CHAPTER - 1
INTRODUCTION

1.1 General Introduction of Corporate Social Responsibility

A man is born in a society. He is indebted to the society in various ways. He cannot develop to the fullest extent in isolation from the society. He depends on the society for his multifarious needs, therefore, he owes sincere duty to the society. Normally the good effects of dedicated performance of duty are not confined to the doer only. They affect a much wider horizon. Only that nation is prosperous and progresses whose citizens do their respective duties with the utmost devotion and dedication. Everyone, therefore, to be wide awake to their respective sense of duty for betterment and progress of society, thereby ensuring betterment and progress of nation and world at large. Business, which is again part of social setup, depends fully on society for its various needs and can develop to the fullest extent with development of the society only, thus has a duty towards society. Modern States are taking shape of welfare states. The business which was mostly run, controlled and regulated by States, till very recently has been liberalized and the process of globalization has broken many barriers. The governance of democratic states has welfare orientation. In early twentieth century state nearly controlled everything. There were mostly state run enterprises which were involved in various kinds of business activities. The state generates profits from industry and revenue by collecting various taxes. The money so collected used to be spent on security and development of the nation and a major portion of money was spent on welfare activities. In the
beginning and middle of 20\textsuperscript{th} century many private entities entered into the arena in which the governments world over had monopoly and these private entities also made their space, got recognized and contributed a lot in the overall development of human beings even in the highly regulated economic environment. Then came the era of liberalization, privatization and globalization. These three phenomena combined together have completely corporatized the economic environment of the world. After liberalisation of economy we are witnessing shrinking role of State and growing role of corporate and business sectors in overall development of the country.\textsuperscript{1} In liberalized economic pattern most of us live in a highly corporatised world. These big Corporations are nothing but a product of the activity called business. So there is need to have some basic idea as to what business is, how it developed, how the present structure of Corporations came in to existence, what is the relationship between society and business/ corporate and why there is need for corporate to be socially responsible.\textsuperscript{2}

Business relates to any activity that creates utility for either the masses or the classes. The most commonly used term for a business enterprise is the word Company. Company can be defined as an association of persons coming together voluntarily to pursue a certain economic activity with the motive to make profit. ‘Like any juristic person, a company is legally an entity apart from its members, capable of rights and duties of its own, and endowed with the potential of perpetual succession’ (Hahlo and Trebilock, 1977).

\textsuperscript{1} Andrew Crane and Dirk Matten, Corporate Social Responsibility (Volume I), 2007 P-XVI
\textsuperscript{2} Ibid
The relationship of the company beyond the legal existence to the socio economic scenario is well summarized by Berle (1959). According to him, the ‘Company’ is not merely a legal institution. It is rather a legal device for the attainment of any social or economic objective and to a large extent; this is done publicly and by being socially responsible.\(^3\) It is, therefore, a combined political, social, economic, and legal institution. Thus nature & relationship of corporate with society brings us to the concept of Corporate Social Responsibility (CSR). Moreover, as we know, that these corporations derive wealth from society, create wealth for society, and earn profit by dealing with the wealth for society, which means that in the broader perspective, it is society that actually gives permission to business to operate in society and earn money. This obviously demands that the business world should pay for this permission by a legitimate sharing of the wealth it is earning from society by sharing it with society.\(^4\)

Till recently, Social Responsibility of Corporate i.e. CSR was viewed as philanthropic activity indulged into only when firms were in jeopardy. But as a result of enormous change in socio-economic-political environment and with increasing role of Corporate in every sphere of activity, it is now viewed to be inclusive, broad and diverse. CSR is now viewed as an integral part of business strategy to minimize the business risks linked to uncertainty. But the critics are of the view that it is nothing but corporate conspiracy to snatch resources in the name of CSR. There is difference of opinion among Corporate, Academicians,

\(^3\) Berle, A.A. Jr., Foreword to The Corporation in Modern Society by E.S. Mason, Harvard University Press, Cambridge, (1959)

\(^4\) Madhumita Chatterji, Corporate Social Responsibility, Oxford University Press, 2011, P-5
Professionals, social activities and governments firstly in respect of its existence itself, secondly about its scope & relevance in current political, legal & socio-economic environment and thirdly about its administering as to whether it should be a voluntary activity or it needs to be regulated by appropriate mandate. Therefore, to understand the dimensions of the subject in detail and its importance for society in general and corporations in particular, we need to study the various aspects of the subject ‘Corporate Social Responsibility’.

Till recently, the focus of companies with respect to contribution towards society was on charity, which in modern perspective does not seems to be complete CSR. Sustainable CSR programmes mean a cohesive mix of economic, legal, ethical and philanthropic tenets. In today’s changed business scenario, there is an increased focus on giving back to society and creating a model which works for long term and is sustainable and it is imperative that the best practices for inclusive growth are shared with the stakeholders. This is growing phenomenon. Corporate with their wider reach, professionalism, innovation and resources have the ability to influence the pace of growth and development of any country. Corporations now are involved in many such activities which include utilities, social services, and even national security, all these were once expected to be the preserve of governments and the public sector. On the one hand we can see that corporations help to create economic growth, provide jobs &

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5 The past and current political environment of a given country impacts the environment (favourable or not) surrounding such collaborations just as it affects the institutional framework, its workings, and the programs set up to support or restrict such initiatives. The social environment also includes some special features that will affect project selection and execution, as well as their relative success. Some structural factors of the economic environment also impact directly the ability of government to operate collaboration projects at any given time.
benefits, and increasingly invest enormous resources into environmental protection, health & safety programmes, and social development initiatives that go beyond the economic role of a private firm and on the other side, critics complain that corporations are exploiting natural resources; without adequately compensating for them, consumers; without caring for them, contributing to global warming, disregarding worker’s right, and a whole host of other social ills using corruption as their main partner with the sole objective of earning profit at any cost for fulfilling ever increasing corporate greed. In a survey by Tata Research Institute (TIFR), it was found that the public expects from corporate and business sector that they must play a wider and more expansive societal role. In addition to providing good quality products at reasonable prices, companies should strive to make their operations environmentally sound, adhere to high labour standards, reduce human right abuse and mitigate poverty. The basic purpose of the survey was to capture perceptions and expectations related to Corporate Responsibility of the following stakeholders such as general public, worker (skilled, semiskilled and un-skilled) and corporate executives (head of corporate relation, labour relation, welfare dept. and manufacturing in MNC’s, (large and medium sized Indian companies) and environment. The poll gathered that the people believe that companies should be actively engaged in social matters. A majority of the general public feels that companies should be

6 Supra Note 1 on P. 2
7 The Tata Institute of Fundamental Research (TIFR) is a research institution in India dedicated to basic research in mathematics and the sciences. It is a Deemed University and works under the umbrella of the Department of Atomic Energy of the Government of India. It is located at Navy Nagar, Colaba, Mumbai. TIFR conducts research primarily in natural sciences, mathematics, biological sciences and theoretical computer science and is considered one of the outstanding research centres in India.
held fully responsible for roles over which they have direct control. These include providing good products and cheaper prices, ensuring that operations are environment friendly, treating employees fairly without any discrimination based on gender, race or religion and applying labour standards globally. More than 60% of the general public felt that the companies should also be held responsible for bridging the gap between the rich and the poor, reducing human rights abuses, solving social problems and increasing economic stability. In another survey conducted by CCC in 2005 it was revealed that Eighty-one per cent of executives accepted that corporate responsibility is essential to their business. They disagree about what exactly 'corporate responsibility' means, but the majority believe that business should serve as a steward in society, and that it has a duty to investors, employees, consumers, communities, and the environment. These views were shared by executives from small, medium, and large-sized enterprises, and reflect a trend that sees more and more companies publicly reporting on their social and environmental performance. In today’s world prosperity is measured in terms of economic growth, made possible through greater productivity and production. With the drive for growth come greater demand for natural resources and the quest for lower cost production especially in third world countries. Great efforts are put into the new ideas, creativity, and innovation, within which a pre-requisite for being competitive is being able to participate in a virtual global network, and this brings with it new patterns of employment, social interaction, and investment.

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8 Altered Images: the 2001 State of Corporate Responsibility in India Poll’ by TERI.
9 The Civilian Conservation Corps was a public work relief program that operated from 1933 to 1942 in the United States for unemployed, unmarried men from relief families.
as well as new threats to national and personal security. This shifting world brings prosperity for some and changes for many. New economic powerhouses are emerging, although the distribution of wealth within, and between, countries is often highly unequal. The capacity not only to manufacture, but also to research and develop, is being dispersed more widely around the world. Due to this situation, different levels of conflict arise, such as those between the affluent and the poor, between short-term gains and long-term success, between senior managers and the rest of a company's stakeholders, and between the interests of companies and nations. In the midst of this world, business is being ascribed significance roles that had never previously been imagined because the private sector creates wealth, generates employment, utilizes natural resources, and attracts investment at unprecedented levels. Consumption plays a pivotal role in our economic set up, social lives and in our personal identities. Brands have a significance that is not dissimilar to that of religion and ideology in previous eras. Companies play important roles in public policy, especially in countries where the standard of governance is low, or in situations in which international governance mechanisms are inadequate. In today's world, widespread business failure is unthinkable, because we seem increasingly less able to imagine an alternative to the free enterprise economy. Yet individual companies do find themselves under social, as well as competitive, pressure. They are subject to new levels of transparency, whether in terms of the demands that the largest stock markets make for greater disclosure and changes to corporate governance or in terms of public outcry on issues as diverse as environmental pollution, consumer rights, child labour,
corruption, and support for military regimes. Adverse disclosure, threats, shareholder confidence, brand reputation, production stability, employee trust, and other corporate assets, both tangible and intangible. What is more significant is that the conditions that leave companies open to charges of irresponsibility. Public opinion is becoming less tolerant of corporate excess and malfeasance, but there are also increasing expectations that business will come up with solutions to some of the twenty-first century's main social and environmental challenges, such as water accessibility, global warming, and affordable health care etc. The twin hemispheres that corporate responsibility is charged to embrace on the one hand; it must deal with what Baker (2005)\textsuperscript{10} calls 'capitalism's Achilles heel', \textit{i.e.} capital, poverty, and inequality are intertwined; on the other hand, it must promote capitalism as a solution to the key social and environmental issues.

Therefore after analysing the current trends of public opinion expressed through various surveys and modern literature on corporate behaviour it is the need of the time that in their own interest and for their own legitimate acceptance in society, a statement of intent generating wealth in a manner that is socially and environmentally sustainable must be common goal of domestic and international business. In this age of open world economy, brand reputation, repositioning of government activities and privatization, it is increasingly important to do business ethically, morally and with concern for the society. Business, today, need to realize that the world is not made up of

\textsuperscript{10} Raymond W. Baker, Capitalism’s Achilles Heel: Dirty Money and How to renew the free Market System, Wiley, 2005.
strangers. There is bondage called human bondage which exists in society. There are customers, employees, shareholders and neighbours. The business class should render this support to the general people, if they will be uplifted socially and economically, the productivity of the corporate is also bound to increase. But the trend seems to be other way round because growing pollution levels due to industrial activities without adhering to norms are contributing to global warming and threatening the existence of planet earth itself. Along with this, ever increasing corporate scandals to cheat stakeholders world over, corporate-political nexus for illegal gains even at the cost of national security, inadequate wages to labour and their exploitation, reducing job opportunities, increasing gap between rich & poor due to mismanaged capitalist economic pattern\textsuperscript{11} and tokenism in the name of social welfare reflects the different picture of corporate and raises all sorts of questions about the social responsibility of the corporation in contemporary society. Are they living up to their responsibilities as one of the most powerful institutions on the planet? Are they diverting too much attention away from their core responsibility of creating value through the efficient production of goods and services? Can they be trusted to exercise their power in a responsible manner or more control of corporations necessary? Whether their social responsibility should be regulated or it should be left to them to take a call.

\textsuperscript{11} Capitalism is an economic system based on the private ownership of the means of production, with the goal of making a profit. Central elements of capitalism include capital accumulation, competitive markets, and a price system. There are, however, multiple variants of capitalism, including laissez-faire, welfare capitalism, and state capitalism. Capitalism is defined as a social and economic system where capital assets are mainly owned and controlled by private persons, where labor is purchased for money wages, capital gains accrue to private owners, and the price mechanism is utilized to allocate capital goods between uses.
The emergence of welfare state and liberalised economic environment have made it sine qua non that the corporate will have to be socially responsible and thus Corporate Social Responsibility (CSR) is becoming an increasingly important activity to businesses nationally and internationally. CSR activities are now being undertaken throughout the globe. Till recently, it was viewed as philanthropic activity\(^\text{12}\) indulged into only when firms were in jeopardy. CSR is now viewed as an integral part of business strategy to minimize the business risks linked to uncertainty. In India, most of the corporate do not have a clear policy on social responsibility. While developed countries like England have separate Ministries to look after the issue of Corporate Social Responsibility. In India, Government does not have the clear policy on the issue. Out of very few companies which contribute to Social development, the basic intention was not to ensure the good of the nation, rather a business policy to stay away from the Tax net.

There is urgent need that corporate and the government should try to build up a relationship between the business and society. The concept of Corporate Social Responsibility has so far failed to take deep root in India because the nomenclature is not properly defined. The CSR in present form in India is in nascent stage. The market economy has paved the way for enterprise-led development and new cultural perspective is taking

\(^{12}\) Voluntary, organized efforts intended for socially useful purposes. Philanthropic groups existed in the ancient civilizations of the Middle East, Greece, and Rome: an endowment supported Plato’s Academy (387) for some 900 years; the Islamic Waqf (religious endowment) dates to the 7th century; and the medieval Christian church administered trusts for benevolent purposes. Merchants in 17th- and 18th-century western Europe founded organizations for worthy causes. Starting in the late 19th century, large personal fortunes led to the creation of private foundations that bequeathed gifts totaling millions and then billions in support of the arts, education, medical research, public policy, social services, environmental causes, and other special interests.
place in Indian business environment that has a strong bearing on social responsibilities. Since corporate use natural resources, human resources & infrastructure on which society at large has the right & control therefore it is the moral responsibility of the corporate to be socially responsible. Social responsibility encompasses the sectors like environment, health, education, employment, income and quality of life. If corporate sector work on the above aspects, which are thought to be primary social indicators then society would have better buying capacity which will ultimately lead to the benefit of the corporate. The corporate can do this because they have enough money to serve the nation on the above segments of the society. The rise of globalization has brought with it, a growing consensus that with increasing economic rights, business also has a growing range of social obligations. Citizen campaigns against irresponsible corporate behavior along with consumer action and increasing shareholder pressure have given rise to the stakeholder model of corporate responsibility. The business of the 21st century will have no choice but to implement CSR. The sooner corporate houses realize this and aggressively pursue this process, the better off they will be, and their inaction towards this will pave the way for laws to be formulated to help in reinforcing CSR practices.

In recent years, CSR has become a fundamental business practice and has gained much attention from Chief Executives, Chairmen, Boards of Directors and Executive management teams.

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Globalization is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. Put in simple terms, globalization refers to processes that increase world-wide exchanges of national and cultural resources. Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalization, generating further interdependence of economic and cultural activities.
of larger international companies. They understand that a strong CSR program is an essential element in achieving good business practices and effective leadership. Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities.

Thus due to these contradicting ideological differences there is a need to examine the concept of CSR in detail through theoretical & practical perspective.

1.2 An overview of the Concept of Corporate Social Responsibility

As researcher has already discussed that in today’s world, the corporate responsibility is essential to every business. The majority believe that business should serve as a steward in society and it also has a duty to investors, employees, consumers, communities and the environment. On one hand companies are playing important role in public policy and on the other hand they are subject to new level of transparency, whether in terms of the demands that the largest stock markets make for greater disclosure and changes to corporate governance, or in terms of public outcry on issues of environmental pollution, consumer rights, child labour, corruption and support for military regimes (against democracies). Adverse disclosure of facts by the companies if harmful for shareholder confidence, brand reputation, production stability, employee trust and other corporate assets both tangible and intangible. The CSR is a

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14 In any society, governmental entities enact laws, make policies, and allocate resources. This is true at all levels. Public policy can be generally defined as a system of laws, regulatory measures, courses of action, and funding priorities concerning a given topic promulgated by a governmental entity or its representatives.

15 Supra Note 7.
fundamental creed and methodology, which serves not only the wider environment but the best interests of the organization itself. It is a doctrine of “enlightened self interest”\textsuperscript{16} in which the organization, in the pursuit of its own success, helps the wider community, creates further opportunities that not only fuel the company’s long term success, but creates ongoing benefits for that wider environment. A firm has three kinds of stakeholders:

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{stakeholders.png}
\caption{Kinds of stakeholders}
\end{figure}

\textbf{Source: Self created motivated from CSR literature}

In light of above a firm’s employees are, first and foremost, organizational stakeholders. They are also, however, occasional

\textsuperscript{16} Enlightened self-interest is a philosophy in ethics which states that persons who act to further the interests of others (or the interests of the group or groups to which they belong), ultimately serve their own self-interest. In contrast to enlightened self-interest is simple greed or the concept of “unenlightened self-interest,” in which it is argued that when most or all persons act according to their own myopic selfishness, that the group suffers loss as a result of conflict, decreased efficiency and productivity because of lack of cooperation, and the increased expense each individual pays for the protection of their own interests. If a typical individual in such a group is selected at random, it is not likely that this person will profit from such a group ethic.
customers of the company, as well as members of the society within which the firms operates. The Government that regulated the firms industry, however, is only a societal stakeholder and has no economic relationship with the company, nor is it any formal part of the organization. The firm’s economic stakeholders represent the interface between the organizational and societal stakeholders. Therefore, a firm’s customers are, first and foremost, economic stakeholders of the firm. They are not organizational (Internal) stakeholders, but they are part of the society within which the firm operates, they are also one of the primary means by which the firm delivers its product and interacts with its society.

If we had to explain the scope of CSR and what is meant by “social”, the whole philosophy behind it could be summed up in the “triple bottom line” theory17 (“people, planet, profit”): a business, no matter where it directly or indirectly carries out its activity, must be judged according to three criteria: how it treats its employees, how its activity affects the environment, and how much profit it makes. The CSR is also corporate conscience, corporate citizenship, social performance, sustainable & responsible business and it is in the form of corporate self regulation integrated into the business model. CSR Policy functions as a built-in, self regulating mechanism whereby a

17 The phrase “the triple bottom line” was first coined in 1994 by John Elkington, the founder of a British consultancy called Sustainability. His argument was that companies should be preparing three different (and quite separate) bottom lines. One is the traditional measure of corporate profit the “bottom line” of the profit and loss account. The second is the bottom line of a company’s “people account” a measure in some shape or form of how socially responsible an organisation has been throughout its operations. The third is the bottom line of the company's “planet” account a measure of how environmentally responsible it has been. The triple bottom line (TBL) thus consists of three Ps: profit, people and planet. It aims to measure the financial, social and environmental performance of the corporation over a period of time. Only a company that produces a TBL is taking account of the full cost involved in doing business.
business monitors and ensures its active compliance within the spirit of the law, ethical standards and international norms. CSR is a process with the aim to embrace responsibility for the company’s actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of public sphere who may also be considered as stakeholders. The prominent areas of CSR activities are as follows:¹⁸

- Business ethics
- Legal compliance
- Philanthropy and community investment
- Environment management
- Sustainability
- Animal rights
- Human rights
- Worker rights and welfare
- Market relations
- Corruption
- Corporate governance

Thus after having preliminary knowledge about the concept of CSR through the analysis of literature & surveys available, it is amply clear that CSR is a critical issue which directly affect the functioning of corporate entity and also has very significant

impact on various stakeholders. But there exists a definitional dispute about CSR and due to this there is lot of contestation about meaning, nature & scope of CSR. The uncertainty in respect of meaning, nature & scope has resulted in confusion among practitioners about undertaking & implementation of CSR. In view of this the researcher decided to examine the subject of CSR in detail and for this the Approaches, Definitions & Theories are analysed in detail are as under:

1.3 Different Approaches towards CSR

A more common approach of CSR is philanthropy. This includes monetary donations and aid given to local organizations and impoverished communities in developing countries. Some organizations do not like this approach as it does not help to build on the skills of the local people, whereas community-based development generally leads to more sustainable development.

Another approach to CSR is to incorporate the CSR strategy directly into the business strategy of an organization. Another approach is garnering increasing corporate responsibility interest. This is called Creating Shared Value, or CSV\(^1\). The shared value model is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues, and opportunities for philanthropy. CSV received global attention in the Harvard Business Review

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\(^1\) By CSV the business can create value for its shareholders by doing business activities addressing global and local issues in the areas of nutrition, water and rural development.
The article provides insights and relevant examples of companies that have developed deep linkages between their business strategies and corporate social responsibility. Many companies use the strategy of benchmarking to compete within their respective industries in CSR policy, implementation, and effectiveness. So we have many approaches and these approaches explain two things, firstly they provide an idea about the constituent of CSR activities and their scope and secondly, they explain the nature and importance of CSR and provide basis of regulation of CSR. At the same time there is a danger that too many aspects together may make the subject so heavy that it may become impossible to carry the issue for a long and successful journey. Moreover venturing in so many directions may create confusion as to what actually CSR is? So there is need to settle definitional dispute first.

1.4 Definitions of CSR

There are as many definitions of CSR as there are disagreements over the appropriate role of the corporation in society. Here is an overview of just some of the definitions of CSR that have been proposed over the years.

Important definitions of the term Corporate Social Responsibility are as under:

Bowen (1953)²¹ ‘refers the social responsibility of businessmen as the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.’ According to this definition every aspect of

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corporate activity should be integrated in such a manner so as to remain socially approved action. Thus this definition lays stress on normative behaviour and covers ethical behaviour of Corporate and can be termed as broad view of CSR and covers all stakeholders.

According to Friedman (1970)\(^{22}\) ‘The social responsibility of the firm is to increase its profits.’ This definition lays stress only on economic responsibility of Corporate and can be termed as narrow view of CSR. This definition covers only one stakeholder i.e. shareholder.

Davis (1960)\(^{23}\) says CSR refers to ‘the firm’s consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm.’

This definition is very wide and does specifically stipulate the areas and actions which relate to comprehensive CSR. This definition also covers the entire shareholders.

In view of Carroll (1979)\(^{24}\) ‘The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.’

This definition is very comprehensive and covers all aspects which relate to all responsibilities of business. The scope of this definition is very wide.

According to Thomas M. Jones (1980)\(^{25}\) ‘Corporate Social


\(^{25}\) The 1980s contributed further on CSR definitions and relevant literatures. During this period, Freeman presented this great Stakeholders Theory, which expresses the involvement and role of stakeholders in promoting CSR (Freeman 1984). The definitions during this period also
Responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract.’ Two facets of this definition are critical. First, the obligation must be voluntarily adopted, behaviour influenced by the coercive forces of law or union contract is not voluntary. Second obligation is a broad, extending beyond the traditional duty to shareholders to other societal groups such as customers, employees, suppliers and neighbouring communities. The scope of this definition is also wide and relates to stakeholder approach.26

Epstein (1987)27 defined CSR as ‘Corporate social responsibility relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems which (by some normative standard) have beneficial rather than adverse effects on pertinent corporate stakeholders. The normative correctness of the products of corporate action has been the main focus of corporate social responsibility.’ This definition lays emphasis on stakeholder approach with ethical responsible behavior.

Wood (1991) has defined CSR as ‘The basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and

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outcomes.’

This definition recognizes the concept of mutual co-existence of Business and Society and lays emphasis on ethical responsibility of business.

According to Brown and Dacin CSR is defined as a company’s ‘status and activities with respect to its perceived societal or, at least, stakeholder obligations.’

This definition considers stakeholder approach to CSR and lays stress on ethical responsibility of business.

In addition to above definitions given by various thinkers there are definition which have been given or accepted by various international organizations and few of them are very relevant in determining the meaning, nature & scope of CSR and they are discussed as under:

Starbucks in its CSR Report, 2004 defined it as ‘A responsible company is one that listens to its stakeholders and responds with honesty to their concerns’. This definition highlights that responsibility is gauged by how companies listen and respond to stakeholders' concerns. So, this definition is also very wide and covers all the stakeholders.

Chiquita defined CSR as ‘It commits us to operate in a socially responsible way everywhere we do business, fairly balancing the needs and concerns of our various stakeholders, all those who impact, are impacted by, or have a legitimate interest

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28 Starbucks Corporation has grown from a single store in 1971 to become the leading retailer, roaster and brand of specialty coffee in the world, with retail locations in North America, Latin America, Europe, the Middle East and Asia Pacific. We believe our growth and success are the result of our unwavering commitment to offer the highest quality coffee and an exceptional customer experience while conducting our business in ways that produce social, environmental and economic benefits for communities.
in the Company's actions and performance’. This definition also highlights that responsibility is gauged by how companies listen and respond to stakeholders’ concerns.

Pricewaterhouse Coopers the international auditing giant defines that ‘CSR is the proposition that companies are responsible not only for maximizing profits, but also for recognizing the needs of such stakeholders as employees, customers, demographic groups and even the regions they serve’. This definition sets out the kinds of stakeholder groups to whom companies are responsible. It also stresses that responsibility involves balancing profit maximization and stakeholders’ needs. This definition more specifically defines the scope of CSR.

Lord Holme, former executive director of Rio Tinto, and Philip Watts, former chair of Royal Dutch Shell has defined it as ‘CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large’. This definition is also very comprehensive and covers all the stakeholders in its scope.

This definition lays emphasis on ethical behavior which contributes in inclusive development of region and society and shed light on what some of the responsibilities to these stakeholders are.

Confederation of British Industry in 2001 defined it as

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'CSR requires companies to acknowledge that they should be publicly accountable not only for their financial performance but also for their social and environmental record.... CSR encompasses the extent to which companies should promote human rights, democracy, community improvement and sustainable development objectives throughout the world'. 32 This definition also explains what responsibility of these stakeholders are. This definition also contributes in determining the scope of CSR.

European Commission, Directorate General for Employment and Social Affairs defined it as ‘CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis. 'This definition lays stresses that actions under the corporate responsibility umbrella are voluntary in nature. This definition narrows down the scope of CSR.

World Bank defines it as ‘CSR is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for (international) development'. 33 This definition introduces the additional element of companies' responsibilities for development in poor nations.

In addition to these definition there is one definition given by The World Business Council for Sustainable Development

33 www.world bank.org/ private sector.
about Corporate Social Responsibility as "the commitment of business to contribute to sustainable economic development." The primary purpose of CSR is to engage with the internal and external stake holders.35

The point is that defining CSR is not just a technical exercise in describing what corporations do, but is also as much a normative exercise in describing what corporations should be responsible for in society, or even an ideological exercise in describing how the political economy of society should be organized more broadly.

The definitional debate on CSR is unlikely to go away, especially with different national perspectives on CSR being developed from alternative cultural, legal, and political assumptions about the role and responsibility of the firm in society. The development of new CSR literature in continental Europe, Asia, Latin America and Africa brings with it very different definitions of CSR that include, for example, elements of legal obligation, political participation, and development all of which may redefine CSR in ways very different to its US identity.

Despite these ongoing definitional disputes, however, what we can probably say without creating too much controversy is that, in its broadest sense, CSR is about the social obligations and impacts of business in society and the definition given by Carroll seems to be very comprehensive and relevant. This definition also supports Stakeholder approach towards CSR which

34 It is a CEO-led, global association of some 200 international companies dealing exclusively with business and sustainable development. It was created in 1995 in a merger of the Business Council for Sustainable Development and the World Industry Council for environment (www.wbcsd.org).
actually covers all the elements of society. Beyond this, admittedly, there is a great deal of contestation over the nature and extent of these obligations, how or whether they should be translated into concrete actions to create positive corporate or societal benefits or even whether the obligation to consider societal impacts exists in the first place. CSR questions are ultimate questions about societal obligations and its impacts. For better understanding of the concept a detailed study of theories of CSR need to undertaken & determine the theoretical base of CSR.

1.5 Theoretical Basis of CSR

As the starting point for a proper classification, we assume that the most relevant CSR theories and related approaches are focused on one of the following aspects of social reality: economics, politics, social integration and ethics. According to Parsons (1961), four aspects can be observed in any social system: adaptation to the environment (related to resources and economics), goal attainment (related to politics), social integration and pattern maintenance or latency (related to culture and values):36

Thus various theories related to CSR can be classified in four groups:

1. A, first group, in which it is assumed that the corporation is an instrument for wealth creation and that this is its sole social responsibility. Only the economic aspect of the interactions between business and society is considered. This group of theories could be called \textit{instrumental theories} because they understand CSR as a mere means to

\footnotesize{36 Parsons, T, An outline of social system. from theories of Society, 1961 (free press, New York)}
the end of profits.

2. A second group, in which the social power of corporation is emphasized specifically in its relationship with society and its responsibility in the political arena associated with this power. This leads the corporation to accept social duties and rights or participate in certain social cooperation. This group may be called political theories.

3. A third group, includes theories which consider that business ought to integrate social demands. They usually argue that business depends on society for its continuity and growth and even for the existence of business itself. This group can be termed as integrative theories.

4. A fourth group, of theories understands that the relationship between business and society is embedded with ethical values. This leads to a vision of CSR from an ethical perspective and as a consequence, firms ought to accept social responsibilities as an ethical obligation above any other consideration. This group can be termed as ethical theories.

1.5.1 Instrumental Theories

In this group of theories CSR is seen only as a strategic tool to achieve economic objectives and, ultimately, wealth creation. Representative of this approach is the well-known Friedman’s view that “the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the ethical custom of the country”
Three main groups of instrumental theories can be identified, depending on the economic objective proposed. In the first group the objective is the maximization of shareholder value, measured by the share price. Frequently, this leads to a short-term profits orientation. The second group of theories focuses on the strategic goal of achieving competitive advantages, which would produce long-term profits. The third is related to Cause Related Marketing. The philosophy and some variants of these groups are discussed briefly.

(a) Maximizing the Shareholder Value

A well-known approach is that which takes the straightforward contribution to maximizing the shareholder value as the supreme criterion to evaluate specific corporate social activity. Any investment in social demands that would produce an increase of the shareholder value should be made, acting without deception and fraud. In contrast, if the social demands only impose a cost on the company they should be rejected. This theory very closely relate to Friedman’s definition.

(b) Strategies for Achieving Competitive Advantages

A second group of theories are focused on how to allocate resources in order to achieve long-term social objectives and create a competitive advantage (Husted and Allen, 2000). In this group three approaches can be included: (a) social investments in competitive context, (b) natural resource-based view of the firm and its dynamic capabilities and (c) strategies for the bottom of

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the economic pyramid.

(c) Cause-related Marketing

Cause-related marketing has been defined as “the process of formulating and implementing marketing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in a revenue-providing exchanges that satisfy organizational and individual objectives” (Varadarajan and Menon, 1988).

1.5.2 Political Theories

A group of CSR theories and approaches focus on interactions and connections between business and society and on the power and position of business and its inherent responsibility.

(a) Corporate Constitutionalism

Davis (1960) was one of the first to explore the role of power that business has in society and the social impact of this power. In doing so, he introduces business power as a new element in the debate of CSR. He held that business is a social institution and it must use power responsibly.

Davis formulated two principles that express how social power has to be managed: “the social power equation” and “the iron law of responsibility”. The social power equation principle states that “social responsibilities of businessmen arise from the amount of social power that they have”. The law of responsibility refers to the negative consequences of the absence of use of power.

(b) Integrative Social Contract Theory

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Donaldson (1982) considered the business and society relationship from the social contract tradition, mainly from the philosophical thought of Locke. He assumed that a sort of implicit social contract between business and society exists. This social contract implies some indirect obligations of business towards society.\(^{40}\) Afterwards, Donaldson and Dunfee (1994, 1999) extended this approach and proposed an “Integrative Social Contract Theory” (ISCT) in order to take into account the socio-cultural context and also to integrate empirical and normative aspects of management. Social responsibilities come from consent.\(^{41}\)

(c) Corporate Citizenship

In the 80s the term “Corporate Citizenship” was introduced into the business and society relationship mainly through practitioners.\(^{42}\) Matten (2003) have distinguished three views of “corporate citizenship”: (1) a limited view, (2) a view equivalent to CSR and (3) an extended view of corporate citizenship, which is held by them. In the limited view “corporate citizenship” is used in a sense quite close to corporate philanthropy, social investment or certain responsibilities assumed towards the local community. Finally, in the extended view of corporate citizenship, corporations enter the arena of citizenship due to government failure in the protection of citizenship.\(^{43}\)

1.5.3 Integrative Theories

This group of theories looks at how business integrates social demands, arguing that business depends on society for its existence, continuity and growth. Social demands are generally considered to be the way in which society interacts with business and gives it a certain legitimacy and prestige. As a consequence, corporate management should take into account social demands, and integrate them in such a way that the business operates in accordance with social values.\(^4^4\) The theories of this group are focused on the detection and scanning of, and response to, the social demands that achieve social legitimacy, greater social acceptance and prestige.

(a) **Issues Management**

Issues management has been defined by Wartick and Rude (1986) as the corporation can identify; evaluate and respond to those social and political issues which may impact significantly upon it”. They add that issues management attempts to minimize “surprises” which accompany social and political change by serving as an early warning system for potential environmental threats and opportunities.\(^4^5\) Further, it prompts more systematic and effective responses to particular issues by serving as a coordinating and integrating force within the corporation.

(b) **The Principle of Public Responsibility**

Preston and Post (1981) proposed “the principle of public responsibility”. They choose the term “public” rather than “social”, to stress the importance of the public process, rather


than personal-morality views or narrow interest groups defining the scope of responsibilities. According to them an appropriate guideline for a legitimate managerial behavior is found within the framework of relevant public policy. They added that “public policy includes not only the literal text of law and regulation but also the broad pattern of social direction reflected in public opinion emerging issues, formal legal requirements and enforcement or implementation practices” (Preston and Post, 1981). This is the essence of the principle of public responsibility.

(c) **Stakeholder Management**

Stakeholder management tries to integrate groups with a stake in the firm into managerial decision-making. It includes topics such as how to determine the best practice in corporate stakeholder relations, stakeholder’s relations to managers, the impact of stakeholder management on financial performance, the influence of stakeholder network structural relations and how managers can successfully balance the competing demands of various stakeholder groups.\(^46\) (Kaptein and Van Tulder, 2003).\(^47\)

(d) **Corporate Social Performance**

A set of theories attempts to integrate some of the previous theories. The corporate social performance (CSP) includes a search for social legitimacy, with processes for giving appropriate responses.

Carroll generally considered have introducing this model,

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suggesting a model of “corporate performance” with three elements: a basic definition of social responsibility; a listing of issues in which social responsibility exists and a specification of the philosophy of response to social issues. Carroll considered that a definition of social responsibility; which fully addresses the entire range of obligations business has to society, must embody the economic, legal, ethical, and discretionary categories of business performance. He later incorporated his four-part categorization into a “Pyramid of Corporate Social Responsibilities” (Carroll, 1991).48 A new development came with Wood (1991) who presented a model of corporate social performance composed of principles of CSR, processes of corporate social responsiveness and outcomes of corporate behavior. The principles of CSR are understood to be analytical forms to be filled with value content that is operationalized. They include: principles of CSR, expressed on institutional, organizational and individual levels, processes of corporate social responsiveness, such as environmental assessment, stakeholder management and issues management, and outcomes of corporate behavior including social impacts, social programs and social policies.49

1.5.4 Ethical Theories

There is a fourth group of theories or approaches focus on the ethical requirements that cement the relationship between business and society. They are based on principles that express the right thing to do or the necessity to achieve a good society.

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The ingredients of this theory are discussed in subsequent paragraphs.
To understand the origins of corporate responsibility, it is important to consider the ethical traditions that have emerged within capitalist society. Aristotle suggested just a theory and his theory of virtue continues to inform important theories of social justice, such as Sen's capability approach, while also being implicit in recent thinking about corporations as citizens.

Enlightenment ethics introduced ownership and the accumulation of private property as central ethical issues. Donaldson's work on the licence to operate builds upon social contract theorists such as Locke, Hobbes, and Rousseau, who held that the governing and the governed entered into a social contract. The issues they raised about natural rights and the proper functions of government have had enormous influence in the shaping of modern democracy.

As we have already aware that Locke\textsuperscript{50} considers that the rights that need to be upheld by government as part of the social contract are those he regarded as the natural rights of life, freedom, and property. These are still among the fundamental rights in Western democracies, treated as inalienable entitlements to be respected and protected at all times. But what was self-evident to Locke proved more problematic to other ethicalists. When he made the case for the right to private property, he brought to the forefront of Western ethics questions relevant to any corporate responsibility debate, such as how can we behave morally while protecting what is legally ours? How do we best

\textsuperscript{50} John Locke FRS, widely known as the Father of Classical Liberalism, was an English philosopher and physician regarded as one of the most influential of Enlightenment thinkers.
look after the rights of those who have no capital? And why, in any case, should only those with capital make these decisions? In corporate responsibility, not only is it far from clear what rights business should uphold, but, if social contract theory\textsuperscript{51} is its base, then companies may be under little obligation to engage with society except in respect of upholding the values of life, liberty, and property. Since the eighteenth century, there have been two main strands of ethical theory in the Western world consequentialism and non-consequentialism that demand more of moral actors in setting out the logical basis for deciding what is a moral act.

(ii) **Consequentialism\textsuperscript{52}**

'Consequentialism' refers to theories of ethics that assess right and wrong in terms of the consequences of actions. It most famously includes the utilitarian theories of Bentham and Mill, but also embraces the moral philosophy of Adam Smith, as well as that of Hobbes and Hume.

Many notions about the business-society relationship reflect utilitarianism. The term refers to the capacity of actions to achieve beneficial outcomes. In a utilitarian theory of justice, actions are neither good nor bad in themselves, but only in terms

\textsuperscript{51} The idea of the social contract is one of the foundations of the American political system. This is the belief that the state only exists to serve the will of the people, and they are the source of all political power enjoyed by the state. They can choose to give or withhold this power.

\textsuperscript{52} In general, consequentialist theories focus on actions. However, this need not be the case. Rule consequentialism is a theory that is sometimes seen as an attempt to reconcile deontology and consequentialism and in some cases, this is stated as a criticism of rule consequentialism. Like deontology, rule consequentialism holds that moral behavior involves following certain rules. However, rule consequentialism chooses rules based on the consequences that the selection of those rules have. Rule consequentialism exists in the forms of rule utilitarianism and rule egoism.
of what they bring about, captured in Bentham's (1789) view that 'good' acts are those that bring the greatest happiness to the largest number of people. A good act is, therefore, one that maximizes utility and minimizes disutility, not in individual terms, but a total sum of utility that will result in a surplus of pleasure over pain. Thus, in the context of corporate responsibility, it is the aggregate benefit of a company's actions that matters, rather than any disadvantage to particular individuals or entities.

(iii) Non-Consequentialism

Utilitarianism is often criticized for its apparent claim that individual rights can be subverted to the greater good of society and that, therefore, people are to be treated as a means to an end.

Non-Consequentialist philosophers, such as Kant and Rawls, reject the apparent claim that the good of the majority can be used to justify considerable harm to others. They hold that, for an action to be ethical, it must have a motive beyond self-interest and mutual advantage, and that justice is something contained within an action itself, not in its consequences. As Rawls (1971) puts it: '[Non-consequentialist] justice denies that the loss of freedom for some is made right by a greater good shared by others.'

Rawls' alternative theory of distributive social justice has

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53 The "greatest happiness principle", or the principle of utility, forms the cornerstone of all Bentham's thought. By "happiness", he understood a predominance of "pleasure" over "pain". He wrote in The Principles of Morals and Legislation: Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand the standard of right and wrong, on the other the chain of causes and effects, are fastened to their throne. They govern us in all we do, in all we say, in all we think ...

54 A Theory of Justice is a work of political philosophy and ethics by John Rawls. It was originally published in 1971 and revised in both 1975 (for the translated editions) and 1999. In A Theory of Justice, Rawls attempts to solve the problem of distributive justice (the socially just distribution of
been particularly influential in Western democracies in recent years.

(iv) From theory to Practice Bentham

Utilitarianism was a significant influence in shaping the European welfare state, with its focus on social safety nets, and it is evident in areas of corporate responsibility, such as labour standards, that define outcomes intended to benefit the majority of workers. In many ways, however, the history of political thought since the 1970s the period during which contemporary corporate responsibility took shape is captured in the opposing views of Rawls and Nozick, his fellow liberal philosopher.

Rawls (1971) argued for a strong role for government as the primary way of ensuring fair distribution. He believed that an unequal distribution of wealth and income is acceptable only if those at the bottom are better off than they would be under any other distribution. Nozick (1974) argued that Rawls was wrong about distributive justice, because he looked at outcomes (the patterns of distribution over time) rather than at whether the transactions that led to these outcomes were just. For Nozick, any distribution of wealth or other things ('holdings'), no matter how unequal, is just if and only if it is the result of a just distribution through legitimate means. Under his 'entitlement theory of justice', the distribution of holdings in a society is just if all are entitled to what they have.

In other words, Rawls and Nozick present justifications for goods in a society) by utilising a variant of the familiar device of the social contract. The resultant theory is known as "Justice as Fairness", from which Rawls derives his two principles of justice: the liberty principle and the difference principle.(Source: Wikipedia)
quite different roles for government. This is highly relevant to corporate responsibility, within which there are important debates about the regulation of companies and the role of business in administering justice.

(v) Environmental Ethics

One other area of ethical theory that has had a significant influence on corporate behaviour is environmental ethics, which expanded the scope of what we think of as being worth moral consideration beyond that which relates to human beings. It is also highly evident in aspects of corporate responsibility, such as sustainability and animal rights. The underlying theories of environmental ethics can still be classified as part of consequentialist, non-consequentialist, or other ethical traditions and there are several different schools (e.g. bioregionalism, sentientism, ecofeminism). But recurring concerns include the rights of non-human species and ecosystems, the rights of future generations, and the issues of equity and justice.

Environmental ethics has also allowed sustainability to be seen as an ethical issue, something that demands that we extend ideas of moral consideration in terms of space and time.

(vi) Normative Stakeholder Theory

Stakeholder management has become an ethically based theory mainly since 1984 when Freeman55 wrote Strategic Management: a Stakeholder Approach. Donaldson and Preston held that the stakeholder theory has a normative core based on two major ideas (1) stakeholders are persons or groups with

legitimate interests in procedural and/or substantive aspects of corporate activity (stakeholders are identified by their interests in the corporation, whether or not the corporation has any corresponding functional interest in them) and (2) the interests of all stakeholders are of intrinsic value (that is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners).  

Following this theory, a socially responsible firm requires simultaneous attention to the legitimate interests of all appropriate stakeholders and has to balance such a multiplicity of interests and not only the interests of the firm’s stockholders.

In short, stakeholder approach grounded in ethical theories presents a different perspective on CSR, in which ethics is central.

(vii) Universal Rights

Human rights have been taken as a basis for CSR, especially in the global market place. In recent years, some human rights based approaches for corporate responsibility have been proposed. One of them is the UN Global Compact, which includes nine principles in the areas of human rights, labour and the environment. It was first presented by the United Nations Secretary- General Kofi Annan in an address to The World Economic Forum in 1999. In 2000 the Global Compact’s operational phase was launched at UN Headquarters in New York. Many companies have since adopted it. Another, principle

is” The Global Sullivan Principles”, which has the objective of supporting economic, social and political justice by companies where they do business.\textsuperscript{58} The certification SA8000 for accreditation of social responsibility is also based on human and labor rights and all of them are based on the Universal Declaration of Human Rights adopted by the United Nations General Assembly in 1948 and on other international declarations of human rights, labour rights and environmental protection.

**(viii) Sustainable Development**

Another values-based concept is “sustainable development”. The term came into widespread use in 1987, when the World Commission on Environment and Development (United Nations) published a report known as “Brutland Report”. This report stated that “sustainable development” seeks to meet the needs of the present without compromising the ability to meet the future generation to meet their own needs”.\textsuperscript{59} Although this report originally only included the environmental factor, the concept of “sustainable development” has since expanded to include the consideration of the social dimension as being inseparable from development. In the words of the World Business Council for Sustainable Development - “sustainable development requires the integration of social, environmental, and economic considerations to make balanced judgments for the long term”.\textsuperscript{60}

Numerous definitions have been proposed for sustainable development and analysis of the main definitions suggests that sustainable development is “a process of achieving human

\textsuperscript{58} The Global Sullivan Principles, 1999: (globalsullivanprinciples.org)
\textsuperscript{60} World Business Council for Sustainable Development, 2000, P. 2
development in an inclusive, connected, equiparable, prudent and secure manner.”

(ix) The Common Good Approach

This approach is less consolidated than the stakeholder approach but with potential, holds the common good of society as the referential value for CSR. This approach maintains that business, as with any other social group or individual in society, has to contribute to the common good, because it is a part of society. Business should be neither harmful nor a parasite on society, but purely a positive contributor to the well-being of the society.

Business contributes to the common good in different ways, such as creating wealth, providing goods and services in an efficient and fair way, at the same time respecting the dignity and the inalienable and fundamental rights of the individual. Furthermore, it contributes to social well-being and a harmonic way of living together in just, peaceful and friendly conditions, both in the present and in the future (Mele, 2002).

1.6 Framework of CSR (The Pyramid of Corporate Social Responsibility)

Carroll while summarizing scope of Corporate Social Responsibility presented the complete framework of CSR in the form of a pyramid of Corporate Social Responsibility. For CSR to be accepted by a conscientious business person, it should be

framed in such a way that the entire ranges of business responsibilities are embraced. It is suggested here that four kinds of social responsibilities constitute total CSR i.e. economic, legal, ethical and philanthropic. Each of these four categories deserves closer consideration.

(a) Economic Responsibilities

Historically, business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. At some point the idea of the profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations.

(b) Legal Responsibilities

Society has not only sanctioned business to operate according to the profit motive; at the same time business is expected to comply with the laws and regulations promulgated by federal, state, and local governments as the ground rules under which business must operate. As a partial fulfillment of the “social contract” between business and society, firms are expected to pursue their economic missions within the framework of the law. Legal responsibilities reflect a view of “codified ethics” in the sense that they embody basic notions of fair operations as established by our lawmakers. They are depicted as the next layer on the pyramid to portray their historical
development, but they are appropriately seen as coexisting with economic responsibilities as fundamental precepts of the free enterprise system.

(c) Ethical Responsibilities

Although economic and legal responsibilities embody ethical norms about fairness and justice, ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law. Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders’ moral rights.

The business ethics movement of the past decades has firmly established an ethical responsibility as a legitimate CSR component. Though it is depicted as the next layer of the CSR pyramid, it must be constantly recognized that it is in dynamic interplay with the legal responsibility category. That is, it is constantly pushing the legal responsibility category to broaden or expand while at the same time placing ever higher expectations on business persons to operate at levels above that required by law.

(d) Philanthropic Responsibilities

Philanthropy encompasses those corporate actions that are in response to society’s expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill. Examples of philanthropy include business contributions of financial resources
or executive time, such as contributions to the arts, education, or the community. A loaned executive program that provides leadership for a community’s United Way campaign is one illustration of philanthropy.

The distinguishing feature between philanthropic and ethical responsibilities is that the former are not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities, and employee time to humanitarian programs or purposes, but they do not regard the firms as unethical if they do not provide the desired level. Therefore, philanthropy is more discretionary or voluntary on the part of businesses even though there is always the societal expectation that businesses provide it.

One notable reason for making the distinction between philanthropic and ethical responsibilities is that some firms feel they are being socially responsible if they are just good citizens in the community.

The pyramid of corporate social responsibility portrays the four components of CSR, beginning with the basic building block notion that is economic performance of a company. At the same time, business is expected to obey the law because the law codifies the acceptable and unacceptable behavior in the society. Next is business’s responsibility to be ethical. At its most fundamental level, this is the obligation to do what is right, just, and fair, and to avoid or minimize harm to stakeholders (employees, consumers, the environment, and others). Finally, business is expected to be a good corporate citizen. This is captured in the philanthropic responsibility wherein business is expected to contribute financial and human resources to the
community and to improve the quality of life.

In summary, the total corporate social responsibility of business entails the simultaneous fulfillment of the firm’s economic, legal, ethical, and philanthropic responsibilities. Stated in more pragmatic and managerial terms, the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen.

![Pyramid of Corporate Social Responsibility](image)

**Figure 1.2 Pyramid corporate social responsibility**
Source: Adapted from Carroll (1991)

Through this analysis of literature in respect of various approaches, theories it is amply clear that the scope of CSR includes economic, legal, ethical & philanthropic responsibility and all those aspects which relate to both business & society at the same time & in respect of same activity. Most of the thinker support wide view on CSR and support Stakeholder approach.

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1.7 Rational for the Concept of CSR Practices

An English poet John Donne\textsuperscript{65} says: “No man is an island, entire of itself; every man is a piece of the continent, a part of the main;\ldots\ldots.; any man’s death diminishes me, because I am involved in mankind; and therefore never send to know for whom the bell tolls; it tolls for thee”. These meaningful words suggest that an individual is an integral part of society in which he is born, moves and has his being. His existence cannot be imagined beyond society or outside society. Being an inseparable part of the society he owes something to society, for it is the society which provides him with opportunities to develop and flourish. It is imperative, therefore, for him to act in such a way that the good of society is ensured, besides his own good. It must be an earnest endeavor of every individual to make himself as useful to the society as possible. It is the only way for self-realization, for self-refinement and self-regeneration. Humanity will sing praises only for those who have earnestly endeavored to make themselves useful to it. They are the precious gems who glow lights each and every corner of the society. Similarly, corporate are also part of this wider social set up and can’t survive and progress in isolation. They are formed by the elements of society, for the society and being run by the elements of this society itself. There are numerous factors which lay emphasis on the fact that the corporate should be socially responsible because each and every activity of corporate affects some or other part of society in some or other way. In subsequent paragraphs we can gauge few of the justifications or rational of CSR.

\textsuperscript{65} John Donne (1572 – 31 March 1631) was a Jacobean metaphysical poet. His works include sonnets, love poetry, religious poems, Latin translations, epigrams, elegies, songs, and sermons.
1.7.1 Nature of Company and its Relationship with Society

The most commonly used term for a business enterprise is the word Company. Company can be defined as an association of persons coming together voluntarily to pursue a certain economic activity with the motive to make profit. ‘Like any juristic person, a company is legally an entity apart from its members, capable of rights and duties of its own, and endowed with the potential of perpetual succession’ (Hahlo and Trebilock 1977). This legal character gives the company a separate personality as recognized in Salomon v A Salomon and Co Ltd:66 In this case while determining the nature of corporate personality Lord Halsbury LC stated:

“... it seems to me impossible to dispute that once the company is legally incorporated it must be treated like any other independent person with its rights and liabilities appropriate to itself, and that the motives of those who took part in the promotion of the company are absolutely irrelevant in discussing what those rights and liabilities are.” From this case comes the fundamental concept that a company has a legal personality or identity separate from its members. A company is thus a legal ‘person'. This aspect is settled world over and law also recognizes this. The relationship between Company and Corporate Social Responsibility has been explained by the Judiciary in the case of R. v Dudley & Stephens 67 as under:

This case actually leads us to the debate of legality Vs morality. In my opinion, this case is more of morality as no one should eat, kill or exploit other for its own survival. According to

66 (1897) AC 22
67 (1884) 14 QBD 273 DC.
the law of survival, the people involved in the case were might be right but morally, they were wrong. We should not kill other people just to save our own life. This case can significantly be related to the corporate world. In order to become social responsible organization, the company first identifies its own role, values and mission. It focuses on its own economic, societal and environmental objectives. Social responsible organization takes care of the interest of every other party who is directly or indirectly related to it. Today, the companies are more concerned about how they can improve their image and credibility in the eyes of the customers as well as of public. Even if maximizing the shareholders' interest is the main purpose of the business, it cannot ignore the other stakeholders' interests. Businesses / companies are equally responsible for shareholders as well as stakeholders values. They maximize shareholders' profit and at the same time they are responsible to provide environmental friendly value added product and services to consumers while respecting their social and cultural values. They continuously research in order to innovate and design efficient new products keeping the environment clean and product prices reasonable so that it can be accessible to the common man.

Also when we talk about corporate social responsibility, we are actually talking about morality. Many organizations are undertaking activities which are legally acceptable but from moral perspective, they are doing wrong. So we cannot say that these are socially responsible organization. As a part of under developed country, I know that many people, in developing countries, are the victim of air and water pollution caused by various companies. These companies are causing pollution by discharging their toxic smoke directly in the air without filtering
it and drain chemical waste into rivers and canals, thus making the drinking water and air contaminated with toxic substance. These companies are making million of dollars but are not willing to invest in safe plants to control air and water pollution. They are expanding at the expense of public health. I always think that why don't these companies consider any responsibility towards the environment and the general public?

We can also take the example of corn producing companies in some countries like Brazil which are making huge profits from selling corn to bio-fuel producing companies. These companies are, no doubt, technologically advanced but in no way socially responsible. The corn producers are actually creating scarcity of corn in the local and international market, leading towards the higher prices for corn. All these activities hit the monthly budget of a common man while the wage rate still remains the same. So the question arises that whether the company should grow at the expense of others? Should it consider only its own benefit regardless the interest of others? Should they indulge in any activity that is harmful to any of the stakeholders as well as the environment just for their own benefit? Based on these arguments, we conclude that concept of social responsibility does not go with the law of survival. Rather companies should develop and implement business strategies that maximize the benefit of all other related parties.\(^6\)

1.7.2 Jurisprudential base for Validating the Concept of Socially Responsible Business

The nature of relationship of company with the society is explained nicely by the thinker of sociological school of law in jurisprudence. According to Ehrlich ‘At present as well as at any

\(^6\) http://www.lawteacher.net/company-law/cases/social-responsibility.
other time, the centre of gravity of legal development lies not in legislation, nor in juristic scene, nor in judicial decision, but in society itself. This sentence perhaps contains the substance of every attempt to state the fundamental principles of the sociology of law.\(^69\) Further Prof. Leon Duguit laid down the principle of ‘Social Solidarity’ which means that the outstanding fact of society is the interdependence of the people. Social interdependence is not a theory or a conjecture but a fact. It is an all important fact of human life. All human activity and organization should be directed to the end of ensuring the harmonious working of man with man. Duguit calls it the principle of “Social Solidarity”.\(^70\) This means that business which is a legal entity and society both are interdependent and both should work together in such a manner that their activities/actions should have the orientation of making the societal atmosphere conducive for one and all and this aspect of the theory demands CSR practices on the part of corporate. The theory of Parsons which says that ‘The major function of the legal system is as integrative’. It serves to mitigate potential elements of conflict and to oil the machinery of social intercourse.” Now when we analyze this statement we find that Laws or regulations are required to facilitate the interface between the society and corporate and it also says that if the relationship is regulated then it will smoothen them and the smoothness will ultimately make the interdependence more fruitful and the relationship even more stronger. On the other hand Roscoe Pound has propounded the theory of social

engineering and the aim of which is to build as efficient a structure of society as possible which requires the satisfaction of the maximum wants with the minimum of friction and waste. It involves the balancing of competing interest. For that purpose, interests were defined by Pound as claims or wants or desires or expectations which men assert de facto, about which law must do something if organized societies are to endure.\textsuperscript{71} And as we have concluded that corporate entity is a social institution therefore we can apply the theory of social engineering in respect of its nature of relationship of corporate with society and accordingly if the corporate entity wants to become and remain an efficient structure of the society i.e. wants to remain profitable and sustainable for a long time then the corporate will have to ensure such kind of activities and behavior which is aimed at to fulfilling the reasonable and legitimate wants of the maximum i.e. the majority of stakeholder let it be internal or external or both, then only the corporate can claim to achieve the satisfaction of maximum and these activities are the part of broad CSR framework. So the first question of what kind of activity should be undertaken is answered and the answer is the behavior/activity which fulfills the legitimate wants of all the stakeholders. The next question which arises is what actions may form part of this behavior and activity and the answer is again there in the concept of social engineering and that is those actions which result in balancing of competing interest. This aspect of social engineering is completely applicable on CSR aspect because firstly there may be conflict of interest between external and internal stakeholder but if the entity wants to achieve the satisfaction of the maximum

\textsuperscript{71} V.D. Mahajan, Jurisprudence and legal theory, Eastern Book Company, 2011, P. 547.
then it will have to balance the interest of all the stakeholders. In CSR framework nature of interest vary with the category of stakeholder as for investor/shareholder the security of his investment, lawful and prudent application of his resources and profit maximization are generally the major interests, whereas for regulators legal and ethical compliance along with generation of employment, production and revenue are the interests. Similarly for external stakeholders like communities and regulators the welfare of society by contribution towards social development, ethical behavior and environment protection & restoration are major interests. So the next question is that, what corporate will get by undertaking these activities or behavior, the answer we already have i.e. fulfillment of various interest of different-stakeholders which will ultimately result in higher satisfaction level of various stakeholders and this satisfaction level will result in minimizing of conflict & friction. But it may not be possible to look after the interest of each and every stakeholder at the same time and therefore balancing of interest of various stakeholders are needed to avoid discontent and maintain harmonious environment which is must for survival and sustenance. The interest as defined by Pound in the nature of claims or wants or desires or expectations which men assert de-facto, can be termed as factors forming basis of CSR framework. Now at the end Pound puts emphasis on the fact that if the society is to endure then the law should ensure protection of interest. This statement is the answer of the question that how we can ensure the protection of the interest and the answer is by law i.e. by having legislative & regulatory framework. This aspect of social engineering necessitates the regulation of all aspects of
CSR including philanthropic, by suitable legislation so as to ensure protection of interest of the entire stakeholders.

Now since it is very clear by nomenclature, nature of personality and kind of relationship between company and society there is need to regulate the relationship so as to ensure mutual beneficial coexistence of corporate and society to remain sustainable. When we consider the comprehensive definition of CSR which includes economic, legal, ethical and philanthropic responsibility, we find that the economical responsibility aspect is well regulated by various statutes. The legal responsibility aspect which forces corporate to abide by certain regulation is also well regulated by the relevant legislative provisions concerning corporate activity.

But when we move on to ethical and philanthropic responsibility we find that there is no legislative provision which ensures discharge of these duties by the corporate. It has been left and regulated and depends upon the voluntary activities of the corporate. However over a period of time a need had been felt to regulate all the aspects of CSR. Even though these regulations may amount to contradict the policy of liberalization and prima facie may appear intervention by the State but State is justified on the basis of concept of ‘Salus Populi Est Superema Lex’ which means that the welfare of the people or the public is the paramount law and also on the maxim that ‘Necessita Public Major Est Quam’ which means public necessity is greater than private and these two legal concepts proved that societal interest are of greater value than that of individuals (Corporate). So,

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after analyzing the various definition of CSR, relationship of corporate with society and jurisprudential basis of corporate social relationship, it is logical to say that all the aspects of the CSR should be regulated, so that the societies interest is protected all the time whether it is by way of protecting the interest of various stakeholders in society from excess corporate behavior or by way of ensuring sharing of benefits of corporate activities by society. Now in this background the researcher envisages on analysis of the exiting legal provisions which regulate any aspect of CSR along with those constitutional provisions which support the regulation of socially responsible behavior of corporate. The various judicial pronouncements also envisaged the jurisprudential aspects of CSR and its importance in social welfare and development and also held the importance of role of corporate in maintaining social order, social cooperation and social investments for overall development of society at large.

1.7.3 Enlightened Self-Interest

Enlightened Self-Interest argument postulates that the business community as a whole will benefit from socially responsible behavior. This argument can be extended in all direction showing that a better society produces a better environment for business”.

1.7.4 Sound Investment Theory

The argument that social responsibility is a sound investment has been developed most fully and literally by Edward

Bowman of MIT. He proposes the hypothesis that through the effect of a “neo-invisible hand,” the market price of a company’s stock is affected by its social behavior. He attacks two “myths” in his paper that “Corporate Social Responsibility is dependent on either the ‘noblesse oblige’ of the manager or the laws of the government,” and that “Corporate Social Responsibility is in fundamental conflict with investor interests”. Sometimes a company must pay directly for behavior perceived as irresponsible; Bowman cites the case of the Dutch firm struck by unions all over Europe because of the disruptive local effects of shutting down one plant.

To support this case, Bowman argues that many institutional investors view firms that are not socially responsible as riskier investments; also those churches, universities, and the like, as well as the “clean” mutual funds, by paying attention to corporate social behavior, influence the market for a corporation’s stock. Furthermore, to the extent that investment portfolios are diversified, actions by individual corporations, which benefit the corporate sector as a whole for example, by improving the environment also benefit the individual investor.

1.7.5 CSR Essential for Inclusive development.

The question what should be the goal of development’ has puzzled policy makers and thinkers for generations, yet still not provided a square answer. The old way of looking at development as the immediate concern with accumulating commodities and financial wealth is not at all dead. For the bulk of the human

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74 "Noblesse oblige" is generally used to imply that with wealth, power, and prestige come responsibilities. The phrase is sometimes used derisively, in the sense of condescending or hypocritical social responsibility.

history, money bags, productive industries and material affluence have been regarded as symbols of good life and development. But what is the true wealth of nations? Are GDP figures, rising incomes and expanding productions the only tools to measure development?’ asked Mr. Khalid Malik, Resident Co-coordinator and UNDP\textsuperscript{76} Resident Representative in China at the launch of the China Human Development Report (CHDR) in December 2005.

China has succeeded in lifting 250 million people out of poverty over the past 25 years. However, during the same period, inequalities have doubled. A person living in a city earns, on an average, USD 1,000 a year, as compared to just over USD 300 earned by one living in the countryside. An urban citizen can also expect to live over five years longer than a farmer in China.\textsuperscript{77}

The situation is not very different in India either. Nowhere in the world does one see a paradox as immense as in India, wherein agriculture contributes nearly 20 per cent of our GDP, but supports two-third of our population. The gap between the rich and the poor has widened during the last 50 years, thereby greatly endangering the country’s social, economic and political stability. More than 50% of people earn less than Rs.30 per day. The primary medium-term policy challenge for India is not to raise growth from 8 per cent to 10 per cent but to sustain rapid growth while extending this growth and its benefits to more regions, sectors and people. These facts are not new, this finding were given in \textit{The India Development Policy Review, 2006.}

\textsuperscript{76} The United Nations Development Programme (UNDP) is the United Nations’ global development network. It advocates for change and connects countries to knowledge, experience and resources to help people build a better life. UNDP operates in 177 countries, working with nations on their own solutions to global and national development challenges.

\textsuperscript{77} World Bank report titled ‘Inclusive Growth and Service Delivery: Building on India’s Success’, 2007.
The findings of this report were starkly highlighted in a newspaper report which juxtaposed two contrasting pictures against each other - one of people riding on escalators in an air-conditioned shopping mall, and the second being of an aged farmer, sitting in his dried, cracked-up field looking at the sky in anticipation of rains. After going through all this following points emerge and they are:

1.7.5.1 Growth in Capitalist Economy is not inclusive and gap between Rich and Poor is continuously widening

Capitalism driven by individuals greed and aspiration act only in that manner which give advantage to the rich who control capital and whereas profits of owner and salary of higher executives is increasing manifold, on the other side the salary of lower employees is not increasing in same manner. Employment opportunities are not increasing with growth. Director General of International Labour Organization Jhon Somaria has categorically mentioned that economic development has not resulted in employment generation. This is basically because of profit maximization and exploitation of employees. But poverty can not be removed without employment generation.78

In capitalist form of economy and stock market culture the divide between the rich and poor has increased manifold. Rich are becoming richer and poor are becoming poorer. High growth has not resulted in inclusive development. Multinational corporate operating in poor countries are exploiting their natural resources with adequately compensating people of those nations. These corporations empowered with money power, connive with

78 The Hindu Dec 8, 2011.
people in power to acquire land of locals, oust them without caring for other rehabilitation and employment. These displaced poor land owner, tribal etc, resort to violence as last resort to earn their livelihood. This situation gives rise to violent movements like naxalism as prevalent in India. Such irresponsible failure of governance result in widening gap between rich and poor, which in turn result is disturbance of peace, which again is essential for economic development.

These factors may lead to social, political and economic unrest which is not in the interest of society at large.

So there is need to create a situation wherein jobs move to the people and the already evident dynamic of outward migration of people to jobs can be reversed. For jobs to move to the people, the state and the business will have to create an attractive destination for investment. We need to shift the measure of success of any rural development programme to the retention of educated youth in villages. During the last several years, the uneducated poor, not the educated rural- urban migrant, has always been our priority in rural development. We make no provision for the educated to stay in villages or smaller towns and instead force them to move to metros, thereby generating a further demand for resources to construct more local train networks, flyovers, and so on. Research has shown that the fruits of economic development fall where educated people live and not where they work. The corporate sector needs to understand that it is much cheaper to provide for the lifestyle desired by the educated in rural areas than in urban areas. A blend of willpower and appropriate government policies can help de-concentrate economic activities from the metros to smaller towns. In the era
of fast and cheap electronic modes of communication, this move will only help increase all-round efficiency. Former President of India, Dr A.P.J. Abdul Kalam, who is also a great Scientist and visionary, has rightly identified Providing Urban Amenities in Rural Areas (PURA)\(^79\) as a solution to the problem of large-scale migration from the rural to urban areas. Reflecting the creative imagination of Dr Kalam, this project, known as the India-2020 vision, envisages the establishment of integrated connectivity to rural India in terms of providing basic infrastructure in far-flung areas.\(^80\)

‘The need of the day is to ensure that we take the less fortunate Indians along with us. It is not sufficient if India is everywhere outside India, it has to be everywhere within India,’ says Mr. N.R. Narayana Murthy, Chief Mentor, Infosys.\(^81\)

1.7.5.2 Growing Numbers, Size, Capacity and Influence of Corporates as a Result of Liberalisation and Globalisation

Now most of us live in a highly corporatised world. From where we work, to where and how we shop, to how we eat, play, exercise or relax and even increasingly to how we are educated, made healthy, or eventually buried or cremated much of our life revolves around interactions with private corporations.

\(^79\) Provision of Urban Amenities in Rural Areas (PURA) was a Central Sector scheme re-launched by Ministry of Rural Development (MoRD), Government of India during remaining period of the XI Plan with support from Department of Economic Affairs and the technical assistance of Asian Development Bank. MoRD is implementing the PURA scheme under a Public Private Partnership (PPP) framework between Gram Panchayat(s) and private sector partners with active support of the state governments. The scheme envisages twinning of rural infrastructure development and management with economic re-generation activities and is the first attempt at delivering a basket of infrastructure and amenities through PPP in the rural areas. It is an effort to provide a different framework for the implementation of rural infrastructure development schemes and harness private sector efficiencies in the management of assets and delivery of services. This would perhaps be the first such attempt at PPP in integrated rural infrastructure development and management in the world.


Corporations are growing both in terms of numbers and size. In India also there has been continuous growth in the number and size of corporate. In 1954 the number of private industries was 30,000 but now in 2012 it has crossed the figure of 900000 and they are continuously increasing. Similarly, many corporate entities have grown enormously and have gone on to become MNCs and operate in many countries at the same time. These corporates have annual turnover higher than the annual outlays of many countries. With growing influence of capitalism and Globalization the size of corporate/companies has increased manifold. There are many companies in the world whose annual sales are more than the Gross National Products (GNPs)\textsuperscript{82} of many countries. According to a news paper analysis, the total annual revenue receipt of the retail chain, Wal-Mart, is greater than the economies of all but 30 of the world’s nations. In India too, there is a growing number of companies in the private sector, whose revenue receipt are much more than Rs 10,000 crore, led by Reliance Industries Limited (RIL), which has crossed the figure of appx. 100000 crore. The level of these receipts is than the annual receipt of many of smaller states. These companies utilizing large part of natural resources, the price of which is paid in the form of sacrifices by different sections of society. On the other hand, governments are redefining their roles and are limiting themselves to governance and facilitation. This development is sometime dubbed as symbolizing a shift from

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\textsuperscript{82} GNP is the total value of all final goods and services produced within a nation in a particular year, plus income earned by its citizens (including income of those located abroad), minus income of non-residents located in that country. GNP measures the value of goods and services that the country's citizens produced regardless of their location. GNP is one measure of the economic condition of a country, under the assumption that a higher GNP leads to a higher quality of living, all other things being equal.
state-centered polity to market-centered polity. Even in a wholly globalised and integrated world with a borderless economy, states have a role to play.

People in democratic societies expect the government to fulfill their needs. In the new, envisaged scenario, the private sector would increase its role in the economy, while the government would take care of services such as basic education, public health and basic medical care. As success brings with it responsibility, the growing size and clout of corporate houses has led to growing need for regulations. The reason why CSR has assumed so much importance today is because corporate houses intervene in so many areas of social life, they must be responsible towards society and environment.

These corporates with their financial power have very great influence on policy making and implementation. Such entities influence each and every aspect in their vicinity or connected/related to them in any way. For running these corporate entities, the effective/efficient management is sine qua non. Management is nothing but Optimum Utilization of resources for achieving organizational goal. At ground level, resources include land, labour, and capital and their productive utilization needs the consideration of economic, social, and environmental costs. At the higher end, the resources include information, knowledge, and wisdom, which again require proper application. Therefore the process of business requires interaction with a number of entities who become the stakeholders and the performance of business depends to a great extent on the kind of relationship corporate entity enjoys with its stakeholders.

Corporates with their wider reach, technological
competence, professionalism, innovation and resources have the ability to influence the pace of growth and development. In recent survey by Tata Research Institute (TERI), it was found that the public expects from corporate and business sector to play a wider and more expansive societal role. In addition to providing good quality products at reasonable prices, companies should strive to make their operations environmentally sound, adhere to high labour standards, reduce human right abuse and mitigate poverty.

Understandably, this raises all sorts of questions about the nature of social responsibility of the corporations in the contemporary society. Are they living up to their responsibilities as one of the most powerful institutions on the planet? Are they diverting too much attention away from their core responsibility of creating economic value through the efficient production of goods and services? Can they be trusted to exercise their power in a responsible manner or is more control of corporations is necessary? How can they effectively determine their responsibilities and implement them on the ground?

Therefore, a statement of intent generating wealth in a manner that is socially and environmentally sustainable must be common goal of domestic and international business. In this age of open world economy, brand reputation, repositioning of government activities and privatization, it is increasingly important to do business ethically, morally and with concern for the society. Therefore, in recent years, CSR has become a fundamental business practice and has gained much attention from Chief Executives, Chairmen, Boards of Directors and Executive Management teams of larger international companies.
Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities.

In recent years, the business case for CSR has been gaining ground, evolving around two ideas that what is good for the environment, the worker and the community is also good for the financial performance of the business. It is often described as ‘Performance with a purpose. CSR is closely linked with the principles of sustainable development, according to which companies should be obliged to make decisions based not only on financial/economic factors but also on the social, environmental and other consequence of their activities. Triple bottom line\(^3\) takes in its fold the following three parameters to gauge business performance, i.e.:

(a) Economic;
(b) Environmental; and
(c) Social factors

1.7.5.3 Resource ownership and Utilization

At ground level, resources include land, labour, air, water and capital. The ownership of natural resources primarily rests with society at large. Labour and Capital are owned by respective owners who have economic interest in the activity. Therefore the productive utilization of these resources needs the consideration

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\(^3\) The concept of TBL demands that a company's responsibility lies with stakeholders rather than shareholders. In this case, "stakeholders" refers to anyone who is influenced, either directly or indirectly, by the actions of the firm. According to the stakeholder theory, the business entity should be used as a vehicle for coordinating stakeholder interests, instead of maximizing shareholder (owner) profit.
of economic, social and environmental costs.

At the higher end, the resources include information, knowledge and wisdom which require proper application. Therefore the process of business requires interaction with a number of entities who become the stakeholder. In simple terms stakeholders can be defined as individuals or groups who either get advantage or all disadvantage by corporate decision or action. The most important stakeholders are explained in the figure given below:

![Figure 1.3: The nature of relationship of stakeholders with firm](source)


According to above stakeholder model “all persons or groups with legitimate interests participating in enterprises do so to obtain benefits and there is no prima facie priority of one set of interests and benefits over another. Therefore, the arrows between the firm and its stakeholders constituents run in both directions.”

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84 Dr. Constantina Bichta, “Corporate Social Responsibility: A Role in Government Policy and Regulation, Research Report 16, School of Management, University of Bath, P. 27.
Wheelar and Sillanpaa (1997) have classified the various stakeholders by dividing them into four categories and they are

(a) Primary social stakeholders
(b) Secondary social stakeholders
(c) Primary non-social stakeholders
(d) Secondary non-social stakeholders

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<th>Primary social stakeholders include</th>
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<td>(i) Investors</td>
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<td>(ii) Employees including managers</td>
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<td>(iii) Local communities</td>
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<td>(iv) Suppliers</td>
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<td>(v) Other business partners</td>
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<th>Secondary social stakeholders</th>
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<td>(i) Government and Regulators.</td>
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<td>(ii) Civic Institutions</td>
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<td>(iii) Social Pressure groups</td>
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<td>(iv) Media and Academics commentators</td>
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<td>(v) Trade Bodies</td>
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<td>(vi) Competitors</td>
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<th>Primary non-social stakeholders</th>
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<tr>
<td>(i) Natural Environment</td>
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<td>(ii) Future Generations</td>
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<td>(iii) Non-Human species.</td>
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<th>Secondary non-social stakeholders</th>
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<tr>
<td>(i) Environment pressure groups</td>
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<td>(ii) Animal welfare organizations</td>
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Now it is expected from corporates to have responsible corporate behaviour on all these aspects and towards all stakeholders. But over a period of time it has been observed that as a result of ever increasing greed there is continuous decline in corporate behaviour and corporate managers are behaving in an irresponsible manner and acting negligently towards their stakeholders. There are numerous instances in recent past which clearly prove that they have violated ethics, norms and laws on various aspects of Economics, Environmental protections and social factors.

**1.7.5.4 Adoption of CSR Practice is Must to Check Irresponsible Behaviour by Corporates**

Instances of irresponsible behaviour & scant regard for public at large can be gauged through following instances of irresponsible behaviour.

**Bhopal Gas Tragedy case**

‘Corporate social responsibility’ is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large’. In the case of Union Carbide, at the outset the company denied that the gas had leaked from their unit though later they admitted that the gas leaked from their unit but took a stand that they were not at fault. The Corporation believes that the accident was the result of sabotage, stating that safety systems were in place and operative.

Twenty Six years after the tragedy, large amounts of toxic

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85 Union Carbide Corporation & Ors vs. Union of India and Ors, AIR 1992, 248.
material lying around the Union Carbide site continues to pollute the soil and water irreversibly and affects thousands residents of Bhopal who depend on it. In 2001, the US-based gigantic Dow Chemicals acquired Union Carbide, thereby acquiring its assets and liabilities. Dow maintains that being a USA company it is not subject to Government of India jurisdiction. Normally Dow Chemicals has the legal liability to clean up the Bhopal gas leak site on account of its acquisition of UCC on the basis that the polluters should pay. But the legal battle is still on to decide if the deal between the two companies has specified Dow owning all liabilities except those on account of Bhopal disaster. The Dow Chemical Company, with annual sales of $28 billion, says in its web site: it is “committed to the principles of Sustainable Development and its approximately 50,000 employees seek to balance economic, environmental and social responsibilities.” However, it has been steadfastly refusing to clean up the site, provide safe drinking water or compensate the victims, or even disclose the composition of the gas leak, Dow like UCIL earlier claims that it has no liability of the past. Corporate Social Responsibility (CSR) or ‘sustainability’ is not just obeying the law. It is not philanthropy. It is much beyond that. It implies serious business where organizations have to be seen as partners in their communities and not just as profit centers, promoting the interest of their shareholders but as businesses having obligation towards various stakeholders.

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(a) **Rising Corporate Scandals**

In such scandals, truth seemed too easily sacrificed to expediency and to the need, as the companies saw it to reassure the markets that profit were on target. John may, a stake analyst for a U.S. investor service, pointed out that the performa earning announcement by the top 100 NASDAQ companies in the first nine months of 2001 overstated actual audited profit by $100 billion.\(^8^7\) Even the audited accounts, it now seems, often made things appear better than they really were. (As was done in Satyam’s case\(^8^8\))

(b) **Loss of credibility due to irresponsible behavior of executive**

The people’s trust in business, and those who lead it, is cracking. Many people now believe that executive no longer run their companies for the benefit of consumers, or even of their shareholders and employees but for their personal ambitions and financial gain. A Gallup pole conducted in year 2002 found that 9% of American felt that people running corporations could not be trusted to look after the interests of their employees and only 18% thought that corporation looked after their shareholder a great deal. 43% believed that senior executives were only in it for themselves. In Britain 95% believed that senior executives looked after their own welfare, not of their stake holders. Personal greed, insufficient scrutiny of corporate affairs, an insensitivity or an in difference to public opinion led to many scandals in corporate world.

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88 The Satyam Computer Services scandal was a corporate scandal that occurred in India in 2009 where Chairman Ramalinga Raju confessed that the company's accounts had been falsified. The Global corporate community was shocked and scandalized when the Chairman of Satyam, Mr. Ramalinga Raju resigned on 7 January 2009 and confessed that he had manipulated the accounts by $1.47-Billion.
All these activities shattered the faith of investors who were or rather are the back bone of any corporate entity. This situation coupled with widespread corporate corruption has created the danger of failure of current economic system.

(c) Fascination with Share Price (whether real or inflated)

In current Anglo-American version of stock market capitalism, the criterion of success is shareholder value, as expressed by a company’s share price. There are many ways of productivity and long term profitability is only one.

Cutting or postponing expenditure that is geared to the future rather than the present will increase profit immediately even if it imperils them over long term. It is a far quicker way to boost your balance sheet and share price of shares than relying on organic growth of the company. Due to this obsession with share price is an inevitable shorting of horizons. Companies are mortgaging their future for a higher stock price. Stock option of salary is also responsible for this obsession.

(d) Unfair Salary Structure/Discipline in Payment

The corporate entities world over are not honest in disbursement of salary, there are numerous examples, where it has came to the notice that there is huge disparity in respect of salary structure of various categories of employee. The salary/incentives of higher executives are very high and are extremely low of lower categories of employee. The stock option of salary has become favorite pattern of payment to executives. In 1980 only about 2% of executive pay in the United States was tied to stock options, it is now expected to more than 60% this trend is also followed by in Europe. By this method of salary
payment executives never suffer loss. The stock option seems like just another way of allowing executives to steal from their companies and their shareholders.

1.7.5.5 CSR Must for Sustainable Development because of following reasons

(a) Corporate activities result in environmental degradation:

Rapid industrialization has given rise to environment concern. Ever increasing environment pollution has given rise to problem like climate change and global warming which are threatening the existence of the planet earth itself. Therefore sometimes questions are asked, such as development for whom.

The increasing pollution, emission of green house gases is resulting in depletion of ozone layer and all this is resulting in global warming is a great threat to the existence of the planet earth. A lot of research work is going on in this field to ascertain the ill effect of pollution. The outcomes of few of them are mentioned in forthcoming paras as following:

In the past 100 years, the world economy expended seven fold, the global population increased from 1.6 billion to 6.5 billion and the world lost half of its tropical forests. Consequently, atmospheric carbon dioxide levels are now 385 parts per million (PPM) and further rising very fast. This is close to the 450 PPM threshold beyond which it may be impossible to achieve the Cancun-agreed goal of limiting global temperature rise to 2°Celsius. The pollution at present level itself is causing many problems. Natural disaster that too related to hydro-meteorological even, not the geological ones has shot up, clearly indicating the ominous link to global warming. The economic
costs, including the losses caused by air pollution, water contamination and solid wastes as well as deforestation are estimated to amount to some three percent of GNP in China as well as India, Argentina, Turkey and elsewhere. Strikingly, prevention is often far cheaper than cure—whether it is curbing industrial pollution, checking deforestation or reinforcing structure in disaster prone areas. The effect of global warming can be measured from a report originally published by Guardian Newspapers Limited in 2011, reproduced by The Hindu in October 12, 2011 about the Growing Danger Zones in the Himalayas which explains that mountain regions from Andes to the Himalayas are warming faster than the global average under climate change. Ice turns to water; glaciers are slowly reduced to lakes. 89

We can gauge the devastating effect of pollution as brought to the notice by the Earth Summit held by UN in 1986 that ‘Each year, as many as 50,000 species become extinct, up to 17 million hectares of forest on area roughly the size of Saudi Arabia, disappear. More than 8.2 billions of carbon dioxide was dumped into atmosphere. Due to the effect of environmental pollution, people are suffering and dying from environmental induced disease. All the holy rivers are polluted and there is crisis of fresh water, in few areas natural disaster are on rise, weather pattern are changing because ultimately climate is changing against the order of nature.’ 90

In view of details provided above, we can conclude that there is urgent need to arrest this trend of ever increasing

89 The Hindu October 12, 2011.
90 P.M. Bakshi, Public Interest Litigation, Ashok Law House, 2005, P. 269.
pollution, because this kind of development is neither inclusive nor sustainable. The rapid industrialization, utter disregard for environmental protection reflects the highly irresponsible behavior of corporate and if the situation continues like this than the doomsday is not far away. Therefore there is urgent need that corporate should have responsible behavior.

1.7.6 Benefits of Corporate Social Responsibility

The concept of CSR is qualitatively different from the traditional concept of philanthropy. Traditional corporate philanthropy dates back to the nineteenth century and emerged from factors such as concern for the welfare of the immediate members of the corporate body including employees and their families, a desire among entrepreneurs to be a part of society and to establish a strategic relationship with the government and, more particularly, local administration, and above all, the aspiration to create several Trusts and similar bodies to hold and cross-hold the owners’ holdings in the enterprise, which incidentally would do some charitable works as a face for the public. The concept has changed a lot since then and with various developments such as the liberalisation of the economy during the last decade, lowering of tax rates and the intention of the government to make the things straight by undoing cross subsidies, introducing systems of automatic approvals and reducing regulatory intervention, corporate houses do not see any incentive in working with self-created multiple agencies. The question which thus arises is as to how CSR expenses can benefit corporate houses in ways other than by increasing visibility.  

The KPMG International Survey of Corporate Responsibility Reporting, 2005,\(^{92}\) has identified the following drivers of corporate responsibility in the order of their importance:

(a) Economic considerations  
(b) Ethical considerations  
(c) Innovation and learning  
(d) Employee motivation  
(e) Risk management or risk reduction  
(f) Access to capital or increased shareholder value  
(g) Reputation or brand  
(h) Improvement in market position (market share)  
(i) Strengthened supplier relationship  
(j) Cost saving  
(k) Improved relationships with governmental authorities  
(l) Other factors

As Indian companies grow global, in many corporate houses ownership is becoming distinct from management. This coupled with other socio-economic, regulatory pressures has resulted in a shift from corporate philanthropy to corporate social investment (CSI).

The Centre for Social Markets (CSM), undertook a survey in 2000-01\(^{93}\) to list the main factors driving this attitudinal change.

\(^{92}\) www.kpmg.com  
\(^{93}\) www.csmworld.org
The following drivers, listed in the order of the response, emerged from the survey:

(a) Increasing awareness 69%
(b) Reputation 52%
(c) Rising domestic standards 49%
(d) Rising international standards 46%
(e) Commercial pressure 41%
(f) Domestic regulation 41%
(g) Public opinion 30%
(h) Community group pressure 20%
(i) Others 10%

Some of the business benefits, which can be associated with CSR in the Indian context, are listed below. While some of them demonstrate a direct link with business benefits, some others can only be felt.

(a) **CSR Improves Financial Performance and Reduces Operating Costs**

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 a business process, wherein the institution and individuals are sensitive to and careful about the direct and indirect effect of their work on internal and external communities, nature and the outside world. This consciousness has come from a sense of social and environmental responsibility, which, in turn, has helped reduce operating costs.
This concept, when adopted as a matter of habit leads to the elimination of wastage at non-manufacturing sites through more judicious handling of waste, energy efficiency, water conservation, and so on. A project undertaken to separate waste in Tata Steel cost the company Rs. 100 lakh in the first year, as it invested in 400 bins, but selling the waste earned it Rs. 20 crore. Some studies in the UK show that ‘stakeholder-balanced’ companies registered four times the growth rate and eight times the employment growth as compared to companies that are ‘shareholder-only’ focused.

(b) CSR Enhances Brand Image and Reputation

Perhaps nobody will disagree with the above statement. In an online poll conducted by The Economic Times on 5-6 January 2007, 75 per cent of the respondents opined that CSR activities increase the brand equity of a company. Branding of products, more particularly of consumer products, gets an immense boost through social messages. Advertisements with social messages have a larger and deeper appeal than general advertisements.

For instance, Lifebuoy’s ‘Little Gandhi’ (an advertisement wherein a small boy, upset to see piles of garbage in his lane, starts cleaning it all alone and slowly, the total lane joins him in that effort) and Surf’s ‘save two buckets of water’ have benefited tremendously from the use of public service communication. With increasing competition and little differentiation in product features, creating and sustaining a brand image is a challenge. Spending on visible CSR activities is a cost-effective means of achieving and sustaining a brand image.

Government authorities, NGOs or local communities tend to tolerate incidences of environment damage if they believe by
perceiving that the company has genuinely worked hard to prevent the damage from happening in the first place through solid management practices and that it is willing to learn and improve quickly to prevent a repeat occurrence.

Good brand image leads to customer loyalty, which cannot be established overnight. Customer loyalty is sometimes defined as an act of binding intellectually or emotionally to a course of action’. In the subsequent sections, we shall see that emotional binding is one of the factors contributing to brand image and customer loyalty, and CSR is a tool for achieving that. There is a crying need for marketers to realise the potential in positioning themselves as environment friendly corporates, as consumers expect it and corporate responsibility demands it.

(c) CSR Increases Customer Loyalty and Sales

This is perhaps the most non-controversial statement about CSR’s business benefits. While human beings are very selfish themselves, they, at the same time, exhibit the tendency of getting moved by an act of charity and always have a soft corner towards it. Consumers not only want good and safe products, but would also like to know that what they buy was produced in a socially and environmentally friendly way, and are sometimes even willing to pay more for products that are produced in a socially and environmentally responsible manner. Loyalty is a combination of three crucial elements: product or service quality, price, and intellectual or emotional bonding. Consumers are usually loyal to products and change brands infrequently. However, a revolution is spreading across the business landscape, that every industry, customers are increasingly becoming more demanding and less loyal. What worked yesterday cannot be
presumed to work today, and what satisfies customers today will not satisfy them tomorrow. More and more consumers are considering the environmental and social impacts of companies’ activities when they make purchasing decisions. Corporates, more particularly multinational corporations (MNCs), have successfully recognised this human behaviour.

Many times, there are offers in the fast moving consumer goods (FMCG) market\(^{94}\), claiming that a small amount, say 0.25 paise or 0.50 paise per pack sold, will go to philanthropy. Many people, who are socially conscious and do not have any brand preference, will opt for the product, so that they are able to contribute something, however small, for the good of society.

After unexpected floods in Mumbai in July 2005, when the prevention of outbreak of diseases like diarrhea was a major challenge, Hindustan Unilever Limited (HUL) donated more than 1.50 Lakh cakes of Life boy soap through United Nations International Children’s Emergency Fund (UNICEF)\(^{95}\) and other NGOs with a message highlighting the importance of washing hands with soap and clean water as a simple means of preventing diseases. The goodwill and brand image that HUL earned with this small donation would be much more than that earned by the insertion of a 20-second advertisement slot in the live telecast of a cricket match on television or during prime-time serials on a

\(^{94}\) Fast-moving consumer goods (FMCG) or consumer packaged goods (CPG) are products that are sold quickly and at relatively low cost. Examples include non-durable goods such as soft drinks, toiletries, and grocery items. Though the absolute profit made on FMCG products is relatively small, they are generally sold in large quantities, and so the cumulative profit on such products can be substantial.

\(^{95}\) UNICEF was created by the United Nations General Assembly on December 11, 1946, to provide emergency food and healthcare to children in countries that had been devastated by World War II. In 1954, UNICEF became a permanent part of the United Nations System and its name was shortened from the original United Nations International Children’s Emergency Fund but it has continued to be known by the popular acronym based on this old name.
cable network. The publicity and news coverage which the company got through this effort can be assumed to be a bonus.

Doing good does not necessarily rule out making a reasonable profit. Throughout history, businesses have expanded and multiplied only by reaching ‘the bottom of the pyramid’ a term used to describe the mass market of the poor by noted management guru, C.K. Prahalad. It is said that when the Ambanis decided to start their telecom venture, the late visionary Dhiru Bhai Ambani clearly believed that if venture could facilitate talking on the phone at the price of a post-card it would be a success.

The success of Gramin Bank in Bangladesh and of the brand ‘Nirma’ at home shows how the products targeted at the masses and the poor can help transform the business. Another success story in the series is that of Aravind Eye Hospital, which offers free treatment to 40 per cent of its patients and still manages to have a positive bottom line. Brands like Lijjat Papad and Amul are other Indian success stories built on the concept of catering to the mass market and started with the aim of fulfilling a social responsibility.

Companies which have been pioneers in the rural markets have applied CSR to their advantage. The pioneers in the rural markets are definitely HUL and ITC Limited. HUL has adjusted to the challenges in the rural markets and by adopting their style of operation, have made the rural markets valuable for business. Through its projects like ‘Shakti’, the company has pioneered women’s emancipation, which targets small villages with populations of less than 2,000 people. ‘Shakti’ provides critically needed additional income to these women and their families by
training them and equipping them with the skills needed to become an extended arm of the company’s operation.

Any story about the success of CSR initiatives coupled with business benefits cannot be complete without talking about ITC’s e-Choupal venture, which was started as a supply-chain initiative, but has transformed itself into a platform that offers dignity of choice and informed transaction opportunities to farmers. Taking the Internet to the villages and empowering rural India with information at the click of a button is what best describes ITC’s much-acclaimed initiative. At the e-Choupal farmers can access the latest local and global information on the weather, scientific farming practices as well as market prices, merely sitting in their villages and that too, in their local language. For this purpose, the company has created crop-specific, content-rich local language websites. This initiative facilitates the supply of high quality farm inputs as well as the purchase of commodities at the doorstep of the farmer. These e-Choupals have provided the power of scale to the small farmers. As the largest IT-based corporate intervention in rural India, e-Choupals are transforming the lives of over three million farmers in 30,000 villages across six states. It is this success of ITC in the rural market which has changed the total perception and dynamics of rural marketing in terms of agricultural inputs, fast moving consumer goods, consumer durables as well as business in farm and agriculture outputs. Now, every large business group wants to invest money in these sectors.

Since the beginning of industrialisation in India, the Tatas, the Shriram Group and the Birla Group, who were concerned with the dynamics of running and establishing schools, colleges,
hospitals, temples, cultural centres, and research and training institutes have become household names in the Indian context.

The accrual of business benefits of CSR in terms of increased sales and customer loyalty has given birth to a new concept called ‘cause branding’ or ‘cause-related marketing’. Cause branding is intended to reinforce or improve a company’s image by demonstrating the company’s support for a particular issue, as for example, when a proportion of the sales is donated to an identified cause. A critical element of an effective cause branding campaign is to associate with a cause that generates consumer interest and that is consistent with the company’s product or service. Cause branding can be achieved by associating and making partnerships with NGOs or can be undertaken on a self-sufficient basis with the chosen issue. While one is resorting to cause branding or cause-related marketing, the selection of the right partner and maximisation of media coverage are the keys to success. A survey conducted in 2005 in the UK reveals that buying a product or using a service that supports a charity or cause is one of the most preferred methods through which the public wants to support a charity.

(d) **CSR Increases the Ability to Attract and Retain Employees**

The extent of publicity and goodwill generated by CSR activities helps in talent management as the average employee feels pride in being associated with good corporate citizens. A natural soft corner is developed in the mind of employee towards employer. It imparts confidence to the employee that his employer will stand by his side in times of crises. As human beings, in general, are God-fearing and want to remain associated with good people, employers with good CSR track records are
better positioned to attract and retain employees. Some studies have concluded that 78 per cent of the employees would rather work for an ethical and reputable company than receive a higher salary from a company which has a reputation of doing business with unethical means. ‘CSR creates a dedicated workforce with high levels of self-accomplishment people who take pride in themselves and their company. CSR initiatives play a crucial role in attracting and retaining the best talents as youngsters consider the values of a corporate house and its social and environmental behaviour, before deciding to join it or to continue working with it. As their level of education and earnings goes up, and after they have worked for a certain number of years and secured some financial security for their family, an increasing number of professionals want to do something substantial and different and contribute to the society in their own way, which is why they also often switch their jobs from industry to NGOs. M/S Shankar Venkateswaran of American Indian Foundation, Arun Grover of Jan Shikshan Sansthan Prayas and many others are in the list to do so. Some of the big corporate houses have recognised this aspect of CSR, a glaring example among them being the automobile major, Mahindra & Mahindra (M&M). The company has introduced Employee Social Options (ESOPs) through which a workforce of approximately 25,000 people employed at M&M could extend help in any of the social projects run by the company. The company offers its employees a wide menu of CSR projects which they can volunteer to participate in. Ford Motors follows a worldwide policy, which encourages every employee to spend 16 working hours annually on a social cause.

In England, the Durham based company, Northumbrian
Water, one of the top environmental services companies in the UK, supplying water and wastewater services in the northeast of England has introduced a ‘Just an Hour’ scheme to provide its employees with the opportunity to get involved with their local communities. The scheme allows all their employees to devote a minimum of 12 hours of paid work time a year to a good cause of their choice.

(e) **CSR Leads to reduced Regulatory Oversight**

We are shy of talking about this benefit of CSR but the fact remains that businesses caring for their community responsibility get more cooperation and less queries from regulators, be it the administration or taxation officials or social and environment activists. In a vast and populous country like ours, the administration is, at all times, hard pressed to manage its day-to-day affairs ranging from law and order to VVIP security and meetings, leaving little time and expertise for real developmental activities. They depend, to a great extent, on the support and initiative of business. The local administration, on its part, tries to maintain a good rapport with care-oriented organisations for their needs ranging from manpower and resources for managing their administrative jobs, to help required in the time of crises.

The greater commitment a business house shows towards CSR, the more lenient are governments and regulators with it. Such business houses get preferential treatment when applying for permits or licenses to undertake any project. If an accident occurs, they are regarded more favourably because of their track record for socially responsible behaviour.
Recently the Ministry of Labour, Government of Uttar Pradesh, announced its decision to exempt businesses having SA8000 certificate from several inspections till such time that the certificate is in force. Similarly, 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 a detailed investigation.

(f) CSR Reduces Risk & Facilitates Easier Access to Capital

Businesses that show an environmental and social responsibility tend to be viewed as being less risky than those that do not, as that can translate into cost prevention, lower insurance premiums, reduced interest rates, reduced legal and regulatory costs, greater investor appeals, and so on. 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 of some of the inefficient and non-caring organisations to come to a standstill. For example, our country, already on the course to reach a situation of ‘water scarcity’ will force investors and lenders to differentiate between caring and non-caring organisations in the very near future, as far as the competitive capabilities to sustain costs are concerned. Some researches in the West have shown that incorporating social responsibility can reduce portfolio volatility and increase returns.

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SA8000 is an auditable certification standard that encourages organizations to develop, maintain, and apply socially acceptable practices in the workplace. It was developed in 1997 by Social Accountability International (SAI), formerly the Council on Economic Priorities, by an advisory board consisting of trade unions, NGOs, civil society organizations and companies.
Over a period of time, lenders and investors have become more vocal and assertive about their own expectations regarding evidence of a company’s responsibility to reduce cost and ensure its sustainability. An impressive number of leading financial services firms have confirmed the material relevance of governance and sustainable development performance on equity valuation. Companies such as ABN AMRO, Deutsche Bank and Goldman Sachs are calling upon investors, asset managers and financial markets, in general, to include these non-traditional aspects in their decision making. In a circular issued on 20 December 2007, the Reserve Bank of India has asked banks to put in place a suitable and appropriate plan of action towards helping the cause of ‘sustainable development’ with the approval of their boards.

While concluding we can say that even though there is definitional dispute but the scope of CSR is more or less settled with “The Pyramid Of Corporate Social Responsibility “ provided by the Carroll, and it include economic, legal, philanthropic and ethical responsibilities. The justifications behind the CSR are many and there are enormous business benefits of socially responsible behavior. The field is still evolving and for sustainable development and inclusive growth it will be very critical for the corporate to follow the principals of Corporate Social Responsibility. Thus, the field is here to stay and it needs more refinement and fine tuning with local requirements.

1.8 Summary of meaning, nature, scope and relevance of Corporate Social Responsibility

After analyzing the various definitions, theories and scope of CSR the researcher summaries that CSR is a behaviour in
which the corporate activities are regulated in the manner that they are economically viable, legally compliable, ethical acceptable and contribute to the overall development of society at large. The scope of CSR not only covers socially responsible behavior by business but it also lays emphasis on the point that the business should not only be successful but it also should be sustainable. This kind of business behavior relates to Carroll’s definition of CSR in which he has provided a pyramid of responsibilities which include economic, legal, ethical and philanthropic responsibilities. The development of society at large means concern for all stakeholders let it be internal (Investors, employees etc.) or external (consumers, community, environment etc). Now the economic responsibility and legal responsibility aspects of CSR are regulated through a plethora of legislations and this legislative framework is well supported by implementation mechanism. These legislations themselves find their genesis either in constitutional provisions or in various international guidelines/agreements and regulatory framework. Now the question arises as to whether the Ethical and Philanthropic responsibilities should remain on voluntary basis or they should also be regulated and if they also need to be regulated then to what extent these aspects should be regulated? It would be Endeavour of the researcher to reach to a logical answer through the proposed research.

1.9 Rationale/ Importance of the Study

In the ongoing chapter researcher has ascertained the meaning, nature & scope of Corporate Social Responsibility and broadly refers to corporations voluntarily assuming the responsibilities for the impacts of all aspects of their business
activities on the whole society and the environment. While analyzing the definitions, theories and approaches of CSR, the importance of the CSR can automatically be gauged. CSR is key to sustainability. This analysis also reflects that presently CSR is not regulated and is on voluntary basis which means the corporate should have socially responsible behaviour and they themselves should undertake CSR activities in the interest of society for social welfare. But is it actually happening? Do the corporate are behaving responsibly. Are they fulfilling their social obligations? Whether the voluntary nature needs to be changed & regulated? If yes, then to what extent & in which manner? As we know that presently, it is voluntary in nature but the recent examples of corporate frauds, unethical behaviour on the part of corporates, rising labour law violations, human right violations and scant regards for environment protection reflect a different picture. Further Economic development and socio-political stability in the world especially in developing countries like India rely on the dual bases of economic growth and good governance. The corporate are destined to play significant role in achieving these objective especially because of changed economic environment as a result of liberalization and privatization. Both bases are necessary to ensure continued and sustainable wealth creation, on the one hand and the equitable distribution of added wealth, on the other. However, the growth will be sustainable only if it is inclusive, which entails effective corporate governance, environmental protection and overall responsible behavior of corporates. Yet growing gaps in wealth and personal opportunity within society can and do lead to unrest, which will continue to burden the world’s economy
especially of India. Thus, CSR practices must become integral part of overall corporate behavior.

On the one hand, CSR practices are considered to be voluntary in nature and on the other hand need is being felt that time has come to regulate various aspects of CSR practices. External pressure by international actors like international organizations and their guidelines, various international conventions and their declarations along with constitutional mandate should form the basis of CSR related policymaking in that India who is a signatory to a number of international conventions. The private corporate sector, with its philanthropic traditions and as the main provider of employment, is viewed by the Indian government as its key partner for domestic CSR policymaking.

In recent years, CSR has become a fundamental business practice and has gained much attention from chief executives, chairmen, boards of directors and executive management teams of larger international companies. They understand that a strong CSR program is an essential element in achieving good business practices and effective leadership. Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities.

Therefore in India the CSR should not be merely a statement of intent. There should be some meaningful contribution by the corporate to the society. This will definitely help in having inclusive development which will be sustainable development. Since the subject is so critical for the country and
the world in changed perspective of globalization, therefore, there is need to analyse various aspects related to implementation of CSR practices in legal perspective to find answer to these questions and suggest a suitable legal mechanism for effective implementation of CSR mechanism. The researcher will also analyze the inefficient corporate laws and role of judiciary related to Corporate Social Responsibility in India. Hence, the researcher felt the need to study and analyze the various legal issues arising out of Corporate Social Responsibility. It is the need of the hour to discuss the issue in full length. Therefore, the researcher has undertaken this subject.

1.10 Statement of Problem

CSR in current state seems to be a modern phenomenon but actually it is not so. Both the business as well as governments has existed on earth since ancient times, but terms like CSR and sustainable development are being talked of now only for the last decade. The reason for this is probably the fact that last one or two decades have seen growing sizes of businesses and the corresponding shrinking roles of governments basically because of economic development orientation of the state. Today, the thought process regarding development is corporatisation centric. This approach has contributed a lot in growth of Capitalist form of economic pattern even in traditional nationalized economies of developing countries. We live in a world in which prosperity is measured in terms of economic growth, made possible through greater productivity and production. With the drive for growth comes greater demand for natural resources. Great store is put into the new economy of ideas, creativity, and innovation, within which a prerequisite for being competitive is being able to
participate in a virtual global network, and which brings with it new patterns of employment, social interaction, and investment, as well as new threats to national and personal security. As the people are now more educated and informed than their predecessors, their expectations from corporate houses too have increased manifold. The advent of scientific inventions and the dominance of democratic forms of governance with liberalisation in most parts of the world have led to the exponential growth of the middle class all over the world. Globalisation has created many corporate entities in the world whose annual sales are more than the Gross National Products (GNP) of many countries. According to a newspaper analysis, the total annual revenue receipt of the retail chain, Wal-Mart, is greater than the economies of many countries in world. In India too, there is a growing number of companies in the private sector whose revenue receipts are much more than Rs. 10,000 crore, led by Reliance Industries Limited (RIL), which has touched the figure of Rs.1,00,000 crore. The level of these receipts is much more than the annual receipts of many of the smaller states. These big companies control a large part of earth’s resources, the price of which is paid in the form of sacrifices by different sections of society. In today’s scenario corporates influence every activity of not only the human being but also of governance let it be policy formulation or implementation. So there involvement in social activities is inevitable.97

As success brings with it responsibility, the growing size and clout of corporate houses has led to need for socially

responsible behavior. It is the need of the hour that the Corporate should involve themselves in social welfare activities and contribute towards inclusive development of the society at large. But over a period of time corporate behavior has been unethical and highly irresponsible, in addition uncontrolled and irresponsible industrial activities are polluting the environment leading to global warming thereby causing great loss to environment and adversely affecting the life of millions. There are growing instances of corporate corruption. The highly powerful corporate lobby is affecting the every aspect of governance including legislation and policy making with the single aim of getting control over more & more resources and having scant regard for the society and country in which they operate. Their single aim today seems to be earning profit and continuously enhancing it at any cost let the sufferer be it either environment, water or any thing else. Come what may, they should not only earn profit but they should always increase the profit. And in pursuit of higher profit they have made their behavior highly irresponsible and society at large is the sufferer of this irresponsible behavior. Now to make the corporate accountable there is need to make the corporate socially responsible and for achieving this, the meaning, nature and scope of the field of CSR needs to be clearly defined. But there is lot of contestation among the thinkers on the subject of corporate social responsibility. So defining and ascertaining meaning, nature & scope of CSR is the first & the foremost research problem. Moreover there are great arguments among the professionals about the fact that whether CSR is only about philanthropy or it is more than that. On the part of regulators there is dilemma that
whether it should be voluntary or it should be regulated and if regulated how far it should be regulated and this aspect needs serious consideration on the part of lawmakers in the light of various international frameworks/conventions and the guidelines for devising appropriate legislative framework. Keeping in view the specific requirements of the country and the supporters of the concept of CSR think that it is critical for inclusive growth and sustainable development which are very critical for survival of planet earth itself. But on the other hand cynic consider Social Responsibility as a smokescreen to divert attention from the disappearance of direct shareholder control, even few thinkers have gone on to comment that CSR is corporate conspiracy to snatch resources. So there is dispute even about relevancy & irrelevancy of Corporate Social responsibility. But even if we accept that CSR is very essential for society at large than also there are numerous questions which need to be answered, and few of them are that are firms ready to assume the responsibility of CSR? Can corporate houses avoid responsibility? Can there be economic development without social cause? What will be the roll of government, NGOs, legislature and Judiciary in CSR? Are society and consumers willing to pay for CSR expenses? Do we have skilled people who understand and can undertake CSR activities? What are the Indian and global trends in CSR? There are many companies who claim that they are undertaking CSR activities and even claim Tax rebate on CSR expenses but effect of their activities is not visible all the time because normally philanthropic aspect of CSR is being undertaken to earn publicity whereas CSR should be like good public relations which is a long term investment. As there is no specific legislation in respect of
CSR therefore, there is, no mechanism to priorities to the areas in which a particular company should contribute and at the same time there is no mechanism to verify the claims on CSR expenses. The absence of comprehensive legislation on various tenets of CSR is also one of the reasons for indifferent attitude towards adoption of CSR practices. All these aspects clubbed together form the research problem.

1.11 Limitation of the Study

The concept of Corporate Social Responsibility has a long and varied history. It is possible to trace evidences of the business community’s concern for society for centuries. The subject of CSR has been approached from a variety of perspectives, disciplinary lenses, and ideological positions. The work on CSR has originated from many disciplines such as management, law, economics, political science, development studies, geography, sociology, and history etc. Its natural home is arguably in the management literature and there it has been approached from a variety of sub disciplines such as strategy, marketing, accounting, operations management, and organizational behavior. To study, analyse and incorporate perspective of each and every related field was just not possible and therefore only brief idea of interdependence of these disciplines has been incorporated in this research. Detailed enquiry of each and every discipline could not be undertaken. Corporate form of companies and their prevalence is a reflection of capitalist form of economy. Countries world over have adopted this form of economic set up and now they are facing ill effects of this form of set up. Capitalist form of economic structure is passing through turbulence times. In this present research the
social responsibilities of business in other form of economies and their ramifications could not be undertaken in detail. Globalisation has given birth to large MNCs which are operating in multiple countries simultaneously in diverse socio-economic, political, cultural and legal environment. There can’t be a universal framework of corporate social responsibility. Corporate are also not very co-operative to substantiate their claims of adopting CSR measures with evidences. In this research also no uniform mechanism for the CSR could be suggested. A suggestion for the suitable legislation has been made in research but a separate comprehensive study would be more fruitful to ascertain the proposed contents and their ramifications in liberalised economic pattern which favours minimum regulations. Thus, these are the limitation of the research but these limitations have in no way affected the relevance of this research.

1.12 Research Methodology

To understand and study the problem pertaining to Corporate Social Responsibility, and to determine the issue of its regulation the research methodology adopted in this study is covered under following heads:

1.12.1 Research Design

The nature of research undertaken in this study is doctrinal research in which the researcher has done extensive literature review through in depth analysis of concepts with the help of various books written by eminent writers on the subject, law reports, legal websites on internet showing the legal phenomenon all over the country and the world. Various software, national and international has been used to make an effective & comprehensive study of the complete case laws,
which has laid down the various dimensions and interpretations of Corporate Social Responsibility. This research remotely relates to positivism schools of thought on research methodology and is a socio-legal research.

1.12.2 Data Collection Strategy

In this research, methodology of data collection is through case study and extensive analysis of literature available on these subjects. The researcher has carried out extensive study to ascertain the prevailing trend on the subject. The source of data has been collected through internet, AIR, news papers, magazines and books available on the subject matter. Views of luminaries including administrators, academia, lawyers, consumers, employees, employers, etc. have been incorporated. The wide arena of books and journals were referred to make the whole effort more successful. The researcher has also evaluated the Constitutional and other statutory provisions related to the subject under study.

1.13 Hypothesis and its Verification

The following hypothesis was evolved at commencement of this study and has been examined by the researcher in various chapters. The hypothesis:

1. As to genesis, history, development & necessity of CSR, there are divergent views, and all these aspects have been examined in Chapter-II of this research.

2. As to existence of definitional dispute about CSR, the concept has been redefined and Carroll’s approach towards defining CSR which is a cohesive mix of Economic, legal, Ethical & philanthropic responsibilities has been established as the most appropriated
definition of CSR. The various aspects related to this issue has been examined in Chapter-I.

3. As to the role of government & judiciary in fostering CSR in India, the issue was examined in detail in Chapter-IV and it has been concluded that both the elements has been instrumental in establishing the comprehensive framework of CSR in India.

4. As to current trends of CSR in respect of regulation in the world, various aspects related to this issue have been examined in Chapter-V and it is concluded that the trend or regulating various aspects of CSR is gaining momentum all over the world.

5. As to need of having a comprehensive legislation on CSR in India, this issue was examined in Chapter-IV, V & VI and it is concluded that there is need to have a comprehensive law for effective & meaningful implementation of CSR mechanism in India and there exists jurisprudential & constitutional mandate for regulating CSR in India.

1.14 Framework of the Study

Various aspects related to the research have been analysed according to following chapterisation:

Chapter I – Introduction

The ongoing chapter deals with introduction of the subject, the research topic and other details, brief information about the research. It also deals with Meaning, Nature & Scope of Corporate Social Responsibility by covering various definitions, theories, framework, rational behind and advantage of corporate social responsibility. In this chapter researcher has settled definitional dispute and suggested the most acceptable/suitable definition of CSR in Indian perspective.
Chapter II – Historical Background & Development of Corporate Social Responsibility

This chapter deals with Historical Background and Development of the concept of Corporate Social Responsibility in the world as well as in India. In this chapter researcher traced the genesis, evolution and development of CSR world over. The researcher also analyzed the role of various institutions (Government, Religion, Judiciary and corporate themselves) in development of CSR in India.

Chapter III - Corporate Social Responsibility and Its Relationship With Corporate Governance and Sustainable Development

This chapter deals with the relationship of corporate social responsibility with other fields by analysing its interrelation with Corporate Governance and Sustainable Development. The significance of these disciplines in the field of CSR and their contribution in strengthening the field of CSR has also been examined.

Chapter IV - Role of Government and Judiciary in Fostering CSR in India.

In this Chapter the role of Government, NGOs and various International organizations in fostering CSR practices has been examined. The role of Judiciary in fostering CSR has been examined in context of Jurisprudential postulates and Constitutional provisions in India.

Chapter V - Current state in CSR practices: Issues & Challenges in Its Implementation & Regulation

In this chapter the recent trends in CSR practices in the world as well as in India has been examined. The claims of
numerous Corporate entities has been examined to ascertain whether they are actual actions on the ground or mere rhetoric. The efficacy, utility and contribution of CSR activities in social welfare in India also has been examined in this chapter. The researcher has also examined the issues and challenges in implementation of CSR with specific emphasis on regulatory mechanism.

Chapter VI -

Being the last chapter covers the Conclusions and Suggestions.