UNIT 8 CORPORATE SOCIAL RESPONSIBILITY

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Corporate social responsibility (CSR) is also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business form of corporate. Self regulation is integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby business monitors ensure its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is 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 the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest (PI) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of PI into corporate decision-making that is the core business of the company or firm, and the honouring of a triple bottom line: people, planet, profit.

The term "corporate social responsibility" came in to common use in the late 1960s and early 1970s, after many multinational corporations were formed. The term stakeholder, meaning those on whom an organization's activities have an impact, was used to describe corporate owners beyond shareholders as a result of an influential book by R. Edward Freeman, Strategic management: a stakeholder approach in 1984. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

CSR is titled to aid an organization's mission as well as act as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognized international standard for CSR (currently a Draft International Standard). Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

Corporate Social Responsibility (CSR) is becoming an increasingly important activity to businesses nationally and internationally. As globalisation accelerates and large corporations serve as global providers, these corporations have progressively recognised the benefits of
providing CSR programmes in their various locations. CSR activities are now being undertaken throughout the globe.

8.2 OBJECTIVES
After studying this Unit, you should be able to

- Define and discuss corporate social responsibility;
- Explain the approaches, components and elements of CSR;
- Examine the benefits of CSR activities in India; and
- Analyze the overall CSR activities in India and the World.

8.3 WHAT IS CORPORATE SOCIAL RESPONSIBILITY?
The term is often used interchangeably for other terms such as Corporate Citizenship and is also linked to the concept of Triple Bottom Line Reporting (TBL), which is used as a framework for measuring an organisation’s performance against economic, social and environmental parameters. The rationale for CSR has been articulated in a number of ways. In essence it is about building sustainable businesses, which need healthy economies, markets and communities (http://www.positiveoutcomes.com.au).

8.4 THE KEY DRIVERS FOR CSR
The following are the key drivers for Corporate Social Responsibility (CSR)

- Enlightened self-interest - creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labour and communities are able to function well together.

- Social investment - contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.

- Transparency and trust - business has low ratings of trust in public perception. There is increasing expectation that companies will be more open, more accountable and be prepared to report publicly on their performance in social and environmental arenas.

- Increased public expectations of business - globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes.
8.5 DIFFERENT APPROACHES TO CSR

An approach for CSR that is becoming more widely accepted is a community-based development approach. In this approach, corporations work with local communities to make themselves better. Often the activities in which companies participate are establishing education facilities for adults, providing sanitation facilities in poor countries and HIV/AIDS education programmes etc.

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 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 increase in corporate responsibility interest. This is called Creating Shared Value, or CSV. 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 article *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility* by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School; and Mark R. Kramer, Senior Fellow at the Kennedy School at Harvard University and co-founder of FSG Social Impact Advisors. The article provides insights and relevant examples of companies that have developed deep linkages between their business strategies and corporate social responsibility. Many approaches to CSR pit businesses against society, emphasizing the costs and limitations of compliance with externally imposed social and environmental standards. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.
Many companies use the strategy of benchmarking to compete within their respective industries in CSR policy, implementation, and effectiveness. Benchmarking involves reviewing competitor CSR initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and how customers perceive competitor CSR strategy. After a comprehensive study of competitor strategy and an internal policy review performed, a comparison can be drawn and a strategy developed for competition with CSR initiatives.

http://www.industryplayer.com/corporate_social_responsibility.php

8.6 COMPONENTS OF CSR

CSR attempts to counteract any negative effects that corporations have on society and replace them with constructive influence. The four stakeholders who are a part of this process include:

Employees
The treatment of employees by large corporations has often come under scrutiny by political organizations and human rights groups. Particularly in developing countries, where many resource extraction industries have extensive operations, there are on-going questions about how equitable working conditions and pay levels are. CSR seeks to assist corporations in treating both domestic and foreign employees equitably by providing safe and comfortable working conditions and a fair wage. This approach continues the ongoing transformation of a corporate mentality that was common in the nineteenth century, in which the rights of employees barely registered among the concerns of company owners.

Customers
Corporations have an obligation to provide safe, effective and good-quality products and services to their customers. A purely free-market analysis of this responsibility would state that these requirements will be met by the dictates of the market. The philosophy of CSR questions the truth of this belief, and advocates more proactive intervention into the relationship between corporations and their customers. Consumer protection initiatives, such as those advocated by Ralph Nader, help to provide the legal backing under which consumers can challenge what they see as questionable practices on the part of corporations.

Environment
Growing public awareness of environmental challenges involving toxins, resource depletion and climate change is forcing corporations to reconsider the traditional corporate view of the natural world as an unending cornucopia of resources. Environmental aspects of CSR encourage corporations to consider the finite nature of the natural world, and to take much more stringent measures to reduce waste, address polluting or destructive practices and integrate alternative energy systems and innovative waste-reduction programs. This shift in attitude is particularly critical in areas of South America and Africa, where corporations have extensive operations but are not subject to strict oversight and regulation.

**Society**

In addition to their responsibilities to employees, customers and the natural world, corporations are responsible for their impact on human society. Many millions of people who are not employed by a corporation and who do not purchase its products are nevertheless affected by its activities. CSR recognizes the interrelated nature of society, and acknowledges that no individual or company can exist totally isolated from the rest of society. Therefore, corporations need to critically analyze what impact their activities have, for good or ill, on surrounding communities, and take steps to maximize the good and minimize the ill.

### 8.7 ELEMENTS OF CSR

Historically, the main responsibility of corporations has been the generation of profits, or what could be called corporate financial responsibility. However, as the public, the government and the corporations themselves become more aware of the power wielded by major business organizations, the concept of corporate social responsibility became more prevalent. For some, CSR is sheer idealism, but for others it is not just the right thing to do, but also a smart business move.

**Scope**

Just as there is no single definition of CSR, there is not a specific set of rules or concerns to be followed by socially responsible corporations. The social responsibilities of a financial organization, a food company and a health provider are likely to have significant differences. There are, however, some core concerns that tend to be present in one way or another in all socially responsible organizations: respect for human rights, a preoccupation with environmental sustainability, and a concern for the interest of all the stakeholders (including employees, customers, and members of the surrounding community) as opposed to a single-minded pursuit of the interests of the shareholders.
Benefits

The case for corporate social responsibility can be framed from multiple perspectives: moral, ethical, religious and environmental, among others. The World Business Council for Sustainable Development has decided to emphasize the business case, however, as corporations are more likely to adopt socially responsible practices if they make business sense. Thus, CSR can be seen as a mechanism to gain support from non-financial yet important stakeholders like workers, customers, suppliers and local community organizations that can influence firm outcomes. It also has been highlighted that, all other things being equal, consumers, suppliers and employers prefer to deal with companies they trust and that in becoming a differentiating factor, CSR can become a strategic component of reputation building.

Criticisms

The movement towards increased corporate social responsibility has not been exempt of criticisms. The influential economist Milton Friedman argued that CSR was a misuse of corporate resources; since businesses are owned by their shareholders, money invested on projects beyond the core business that do not add to the bottom line can be seen as money stolen from its rightful owners. Likewise, CSR has been seen as an attempt by corporations to take roles better suited for governments. These criticisms can be ameliorated by making the CSR strategy an integral part of the brand identity, and by making it work in synergy to the core business operations.

Corporate governance and social responsibility are strongly correlated in the 21st century business environment. Business Dictionary points out that the traditional meaning of corporate governance is the methods used by companies to protect its financiers (e.g., investors and creditors). However, new expectations from other stakeholders have forced companies to broaden the focus of corporate governance to include accountability to customers, suppliers, employees, the government and community. This ethical accountability to stakeholder groups is the essence of corporate social responsibility (CSR).

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.
ii. Compare your answer with the one given at the end of this unit

Q1: What is corporate social responsibility?
2. What are the key drivers for CSR?

3. What are the four components of CSR?

8.8 BENEFITS OF CSR

Ref: USAID’s SLDP, corporate social responsibility (CSR) activities, Nis, June 8, 2012

The scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, and are difficult to quantify, though there is a large body of literature exhorting business to adopt measures beyond financial ones (e.g., Deming’s Fourteen Points, balanced scorecards). Orlitzky, Schmidt, and Rynes found a correlation between social/environmental performance and financial performance. However, businesses may not be looking at short-run financial returns when developing their CSR strategy.
The definition of CSR used within an organization can vary from the strict "stakeholder impacts" definition used by many CSR advocates and will often include charitable efforts and volunteering. CSR may be based within the human resources, business development or public relations departments of an organization, or may be given a separate unit reporting to the CEO or in some cases directly to the board. Some companies may implement CSR-type values without a clearly defined team or programme.

The business case for CSR within a company will likely rest on one or more of these arguments:

**Human resources**
A CSR programme can be an aid to recruitment and retention, particularly within the competitive graduate student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering. CSR has been found to encourage customer orientation among frontline employees. Corporate Social Entrepreneurship is another possibility, whereby CSR can also be driven by employees' personal values, in addition to the more obvious economic and governmental drivers.

**Risk management**
Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents. These can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks.

**Brand differentiation**
In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers. CSR can play a role in building customer loyalty based on distinctive ethical values. There are major brands which are built on ethical values. Business service organizations can benefit too from building a reputation for integrity and best practice.

**License to operate**
Corporations are keen to avoid interference in their business through taxation or regulations. By taking substantive voluntary steps, they can persuade governments and the wider public
that they are taking issues such as health and safety, diversity, or the environment seriously as good corporate citizens with respect to labour standards and impacts on the environment.

8.9 TYPES OF CSR

As large corporations begin to dominate the world economy, it raises questions about the importance of corporate social responsibility in business. A variety of types of corporate social responsibilities have emerged in public discussions, and understanding their implications is important.

Environmental Responsibility
People expect businesses to exhibit environmentally responsible behavior, as evidenced by a PricewaterhouseCoopers survey that found that the No. 1 issue for companies in the future, according to U.S. respondents, is carbon emissions reductions. Specific environmental issues that affect businesses include global warming, sustainable resources and pollution. Businesses are being urged by environmental groups and governments to reduce their carbon footprint, to obtain their materials from sustainable sources and to reduce their pollution.

Human Rights Responsibility
The 21st-century marketplace is highly global. This means that when a product is purchased in the United States, for example, it may have been produced in China, or have components from South America. The ethical issue for corporations is ensuring that human rights are respected throughout all levels of the supply chain. Major companies have received criticism for their use of sweat shops and for sourcing resources that are harvested by unfairly treated workers. This has lead to a push for the use of strict labor standards to be applied to suppliers, and a demand for fair trade products such as chocolate and coffee.

Financial Responsibility
Financial responsibility is an important issue in corporate social responsibility. In the wake of the accounting fraud perpetrated by Enron and Arthur Andersen and Ponzi schemes orchestrated by the likes of Bernie Madoff, businesses are questioned about the accuracy of their financial reporting by increasingly skeptical shareholders and government officials, as evidenced by the Sarbanes-Oxley Act. Employees are expected to act as whistle blowers in such situations, and white collar crime is seeing high-profile prosecutions like that of Martha Stewart or former Worldcom CEO Bernie Ebbers.

Political Responsibility
Trading with repressive regimes is a difficult issue in corporate social responsibility. Some businesses argue that working with these regimes will help to advance them and bring rights to the countries. People and governments have demanded that businesses stop trading with repressive regimes, which was most notably observed when several western governments launched an embargo against the Apartheid government in South Africa during the 1980s. Shell Oil received considerable consumer backlash during the 1990s for its complicit involvement with the Nigerian government that murdered anti-oil activists. These issues make doing business with certain governments an important consideration for corporate social responsibility.

Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.
ii. Compare your answer with the one given at the end of this unit

Q1: What are the benefits of CSR?
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Q2: What are the types of CSR in practice?
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8. 10 CORPORATE SOCIAL RESPONSIBILITY IN INDIA

Corporate Social Responsibility (CSR) has been on the agenda in India for a considerable period. Most big Indian corporations are engaged in some CSR activities. As is the case in many countries, the private sector is generally more active in this area than the governmental/public sector.

Several major CSR initiatives have been launched in India since the mid-1990s. Among these is the first voluntary code of corporate governance, “Desirable Corporate Governance: A Code”, established in April 1998. This was an initiative by the Confederation of Indian Industry (CII), India’s largest industry and business association.
A CSR project can begin in response to a crisis or adverse publicity that a company may suffer. The motive for launching CSR can vary between philanthropy and notions of corporate citizenship. In India, over time, the expectations of the public has grown enormously with demands focussing on poverty alleviation, tackling unemployment, fighting inequality or forcing companies to take affirmative action.

The historical driver of CSR has been philanthropy or a sense of ethics. After the Second World War, a variety of national and international regulations arose through organizations such as the International Labour Organisation (ILO), emphasising the need for an active social policy for transnational companies (TNCs). This additional driver, international institutions, has relevance for India through the work of the ILO, the OECD, Socially Responsible Investment (SRI), the SA8000 Social Accountability scheme and through the work of the UN Commission on Human Rights, which tackled the human rights responsibilities of TNCs.

In India, some public sector companies can spend up to 5% of their profits on CSR activities. Pressure groups have been quite successful in inducing companies to fund CSR schemes, even to the point of using kidnapping as a tactic! Forms of CSR differ according to the country or region. In Europe, for example, notions of CSR probably developed out of the Church and a sense of ethics. In India, CSR has evolved to encompass employees, customers, stakeholders and notions of sustainable development or corporate citizenship.

In transnational companies, the approach to CSR typically emerges from one of three elements including a decentralised strategy (which might examine human rights), a centralised strategy (which would be company-wide) or a globally integrated strategy (which would include Coca Cola or oil companies - where local actions can impinge globally). Many large companies enter into CSR through acts of philanthropy, for example, Bill Gates or Warren Buffet. Often, for such companies, the tax advantages are attractive or it may merely be a clever way to retain control of resources. India has been a major beneficiary from the Gates Foundation, particularly in health care. One of the fall-outs from the Enron scandal has been that in India individuals have been reluctant to accept directorships of companies.

From the perspective of the employee, CSR has been hugely important in India. For example, after 1945, TATA implemented social welfare provisions for its employees that have since
become the legislative norm. Equally, when companies announce they will reduce the number of employees, the workers can be fearful that the benefits they have accrued will be lost. While India has a large comparative demographic advantage with substantial numbers of graduate engineers, probably only one third are actually employable. There is also concern from employees who wonder what would happen to the welfare ethos if an Indian company took control of a European firm.

From the perspective of the customer, CSR initiatives can relate to issues of product quality. For example, Sony recently recalled, on a global basis, batteries it used in Dell computers. In Japan, allegations that a particular form of packaging promoted cancer equally led to huge product safety concerns. The last 15 years has witnessed substantial developments in the area of consumer rights. The Indian Supreme Court has declared that it would be better to lose thousands of jobs in order to protect the health of millions through cleaner air and a better environment.

From the perspective of stakeholders in the community, the bigger the company the greater the effort should be to protect the employees or the environment. There is some recognition that it would be hard for smaller companies to undertake CSR initiatives at that scale. Communities can pressure companies to provide and improve civic amenities. One scheme, the Provision of Urban Amenities in Rural Areas (PURPA) aims to prevent unnecessary urbanisation and help tackle migration from rural areas. Larger companies might also be interested in promoting arts and culture as a service to the community to protect local culture.

Some companies have encouraged skilled employees to teach in the local community. One of the arguments against CSR has been that it lowers company profits, but the IMI has shown that many companies say the benefits outweigh the costs. Another argument has come from some employees who have been hesitant to demand more CSR, seeing a trade-off between CSR spending and better employee welfare provision.

There can be different concepts of CSR between countries or even within a specific business sector. Companies can have a relationship to the local community without necessarily calling it CSR. EIAS, wants to broaden the research focus between the EU and India on CSR in order to help benefit business development.
Case studies examining current practice are important but, CSR should also be part of the management training curriculum. Shareholders will have to be convinced of the value of CSR when management is under pressure to deliver profits. To what extent would the Indian trade union movement be strong enough to protect workers against any aggressive action by companies seeking to divest themselves of their social responsibility to employees? Would unions in India be capable of providing nationwide action at the policy level, as the implementation of legislation is severely lacking in India and the inspection regime system is an embarassment? This failure also lowers public expectations of what can be achieved.

**Check Your Progress Exercise 4**

Note: i. Use this space given below to answer the question.

   ii. Compare your answer with the one given at the end of this unit

Q1: What is the history of corporate social responsibility in India?

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Q2: What are the drivers of CSR in India?

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Q3: How has CSR impacted labour relations in India?

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**8.11 CRITICISM OF CSR**

Critics of CSR, as well as proponents, debate a number of concerns related to it. These include CSR's relationship to the fundamental purpose and nature of business and questionable motives for engaging in CSR, including concerns about insincerity and hypocrisy.
Nature of business

Milton Friedman and others have argued that a corporation's purpose is to maximize returns to its shareholders, and that since only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as incongruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is contrasting with capitalism and are in favor of neo-liberalism argue that improvements in health, longevity and/or infant mortality have been created by economic growth attributed to free enterprise.

Critics of this argument perceive neo-liberalism as opposed to the well-being of society and a hindrance to human freedom. They claim that the type of capitalism practiced in many developing countries is a form of economic and cultural imperialism, noting that these countries usually have fewer labour protections, and thus their citizens are at a higher risk of exploitation by multinational corporations.

A wide variety of individuals and organizations operate in between these poles. For example, the REALeadership Alliance asserts that the business of leadership (be it corporate or otherwise) is to change the world for the better. Many religious and cultural traditions hold that the economy exists to serve human beings, so all economic entities have an obligation to society (Economic Justice for All). Moreover, as discussed above, many CSR proponents point out that CSR can significantly improve long-term corporate profitability because it reduces risks and inefficiencies while offering a host of potential benefits such as enhanced brand reputation and employee engagement.

Motives

Some critics believe that CSR programs are undertaken by companies such as British American Tobacco (BAT), the petroleum giant BP (well-known for its high-profile advertising campaigns on environmental aspects of its operations), and McDonald's to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government. They suggest that corporations which exist solely to maximize profits are unable to advance the interests of society as a whole.

Another concern is that sometimes companies claim to promote CSR and be committed to sustainable development but simultaneously engage in harmful business practices.
Royal Dutch Shell has a much-publicized CSR policy and was a pioneer in triple bottom line reporting, but this did not prevent the 2004 scandal concerning its misreporting of oil reserves, which seriously damaged its reputation and led to charges of hypocrisy. Since then, the Shell Foundation has become involved in many projects across the world, including a partnership with Marks and Spencer (UK) in three flower and fruit growing communities across Africa.

Critics concerned with corporate hypocrisy and insincerity generally suggest that better governmental and international regulation and enforcement, rather than voluntary measures, are necessary to ensure that companies behave in a socially responsible manner. A major area of necessary international regulation is the reduction of the capacity of corporations to sue states under investor state dispute settlement provisions in trade or investment treaties if otherwise necessary public health or environment protection legislation has impeded corporate investments. Others, such as Patricia Werhane, argue that CSR should be considered more as a corporate moral responsibility, and limit the reach of CSR by focusing more on direct impacts of the organization as viewed through a systems perspective to identify stakeholders.

Check Your Progress Exercise 4

Note: i. Use this space given below to answer the question.
ii. Compare your answer with the one given at the end of this unit

Q1: Why is CSR criticised?

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Q2: Have the CSR initiatives of corporations been suspect?

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8.12 ETHICAL CONSUMERISM

The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand (Grace and Cohen 2005, 147). Industrialization, in
many developing countries, is booming as a result of both technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

8.13 GLOBALIZATION AND MARKET FORCES

As corporations pursue growth through globalization, they have encountered new challenges that impose limits to their growth and potential profits. Government regulations, tariffs, environmental restrictions and varying standards of what constitutes "labor exploitation" are problems that can cost organizations millions of dollars. Some view ethical issues as simply a costly hindrance, while some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions to provide a subconscious level of advertising. Global competition places a particular pressure on multinational corporations to examine not only their own labor practices, but those of their entire supply chain, from a CSR perspective.

8.14 SOCIAL AWARENESS AND EDUCATION

The role among corporate stakeholders is to work collectively to pressure corporations that are changing. Shareholders and investors themselves, through socially responsible investing are exerting pressure on corporations to behave responsibly. Non-governmental organizations are also taking an increasing role, leveraging the power of the media and the Internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community awareness in holding businesses responsible for their actions is growing. In recent years, the traditional conception of CSR is being challenged by the more community-conscious Creating Shared Value concept (CSV), and several companies are refining their collaboration with stakeholders accordingly.

8.15 ETHICS TRAINING

The rise of ethics training inside corporations, some of it required by government regulation, is another driver credited with changing the behavior and culture of corporations. The aim of such training is to help employees make ethical decisions when the answers are unclear.
Many believe that humans are built with the capacity to cheat and manipulate, hence the need for learning normative values and rules in human behavior. The most direct benefit is reducing the likelihood of "dirty hands", fines and damaged reputations for breaching laws or moral norms. Organizations also see secondary benefit in increasing employee loyalty and pride in the organization.

Increasingly, companies are becoming interested in processes that can add visibility to their CSR policies and activities. One method that is gaining increasing popularity is the use of well-grounded training programs, where CSR is a major issue, and business simulations can play a part in this. One relevant documentary is The Corporation, in which the history of organizations and their growth in power is discussed. Corporate social responsibility, what a company does in trying to benefit society, versus corporate moral responsibility (CMR), what a company should morally do, are both important topics to consider when looking at ethics in CSR. For example, Ray Anderson, in The Corporation, takes a CMR perspective in order to do what is moral and he begins to shift his company's focus towards the biosphere by utilizing carpets in sections so that they will sustain for longer periods. If people do not pay attention to the private ways in which we use public resources, people will eventually lose those public resources.

**Check Your Progress Exercise 5**

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

Q1: What is the connection between CSR and Ethical consumerism?

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Q2: How has CSR influenced behavior and culture of corporations?

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**8.16 SUMMING UP**
In this unit we have seen what is meant by Corporate Social Responsibility and the role it plays in today’s corporate world. We have also understood the role of CSR in creating a healthy atmosphere for ethical business practices and also its role as a tool of promotion and public relations for the corporates.

8.17 GLOSSARY

Social investment: Investing into social action for the betterment of the society and also for raising the profile of the company.

Ethical consumerism: The realisation that our resources are limited and becoming more aware of the environmental and social implications of our day-to-day consumer decisions.

8.18 ANSWER TO CHECK YOUR PROGRESS EXERCISE

Check Your Progress Exercise 1

1. Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is 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 the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest (PI) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of PI into corporate decision-making that is the core business of the company or firm, and the honouring of a triple bottom line: people, planet, profit.

2. The key drivers for CSR are:

   - Enlightened self-interest - creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labour and communities are able to function well together.
Social investment - contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.

Transparency and trust - business has low ratings of trust in public perception. There is increasing expectation that companies will be more open, more accountable and be prepared to report publicly on their performance in social and environmental arenas.

Increased public expectations of business - globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes.

3. The four components of CSR are:

**Employees**
CSR seeks to assist corporations in treating both domestic and foreign employees equitably by providing safe and comfortable working conditions and a fair wage. This approach continues the ongoing transformation of a corporate mentality that was common in the nineteenth century, in which the rights of employees barely registered among the concerns of company owners.

**Customers**
Corporations have an obligation to provide safe, effective and good-quality products and services to their customers. A purely free-market analysis of this responsibility would state that these requirements will be met by the dictates of the market. The philosophy of CSR questions the truth of this belief, and advocates more proactive intervention into the relationship between corporations and their customers.

**Environment**
Environmental aspects of CSR encourage corporations to consider the finite nature of the natural world, and to take much more stringent measures to reduce waste, address polluting or destructive practices and integrate alternative energy systems and innovative waste-reduction programs.

**Society**
CSR recognizes the interrelated nature of society, and acknowledges that no individual or company can exist totally isolated from the rest of society. Therefore, corporations need to critically analyze what impact their activities have, for good or ill, on surrounding communities, and take steps to maximize the good and minimize the ill.

**Check Your Progress Exercise 2**
1. CSR may be based within the human resources, business development or public relations departments of an organisation, or may be given a separate unit reporting to
the CEO or in some cases directly to the board. The business case for CSR within a company will likely rest on one or more of these arguments:

**Human resources:** A CSR programme can be an aid to recruitment and retention, particularly within the competitive graduate student market. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering.

**Risk management:** Building a genuine culture of 'doing the right thing' within a corporation can build up the work ethic of the staff which will avoid incidents such as corruption scandals or environmental accidents.

**Brand differentiation:** In crowded marketplaces, companies strive for a unique selling proposition, and CSR can play a role in building customer loyalty based on distinctive ethical values.

**License to operate:** By taking substantive voluntary steps, Corporations can avoid interference in their business through taxation or regulations.

2. **Environmental Responsibility:** Businesses are being urged by environmental groups and governments to reduce their carbon footprint, to obtain their materials from sustainable sources and to reduce their pollution.

**Human Rights Responsibility:** Major companies have received criticism for their use of sweat shops and for sourcing resources that are harvested by unfairly treated workers. This has lead to a push for the use of strict labor standards to be applied to suppliers.

**Financial Responsibility:** Financial responsibility is an important issue in corporate social responsibility. Employees are expected to act as whistle blowers.

**Political Responsibility:** People and governments have demanded that businesses stop trading with repressive regimes. This has made doing business with certain governments an important consideration for corporate social responsibility.

**Check Your Progress Exercise 3**

1. Corporate Social Responsibility (CSR) has been on the agenda in India for a considerable period. Most big Indian corporations are engaged in some CSR activities. As is the case in many countries, the private sector is generally more active in this area than the governmental/public sector.
Several major CSR initiatives have been launched in India since the mid-1990s. Among these is the first voluntary code of corporate governance, “Desirable Corporate Governance: A Code”, established in April 1998. This was an initiative by the Confederation of Indian Industry (CII), India’s largest industry and business association.

2. The historical driver of CSR has been philanthropy or a sense of ethics. After the Second World War, a variety of national and international regulations arose through organizations such as the International Labour Organisation (ILO), emphasising the need for an active social policy for transnational companies (TNCs). This additional driver, international institutions, has relevance for India through the work of the ILO, the OECD, Socially Responsible Investment (SRI), the SA8000 Social Accountability scheme and through the work of the UN Commission on Human Rights, which tackled the human rights responsibilities of TNCs.

3. From the perspective of the employee, CSR has been hugely important in India. For example, after 1945, TATA implemented social welfare provisions for its employees that have since become the legislative norm. Equally, when companies announce they will reduce the number of employees, the workers can be fearful that the benefits they have accrued will be lost. While India has a large comparative demographic advantage with substantial numbers of graduate engineers, probably only one third are actually employable. There is also concern from employees who wonder what would happen to the welfare ethos if an Indian company took control of a European firm.

Check Your Progress Exercise 4

1. Milton Friedman and others have argued that a corporation's purpose is to maximize returns to its shareholders, and that since only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as incongruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is contrasting with capitalism and are in favor of neo-liberalism argue that improvements in health, longevity and/or infant mortality have been created by economic growth attributed to free enterprise.
2. Some critics believe that CSR programs are undertaken by companies such as British American Tobacco (BAT), the petroleum giant BP (well-known for its high-profile advertising campaigns on environmental aspects of its operations), and McDonald's to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government. They suggest that corporations which exist solely to maximize profits are unable to advance the interests of society as a whole. Royal Dutch Shell has a much-publicized CSR policy and was a pioneer in triple bottom line reporting, but this did not prevent the 2004 scandal concerning its misreporting of oil reserves, which seriously damaged its reputation and led to charges of hypocrisy.

**Check Your Progress Exercise 5**

1. The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand. Industrialization, in many developing countries, is booming as a result of both technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

2. The rise of ethics training inside corporations, some of it required by government regulation, is another driver credited with changing the behavior and culture of corporations. The aim of such training is to help employees make ethical decisions when the answers are unclear. Many believe that humans are built with the capacity to cheat and manipulate, hence the need for learning normative values and rules in human behavior. The most direct benefit is reducing the likelihood of "dirty hands", fines and damaged reputations for breaching laws or moral norms. Organizations also see secondary benefit in increasing employee loyalty and pride in the organization.

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### 8.20 QUESTIONS FOR REFLECTION AND PRACTICE

1. What is Corporate Social Responsibility and why is it important in today’s business?
2. What are the different elements that influence CSR and what are the benefits of CSR?
3. Why is CSR criticised by some people?
4. How is CSR related to ethical consumerism?