business activities. The incorporation of CSR in an organization may suggest departure from convention and distinguish it
from competition leading to positive marketing advantage. In today’s brand driven market, CSR can be a means of matching corporate operations with stakeholder’s expectations of value and demands. Whether it is as an employer, producer, buyer, supplier, or investment, the attractiveness and success of a company today is directly linked to the strength of its brand. CSR affects all aspects of operations within an organization and hence there is a need to consider the requirements of all constituent groups. Each area builds on all the others to create a composite of the brand in the eyes of all stakeholder groups.

2.3 CSR and Related Concepts

There have been a number of concepts which are closely related to the concept of CSR. Some of the concepts have been analyzed as follows:

**CSR and Corporate Governance:**

We will have to understand the essentiality to distinguish between CSR and Corporate governance. Corporate governance refers to a assorted set of rules, processes and laws by which business are operated, regulated and controlled. The term indicates to internal factors defined by the officers, stock holders or constituents of corporations, as well as external factors such as consumer groups, clients and government regulations. It is concerned with holding a balance between economic and social goals and between individual and community goals. The corporate governance framework encourages the efficient use and accountability of resources. The objective is to align the interest of all, including individuals, corporations and the local community to a large extent. While Corporate Governance includes the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment, CSR is concerned with treating stock holders of firm in ethically or socially responsible manner. In the recent years, corporate governance has received increased attention because of high profile scandals involving abuse of corporate power. Below is the case of Satyam Computers and its Corporate Governance.

**CSR and Corporate Governance: The case of Satyam Computers.**

A Satyam Computers was one of the top IT companies. It offered quality services and solutions to the IT sectors and was till recently considered to be the global leader in the field of telecom Infrastructure, Media Entertainment, Semiconductors, Banking and Financial Services, Automation, Manufacturing, health
Care Industries etc. While it’s main office was in Hyderabad, the other branches were spread across different cities in India and abroad which included America, Canada, New Zealand, German and other European countries. Satyam computers services Ltd besides making a valuable contribution in IT solution industry providing quality services was known for its CSR activities. The company had enjoyed the reputation of being a people friendly company. Its two foundations namely Satyam Foundation and the Byraju Foundation along with its institutes Emergency Research Institute and Health management Institute played crucial roles in setting up of innovative community programmes and provided relief to several thousands of people. Apparently, it has also won several awards for its CSR activities namely Business (FICCI\textsuperscript{17}) CSR award in 2006, Asian CSR award in 2007 and TERI\textsuperscript{18} Corporate awards in 2007. However, on January 7, 2009 Satyam Computer Services scandal was publicly announced when the chairman Ramlinga Raju confessed that Satyam’s account has been falsified. Now Satyam computers have been added to the notorious list of companies which are involved in fraudulent financial activities. Although there was no cash in the company’s banks, the auditors went ahead and signed the balance sheets saying that money was there. They even signed on non-existent interest that accrued on the non-existent cash balance. The company’s account were verified and certified by Price Waterhouse Coopers (PWC), one of the big four international audit firms operating in India. (Suresh Kr Pramar, 2009). This was a classic case where corporate governance in India had failed miserably. The chairman, Ramlinga Raju confessed that

Satyam’s balance sheet of 30 September 2008 contained the following:

- Inflated figures for cash and bank balances of res 5,040 crore as against Rs 5,361 crore reflected in the books.
- An accrued interest of Rs 376 crore which was non-existent
- An understated liability of Rs 1,230 crore on account of funds which was arranged by him.

\textsuperscript{17} Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India’s struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies

\textsuperscript{18} TERI (formerly Tata Energy Research Institute), established in 1974, is a research institute based in New Delhi that conducts research work in the fields of energy, environment and sustainable development.
• An overstated debtor’s position of Rs 490 crore as against Rs 2,651 crore in the books.

It is ironic that Satyam Company was awarded the ‘Golden Peacock award’ by the World Council for its Corporate Governance in 2008 while in 2009, they stand as an notorious case for the collapse of corporate governance. This case re-emphasized the need for great caution while judging the governance standards of various corporations.

**CSR and Corporate Citizenship:**

CSR and Corporate Citizenship are the terms sometimes synonymously. CSR involves companies’ seriously incorporating social and environmental issues in their regular business operations and interactions with stakeholders on a voluntary basis. Corporate citizenship has been defined as an intricate understanding and management of company’s wider influences on society for the benefits of the company and society on a holistic basis. (Andriof and McIntosch, 2001). It is based on the view that ‘companies’ as independent legal entities, are members of the society possessing legal rights and duties. A good corporate citizen shall not just carry out his or her legal duties like paying taxes, but also is expected to contribute to the well being of the society. (Sumati Reddy 2002).

**CSR and Society:**

Earlier studies have suggested CSR as an important corporate duty and is a critical constituent of any corporate strategic decision making since it has a direct impact on society. CSR and its impact upon the several layers of the society are illustrated in the figure below:

**Figure 2.1: CSR and its impact on Society**

*Survey: Survey data*
CSR in the recent years has become an important business strategy. Consumers of goods and services are keen to buy from only those companies on whom they have trust. Similarly, suppliers do want to forge business partnerships with reliable companies only who possess a good track record. Likewise, employees want to work for companies they respect. It is important for companies to satisfying all these different stakeholder groups to maximize their own commitment to another important stakeholder group, the investor group to whom they owe their existence. The investors get benefited the most when the needs of all the other stakeholder groups are met. CSR can be also considered as an approach to business in totality which creeps into all aspect of operations in both business and society.

**CSR and Sustainability:**

Sustainable Development is defined as development that meets present needs without compromising the needs of future generations. The objective of sustainable development is to reconcile economic, social and environmental aspects of human activities, which must be understood by people, companies and especially by the state. Conceptually, the terms CSR and Sustainable Development converge around three dimensions of performance: Economic Dimension, Environmental Dimension and Social Dimension. This means, in practice, in what is known as Triple Bottom Line, it involves that a company, to survive in the current environment, must be economically viable, be environmentally sustainable and be socially responsible.

Economic: Understood as “classic” financial performance, but also the ability to contribute to economic development in the area of creation of companies into all levels;

Social: Understood as social consequences from the business activities at all levels: the employees (working conditions, wage level, etc.), suppliers, customers, local communities and society in general, basic human needs;

Environmental: Understood as the compatibility of the social activity of the company and the preservation of biodiversity and ecosystems. It includes an analysis of the impacts of social development of enterprises and their products in terms of flow, consumption of difficult resources or slowly renewable resources, as in terms of waste and emissions generation.
2.4 CSR and its different Dimensions

The table 2.3 delineates different dimensions of CSR popularly known as the economic, social, environmental, stakeholder and voluntariness. Analysis of different definitions and interpretations reveal that they all fall under any one of the dimensions as mentioned in the table below.

**Table 2.3: Dimensions of CSR**

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Reference</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Nature</td>
<td>Business operations should be aware of the environmental concerns.</td>
</tr>
<tr>
<td>Social</td>
<td>Society</td>
<td>Business operations should integrate societal concerns and its impact on societies.</td>
</tr>
<tr>
<td>Economic</td>
<td>Financial aspect</td>
<td>Ensuring profitability in Business operations.</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>Groups like employees, customers, suppliers, communities etc.</td>
<td>Business operations and its interactions with stakeholders.</td>
</tr>
<tr>
<td>Voluntariness</td>
<td>Action which beyond legal obligations.</td>
<td>Actions based on ethical values.</td>
</tr>
</tbody>
</table>

*Survey: Author compilation*

The industry perspective and interpretations of CSR is different from academicians who have interpreted it differently. There are at times loss of faith in the very concept of CSR and its practices by the industry and they tend to believe that CSR works only on paper. Vasiljeviene and Viljevas (2006) suggest that sometimes social responsibility and ethics are misinterpreted as matters of individual concern and not an issue for which an organization should act as moral agent. Industry sometimes does not buy the academia’s arguments for CSR because of lack of consciousness and information of benefits of CSR. The focus of the academic perspective is upon the obligations of organizations towards various stakeholders and hence concentrates on the purposes, reasons, progress and impact of CSR. The argument put forth by academicians is that corporations should incorporate in their goals the elements of sustainable growth, equitable employment practices and long-term social and environmental well-being. The corporate community sometimes is unable to prioritize
and balance the different dimensions and aspects of CSR because of the various inadequacies. It may be because of resistance to change of policies or because of lack of domain expertise among the individuals responsible for framing policies.

While there is no consensus emerging from diverse stakeholders and different dimensions through which CSR operates, it is essential to understand that each definition of CSR has its meaning embedded and entrenched in the context in which CSR is operating along with its dynamic features. Given the multitude of definitions and ambiguity in the concept of CSR, search for a single holistic definition which is acceptable to all could be a futile exercise. There are few threads that find commonality in connecting different perspectives of CSR with each other. One aspect being important is the committed dedication to serve society. This can be easily interpreted as commitment of organizations to consider factors beyond just business parameters and include both short-term and long-term impact on society on a holistic basis in the process of decision making.

2.5 Understanding Organizational Performance

Performance refers to the outcomes, results obtained from processes, products and services that organizations engage in and produce. Organizations in today’s business scenario are faced with the challenges of aptly aligning performance measures with modern business strategies, structures and corporate culture. Furthermore, it is difficult for organizations to take critical decisions on the type or quantity of measures of performance to be used because of the challenges in understanding the merits of introducing various measures and the cost of expressing the same in financial and non-financial terms. Different organizations use different performance measures. Most of the organizations do concentrate on financial measures, though there has been shift in it ever since the early 1980’s. This change became more permanent in the decades of 1990’s and 2000’s because of the worldwide acceptance of business excellence models and performance measurement frameworks that address all stakeholder needs.

The key cornerstone of business excellence is performance measurement. While the use of different performance measures is strongly recommended by various business excellence models, they also evaluate critically the design of performance measurement systems to ensure that measures are aligned to strategy and check
whether the model is working effectively in monitoring, communicating, and driving performance of organizations.

Non-financial performance measures are many times used for evaluating performance of organizations. The organization’s long term performance is indicated by non-financial performance measures and therefore is included while evaluating holistic performance of organizations. Non-financial performance measures are fundamental constituents of concepts such as the balanced scorecard. Few examples of non-financial performance measures are product quality, satisfaction of customer, employee attrition and job satisfaction. These performance measures are more important in a business scenario where traditional measures don’t show the real performance of the organization. They also act as lead indicators which can forecast future performance. The literature suggests that the traditional financial measures show limited perspective of total value of firm and hence non financial measures are required to arrive at more accurate performance evaluation.

Non financial performance parameters may consist of parameters like employee attrition, employee attendance, percentage of job offers rejected by candidates, reputation, employee commitment and employee workplace satisfaction. There are few other aspects of performance which can be understood and affect the overall performance of the organizations like the quality of products and services. Low levels of quality of products or services of organizations can have a negative long term impact leading to dissatisfaction of customers causing loss of recurring sales. It is imperative that customer’s expectations and needs are the central focus of any product or service. Further the quality of products and services should be benchmarked against competitive offerings. It is also crucial that measurement of product and service quality is based on several critical dimensions and is practiced over time. Though it is quite costly to sustain a reputation, it is necessary for organizations to have a good brand image and reputation to enhance performance. The organization’s value of a brand and its reputation profile can be assessed based on factors like customer and employee loyalty, brand awareness, perceived quality, patents or trademarks. All these dimensions need to be assessed while arriving at the performance perspective of the organization.
Models for evaluating financial and non-financial performance:

Some of the well known business performance models which consider both financial and non-financial performance are Kaplan and Norton's balanced scorecard, the performance pyramid, Fitzgerald and Moon's building block model and the performance prism. The advantages of these models are that they consider financial and non-financial performance measures, have a linkage to corporate strategy, consist of external as well as internal measures, portray vividly the trade-offs among various attributes of performance and demonstrate the way the measures inspire employees. It takes stakeholder requirements as the starting point for the development of performance measures rather than the strategy of the organizations and recognizes the need to work with stakeholders to ensure that their needs are met.

Brewer and Selden (2000) suggest a measure of organizational performance based on the perceptions of the organization’s members. In addition to actual objective data, subjective (i.e., perceptual) performance measures may also be considered to ratify the same data (Allen and Helms 2002). While there are apprehensions on self reported and perceptual measures of performance, earlier research has shown that there is high correlation between perceptual and objective measures of performance at organizational level.

2.6 Relationship between CSR and Performance

The relationship between CSR and performance in an organization has been investigated through various dimensions. There have been mixed opinions on the relationships between CSR and performance parameters of organizations. This could be because the operationalization of both these constructs have varied in most studies. CSR has been studied with respect to its impact at several levels, viz., individual levels responses like satisfaction, organizational level parameters like revenue and profitability and societal level parameters like organizational image and reputation. Earlier studies on CSR has looked at effect on financial performance (e.g., McWilliams and Seigel 2001; Griffith and Mahon, 1997 etc.), increased sales and reduced costs (Maignan and Farrell, 2001), attractiveness of the organization to potential employees (Turban and Greening, 1997), customer responses to CSR (Bhattacharya and Sen, 2004), and market value (Luo and Bhattacharya, 2006) among others.
CSR and Financial Performance:

The relationship between CSR and performance in an organization has been investigated through various dimensions. This has led to several arguments concerning an association between firm’s social commitments and its financial performance. One of the views dictates a tradeoff between social responsibility and financial performance. Advocates of this view feel that firms that incur expenses from their socially relevant actions incidentally put them in an economic disadvantage as compared to those firms which do not involve in CSR (Aupperle, Carroll & Hatfield, 1985; Ullmann, 1985; Vance, 1975). Another contradicting viewpoint is that the explicit costs of CSR are miniscule as compared to the business adventures of the company, and in fact the firms stands to benefit from socially responsible actions taking into account employee morale and firm’s productivity (Moskowitz. 1972; Parket & Eibert, 1975; Soloman & Hansen, 1985). Another perspective is that though costs of socially responsible actions are significant, they are offset by reduction in other costs of the firm. For instance, the stake holder theory proposed by Gornell & Shapiro (1985) state that a firm must satisfy not just claims made by stock holders or bond holders, but also those with less explicit or implicit claims. In addition to the same, Alexandar and Buchholtz (1978) have suggested that stake holders and bond holders may actually see corporate social responsibility as management skill. In essence, the argument is, every management has to invest in its reputation that includes its reputation of being socially responsible. An increase in perceived social responsibility may change the image of the firm to being positive and hence facilitate management to barter expensive explicit claims for less expensive implicit charges.

Some of the authors who have suggested a hurtful relationship between social responsibility and financial performance believe that CSR results in extra expenses to the organization and hence puts it on an economic disadvantage in relation to less socially responsible organizations (Bragdon & Merlin. 1985; Vance. 1975). These additional expenses may be because of spends on widespread charitable causes, promoting community development plans and on environment protection. There are other scholars who have argued for a positive association between CSR and financial performance. According to them, CSR causes increase in customer goodwill, employee productivity and satisfaction. (Davis, 1975; Soloman & Hansen, 1985). For
instance, an organization with better reputation as a result of CSR may come across lesser labor related problems as they are perceived to be employee friendly.

Companies with better CSR records can have improved relationship with vendors, banks and regulatory agencies. These improvements in important relationships of organization lead to increase in economic benefits (Moussavi & Evans, 1986). Many credit and financial institutions have reported social considerations while justifying their investment decisions (Spicer, 1978). An organization may therefore have a better access to capital because of its continuous CSR activities. Finally, contemporary stakeholder theory (Cornell & Shapiro, 1987) reckons that the real value of an organization depends both on the costs of explicit claims and implicit claims. The organizations with an image of high corporate social responsibility have more low-cost implicit claims than other firms and thus have higher financial performance (Cornell & Shapiro, 1987).

Some other scholars have investigates the relationships between social responsibility and the performance of these organizations on the stock market (Spicer, 1978; Ullmann, 1985). They have suggested that an organization with lower CSR levels may increase financial risk. Investors sometimes consider that the skills of management teams of organizations with lesser levels of CSR as wanting (Alexander & Bucholtz, 1978; Spicer, 1978). They also tend to forecast increase in firm’s costs owing to lack of social responsibility. An organization’s ability to obtain finance at favorable rates may decrease because of perceptions of lower levels of social responsibility of organizations. On the other hand, higher levels of corporate social responsibility by organizations may encourage the government, financial community to perceive relatively lower financial risk and hence offer better financial terms. This also ensures that the firm can easily continue to satisfy implicit claims because of low total debt.

**CSR and Non Financial Business Benefits:**

The linkages between corporate social responsibility and business benefits in the Indian context are shown in the diagram below through corporate sustainability and the value added drivers.
Figure 2.2: CSR and its Non-Financial Benefits

Source: Adapted from ABN AMRO Morgans (in Agarwal, 2008: pg.34)

a) Decrease in operating expense and increase in financial performance:

The desire and urge in business to be sensitive about social responsibility has a significant and far reaching impact on financial performance resulting in increased revenues and reduced operating costs. CSR is the process where both employees as well as organizations are conscious of the influence of their work on stakeholders within the company as well as the community at large and the environment. All the activities in the organization either line or support function falls under CSR and has a role to play in its practice. If there is a sense of CSR which is pervading through the organization, it encourages sense of responsibility which ultimately becomes a habit among the employees of the organization. For instance, now people may not want to throw away paper used only on one side. Individuals who are particular about conserving paper do not respect such peers who waste paper. Other such acts include installation of printers to print double sided drafts, use of scrap paper to make notepads, encouraging canteen staff to use environmental friendly utensils and not
plastic throw away cups and plates. Such consciousness among employees comes from a sense of social and environmental responsibility, which, in turn, helps reduce operating costs.

b) Impact on Sales and customer:

Customers of the day are conscious of the quality of the products and expect high safety standards. Besides they also want to understand whether the products are socially and environmentally compatible. They tend to favor those products which have the least adverse affect on the environment and society and are willing to procure the same at higher costs. Loyalty is a combination of three crucial elements namely products or service, price and the intellectual or emotional bonding. Consumers are usually loyal to products and change brands infrequently. However it needs to be noted that the current generation of customers are also increasingly becoming more demanding and less loyal. What worked yesterday may not actually work for today and so cannot be presumed. More and more consumers are also now considering the environmental and social impacts of the company’s activities when they make purchase decisions. Companies need to recognize this human behavior and hence start targeting the customer strategically through the tool of CSR activities.

c) Reduced Regulatory intervention:

Companies which care for their community responsibilities get more cooperation and less queries from regulators whether it is administration or taxation officials or any other activists. Routine administration becomes hassle free ranging from law and order, security issues, etc and the extra time and resources of the company can be directed to the developmental activities. Regulatory authorities have a soft corner to organizations who are perceived to be active in CSR implementation. Such business houses get preferential treatment when applying for permits or licenses to undertake any project. Also, taxation authorities tend to believe what the books of these companies show and what they represent and limit themselves to verification instead of carrying out detailed investigations.

d) Reduces risks and increases access to capital:

Organizations are perceived to be more reliable and less risky when they are known to be socially responsible and are active in implementing CSR. This can further lead to decrease in costs of operations because of factors like reduced
insurance premiums, lower interest rates, lesser regulatory cost and greater investor appeals. In the Indian context, it is presently difficult to demonstrate how concern for the environment and the community can make a difference in the cost of capital, except in terms of visibility and goodwill. The time is, however, not far when the depletion of natural resources like water and wood will force the operations to come to a standstill. For instance, our country, already on the course to reach a situation of ‘water scarcity’ which will force investors and lenders to differentiate between caring and non-caring organizations in the very near future, as far as the competitive capabilities to sustain costs are concerned. Researches in the west have shown that there is reduction in volatility of portfolio and lead to higher returns when organizations are involved actively in corporate social responsibility (Agarwal, 2008). Companies are now increasingly aware of the wide range of risks and the need to respond to those risks. Many companies have strong environmental management systems and often lead to direct benefit in terms of reduced risk profile. Many studies have suggested that organizations incorporating strict environmental standards tend to be more profitable than others which don’t. (Dowell et. al.1999)

Non-financial aspects of business management were traditionally ignored by the investors. But with the establishment of the link between CSR and good financial performance, investor cannot afford to ignore the aspect of business behavior. It has been found out that an important attribute differentiating the futuristic companies from others was the fact that visionary companies had a higher purpose beyond just making profits and this vision guided them to accomplish larger levels of long term financial success. Hence, there is an increase in the number of funds in the developed economies which adhere to the philosophy and concept of Socially Responsible Investment (SRI). In these funds the portfolio managers filter out organizations that do not practice good environmental and social standards.

e) Enhanced Reputation and stronger brand:

In today’s business world, brands are central to success of organizations. Organizations build brands in the minds of the customer to increase loyalty which in turn leads to increased business revenue. It is also crucial to note as to how a brand is perceived by the stakeholders. As a dynamic concept, corporate reputation develops as information about the organization's activities and achievements is spread out, and interactions take place between the organization and its stakeholders (suppliers,
salesmen, competitors, clients, investors, employees and local communities). Different stakeholders may then have different perceptions regarding the organization, based on their differing contexts and interpretation of the information received: an organization may have, at the same time, a good reputation among its stockholders (External Reputation) and one not so good among its employees (Internal Reputation).

CSR is an important business strategy and few companies are using it strategically to improve their reputation and popularize their brands. Customers tend to prefer goods and services from organizations they feel they can trust. Companies which command respect attract more employees while vendors, social organizations increasingly want to associate with companies who work together on common concerns. It is the perception of the community about a business house which ensures sustainability of organizations for longer period. It is worthwhile for the business to play the game according to the rules, even if its competitors do not. This is the factor which differentiates between two enterprises at the time of crisis or at times when fresh opportunity arises. Good brand image leads to customer loyalty, which cannot be established overnight. Customer loyalty could be defined as ‘an act of binding – intellectually or emotionally to a course of action. It is one of the factors contributing to brand image and customer loyalty which could be achieved through the tool of CSR. (Agarwal, 2008)

Reputation is inevitable and critical to corporate success. According to Fombrum and Shanley (1990), the organization’s ability to fulfill varied requirements and needs of different stakeholders will determine the strength of reputation. There are various studies demonstrating the link between reputation and financial performance. A study by Dowling (2001) which analyses “America’s Most Admired Companies” listed in Fortune magazine reveals that companies which have a good reputation tend to earn above average financial returns for a longer period of time and vice versa. Indeed, a company’s reputation resides in the eyes of both internal and external stakeholders. But an extraordinary and long lasting reputation is built inside out by employees who ultimately drive the organization’s performance. While building a favorable internal reputation requires collaborative efforts of public relations, marketing, human resources, management, and even operations, it’s vital for communication managers to play the liaison’s role to coordinate these functions, develop employee-specific, relevant messages, promote an authentic and transparent
communication climate, and eventually win the hearts of the corporate insiders who will make the best organizational ambassadors.

f) CSR and its Impact on the Employees:

Earlier studies have revealed that CSR has an impact on Employee recruitment, retention and motivation. Employees are the integral part of any CSR initiative. Besides the fact that most of the CSR activities are driven by individuals, it has had considerable impact on the employees and their conduct and also upon the society. In India, the business houses of the Tatas and Birlas enjoy a high degree of respect among the public largely because of their employee-sensitive attitude and are often cited as examples (Agarwal, 2008). The world of work also has changed in the recent years and has impacted the employees. Changes in the work practices have brought about a frequent shift in power in the work places. There is a change in the management philosophy which includes adoption of the concept ‘human resource management’. There is more emphasis laid on individualism and there is a decrease in the importance of concepts of employee unions. The fundamental issue in the context of CSR and employment relations is that organizations and managements should not focus only on financial criteria. They must have equal or more focus on the terms and conditions of work and other issues related to employees. The role of ethics in the management of employees is very critical and includes in its ambit several issues concerning employees. The challenge tends to arise since CSR is viewed more as a product than a process and the way in which work is done. The impact of such practices on the work force should be taken into account along with the economic and financial outcomes. (Sumati Reddy, 2002)

Earlier research has indicated that while CSR activities focused on employees are perceived positively by current employees, it also has a positive impact on the wider audience which includes prospective employees. In their study, Riordan, Gatewood & Bill (1997) have suggested that employee job satisfaction is influenced by perceptions of external corporate image which is used as a proxy for social performance. Earlier empirical studies suggest that there is evidence of CSR’s influence on organizational commitment and Job Satisfaction (Aguilera, Rupp, Ganapathi & Williams, 2006; Brammer, Millington & Rayton, 2007; Maignan & Ferrell, 2001; Maignan, Ferrell & Hult, 1999; Peterson, 2004). Organizational commitment was initially explored by Porter et al. (1974) who noted that
organizational commitment was characterized by acceptance and belief of organizational goals and values, interest to put additional work for the organization and wanting to be part of the organization. Broadly speaking, organizational commitment refers to the employees’ attachment with their organization. Organizational commitment can be distinguished from other forms of commitment, like occupational commitment, commitment to the union, commitment towards the goal and commitment to the team or leader, based on the target of commitment. Organizational commitment typically is viewed as a monolithic, undifferentiated entity that elicits identification and attachment on part of the individual while in reality an individual could have varying commitment profiles. Meyer and Allen (1997) tested the multiple-constituency framework and found that global organizational commitment had fairly strong correlations with job satisfaction, turnover intent and organizational citizenship behavior.

Employee job satisfaction can be stated as a pleasant sense of feeling as a result of the experiences that the employee has as a part of the job. It can be based on how much of the employee’s requirements have been met in the workplace. Job satisfaction can be because of both intrinsic factors such as the job itself and extrinsic factors such as recognition and salary (Porter & Kramer, 2004). According to Johnston (2001) one of the important aspects for an organization to be CSR oriented is the relationship with employees. The organization which cannot display high levels of positive relationship with employees is not expected to have better relationship with its customers and community either. Another study by Chong (2009) found that there is a positive correlation between employee satisfaction and organization’s values and organization’s CSR activities. Further as per Social identity theory, employees place high importance on organization’s reputation which in turns effects satisfaction levels as employees are keen to be part of organizations that have good reputations. Besides, a prospective employer is always attracted by the external and internal reputation of a company. A reputation of the company can be positively influenced by CSR activities. For instance, the Walker Information Survey (1997) suggested that nearly forty two percent of prospective employees considered a company’s reputation before choosing to work for the company. Recruitment problems are bound to exist for companies with tarnished reputations.
g) **Innovation, Competitiveness and market Positioning:**

CSR objectives and activities invariably encourage creativity and innovation leading to larger benefits. For instance few Chemical Companies for the purpose of producing manufacturing environmentally friendly fibres from renewable resources have set up joint ventures with companies involved in industrial and agricultural products (Justine Keeble and David Brown, in Sumati Reddy, 2002). CSR activities have the potential to affect the market positioning of the company and customers are well informed. In another study which involved twenty five thousand customers across twenty six countries, it is revealed that customers form their opinion of a company based on the CSR practices of the company apart from other issues like labour management practices, quality of products and brand image.

There are enough empirical and anecdotal evidence to prove that there is an relationship between performance of organization and its CSR practices. It is important to understand whether the same is true in the case of Indian IT industry as they play a very significant role in Indian industry. The study explores CSR in India in the next chapter.