CHAPTER -2

CORPORATE SOCIAL RESPONSIBILITY

(THEORETICAL BACKGROUND)

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CHAPTER -2

CORPORATE SOCIAL RESPONSIBILITY
(THEORETICAL BACKGROUND)

2.1 The concept

• “CSR is not a cosmetic; it must be rooted in our values. It must make a difference to the way we do our business.”

  -Phil Watts, Group MD, Royal Dutch/Shell Group.

• Corporate Social Responsibility (CSR) is......a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

  -European Commission

• “Global corporate social responsibility entails managing effectively the company’s actual and potential environmental and social impact on the communities in which the firm operates and on society as a whole.”

  - David Grayson, President of Business in Community, Britain
"Companies are realizing that it is in their business interest to ‘do the right thing’ everywhere they operate. Global firms are keenly aware that their long-term investment goals can only be achieved within a stable, healthy and free of social and financial environment. But companies alone cannot solve the challenges associated with social responsibility. They must work in cooperation with governments, civil society groups, development institutions, and citizens.”

-World Bank

"CSR is defined as operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. CSR is seen by leadership companies as more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management."

- Business for Social Responsibility (http://www.bsr.org)

“Excellence in Corporate Social Responsibility is exceeding the compliance regime of the regulatory framework and constructively engage with stakeholders to proactively respond to their needs and
expectations with a view to making a palpable difference to the quality of life of the communities involved.”

-Dr. Madhav Mehra, President, World Council for Corporate Governance

- For many years, community development goals were philanthropic activities that were seen as separate from business objectives, not fundamental to them; doing well and doing good were seen as separate pursuits.

-Carly Fiorina, CEO, HP, BSR Annual Conference, Nov 2003,

- “Being a socially responsible company means demonstrating an enduring commitment to improving people’s lives. It’s about delivering sustainable growth, supported by a firm foundation of principles that preserve human dignity, enhance the quality of life, and reduce environmental impacts.”

-Leonard S. Coleman, Jr., Heinz Board Member, Chair of the Corporate Social Responsibility Board Committee

- “CSR is not simply an administrative component of the organization, but represents the character and culture of management.”

-Juraj Kopriva, spokesperson for ENEL SE, the largest power-generating company in Slovakia
As *individuals*, successful business leaders have always felt a need to “give back” to society. Although they have been maligned and called capitalists, the likes of Carnegie, Frick, Mellon, and Rockefeller and closer home the Tatas, Birlas and others have contributed to society in ways from which we still benefit—colleges, museums, concert halls, and more, doing a more efficient job of redistributing wealth than any government could hope to.

Carroll (1979) proposed a popular four-part definition of Corporate Social Responsibility, suggesting that corporations have four responsibilities or “four faces” (Carroll, 2000, p. p. 187) to fulfill to be good corporate citizens: economic, legal, ethical, and philanthropic.¹
Economic responsibility is to be profitable for principals by delivering a good quality product at a fair price due to customers. Legal duties entail complying with the law and playing by the rules of the game. Ethical duties overcome the limitations of legal duties. Philanthropic responsibility—“giving back” time and money in the forms of voluntary service, voluntary association, and voluntary giving—is where most of the controversy over the legitimacy of Corporate Social Responsibility lies.

Corporate Social Responsibility (CSR) is arguably the most central and established notion in modern business and social research (de Bakker, Groenewegen, & den Hond, 2005). Dating back to the fifties of the former century, the notion has a relatively long history.
In addition, Corporate Social Responsibility is a highly popular managerial notion with many companies having some form of Corporate Social Responsibility policy in place or making explicit Corporate Social Responsibility communications (Maignan & Ralston, 2002).

Yet in spite of its detailed past and popularity in business and management practice, the problem is that it is not clear what Corporate Social Responsibility is, we do not understand its causes and consequences, and what is desirable or required at the business-society interface.

2.2 Evolution of corporate social responsibility

The phrase Corporate Social Responsibility was coined in 1953 with the publication of Bowen's 'Social Responsibility of Businessmen', which posed the question 'what responsibilities to society can business people reasonably be expected to assume?'

Traditional corporate philanthropy dates back to the 19th century and emerged out of a variety of factors, such as:

i. Concern for the welfare of the immediate members of the corporate body: the staff and employees, and their families.

ii. Innovative contributions by visionary business leaders in quest of personal satisfaction, who built up philanthropic institutions out of their individual shares,
iii. The desire to establish a strategic relationship with the State or society led some corporate bodies to invest in the establishment of institutions that fulfill the specific requirements of the community,

iv. The establishment of trusts and foundations for tax benefits, which also support socially beneficial activities.

Corporate Social Responsibility actually has its origins in the ideology of early twentieth century religious thinkers, who suggested that certain religious principles could be applied to business activities. For example, Andrew Carnegie devised a classic two-fold statement of Corporate Social Responsibility based on religious thinking. First was the charity principle that required more fortunate individuals to assist less fortunate members of the society. However, by the 1920’s community needs outgrew the wealth of even the most generous wealthy individuals, with the result that some people expected business organizations to contribute their resources to charities aiding the unfortunate.

Second, was the stewardship principle, a doctrine that requires businesses and wealthy individuals to see themselves as stewards or caretakers, not just of shareholders’ financial resources, but also of society’s economic resources, holding their property in trust for the benefit of society as a whole. This was also propounded by Mahatma Gandhi.

During the latter half of twentieth century there arose the idea of the corporate social contract, which today underlies the Corporate Social
Responsibility concept. According to social contract thinking, the enterprise’s responsibilities should be commensurate with its economic, social, and political power (Lippke, 1996). 

During the 1950s, most companies in the U.S. and Europe focused on efficient production systems. Later, by the 1960s, large companies moved from an emphasis on operations, budgeting and control areas to an emphasis on planning aspects.

Chandler (1962), in Strategy and Structure, positioned the concept of strategy as a separate business function from marketing, finance, etc. Strategy consisted of deciding on the basic long-term goals of an enterprise and the adoption of the courses of action and allocation of resources necessary for carrying out those goals.

In the 1960s, Igor Ansoff referred to social responsibility and moral values as the non-economic influences which affect the objectives of the firm. The personal non-economic objectives “include philanthropy, personal ethics, social responsibilities, social status and reputation” (Ansoff, 1965, p. 65). He added that to understand the influence of these aspects, “the procedure is to single out non-economic influences within the firm which have a strong bearing on the economic objective, and then to assess the extent to which these affect the attributes and the priorities on the firm’s master list of objectives” (Ansoff, 1965, p. 65).

However, in the 1970s in his work Administrative Behavior, Herbert A. Simon, explained ethics as preferences. He said that it is impossible to
integrate ethics into business. In Simon’s own words: “An administrative science, like any science, is concerned purely with factual statements. There is no place for ethical assertions in the body of a science” (1976, p. 253).\textsuperscript{12}

In the U.S. in the 1970s there were social protests related with business and political scandals; meanwhile, Japan began to make huge gains in areas such as electronics and automobiles. Contemporaneously, an important debate on Corporate Social Responsibility also took place. The importance given to social responsibilities during the 1970s linked Corporate Social Responsibility and strategy based on long-term economic effects and beyond the personal values of managers.

Although corporate social responsibilities were accepted by many companies, some critical voices against this concept soon arose. The best-known opponent was Milton Friedman. He stated that “there is one and only one social responsibility of business – to use resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.” (Friedman and Friedman, 1962, p. 133)\textsuperscript{13}

The notion of Corporate Social Responsibility, considered to be overly abstract and generic, began to be replaced, or complemented, by that of “corporate social responsiveness” during the second part of the 1970s (Ackerman, 1973; Ackerman and Bauer, 1976).\textsuperscript{14,15}
Later, during the 1980s, several authors developed the ideas of "corporate social responsiveness" in strategic management, trying to quickly respond to any social demand or, even more, to be proactive (Ansoff, 1982; Carroll and Hoy, 1984; among others).\footnote{Ansoff, 1982; Carroll and Hoy, 1984; others.}

A comprehensive idea, which includes both Corporate Social Responsibility and corporate social responsiveness, is the concept of "corporate social performance" (CSP) which was introduced by Carroll in 1979.\footnote{Carroll, 1979} Wood (1991) presented a model of corporate social performance composed of principles of Corporate Social Responsibility, processes of corporate social responsiveness and outcomes of corporate behavior.\footnote{Wood, 1991}

The principles included principles of Corporate Social Responsibility expressed at the institutional, organizational and individual levels, processes of corporate social responsiveness, such as environmental assessment, stakeholder management and issues management; and the outcomes of corporate behavior, including social impacts, social programs and social policies. This concept of Corporate Social Performance looks at how business integrates social demands, arguing that business depends on society for its existence, continuity and growth.

Since the 1980s, stakeholder theory has spread considerably. The stakeholder approach constitutes a step forward in the understanding of ethics and strategy connections. The decade of the 1980s was a period in which strategic management offered an important contribution to the managerial world. It was a period of relative political calm in the U.S., but immense changes overseas. Some elements that may explain the
dynamism and complexity of the environment in this decade are the political liberalization of Eastern Europe, the market liberalization in Asia and Latin America, or the formation of trading groups in Europe, together with the imitation of the Japanese business model by leading firms all around the world (Oliver, 2002).

In contrast with the 1970s managerial view of including Corporate Social Responsibility in strategy formulations, the eighties was a decade in which management thought was of the view that the corporation should act exclusively in the interests of stockholders. Porter by looking at the five forces affecting competition within industries was concerned with strategies to achieve competitive advantages. There was no room for ethics, and the only connection with Corporate Social Responsibility was in using it to get competitive advantage and only when this was possible.

However, Porter then, along with other scholars who are in line with Milton Friedman, agreed in accepting what Burke and Logsdon (1996) have called “Strategic Corporate Social Responsibility” (SCSR). This refers to policies, programs and processes which yield “substantial business related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm’s effectiveness in accomplishing its mission.” (p. 496). These Corporate Social Responsibilities are accepted as “enlightened value maximization,” since they lead to long-term value maximization or value-seeking as the firm’s objective (Jensen, 2000). Corporate Social Responsibility, when it is accepted, is seen exclusively as an instrument for value maximization.
During the 1990s, the field of strategy focused its attention on those resources that are most likely to lead to competitive advantage. There was a growing interest in social and ethical aspects in the strategic management literature during the 1990s. Ethical issues were considered at different levels of strategic analysis (personal, organizational and institutional) and were included within the logic of strategic thought, mostly in terms of its contribution to valuable future competitive advantage.

In the 21st century the public demands that businesses make social issues a part of their strategies. Today, managers continually meet demands from various stakeholder groups to devote resources to Corporate Social Responsibility.

In the first decade of the twenty-first century, the integration of ethics and social responsibility within the logic of strategic management had not changed substantially. However, the role that ethical issues are playing today is wider than few decades ago.

Today strategic management should develop dominant designs that allow firms to create communities in which increasingly participative consumers interact with the firms’ stakeholders and help to create value (Herrmann, 2005). The very logic of economic relationships, inside and outside the firm, includes stakeholder contributions and their implications for the creation of value.
Strategic decision making necessarily has one ethical and another economic end. In the real world of management, both economic and ethical rationality are present in every managerial act. Ethics strategy based on the profitability of ethics are very weak. If ethical requirements should cease to contribute to the decision maker’s interests or benefit, this would be sufficient reason to abandon ethics.

2.3 Stakeholder theory

A stakeholder is a person who has something at stake or at risk in a business / project or act. Therefore though the age old premise of a business objective is nothing more than maximizing owners' profits, it has gradually become accepted that interests of all groups that affect the owners' value must also be taken into account or else the owners' value stands to diminish. So businesses need to be more accountable to all their stakeholders.

The word stakeholder first appeared in management literature in an internal memo at Stanford Research Institute. The stakeholder concept was originally defined as those groups without whose support the organization would cease to exist. The original list included shareholders, employees, customers, suppliers, creditors and society.

However, now the term is used to denote any person or group of individuals who may be affected by any action undertaken to achieve the organization’s objectives. This dramatically encompasses a larger audience in interest groups. Globalization, enhanced telecommunications
and vastly improved transportation networks transform practically everyone into a stakeholder.

Despite the popularity of the stakeholder theory it can on occasions undermine the entire goal of a business as it has been traditionally upheld for centuries. Each interested party may stand for mutually conflicting business objectives or policies which might in turn affect the business and owners' value. Even today despite the vocal claims of various interest groups it cannot be denied that fulfilling the objective of the owners' wealth maximization cannot be subjugated to satisfying the demands of various classes of stakeholders.

It cannot be for a moment ignored that both these objectives are necessarily co-existent and not conflicting. In the light of this, a business needs to identify and rank in order of importance the interest groups which it would seek to appease should such a need arise. There is no standard rule as to which are the preferred as the only stakeholder interests which need 'primacy of attention'. This is so because given the divergent interests of various groups what could benefit one group could be detrimental to another.

The stakeholder theory is essentially based on the 'social contract' argument. 'Organizations are accountable to their stakeholders because organizations use society resources and enjoy special privileges from society'. In exchange for society's consenting to provide the resources and privileges that they need to exist organizations become accountable to society.
Therefore the core of the stakeholder theory argument is that since the society accords a tacit approval to the business to operate it also has a legitimate right to approve or disapprove of the business' operations if it feels threatened in any way.

Critics of the stakeholder theory argue that it holds the right to private property and the agency relationship to ransom because some groups may perceive it as a free lunch ride for furthering their own interests.

But it should be remembered that the nicer picture of the business' role in society and its obligations both mandated and otherwise can be fulfilled only if the business has the right to economic wealth and growth. It is only then that it can meet its social obligations. We should also not lose sight of the fact that a populist political mechanism can corner businesses into shouldering public responsibility in the guise of inclusive stakeholder accountability.

However any social responsibility cannot be ensured by enforcement. It has to take root in the moral and ethical fabric of the business and become a permanent practice for various actions undertaken by it rather than by the coercive means of laws. After all business decisions cannot be substituted by only social considerations. The latter cannot be chosen in preference over the former.

2.4 Facets of CSR

The Green Paper (2001) by the Commission of the European Communities recognizes two main facets of CSR:
Internal aspect relating to the internal practices of the company which need to be adapted to incorporate CSR practices. This includes

- **Work Safety and Health Measures**: The increased focus on safety standards and employee welfare has led to the development of standards across industries. Worker safety and health is directly proportionate to employee productivity.

- **Workforce Management by** providing a learning environment for employees, empowering employees, information sharing, improving work conditions, creating cultural and gender diversity in work force, having schemes for profit sharing and ESOPs, displaying concern for job security among others.

- **Using eco-friendly processes**: Optimization of resource utilization and reducing environmentally damaging effluents can reduce the environmental impact.

- **Fine-tuning the business to changing economic environment**: A recent trend in the global business scenario has been the widespread use of mergers and acquisitions for business expansion and downsizing as a cost cutting measure by firms. According to the Green Paper (2001) by the Commission of the European Communities, restructuring should be done in a socially responsible manner means to balance and take into consideration the interests and concerns of all those who are affected by the changes and decisions.\(^{28}\)
External aspect related to practices concerning external stakeholders. The significance of this dimension of CSR has come to the forefront with the introduction of globalization as a strong force in the business dynamics leading to the development of international standards for business practices.

- **Local Communities**: The development of positive relations with the local community is very essential for building goodwill. Support of the local community is an asset which can be utilized by the companies to gain strategic advantage.

- **Human Rights**: The Caux Round Table Principles state that companies have a responsibility to respect human rights and democratic institutions; and promote them wherever practical. In particular, the company needs to make sure that people are not forcibly removed from their homes and their livelihoods are not endangered. Local groups protesting against projects or operations must have a say in the final decisions.

- **Economic Partners**: Companies should appreciate that in the long run their CSR practices will be judged taking into account not only their own efforts but also the practices of their economic partners throughout the supply chain. Also as part of their social responsibility companies are expected to provide products and services which meet reflect the company’s concern for the environment and the local conditions.
2.5 Corporate Social Responsibility of Companies towards internal & external stakeholders

Fig. 2.3 Stakeholders

It is clear from the figure that practically everyone is a stakeholder in business in some manner or the other. The success of any business is largely dependent on the satisfaction levels of all these partners in progress. So stakeholder perceptions of a business are very important. Business success depends on stakeholders’ perceptions which can influence reputation, consumer preferences, market expectations of cash flow and employee motivation. Business will be held responsible to society for negative impacts. Failure to recognize this will result in the threat of business risk. It is important to remember the difference between internal CSR, where workers, shareholders and investors are the beneficiaries, and external CSR where communities, civil society groups, other companies or institutions are the main beneficiaries. Internal and external CSR should be seen as complementary if the sustainable development of CSR policies is to be achieved.
The management of Stakeholders can be by any of the four strategies given by Wartick and Cochran (1985) i.e., Reactive, Defensive, Accommodative or Proactive. The choice of the strategy according to Jawahar and McLaughlin (2001) depends on stage in life cycle of the business and its fit in the idea of resource dependency.

Zadek (2001) has also mentioned the following stages of management of Stakeholders -Defensive (pain alleviation), Traditional (cost-benefit), Strategic - shifts business into a new direction and becomes a part of corporate strategic intent and learning, innovation and risk management.

Stakeholder considerations for CSR can emerge in every operational segment and function of the business. Land procurement and development can lead to loss of livelihoods, deforestation, and soil or water erosion. The CSR opportunity here is creating employment opportunities, infrastructure development and natural resource management. Technology & Manufacturing can result in poor waste management, high energy consumption and usage of polluting or depleting raw materials. The company can address this by practicing eco-efficiency. Similarly, Procurement & Supply Chain Management activities may cause CO₂ pollution (excessive transportation) can be redressed by greening of logistics and usage of supplier standards besides adopting fair labor practices and transparency in all corporate actions.

The essence of the stakeholder model was captured by David Wheeler and Maria Sillanpaa (formerly with The Body Shop) as follows:
‘The long term value of a company rests primarily on: the knowledge, abilities and commitment of its employees; and its relationships with investors, customers and other stakeholders. Loyal relationships are increasingly dependent upon how a company is perceived to create ‘added value’ beyond the commercial transaction. Added value embraces issues like quality, service, care for people and the natural environment and integrity. It is our belief that the future of the development of loyal, inclusive stakeholder relationships will become one of the most important determinants of commercial viability and business successes.’

With companies facing increasing scrutiny in the global economy, the corporate responsibility agenda now encompasses a wide range of issues including provision of quality, safe products at fair prices, ethical business practices, fair employment policies, and environmental protection.

Companies are increasingly expected to perform according to a ‘triple bottom line’ of economic, social, and environmental performance. In addition, increasing focus is being placed on the growth of corporate power and the need for greater accountability and transparency to society, for example through reporting and stakeholder dialogue.29

2.6 The triple bottom line approach

The term “Triple Bottom Line” dates back to the mid 1990’s, when ‘Sustainability’ a company in UK coined and began using the term in its work. The term found public currency with the 1997 publication of the
In the narrowest sense of the word the term is used to measure and report the performance of a firm against economic, social and environmental parameters. In a broader sense of the term, it is used to denote the processes, issues and value systems that companies must address in order to minimize the harm they may cause to the society in the economic, social and environmental parameters.

The organization needs to collectively measure, analyze and report on all the three issues simultaneously. The statement appears very simple theoretically but is quite complex to enforce because identifying the variables for collection, measurement, analysis and presentation of data is not easy. This has also led to organizations preparing sustainability reports for communicating the status of the Triple Bottom Line to the stakeholders. The general understanding of the Triple Bottom Line concept is very close to the concept of Corporate Social Responsibility though the latter is a very dynamic and constantly evolving concept. The shift in Corporate Social Responsibility ideology can be summarized as follows:
Fig 2.4 Seven sustainability revolutions

There is a need that the overall fulfillment of obligations to stakeholders such as communities, employees, customers, and suppliers should be measured, calculated, audited and reported – just as the financial performance of public companies has been for more than a century. One of the more enduring clichés of modern management is that “if you can’t measure it, you can’t manage it”.

If we believe that ethical business practices and social responsibility are important functions of corporate governance and management, then we should develop tools that make more transparent to managers,
shareholders and other stakeholders just how well a firm is doing in this regard. Most of the data to be reported on the social-bottom-line is already gathered by the standard departments in any large organization. What is distinctive of the recent trend in Corporate Social Responsibility is that many of these various figures are now being externally verified and reported, not to mention gathered in one document rather than being scattered among many departments oriented toward different stakeholders.32

2.7 Strategic & other types of corporate social responsibility

*Ethical Corporate Social Responsibility* is morally mandatory and goes beyond fulfilling a firm’s *economic* and *legal* obligations. Fulfilling its *ethical* responsibilities may include actions to avoid harms or social injuries, even if the business might not appear to benefit from this. Hence, a corporation is morally responsible to any individuals or groups where it might inflict actual or potential injury (physical, mental, economic, spiritual, and emotional) from a particular course of action.

Altruistic Corporate Social Responsibility is equivalent to Carroll’s (2000) philanthropic responsibilities and involves contributing to the good of various societal stakeholders, even if this sacrifices part of the business’ profitability. Firms practice altruistic Corporate Social Responsibility help to alleviate various social ills within a community or society such as lack of sufficient funding for educational institutions, inadequate moneys for the arts, chronic unemployment, drug and alcohol problems, and illiteracy, among others.
The justification lies in the fact that the modern corporation has been entrusted with massive economic and human resources and has the power to affect many parties beyond the participants in its transactions. Thus, there is an implicit corporate social contract between business and society whereby firms agree to be good stewards of society’s resources.

On the other hand, strategic Corporate Social Responsibility involves caring corporate community service activities that accomplish strategic business goals. Here, corporations contribute to their constituencies not only because it is a kind and generous thing to do, but also because they believe it to be in their best financial interests to do so, thereby fulfilling their fiduciary responsibilities to the stockholders.

With strategic Corporate Social Responsibility, corporations “give back” to their constituencies because they believe it to be in their best financial interests to do so. This is “philanthropy aligned with profit motives” (Quester and Thompson, 2001)—social goals might be profitable in the long run since market forces provide financial incentives for perceived socially responsible behavior.\(^\text{33}\)

Strategic Corporate Social Responsibility is a growing marketing activity that benefits both companies and society, suggesting that marketers should take a lead role in strategic Corporate Social Responsibility planning and implementation.\(^\text{34}\)
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<tr>
<td><strong>Economic responsibilities</strong>: Be profitable for shareholders, provide good jobs for employees, produce quality products for customers</td>
<td><strong>Ethical Corporate Social Responsibility</strong>: Morally mandatory fulfillment of a firm’s economic responsibilities, legal responsibilities, and ethical responsibilities.</td>
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<tr>
<td><strong>Legal responsibilities</strong>: Comply with laws and play by rules of the game.</td>
<td><strong>Altruistic Corporate Social Responsibility</strong>: Fulfillment of an organization’s philanthropic responsibilities, going beyond preventing possible harms (ethical Corporate Social Responsibility) to helping alleviate public welfare deficiencies, regardless of whether or not this will benefit the business itself.</td>
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<tr>
<td><strong>Ethical responsibilities</strong>: Conduct business morally, doing what is right just and fair, and avoiding harms.</td>
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<td><strong>Philanthropic responsibilities</strong>: Make voluntary contributions to society, giving time and money to good works.</td>
<td><strong>Strategic Corporate Social Responsibility</strong>: Fulfilling those philanthropic responsibilities which will benefit the firm through positive publicity and goodwill.</td>
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**Fig 2.5** Types of Corporate Social Responsibility
A business needs to operate ethically which means that it has to maximize long term owners’ value subject to distributive justice [the fundamental principle that those with an equal claim to resources should receive equally, and those with a greater (lesser) claim should receive more (less)] and decent practices. This could be inferred to mean that the objective of any business is to be ethical and not merely socially responsible. Insofar as its social responsible actions do not result in fulfillment of its primary goal of wealth maximization, then such actions are not morally justifiable as they are not aligned to business strategy.

It can thus be said that Business ethics is not an optional luxury but an analytical business tool. Strategic Corporate Social Responsibility is commendable because it benefits stockholders while helping other stakeholders.

![Fig 2.6 CSR vs. Philanthropy- a convergence of interests](image)

Fig 2.6 CSR vs. Philanthropy- a convergence of interests
Identifying the strategy link for ethical business practices or socially responsible acts in a business is hinged on the answers to five basic queries which must be clearly answered:-

- Pinpoint the issue to be addressed and check if it falls within the realm of public policy or business practices.
- Clearly understand the relevance of the issue to the business growth and future prospects.
- As in all project evaluations, the constraining factors such as resources or legal limitations must be studied.
- Keeping in mind the constraints viable alternative options for resolving the issue/ethical problem must be evolved not losing sight of long term business growth.
- The last step is to choose a path of action which is not only socially responsible and responsive but also creates wealth in the long run.\(^{38}\)

The “Engaging in Corporate Social Responsibility: the key steps for business” framework designed by the UK Department of Trade and Industry, advocates that a firm takes the following six steps to build sustainable competitiveness through Corporate Social Responsibility.

Step 1: Initial Commitment

Step 2: Assess the external environment and relate it to business
Step 3: Review the internal structure, strategy, and plan of action

Step 4: Implement

Step 5: Measure and report results

Step 6: Consult with stakeholders, including governments and civil societies.

The business case for developing Corporate Social Responsibility strategies that particularly address community development and their effective management is simple; maintaining business sustainability in difficult social, political and economic environments. It is difficult to quantify the value of engaging in these as often the costs associated with such a decision are more readily apparent than the benefits.39

2.8  Strategizing CSR in an organization

Introducing CSR in a company means that the organization has found an answer to the question ‘what does CSR mean’ through a process of dialogues at different levels leading to people becoming change agents to encourage awareness of CSR issues.

There is also need for a process of assessing company potential for CSR with a clear logic of why they want it, what are the drivers? What are the barriers to change? Do core competences support the delivery of CSR objectives? How coherent is the business case for CSR? There needs to be something for the firm and also an implied benefit for society.
Therefore the question that follows is what combination of activities leads to benefits for both? What does performance mean in this context?

The company should measure, manage and report CSR to demonstrate accountability and to satisfy regulators. This increasing need to provide evidence of CSR credentials can be met through audited performance measures. The measurement issue that then arises is – What is measured? How does it get measured? What gets attended to - credibility, efficiency or reliability? What gets reported - internally and externally? Who manages what?

If the answers to all these issues are resolved, the company is ready for mainstreaming CSR. The Company’s mission should be developed and it should be supported by vision because vision drives strategy. The importance of developing tools for Community Assessment, Community Engagement, Charter of partnership programs, Stakeholder mapping, benchmarking and measuring matrices cannot be understated. This will lead to capacity building within organization and buy-ins for the idea amongst employees. 40

Building a CSR strategy requires the following steps:

1. Identifying key business drivers: reputation, human/intellectual capital, risk management.

2. Identifying salient CSR dimensions: governance, HR management, stakeholder relations and operational impacts.
3. Assessing CSR-associated opportunities: e.g., reduced costs from improving environment or products.


5. Working out the relationships between business drivers and CSR dimensions.

6. Assessing strengths and weaknesses of organizational expertise.

7. Estimating costs/effort of improving CSR.

8. Prioritizing initiatives in the light of these factors.

9. Publicizing intentions in mission and/or value statements.

10. Adopting a Code of Ethics.

CSR strategy implementation should include commitment to existing local and global standards in internal and external operations, the ability to carry employees along enabling an environment for employee involvement so that the firm can build social capital with employees and reputational capital with other stakeholders.

Success factors for strategic CSR would include:

1. Adapting CSR initiatives to corporate ways of working and communicating it.
2. Good leadership and commitment and conviction of key persons.

3. Involvement of competent people and mechanisms to make sure everyone cooperates.

4. Timing and momentum of the initiatives.

5. Strengthening corporate identity and values by communicating and celebrating success.

A good CSR strategy gives the organization a framework for managing all its CSR challenges. At the same time, it puts responsible practices at the heart of the organizational decision-making.

The model shown below has been developed by Peter F Smith, Managing Director, CSRevaluator (from an original concept model, Environmental Action Planning developed by Dr. Jonathan Arch during his time at Arthur Andersen) to demonstrate the link between Business Environment, CSR, Corporate Governance, Business Process Management, Reporting and Stakeholder Communication from within a functioning Business Risk Management Plan. It should be noted that the Action Planning is as a result of parallel analysis of current strategic and operational requirements not a hierarchical circular activity.41
2.9 Types of socially responsible activities undertaken

Corporate philanthropy – Donating to charities is a simple way for a company to enhance its reputation and assess the monetary value of its CSR 'commitment'. Because it is easy and generates a lot of visibility, corporate giving is more generally dismissed as a public relations exercise.
Codes of conduct – Corporate codes of conduct are explicit statements of a company's 'values' and standards of corporate behavior. Codes vary in content and quality from company to company, and cover some or all of the following issues: the treatment of workers, consumer reliability, supply chain management, community impact, environmental impact, human rights commitments, health and safety, transparency and dealings with suppliers, and other issues. Some codes are monitored by external verifiers.

Social and environmental reporting - Reports are generated to improve corporate accountability to stakeholders, but their value is questionable because there are no common benchmarks with which to compare the performance of different companies; the content is down to the discretion of the company, there are problems with verification; and the expectation that a wide variety of stakeholders would make use of the reports is proving incorrect. The readership of reports is also restricted.

Community investment– Many companies develop community projects in the vicinity of their sites, to offset negative impacts or 'give back' to the community and local workforce. Community investment covers a whole range of initiatives including: running health programs, sponsoring schools, playgrounds or community centers, employee volunteering schemes etc.

Eco-efficiency – Eco-efficiency was the phrase coined by the Business Council for Sustainable Development in advance of the Rio Earth Summit to describe the need for companies to improve their ecological as
well as economic performance. Minimizing the company's environmental impact, particularly around highly visible aspects of its operations or in areas where it makes financial savings, is a particularly popular tactic amongst companies whose products are inherently destructive to the environment.

**Cause-related marketing**— Cause-related marketing is a partnership between a company and a charity, where the charity's logo is used in a marketing campaign or brand promotion. Companies choose charities which will attract target consumers. The charity gains money and profile, and the company benefits by associating itself with a good cause as well as increasing product sales.

**Sponsoring awards**— Through award schemes, companies position themselves as experts on an issue and leaders of CSR simply by making a large donation.\(^4^2\)

In their book *Corporate Social Responsibility*, Kotler and Lee, (2005, p.2) mention the six social initiatives undertaken by companies as follows:

1. **Cause Promotions**: increasing awareness and concern for social causes.
2. **Cause-Related Marketing**: making contributions to causes based on product sales.
3. **Corporate Social Marketing**: supporting behaviour change campaigns.
(4) Corporate Philanthropy: making a direct contribution to a cause.

(5) Community volunteering: employees donating their time and talents.

(6) Socially Responsible Business Practices: discretionary business practices and investments to support causes.

2.10 The business case for CSR

Why are companies increasingly engaging in activities outside the purview of their normal course of business? Is it corporate scandals such as Enron and WorldCom? Is it globalization with increasing exposure and transparency? Is it NGOs and activism? Is it political consumers? Is it coming from within companies based on values and a will for doing something good? Is it PR and marketing? These are some of the many questions which need to be answered to better comprehend the changing business ground rules.

What has really changed is the risk perception of businesses-risk arising out of their actions, processes and products both internally and externally. Businesses are accepting the new reality of shifting from local to global rules, from traceable to randomized because risk might no longer be quantifiable and consequences might no longer be calculated; from micro to macro economic environment, from confidential to transparent in their approach to issues, from legal to societal implications of their actions and from tangibles to intangibles because increasingly, corporations are trading not on products or services but on their reputations, brand value,
'goodwill', and 'intellectual capital'. These are termed 'intangibles' and have an actual numerical value on the company balance sheet.

Also, a growing number of investors favor companies that are seen as socially responsible. CSR is still breaking into the mainstream. Investing in CSR now means that a company can position itself as the market leader in its field, and will be ahead of the game if regulations are brought in or when other companies in the sector take up CSR as a business strategy. Some environmental CSR measures bring in operational efficiency. These are often the type of measures prioritized by companies. But what happens if measures necessary to protect the environment are not profitable?

Though the fundamental idea behind CSR is that a corporation or company has a responsibility to society’s development beyond the maximization of profit and of shareholder’s value, companies that have implemented CSR measures have experienced a wide range of bottom-line benefits, including:

(i) Transparent business practices
(ii) Enhanced brand image and reputation
(iii) Increased sales and customer loyalty
(iv) Increased ability to attract and retain employees
(v) Increased work productivity and quality
(vi) Introduction of efficient eco-friendly production techniques
However, in order to achieve these benefits, CSR needs to be implemented in a strategic way, meaning that the initiatives undertaken should aim at supporting and strengthening a company's business plan and address those elements that hinder its profitability and capacity to reach wider markets.

2.11 CSR as a risk management measure

A company's objectives, its internal organization and the environment in which it operates are continually evolving, and as a result, the risks it faces are continually changing. A sound system of control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the company is exposed. Since profits are in part the reward for successful risk taking in business, the purpose of internal control is to help manage and control risk rather than to eliminate it. In organizations almost every decision has an upside and a downside involving some degree of risk. CSR is about moving beyond compliance in the traditional sense. The benefits for companies are manifold.
For risk management purposes, timely resolution of CSR issues can provide the company with potential and real costs savings as it can estimate the significance of potential problems. The more a company is committed to CSR, the less they are exposing themselves to business risk. This could be reputational risk, financial risk, or environmental risk, people risks, IT risks, asset risks, supply chain risks or regulatory risks.

For an organization to be successful in an increasingly competitive market, managers have to balance the idea of being socially responsible with that of being financially viable. Many companies which have established risk management systems in place incorporate CSR issues within their risk evaluation process—but the degree to which this is covered differs.

Every organization must therefore, find the right balance between opportunities and threats in managing its risks. It should devise a strategy that will minimize its CSR risks and enable it to make the most of the opportunities in response to emerging CSR challenges. The resulting strategy should cover all aspects of governance, policy, stakeholder engagement and public disclosure.

2.12 The rise of the CSR industry

The 1990s saw CSR become an established industry with major companies such as PricewaterhouseCoopers and KPMG entering the CSR service provision market. New consultancies, such as SustainAbility (1989), Business for Social Responsibility (1992) and CSR Europe (1996), also sprang up over this period, all promising to protect industry
from protest. Specialist university research centers and the CSR conferencing circuit also emerged in the late 90s. Similarly CSR evolved beyond simple codes of conduct and reporting to include more extensive dialogue with stakeholders, NGO engagement and 'multi-stakeholder initiatives'.

2.13 The detractors of CSR

A company belongs to shareholders. Company directors are the agents who are legally bound to act solely in the best interest of the company's owners. Through CSR companies trumpet their 'values', but a company can only have one value: its share-price. Economist Milton Friedman says that because a company is the property of its shareholders, CSR can only be insincere. In other words, companies can only make a decision which favors the wider social good if the outcome is also the most profitable one. So, the wider social good can only ever be incidental to the interest of making a profit. If profits are primary, then can CSR really make a difference to the problems corporations are causing?

The January 2005 edition of Business Ethics magazine, observed the fact that studies had 'proved' that socially responsible businesses perform better.

The opposition to this theory claims that corporations frequently held up as leaders in CSR are far from being socially responsible companies. Christian Aid's 'Behind the Mask' report looks at three prominent leaders
in the field and looks at the companies' real impacts, going directly to the communities'. The report notes:

- How Shell, one of the architects of CSR, fails to effectively clean up oil spills in the Niger delta and runs community development programs that are frequently ineffective and divide communities;

- How British American Tobacco, aside from being one of the few companies whose products kill their customers when used the way they are intended, fails to protect farmers in Brazil and Kenya from the chronic diseases associated with the cultivation of tobacco;

- How Coca Cola depletes water supplies, threatening the lives and livelihoods of communities in India.

Another company that consistently tops the global CSR charts is Toyota. Toyota, the world's second largest automotive manufacturer, bases its corporate environmentalist image on its Prius hybrid which emits less greenhouse gases than the standard car. Its fuel guzzling SUV models, however, are amongst the company's biggest sellers and massively outnumber sales of hybrids and the company's future depends on pushing the constant expansion of the car market.

If these companies are the leaders, then what does that say about those lagging behind? These examples show that projecting a socially responsible image whilst retaining negative practices can be good for business. Any doubtful social benefits from CSR are outweighed by the losses to society in other areas.
CSR is an effective strategy for:

- bolstering a company's public image;
- avoiding regulation;
- gaining legitimacy and access to markets and decision makers; and,
- shifting the ground towards privatization of public functions.

CSR enables business to propose ineffective, voluntary, market-based solutions to social and environmental crises under guise of being responsible. This deflects blame for problems caused by corporate operations away from the company, and protects companies' interests while hampering efforts to tackle the root causes of social and environmental injustice.51

![Fig. 2.8 Is CSR adding value to the business?](image)

CSR has always been a controversial issue and the criticism of it being 'green-wash' or a corporate public relations exercise is by no means a new
one. But for a variety of reasons people still think that CSR is worth their time and energy and buy in.

To understand why the CSR debate is still on going we need to look at the reasons why certain groups of people believe it to be a worthwhile exercise.

At the heart of any pro-CSR reasoning lies a belief that it is possible for companies to be socially responsible or at least a belief that the motivations of the company do not matter if the result is a positive one.

Detractors of CSR mention the agency relationship between the directors and the investors. How can they forget the agency relationship between a company and the society? Agency is about ‘making a difference’. So, business is an ‘agent of change’ and it is a well known fact that business decisions and processes create unintended consequences as well as planned outcomes.

We need to remember that ‘agency’ implies responsibility for ‘footprint’ of corporate actions. Companies are ‘collective agents’ in society and some collective actions cannot be described as the actions of several individuals (e.g. main board decisions).

Therefore, the company has a responsibility to those who experience impact of business operations because business has an implicit contract with society and has to be seen to be legitimate as well as legal.
2.14 What has brought about the transformation in the mindsets of the people and corporations?

Where earlier, business used to be for profit and CSR used to be philanthropy and an individual’s emotional need to give back something to the society and not all imperative in any manner; for the business social cost of “Give and take” from community was not accounted. But today, Triple Bottom line is more or less universally accepted and there is an increased stress on environment/natural resources- by both policy makers and business houses; sustainability issues and environmental practices now form an integral part of most corporate Annual reports.

Thanks to the media, environmental concerns are no more restricted to environmentalist groups. It has now been proven beyond doubt that a healthy and aware community is biggest enabler of successful business.

But the question that needs to be answered here is whether this awareness and momentum will survive or will it collapse under the pressures of profitability of businesses? Will industry captains be able to sustain their commitment in the long term or will CSR be a dinosaur of the corporate world a few decades down the line?

An interesting study in this regard was commissioned by VanCity Credit Union for understanding the longer-term trends in social and environmental issues and how they may impact stakeholder demands, potential partnerships, and consumer attitudes in the years to come.
Nearly 50 “CSR thought leaders” were interviewed and they believed that there will be many facets of CSR in the future too.

2.15 Degrees of commitment to CSR in future- a CSR continuum

In a study, ”The Future Of Corporate Social Responsibility- A study of longer-term global trends in CSR” for Van-City Credit Union by Strandberg Consulting, CSR thought leaders felt there will be different degrees of commitment to and styles of applying CSR within industry in the future, much like today.

Collectively they described a continuum of CSR, from CSR “lite” to deep-CSR:

![Diagram showing the continuum of CSR types]

**Fig. 2.9 Types of CSR in the future**
1) CSR Lite - They do not show any commitment to social or environmental progress.

- These companies will have a superficial or marginal commitment to meaningful social or environmental improvement.
- They will be primarily concerned about responsiveness to complaints, not CSR - the business model will not be changed.
- They may be using generalized standards such as the Global Reporting Initiative and as such think they have a hold on CSR when in fact they don’t.

2) CSR Compliant- They show initiative but not too much

- Companies will take on voluntary environmental and social obligations to maintain their license to operate.
- They will keep abreast of emerging standards and norms of CSR and ensure they are compliant with those standards.

3) CSR Strategic - Companies will become strategic about different aspects of CSR.

- They will become compliant with standards and then will create niches in specific areas of CSR more strategic to their companies. They will develop business strategies within one or two aspects of CSR around which they can develop a competitive advantage and have significant impact.
• Companies in certain sectors will believe their key to survival is providing products and services acceptable to broad public interests or they will go out of business.

4) **CSR Integrated** - *They believe in the need to take social and environmental impacts and opportunities into account.*

• They will have comprehensive CSR policies covering all areas of their operations and will be operationalizing their CSR principles through rigorous performance standards, objectives, reward mechanisms, etc.

• CSR or sustainable development will inform decision-making and business strategy throughout the company.

5) **Deep CSR** - *They will be the path breakers and few in number.*

• A group of companies will adopt or be founded on business models whose mission is to improve social or environmental conditions.

Some leading companies will realize that the early stage benefits of CSR have been achieved and will move to addressing the real tradeoffs between different elements of the triple bottom line in sustainable consumption, resource extraction, just transitions, intergenerational equity, etc. 53