UNIT 1 CSR: AN OVERVIEW

Structure

1.1 INTRODUCTION

Dear Learners,

The CSR has become one of the standard business practices of our time. For companies, the overall aim of CSR is to have a positive impact on society as a whole while it engages in maximizing the creation of shared value for the owners of the business, its employees, shareholders and stakeholders. "Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ('Triple-Bottom-Line-Approach'), while at the same time addressing the expectations of shareholders and stakeholders" (UNIDO).

In this unit we will learn about how the concept of CSR (Corporate Social Responsibility) has evolved over the years. We will also learn about a few theories of CSR. After reading this unit you will be able to

- List out various definitions of CSR
- Explain the need and benefits of CSR
- Describe the drivers of CSR
- Discuss various theories of CSR

1.2 MEANING AND DEFINITION OF CSR

1.2.1 Historical Evolution of Social Responsibility

Religious philosophies dominated philanthropy during the eighteenth and the nineteenth century. During 1800s and 1900s, to protect and retain the employees, companies took steps to improve their quality of life. E.g., Macy's in USA in 1875 contributed to an orphanage. The charity during those times were accounted as miscellaneous expenses. With the intention of improving the quality of life of its employees, the Pullman Palace Car Company created model industrial community in 1893. These were the times when industrialization and urbanization brought new challenges in labour market, for instance provision of better working conditions. This led to the formation of labour unions. With the end of World War II and with growth of business during the1940s, the companies started being viewed as institutions of social responsibility.

The period after World War II in 1950s was a period when there was a growing realization of the impact that the actions of large corporations had on the society and that there was a need to change their decision making to include consideration of their impact. Hence, this period marked the start of a new approach to management which emphasised the importance of improving the business response to its social impact. Thus, the period of 1950s and 1960s saw corporations as potential contributors to the improvement of social and economic conditions. Horward R. Bowen, Keith Davis and Joseph W. McGuire were the most famous supporters of this ideology.

Towards the end of the 60s, anti-war sentiment was on the rise and a growing sense of awareness that the corporations were not behaving in accordance to the societal expectations of that time. There were widespread anti-war and environmental campaigns and protests. In 1969, there was a major oil spill off the coast of Santa Barbara, California leading to environmental campaigns and protests which led to the 1st Earth Day Celebration in 1970. These protests called for a clean and sustainable environment and a check on such activities of the corporates which led to oil spills, toxic dumps, factories and power plants leading to environmental hazards. During early 70s, several advances were made towards environmental regulation, consumer product safety, equal employment opportunity and occupational safety and health. During the 70s, there were also several legislations in different countries that assigned broader responsibilities of various social concerns to the corporations.

During the 1980s, the debate around CSR shifted its focus from conceptualization of CSR to operationalizing CSR and its implementation. During the 1990s, with increasing globalization, the MNCs had to work in different environments abroad. The global visibility and increasing pressures, demands and expectations in the host countries increased the reputational risk of the corporations. In order to strike a balance between the challenges and opportunities of globalization, it became essential to institutionalize CSR. Also, the Rio Declaration on Environment and Development, the adoption of Agenda 21 and the United Nations Framework Convention on Climate Change (UNFCCC) (1992), and the adoption of the Kyoto Protocol (1997) led to setting of higher standards for the corporates regarding climate related issues. Some of the contributions to CSR during this decade include model of Corporate Social Performance (CSP) by Donna J. Wood, Carroll's 'Pyramid of Corporate Social Responsibility', five dimensions of strategic CSR given by Burke and Logsdon, the concept of 'The Triple-Bottom-Line', by Elkington and some alternative subjects like 'Stakeholder Theory', corporate social performance and corporate citizenship.

In the year 2000, the United Nations Global Compact was launched to fill the gaps of governance in terms of human rights and social and environmental issues and to insert universal values into the markets. It was also in the year 2000 that the United Nations adopted the Millennium Development Goals (MDGs). This was followed by the adoption of Sustainable Development Goals in 2015. International certifications like ISO 9001, ISO 14000 and ISO 26000 were also adopted. Also, during this period, strategic considerations were added to the concept and definition of CSR. It was believed that a strategic approach could result in the creation of shared value in terms of benefits for the society while improving competitiveness of the companies.

Post 2010, the concept of CSR reflected the belief that corporations need to be responsive to social expectations and their actions should be motivated by a drive towards sustainability. Porter and Kramer (2011) called for a change in business strategies which would focus on creation of shared values as their main objective. This decade is also marked by the launch of the 2030 Agenda for Sustainable Development.

1.2.2 Evolution of the Definitions of CSR

The initial definition of CSR was given by Horward R Bowen during 1950s in his book entitled *Social Responsibilities of the Businessman* in which he defines social responsibility as: "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".

In the 1960s, one of the most prominent definition of CSR was given by Keith Davis who defines social responsibility as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest".

Joseph W. McGuire is another major contributor to the definition of social responsibility during 1960s. In his book, Business and Society (1963), he states that, "The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations".

Thus, the definitions of social responsibility in the 1960s emphasized on the voluntarism of the corporate as an essential ingredient of social responsibility, and an acceptance of the fact that it involves cost which may not give any direct or measurable economic returns.

A new construct to the concept of CSR came from the Committee for Economic Development (CED) in 1971. CED noted that the social contract between the business and the community is changing. The period during late 1960s and early 1970s, witnessed a change in the status of issues related to environment, community, employees, work safety etc. from special interest to government regulation. CED gave a new three concentric circle definition of CSR.

"The inner circle includes the clear-cut basic responsibilities for the efficient execution of the economic function—products, jobs and economic growth. The intermediate circle encompasses responsibility to exercise this economic function with a sensitive awareness of changing social values and priorities: for example, with respect to environmental conservation; hiring and relations with employees; and more rigorous expectations of customers for information, fair treatment, and protection from injury. The outer circle outlines newly emerging and still amorphous responsibilities that businesses should assume to become more broadly involved in actively improving the social environment. (For example, poverty and urban blight)."

The 1970s saw increasing mention of the terms Corporate Social Performance and Corporate Social Responsibility. In 1975, an Economics Professor, Jules Backman said that the terms social audit, social indicators and social accounting cover different facets of social performance. S. Prakash Sethi, in his article titled 'Dimensions of Corporate Social Performance" makes distinction between 'social obligation', 'social responsibility' and 'social responsiveness'. While social obligation is the response of corporate to market forces or legal obligations, social responsibility is a notch higher than obligation and brings corporate behaviour in harmony with the existing social norms or values and expectations. Sethi describes social responsiveness as the adaptation of corporate behaviour to social needs.

The concept of CSR evolved and extended to beyond economic and legal components to encompass ethical and voluntary aspects as well. Caroll in 1979 gave a definition containing all four components. "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time".

The 1980s saw a quest to widen the concept of CSR and go beyond CSR with wider acceptance of the concept of Corporate Social Performance. During this period, the focus was on attempts to measure CSR and to include alternative thematic frameworks. Thomas M Jones in 1980, extended the concept of CSR as 'a process'. He argued that CSR should not be seen as a set of outcomes but as a process. Corporate Social Responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders, and beyond that which is prescribed by law and union contract. In 1985, Steven Wartick and Philip Cochran presented the *Evolution of the Corporate Social Performance Model*, which integrated the concept of responsibility, responsiveness and social issues.

The 1990s did not see any major contribution to the definition of CSR. During this period, the main focus was on various related themes like Corporate Social Performance, the Stakeholder theory, Business Ethics theory and Corporate Citizenship.

2000 onwards, has been an era of defining the activities that can be embraced as CSR activities and about regulating CSR.

1.2.3 CSR Perspectives in Selected Countries

CSR activities as a voluntary measure have been carried out in the USA for decades, and it is prevalent in many other countries like Australia, Canada, UAE etc.; it is at infancy stage in Africa. At the international level, CSR activities have been integrated as part of business strategy and corporate policy. In fact, promoters of large corporates have floated not-for-profit companies/trust, to carry out CSR activities, for example HCL Technologies Foundation, Hindustan Unilever Foundation etc.The organizations are adopting CSR as a part of their policy matters to address the concern of different stakeholders including investors and to enhance the competition to access the global market and satisfying the needs of society. The CSR perspectives of different countries are given below. Definitions for all countries, except India, are sourced from the World Business Council for Sustainable Development (WBCSD, 2000).

USA

"CSR is about taking personal responsibility for your actions and the impact that you have on society. Companies and employees must undergo a personal transformation, re-examine their roles, their responsibilities and increase their level of accountability"

THE NETHERLANDS

"CSR is about making a leadership commitment to core values and recognizing local and cultural differences when implementing global policies. It's about companies endorsing the UN Convention on Human Rights and the ILO Rights at Work"

TAIWAN

"CSR is the contribution to the development of natural and human capital, in addition to just making a profit"

THAILAND

"CSR must be locally relevant and meaningful only if backed up by action"

THE PHILIPPINES

"CSR is about business giving back to society"

BRAZIL

"CSR is about commitment to strive for the best economic development for the community, to respect workers and build their capacities, to protect the environment and to help create frameworks where ethical business can prosper"

ARGENTINA

"CSR is about a corporation's ability to respond to social challenges. It starts with developing good relations with neighbours. Companies should make a strong commitment to education, worker rights, capacity building, and job security. CSR is stimulating the economic development of a community"

GHANA

"CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government"

INDIA

"It urges businesses to embrace the "triple-bottom-line" approach whereby its financial performance can be harmonized with the expectations of society, the environment and the many stakeholders it interfaces with in a sustainable manner (MCA, Government of India, 2011).

1.2.4 Definitions of CSR

In a "free society," "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970).

"Another aspect of any workable definition of corporate social responsibility is that the behavior of the firms must be voluntary" [Manne &Wallich, 1972, p. 5)

"The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979, pp. 500).

"It refers to how business takes account of its economic, social and environmental impacts in the way it operates. maximizing the benefits and minimizing the downsides. CSR undertakings are the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society" (World Bank, 2013).

"Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-Approach"), while at the same time addressing the expectations of shareholders and stakeholders" (UNIDO)

"Corporate social responsibility 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" (WBCSD, 2000).

Wayne Visser uses CSR in developing countries to represent 'the formal and informal ways in which business makes a contribution to improving the governance, social, ethical, labour and environmental conditions of the developing countries, while remaining sensitive to the prevailing religious, historical and cultural contexts in which they operate' (Visser et al., 2007).

The International Standard Organization brought out international standard on social responsibilities of organizations (ISO 26000), first published in 2010, which defines social responsibility as:

"An organization's responsibility for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- contributes to sustainable development, including health and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour;
- and is integrated throughout the organization and implemented in its relations".

Source of Section 1.2
(Carroll, 2008; Carroll, 1999; Bhaduri and Selarka, 2016)

1.3 BENEFITS OF CSR

Businesses these days can no longer limit their focus to profit maximization and be satisfied just by creating employment and paying their taxes. They are also required to address the needs of other stakeholders like creditors, employees, shareholders, consumers, government and public. Companies these days are more vulnerable to consumer boycotts and campaigns. The companies need to be socially accountable to the communities among whom they operate. Hence, CSR as a strategy and in fact as a necessary activity, is becoming increasingly important for businesses due to the following benefits: (CII, 2013)

1) **Communities provide the license to operate:** The CSR behaviour of corporate is not just driven by their values but are also influenced by the stakeholders like government, investors, customers and community. Today's corporate understands that the license to operate in any particular area is not just given by the government but also by the communities that get impacted by the activities of these companies. A strong CSR programme provides the companies with the license to operate and to maintain the trust of the local community.

2) **Attracting and retaining employees:** CSR interventions that help the employees to participate give them a sense of belongingness to the company. Good CSR initiatives can attract employees to the company and give them the incentive to remain motivated and committed to the company.

3) **Communities as suppliers:** There are instances wherein as a part of CSR activities, the communities have been incorporated into the supply chain to enhance their livelihood. Such initiatives have helped in increasing their incomes and ensuring the companies with a steady and secure supply chain.

4) **Enhancing corporate reputation:** When the companies position themselves as responsible corporate citizens, it creates good will and a positive image, thereby helping them to enhance their brand image in the market.

Activity 1

Visit a CSR project of a company in your vicinity. Ask the employees, how according to them, CSR has benefitted the company. Write down their responses.

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1.4 DRIVERS OF CSR

According to the KPMG Survey of Corporate Responsibility Reporting 2011, around the world, corporate responsibility reporting has become a fundamental imperative for businesses. According to the KPMG survey, the top ten motivators driving corporations to engage in CSR for competitive reasons, the following have emerged:

- Economic considerations

- Ethical considerations
- Innovation and learning
- Employee motivation
- Risk management or risk reduction
- Access to capital or increased shareholder value
- Reputation or brand
- Market position or share
- Strengthened supplier relationships
- Cost saving

In simple words, the underlying reasons for business organizations to be involved in CSR are as follows:

i) **Public Image:** CSR creates a positive brand image in the minds of the potential consumers. Effective communication of CSR activities, boosts the purchase intentions of the prospective consumers. Business can earn goodwill and reputation by performing the activities towards the welfare of the society. People prefer to purchase products of the company that engage in various social welfare programs.

For example: Levi Strauss practices CSR in three areas i.e. the masses, climate, and its products. It's non-profit Red Tab Foundation provides aid to its employees and retirees in case of financial emergency. As a part of its contribution to the environment, it has signed the Climate Declaration and aims to use 100 percent renewable energy in order to reduce carbon emissions and other greenhouse gases. In addition, in a bid to save water, it has started production of its new denim cloth-line which has helped them save more than 1 billion litres of water since its inception in 2011.

ii) **Government Regulation:** Most companies prefer to remain a step ahead of government regulations in identifying the social needs and formulating policies to address them, out of the fear that if they don't, the government may take the responsibility, which might prove costly for the employers. To avoid government regulations businessmen should discharge their duties voluntarily. For example:-

a) **Coca-Cola, USA** continues to make strides towards the alleviation of environmental issues. After realizing that its fleet of delivery trucks accounted for 3.7 million metric tons of greenhouse gases (GHGs) in 2014, Coca-Cola made significant changes to its supply chain like investing in trucks that are powered by alternative fuels. Those changes should support the company's goal of reducing its carbon footprint by 25 percent by 2020.

b) **Ford, USA** is another corporation attempting to improve their environmental performance. To reduce its GHG emissions, an EcoBoost engine was developed to increase fuel efficiency and the company hopes to offer 13 new electric vehicle models in near future. In addition, American Ford dealerships now use wind sail and solar PV systems as their primary power source.

iii) **Survival and Growth:** Every business is a part of society. It utilizes the available resources of power, land, water etc. of the society, therefore it should be the responsibility of every business to spend a part of its profit for the welfare of the society.

E.g. **Amul Dairy** has launched a novel scheme "Rural Sanitation Campaign" for total rural sanitation. The dairy with the support of **District Rural Development Agency** (DRDA) will provide interest free loans to its milk producers in the districts of Anand and Kheda, to set up 'pucca' toilet blocks, which will not only help women milk producers avoid embarrassment but will ensure hygiene as well. (For more details visit http://www.amuldairy.com/index.php/component/content/category/13-csr-initiatives)

iv) **Employee Satisfaction:** Besides getting good salary and working in healthy atmosphere employees also expect other facilities like proper accommodation, transportation, education, and training.

For example, **Lemon Tree Hotels Group** ('LTH') believes that people with disabilities (whether physical, social or economic disabilities leading to an opportunity deprivation) must be provided the same opportunities as others to realize their full potential and live with dignity. Lemon Tree has defined the goal as mainstreaming 'Opportunity Deprived Indians' i.e. ODIs into its workforce. By creating a supportive environment in the organization that allows them to deliver their best, LTH helps in bringing social inclusiveness through livelihood creation. (For more details visit ttps://www.lemontreehotels.com/factsheet/LTH_CSR_Policy.pdf)

v) **Consumer Awareness:** Nowadays consumers have become very conscious about their rights. They protest the supply of inferior and harmful products by forming different groups. This has made it obligatory for businesses to protect the interest of the consumers by providing quality products at competitive prices.

For example, **Burberry** announced banning fur in its products along with other ladies' bag manufacturing companies like Gucci, Versace, Armani, Stella McCartney and others after a long campaign from the animal rights group PETA.

Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Give any one definition of CSR.

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2) List out the various benefits of CSR.

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1.5 THEORIES OF CSR

In this section we will discuss three basic theories of CSR. They are

i) Carroll's CSR Pyramid

ii) Triple Bottom Line CSR Theory

iii) Stakeholder Theory

i) Carroll's CSR Pyramid

Carroll talks about four obligations that businesses have towards society.

1) **Economic Responsibility:** According to Carroll, businesses have an economic responsibility towards the society that permitted them to be created and sustained. The society expects business organizations to sustain themselves to continue producing goods and services that the society needs. As a reward, the society allows them to take profits. The businesses make profit by value addition and in doing so, they benefit all the stakeholders of the business.

   Businesses need to make profit not just to reward the owners but also to reinvest the profit to grow the business further. To fulfil their economic responsibility, businesses employ several business concepts that are directed towards financial effectiveness such as attention to revenues, cost-effectiveness, investments, marketing, strategies, operations, among several other professional concepts focused on augmenting the long-term financial success of the organization. According to Carroll, those firms that are not successful in their economic or financial sphere go out of business and any other responsibilities that may be incumbent upon them become moot considerations. Hence economic responsibility is the basic responsibility of any business and has been placed at the bottom of the CSR pyramid.

2) **Legal Responsibilities:** The society has established minimum ground rules under which the businesses are expected to function. The businesses are expected to follow fair business practices and operate within the rules and regulations laid down by the lawmakers at local and national levels. Compliance officers are employed by the Companies to ensure compliance to these rules. According to Carroll (2016), while meeting these legal responsibilities, important expectations of business include:

   - Performing in a manner consistent with expectations of government and law

   - Complying with various federal, state, and local regulations

- Conducting themselves as law-abiding corporate citizens
- Fulfilling all their legal obligations to societal stakeholders
- Providing goods and services that at least meet minimal legal requirements.

3) **Ethical Responsibilities:** Laws are essential but not enough. Society also expects businesses to operate and function in an ethical fashion. Ethical responsibilities imply that the activities, norms, standards, and practices taken up by the businesses need not necessarily be codified in law, but still the businesses are expected to follow them. The ethical expectations carry the legal expectations a step further to uphold the norms, values, principles, and standards considered important by the consumers, employees, owners, and the community at large. The activities of the businesses should also abide by the universal principles of moral philosophy such as rights, justice, and utilitarianism

While meeting these ethical responsibilities, important expectations of business include: (Carroll 1991)

- Performing in a manner consistent with expectations of societal mores and ethical norms
- Recognizing and respecting new or evolving ethical/moral norms adopted by society
- Preventing ethical norms from being compromised in order to achieve business goals
- Being good corporate citizens by doing what is expected morally or ethically
- Recognizing that business integrity and ethical behaviour goes beyond the mere compliance with laws and regulations.

4) **Philanthropic Responsibilities:** Business giving is done purely on voluntary basis. Though philanthropy is not a responsibility, it is what the public expects the business to give back to society. It is mainly guided by the desire of businesses to participate in activities that are neither mandated by law nor expected from ethical point of view. It stems out of the expectations of the citizens to be good corporate citizens as is expected from individuals as well. Various philanthropic activities in which the companies engage include gifts of monetary resources, product and service donations, volunteerism by employees and management, community development and any other discretionary contribution to the community.

Companies are also driven by motivation to engage in philanthropy in an effort to enhance company's reputation. The philanthropic category of business giving is different from the ethical category in the sense that philanthropic giving is not necessarily expected in ethical sense. Companies will not be called unethical if they don't practice philanthropic giving. It is more voluntary in nature and companies practicing philanthropic giving are considered as practicing good 'Corporate Citizenship'.

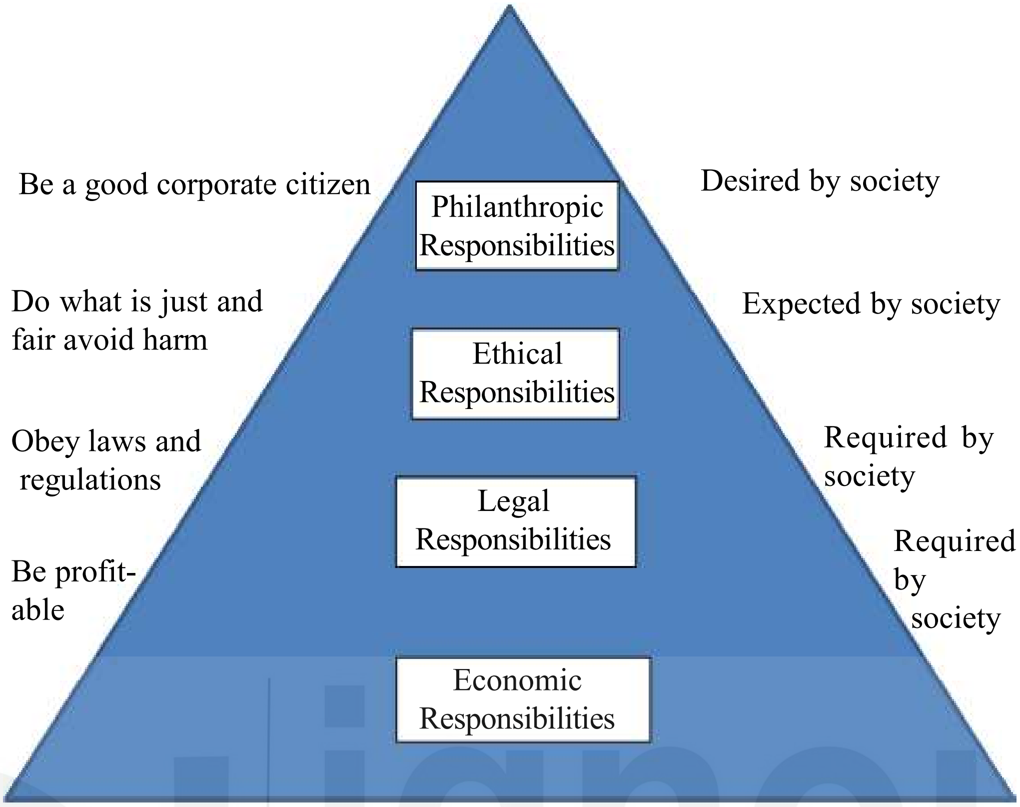

Figure 1: Carroll's Pyramid

Figure 1shows Carroll's pyramid of CSR. The economic responsibility being the fundamental requirement in any business is placed at the base of the pyramid. The infrastructure needed for a sound CSR is based on the economic soundness and sustainability of any business. The business is expected to operate following certain laws and regulations which forms the second part of the pyramid. The existence of legal and regulatory framework in any country significantly affects the multinational investments in these countries. Thirdly, business is expected to operate in an ethical way to avoid causing harm to any stakeholder and always do what is just, fair and right. Finally, a business is expected to be a good corporate citizen and provide any financial, physical, or human resource contribution to the communities within which it operates.

ii) Triple-Bottom-Line Theory

John Elkington first coined the term triple-bottom-line in his book "Cannibals with Forks: The Triple-Bottom-Line of the 21st Century Business". Triple-bottom-line theory expands the traditional accounting framework to include three dimensions i.e. Economic, Social, and Environmental. These three bottom lines are also referred to as the 3 P's i.e. People, Planet and Profit. According to Elkington, all the three dimensions should perform sustainably.

1) **Economic Dimension/Profit:** According to the theory, the most important thing for a company, is not to make huge profits but rather, to make continuous profit on a sustainable basis over a long period of time. Sustainable profits can be achieved by drawing a strategic plan that takes into account expenditures and taxes, forecasting business climate factors, evaluate market benchmark and avoid maximum risk threats. Triple-bottom-line businesses also recognize that profit is not diametrically opposed to people or planet.

Example: Swedish furniture giant IKEA reported sales of $37.6 billion in 2016. The same year, the company turned a profit by recycling waste into some of its best-selling products. Before, this waste had cost the company more than $1 million per year. And the company is well on its way to "zero waste to landfill" worldwide. According to Joanna Yarrow, IKEA's head of sustainability for the UK, "We don't do this because we're tree huggers, we do this because it's very cost effective."

Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

2) **Social Dimension/People:** According to the theory, for businesses to be sustainable in the long run, they should take up activities that satisfy the needs of the society in which they operate. According to the triple-bottom-line CSR framework, it is essential that the corporations achieve social sustainability. Since societal needs vary from one region to another, the corporations need to collect data on various social parameters including unemployment rate, female labour participation, educational services, health services etc. This will help in prioritizing the community needs and the corporations then take steps to satisfy the societal needs to the extent possible. A triple-bottom-line company also pays fair wages to its employees and provides safe working conditions.

Example: 3M partners with United Way to fund STEM education across the world. This initiative is an example of "enlightened self-interest"—acting to further the interests of others, ultimately, to serve one's own self-interest. The community benefits, and 3M provides itself a well-educated source of scientists and innovators for generations to come.

Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

3) **Environmental Dimension/Planet:** Environment is an important dimension of the triple bottom line approach. Corporations should pay attention to maintaining environmental sustainability. The enterprises should try to reduce ecological footprints as much as possible and the ones that harm the environment should also bear the cost. Some of the factors which help in maintaining environmental sustainability include reducing waste, investing in renewable energy, managing natural resources more efficiently, and improving their logistics.

Example: Apple has invested heavily in environmental sustainability. Its massive U.S. data centres are LEED certified. In 2016, the company announced that 93 percent of its energy comes from renewable sources. These actions have nudged other tech giants like Facebook and Google as well toward using more renewable energy sources to power facilities.

Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

iii) Stakeholder Theory

Stakeholder Theory was given by Dr. F. Edward Freeman, a professor at the University of Virginia, in his book, "Strategic Management: A Stakeholder Approach" which suggests that, shareholders are just one of the many stakeholders of a company. Stakeholders are described broadly by Freeman and Reed as any identifiable group or in-dividual who can affect the achievement of an organization's objectives or who are affected by the achievement of an organization's objectives. According to Dr. Freeman, the stakeholder may include the consumers, employees, suppliers, political action groups, environmental groups, local communities, the media, financial institutions, governmental groups etc. and for a company to be successful in the long run, the concerns of all groups should be taken into account. If a company ignores the concerns of its stakeholders, it may gain profits in the short run but in the long run, once the stakeholders become dissatisfied, the company cannot survive.

According to Freeman, "If you can get all your stakeholders to swim or row in the same direction, you've got a company with momentum and real power." He goes on that, "Saying that profits are the only important thing to a company is like saying, 'Red blood cells are life.' You need red blood cells to live, but you need so much more." A company needs to be aware not just of the needs of its shareholders but also of its workers, those who live near its factories, the competitors etc. He quotes the example of 'Enron' as to how the desire to attain short term gains, led to corruption, and finally brought about the downfall of the company in 2000.

Let us now understand the functioning of various stakeholders under this theory:

1) Employee: The employees expect to be treated and compensated fairly and to be given reasonable working hours. Otherwise, there would be bad word of mouth among potential workforce and the company will be adversely impacted.

2) Suppliers: Like employees, the expectations of the suppliers in the stakeholder theory also includes fair treatment and compensation. The stakeholder theory also expects due diligence on the part of the suppliers that they will also conduct their business in a fair and ethical manner.

3) Manufacturers: With the opening of the economy, there are instances when the product or their parts are manufactured at a location away from the project, sometimes even in a different country. It is expected that the working conditions and wages should be fair for the manufacturers as well.

4) Environmentalists: People living in vicinity to the project need to be assured that the environment, power, or water will not be adversely affected due to the project. These people who are affected by the local ecology are also considered as stakeholders in the stakeholder theory and need to be apprised of the plans and developments and their views should also be taken into account while planning the project.

5) Government Bodies: Government approvals need to be sought for any project before it starts its operations. Hence government bodies and various regulating agencies are also one of the stakeholders.

6) Community: People living in the nearby neighbourhoods, are also stakeholders and the project should consider their concerns of whether it will enhance or maintain their quality of life and not impact it negatively in any manner.

Activity 2

Visit a CSR project being implemented in the city of your residence. Identify and list out the stakeholders of the project.

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iv) Some Other Views on CSR

1) Theodore Levitt's Dangers of Social Responsibility

Levitt was a critic of inclusion of CSR in the corporate objective function. He argues that when CSR is incorporated in the corporate objective function, this leaves the managers of the businesses responsible to make judgements on which social issue to purse and which not to. Levitt calls CSR a 'fashion accessory' of the self-interested businessmen who have in mind neither the health of the business nor the welfare of the society but are driven by their own political agenda or self-realization. He also argues that CSR is seen as a profitable strategy by businesses and objected to the practice of dressing up profit making objectives as philanthropic. According to Levitt, an ethical approach to CSR is to pursue CSR only when it is profitable, and admit that profit is the real motive behind any CSR activity.

The strongest argument of Levitt is that the responsibilities of public and private sectors should be kept separate. Levitt argues that it is both undemocratic and unethical on the part of the managers to assume a role in which they have no expertise and hence they are not likely to succeed in this role. According to Levitt, if the managers assume any role other than that of profit makers, they are bound to fail.

2) Milton Friedman's Shareholder Theory of Capitalism

According to Friedman, the social responsibility of business is to increase profits. Friedman originally expressed this thought in his book Capitalism and Freedom in 1962. Later in his article published in New York times he writes:-

"There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

According to Friedman, shareholders are the economic engine of an organization and hence the only group to which the firm is socially responsible. He opines that a corporate executive is an employee of the owners of the business, and hence his/her primary responsibility is to them. He says that an executive spending company money on 'social cause' is in fact spending somebody else's money. For example, if a business executive refrains from increasing the price of a product to fulfil the social objective of preventing inflation or if the amount of expenditure he makes beyond what is required by the law, on reducing pollution to fulfil the social objective of improving the environment, then he acts in a way that is not in the interest of the employers. Thus, according to Friedman, "Insofar as his actions are in accord with his "social responsibility" to reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money."

The customers, stockholders, employees of a firm could separately spend their money on any social cause they wished to. Friedman goes further to say that if a corporate executive does this, he in effect imposes taxes on one hand and decides on how to spend the tax proceeds on the other. This act raises questions at two levels: principles and consequences. As far as principle is concerned, imposition of taxes and their expenditure are government functions. However, here the businessman decides whom to tax, by how much, for what purpose and he spends the proceeds. On the grounds of consequences, he questions the corporate executive's judgement to spend the proceeds. He says that "in practice the doctrine of social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions."

3) Ackerman and Bauer's Social Issues Life Cycle Model

Ackerman and Bauer reworked the product life cycle model to produce a generic model called the 'Social Issues Life Cycle Model.' It comprises of three stages:

Stage 1: At Stage 1, the social issue is felt as a weak signal. At this stage, the challenges that need to be dealt with include establishing the social issue, assessing its relevance, and understanding the level of political support it could attract in the society. There is uncertainty about the nature and impact of the issue. At this stage, the stakeholders are not properly organized.

Stage 2: During Stage 2, the issue is emerging and unresolved but its importance amongst the general public increases. The core issues that need to be addressed at this point include how to identify and resolve the problem, identification of the stakeholders with vested interest, what new competencies need to be developed, and how can corporate be made to respond. Stakeholders are more organized.

Stage 3: In Stage 3, the problem has been characterized and the solutions to the problem have been identified. The firm is in a condition to measure the economic impact of the issue. New norms or laws have been established which have institutionalized stakeholder demands. Accordingly, socially responsible corporate behaviour has also been established.

Ackerman and Bauer also pointed out three stages involved in achieving the full integration of social issues within the firm:

In Stage 1, the CEO becomes aware of the importance of social issue and formulates policy to address the same. As all the dimensions of the issue are not properly understood, the individual divisions show their reluctance to commit themselves. The newly formed policy destabilizes the firm's structural framework and standard operating procedures. As a result, the departments adopt a wait and watch policy or there may be stiff resistance from within.

Stage 2 is a stage where the social issue has been characterized and a best fit response has been determined. Now the issue is more technical hence the firm appoints a dedicated executive, a social issue expert, who reports directly to the top management. This expert gives the necessary technical guidance to handle the issue and is responsible to push policy at the ground level.

The third and final stage, is when the organizational response is implemented. Here the CEO calls for demonstration of commitment to policy enforcement. The problems of this phase center around managerial transformation, resource allocation within and without divisions. The social issues expert takes a backseat at this stage and supports division level actions.

4) Gandhi's Philosophy of Trusteeship

"The idea of trusteeship was propounded by Mahatma Gandhi. It evolves from the belief that everything belongs to God and hence to everyone and not to any particular individual. Gandhian philosophy always aims at bringing economic equality through non-violent social change. Gandhi propounded the doctrine of trusteeship as a way to realize such change. The peaceful removal of economic inequalities is possible if the rich, after meeting their reasonable needs, hold the surplus wealth in trust for society. In this way, the rich man is not dispossessed of his surplus wealth, but he is required to use this wealth in the broader interest of the community, and not in his personal interest. The doctrine of trusteeship is based on the idea that everything is from God, and belongs to God. Therefore, it is for God's people as a whole, and not for a particular individual. If an individual possesses more than his proportionate share, he becomes a trustee of that surplus amount for God's people. As to the question of the determination of the successor of the trustee, Gandhi replied that the original trustee is to be allowed to make his choice, but that choice is to be finalized by the state. Thus, a check is put on the state as well as on the individual. A summary of Gandhi's doctrine of trusteeship is as follows:

a) Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one; it gives no quarter to capitalism, but gives the present owning class a chance of reforming itself. It is based on the faith that human nature is never beyond redemption.

b) It does not recognize any right of private ownership of property except in as much as it may be permitted by society for its own welfare.

c) It does not exclude legislative regulation of the ownership and use of wealth.

d) Thus, under state regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction or in disregard of the interest of society.

e) Just as it is proposed to fix a decent minimum living wage, even so a limit should be fixed for the maximum income that could be allowed to any person in the society. The difference between such minimum and maximum income should be reasonable, equitable and variable from time to time, so much so that the tendency would be towards obliteration of the difference.

f) Under the Gandhian economic order, the character of production will be determined by social necessity and not by personal whim or greed" (Pyarelal, 1965).

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is the role of Government bodies according to the Stakeholder Theory?

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2) What is Stage 2 of Ackerman and Bauer's Social Issues Life Cycle Model?

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1.6 LET US SUM UP

In this unit we have discussed about how the concept of CSR has evolved over the years. You also read about the CSR perspectives in other countries. The unit also gives different definitions of CSR given by experts. It discusses how CSR helps in building brand image, attaining competitive advantage and facilitates long term business interest. We have also discussed about various drivers of CSR. Finally, we discussed in detail the three basic theories of CSR i.e. Carroll's CSR Theory, Triple-Bottom-Line Theory and Stakeholder Theory. We have also looked into the views on CSR of some of the experts like Levitt, Friedman, Ackerman, and Gandhi's Philosophy of Trusteeship.

1.7 KEYWORDS

CSR : Corporate social responsibility 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 (WBCSD, 2000).

Stakeholder : A person who impacts or get impacted by the actions and activities of the business.

Triple Bottom Line : The triple-bottom-line (TBL) is a framework that recommends that companies commit to focus on social and environmental concerns along with profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet.

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1.9 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress - 1

Answer 1: Corporate social responsibility 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 (WBCSD, 2000).

Answer 2: Some of the benefits of CSR are

1) Communities provide the license to operate
2) Attracting and retaining employees
3) Communities as suppliers

4) Enhancing corporate reputation

Check Your Progress – 2

Answer 1: According to the Stakeholder's Theory, Government approvals need to be sought for any project before it starts its operations. Hence, government bodies and various regulating agencies are also one of the stakeholders.

Answer 2: Stage 2 of Ackerman and Bauer's Social Issues Life Cycle Model, include how to resolve the problems, identification of the stakeholders with vested interest, what new competencies need to be developed and how can corporates be made to respond. Stakeholders are more organized.