

Corporate Social Responsibility

Vital for Shielding the Goodwill and Increasing Competitiveness

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Abstract

Corporate Social Responsibility (CSR) is the way a corporation achieves a balance between its economic, social, and environmental responsibilities in its operations so as to address shareholder and other stakeholder expectations. It is a general management concern, it is important to all aspects of business, and it is integrated into a corporation's operations through its values, culture, decision making, strategy, and reporting mechanisms. The idea of CSR perceive essentially it is doing right things. CSR is about how organization's existence affects stakeholders beyond own insular interests, recognizing the impact of its operations on the community at large. Economical arrangements are covered that help society and the planet while developing business. By embracing CSR system the organization activity can affect positivity, prompting feasible advancement and money related increases.

Key words: *Corporate Social Responsibility, Environmental Aspects, Global Philanthropy, The Charity Principle, The Stewardship Principle.*

Introduction

The concept of Corporate Social Responsibility (CSR) got wide publicity by **Andrew Carnegie (1835-1919)** in 1899, founder of U.S. Steel Corporation. Mr. Andrew published a book called "**The Gospel of Wealth**". Andrew's view was based on two principles - **the charity principle and the stewardship (caretakership) principle**. Both were indeed paternalistic and viewed business enterprises as parents of employees and customers who lacked the capacity to interpret their own best interests.

Both the principles viewed the two stakeholders as helpless and childlike who need a protection and care. The charity principle guided the more fortunate citizens of the society to help its less fortunate citizens including physically challenged, jobless, unemployed, sick and elderly. These unfortunate citizens could be aided either directly or indirectly through institutions like churches and other social units.

The second principle stewardship rooted from the **Bible**, required businesses and well to do individuals to act as caretakers or stewards of weaker section of society. There are contradictory views too, which argue that charity and stewardship principles are applied on those who had wasted interest in perceiving the free enterprise system of economy. This particular school of critics viewed CSR as balancing social needs with economic needs. Some critics viewed that the notion of CSR permitted business enterprise to choose their own social obligations according to their own lights.

In the early 1900s, business firms were governed by economic motives but modern business organisations have experienced a marked shift from economic to economic and non-economic objectives. A question that arises here is-What caused management shift its attitude from purely profit-oriented approach to social causes, such as aid to education, urban renewal, opening of job opportunities for minorities etc. Modern managers regard social concerns because of the below mentioned reasons:

- **Social forces:** Business organisations are powerful institutions of the society. Their acceptance by the society will be denied if they ignore social problems. To avoid self-destruction in the long-run, business enterprises assume social responsibility.
- **Avoid government interference:** Non-conformance to social norms may attract legislative restrictions. Government directly influences the organisations through rules and regulations that dictate what they should do and what not. Various agencies monitor business activities. For example, Central Pollution Control Board takes care of issues related to environmental pollution, Securities and Exchange Board of India takes care of issues related to investor protection, Employees State Insurance Corporation takes care of issues related to employees' health etc. Organisations that violate these regulations are levied fines and penalties. To avoid such interventions, business organisations have risen to the cause of social concerns.
- **Strength of the labour force:** Labour force today is united into unions which are organised into groups that demand protection of their rights from business enterprises. To get the support of workers, it has become necessary for business organisations to discharge responsibility towards their employees.
- **Consumer protection:** *Caveat emptor* ('let the buyer beware'), which was once the dictum of business firms no more holds true. Consumer today is the kingpin around whom all marketing activities revolve. Consumer today will not buy what is offered to him. He buys what he wants. Business firms that

fail to offer goods and services that satisfy the needs of consumers will close down sooner or later. Besides, there are consumer redressal cells, where consumers are protected against anti-consumer activities carried by business firms. Consumer sovereignty has, thus, forced business firms to assume social responsiveness towards them.

- **Self-enlightenment:** With increase in the level of education and understanding of businessmen that they are the creations of society, they are motivated to work for the cause of social good. Managers create public expectations by voluntarily setting and following idealistic standards of moral and social responsibility. They ensure paying taxes to the Government, dividends to shareholders, fair wages to workers, providing quality goods to consumers and so on. Rather than legislative interference being the cause of social responsibility, business firms assume social responsibility on their own.
- **Professionalization:** Management is moving towards professionalism and this growing professionalization is contributing to growing social orientation of business. Increasing professionalism is causing managers to have formal management education and qualifications. Managers specialise in planning, organising, leading and controlling the efforts of others through their knowledge and subscribe to the code of ethics established by a recognised body. The ethics of profession bind business managers to social values and growing concern for society.

Increasing awareness of social responsibility is, thus, the outcome of a businessman's concern for above factors.

Scope of Corporate Social Responsibility

Ernst and Ernst (1978) identified six areas in which corporate social objectives may be found:

- I. **Environment**-This area involves the environmental aspects of production, covering pollution control in the conduct of business operations, prevention or repair of damage to the environment resulting from processing of natural resources and the conservation of natural resources. Corporate social objectives are to be found in the abatement of the negative external social effects of industrial production, and adopting more efficient technologies to minimize the use of irreplaceable resources and the production of waste.
- II. **Energy**-This area covers conservation of energy in the conduct of business operations and increasing the energy efficiency of the company's products.

- III. ***Fair Business Practices*** - This area concerns the relationship of the company to special interest groups. In particular it deals with:
- Employment of minorities
 - Advancement of minorities
 - Employment of women
 - Employment of other special interest groups
 - Support for minority businesses
 - Socially responsible practices abroad.
- IV. ***Human Resources***- This area concerns the impact of organizational activities on the people who constitute the human resources of the organization. These activities include:
- Recruiting practices
 - Training programs
 - Experience building -job rotation
 - Job enrichment
 - Wage and salary levels
 - Fringe benefit plans
 - Congruence of employee and organizational goals
 - - Mutual trust and confidence
 - Job security, stability of workforce, layoff and recall practices
 - Transfer and promotion policies
 - Occupational health
- V. ***Community Development*** - This area involves community activities, health-related activities, education and the arts and other community activity disclosures.
- VI. ***Products*** - This area concerns the qualitative aspects of the products, for example their utility, life durability, safety and serviceability, as well as their effect on pollution. Moreover, it includes customer satisfaction, truthfulness in advertising, completeness and clarity of labelling and packaging. Many of these considerations are important already from a marketing point of view. It is clear, however, that the social responsibility aspect of the product contribution extends beyond what is advantageous from a marketing angle.

Principles of Corporate Social Responsibility

Post, Fredrick and Lawrence pinpoint following two principles responsible for emergence of corporate social responsibility:

1. Charity Principle

This principle requires that wealthy member of society should be generous to donate to poor members of society. Instances of individual charities like by Steel giant Andrew Carnegie and Autogenic Henry Ford were gradually recognized by business enterprises. Transition of Individual charity in corporate philanthropy has been the most positive development of 20th century. Now it is not individuals but corporate like TATA, Birla, and Reliance in India which have taken up social causes like education, medical facilities etc. Business enterprises started to mark a part of their budget for social causes.

2. Stewardship Principle

This principle unfolds the realization of business executives who started treating themselves as trustees or steward of society acting in public interest. Despite of economic motives the managers started concentrating on social causes to justify as being public trustees.

Corporate Philanthropy: Modern Form of Corporate Social Responsibility

Philanthropy means charity or desire to help mankind. It has an element of voluntary service, social service or volunteering oneself or resources for well being of public at large. The purpose of philanthropy may be charitable, humane, religious or self-less service. In context of business, it can be described as the giving to society. Carroll Buchholtz terms corporate philanthropy as business giving.

Viewed as business giving the concept of corporate philanthropy means voluntary giving corporate resources for social causes. Some of the reasons for corporate givings have been to save tax by making social donations and to earn goodwill etc. Another reason for business giving has been to support the non-profit sector like charitable, social, research and development bodies and other autonomous bodies.

Thus, the principle of charity and stewardship has transformed the concept of corporate social responsibility into Corporate Philanthropy. The modern concept of Corporate Social Responsibility Recognizes Business and Society as inter-dependent with commonality of interests. The mutuality of interest has made enterprises more caring and concerned towards social causes while formulating their policies.

The concept of Corporate Philanthropy is now a global concept. Enterprises now take it as a global strategy. Global enterprises contribute wherever they operate or wish to make their presence felt. For example, Microsoft donated huge amount for social causes in India, Coca-Cola and Ford have been spending good amount for causes like AIDS in Sub-Saharan

Africa. Entrepreneurs argue that such business giving's beneficial for companies in long run. This giving's improved their image, generates market, and improves contact with respective Governments and all sections of society. Global Philanthropy is penetrating rapidly and with wide coverage.

Favourable Aspects of CSR

Some of views in favour of corporate social responsibility are as favourable follows:

❖ Profits lost are recovered in long run

Corporate social responsibility does reduce short-term profit but helps firms to recover them in long-term. It has been the experience of enterprises which commit their resources for social cause build confidence, popularity and sense of reliability amongst people. It helps enterprises to widen their social base. They get familiarized to all sections of society. They attract larger customers, make better sales and earn larger profits. Thus the short term loss costs get recovered in long run.

❖ Optimum profit

Corporate social responsibility aims at optimum profit rather than maximum profits and thus restrains enterprises from trapped in lust for profit. Corporate social responsibility helps enterprises to determine a reasonable level of profit which is essential to meet their survival and to cater the needs of growth. If there is no restraint on profit, enterprises may just concentrate on more and more profits which may be followed by low quality and poor services.

❖ Cost gets recovered

Social cost gets recovered in due course. If an enterprise incurs some cost for social causes, it in turn builds a reputation in eyes of public at large. For example, we consider goods of TATA quite dependable and rely upon not because no one else produces such goods but because people know the sensitivity of this group towards quality and society. Thus, social cost are investments which get recovered through better goodwill and positive consumer response.

❖ Averts penalty

Cost incurred for meeting corporate social responsibility obligation averts the fine, penalty etc. an enterprise may have to pay for being irresponsible. Such costs also get offset as enterprises do not have to spent on refining the natural resources. Say for example, if an

enterprise throws its toxics or other discharges in a nearby river, the water shall get polluted. The enterprise shall have to incur extra cost for water treatment for making it usable.

❖ **Mere production is not sole aim**

Responsibility of a business goes beyond mere production of goods and services and profit making. It gains strength from the reasons that business remains dependant on society for marketing and sales. If enterprises merely produce or sell regardless of the customer aspirations, safety, etc., it shall ultimately fail to generate effective demand and may have to even close down.

❖ **Involves almost all stakeholders**

Business influences almost all stakeholders. It is a wrong notion that business has to be concerned with its shareholders only. Such a consideration shall neglect other interest groups who may think of not supporting such indifferent enterprises. For example, if an enterprise causes pollution, investors may not subscribe to its public issues and it may fail to raise capital from market.

❖ **Broader constituency to serve**

Business has a broader constituency to serve than shareholders alone. Corporate social responsibility broadens the view and vision of an enterprise. By following this concept an enterprise learns to balance interests and concerns of variety of stakeholders.

❖ **Sustained growth**

Co-operation of business with society and its organ can help it to achieve sustainable development. This is possible only if enterprises follow a broad vision as their obligations. Corporate social responsibility helps enterprises to rope in the confidence of large number of stakeholders. It helps to achieve sustained growth.

❖ **Problems originating due to business**

Problems originating due to corporate action or decision need to be addressed by them. An enterprise cannot shirk its responsibility for harm if any is caused due to its actions and decisions. Corporate social responsibility is the concept which holds an enterprise liable for the loss, damage, harm or inconvenience caused to any section because of its actions and decisions.

❖ **Business uses resources of society**

Business uses resources of society and hence owes a responsibility to serve society. Corporate social responsibility in relation to use of resources regulates enterprises as to the

extent they should exploit or use. For example, enterprises which take up deep mining ultimately endanger the surrounding population with risks like soil erosion etc.

Critical Aspects of CSR

Some of views against corporate social responsibility are as follows:

✍ Profits and responsibility are sequentially related

Social responsibility and profit have a sequential relationship. Profit comes first and corporate social responsibility later. Therefore before committing any cost towards social cause an enterprise has to make sure that it has sufficient profits to meet the obligation. No enterprise can take up social cause unless its cost is known and cost is well within range of its earned/accumulated profits.

✍ Difficult to estimate positive impact

It is difficult to ascertain the positive impact of corporate social responsibility on profit. An enterprise may spend or commit its funds to social causes which may generate better feeling, good thinking about an enterprise. But what impacts these positive thinking in minds of people may lead to is difficult to ascertain. Thus, cost of corporate social responsibility may or may not always bring positive results for an enterprise.

✍ Compliance of law is sufficient

Social sentiments, value-system, ethics are pure persuasive matters and not binding on an enterprise. The only obligation an enterprise owes is complying with laws made. It is therefore sufficient for business enterprises if they abide by laws of land they operate in. In short, business has no responsibility than the compliance of law.

✍ Responsibility cannot exceed obligation

Business can be socially responsible only to the extent of contractual obligation it may owe. As the scope and definition of corporate social responsibility is so large and unpredictable that society and stakeholders try to relate all negative impact on them to business enterprises. Business therefore contradicts and owns only such responsibilities which squarely relate to them. They try to restrict their responsibility to such extent which arise of their action only.

✍ Society too affects business

Society has its own objectives and its action and decision also effect business. Therefore, it is a wrong notion that social responsibility applies on business alone. Society

does not own its responsibility for ill effects it may create on business. Therefore, it may not be inappropriate for business not to own any responsibility.

✍ **Society must safeguard its interests**

Doctrine of caveat emptor applies on society as well. Society must create its own safe- guards. There is no system which may compensate business for harmful effect of social decisions. Merely making business liable for all ill effects on society is not the solution. Thus, the argument that society is a powerful institution and it must safeguard its interests holds good.

✍ **Complex ethical issues**

Ethical issues and value system of society is so complex that there is no unanimity as to the scope and extent of corporate responsibility. It really becomes difficult for business to understand the social concern in the manner it perceives.

Summing-up

We may opine that, Social Responsibility of Business refers to what a business does over the statutory requirement for the benefit of the society. The word "responsibility means that the business has some moral duty towards the society CSR, also known as Corporate Social Performance, is a form of corporate self regulation integrated into a business model.

Corporate Social Responsibility is not only for profit-making, but it also includes protecting and contributing to society in various ways for their development. CSR has become an important part of the corporate strategy. It is a concept in which a company combines social concerns with their business operations Corporate have a responsibility to return back the resources they took from society.

The Companies Act 2013 is a legislation that made India being the first country to mandate CSR. The aspects of CSR are mentioned in Section 135 of the Companies Act 2013 According to the Act, every company whether public or private having net worth of Rs. 500 Cr or turnover of Rs 1000 Cr of net profit of Rs 5 Cr must contribute at least 2% of its average net profit for the preceding 3 Financial years as CSR.

Academicians and Researchers have advocated the CSR Drive worldwide. CSR is a way adopting Triple-Bottom- Line Approach to fulfil the expectations of shareholders and stakeholders.

Moon (2004) examined the role of government in driving corporate social responsibility among the corporate. The study explained that the drivers of CSR are related

with business and society, his study cleared that government is driver of CSR by making true & clear relationship, properly formulating policies and regulations. The study also highlighted the other country's situation & how their government entered into businesses for driving CSR. **Vogel (2005)** observed that corporate social responsibility is a very important dimension of corporate strategy and not a precondition for business success. The businesses must find a viable course of action between what is socially and ethically rights and what are economically profitable.

Idowu (2007) with their study of twenty companies in U.K., propounded that the U.K. companies have now become ethical in context of social responsibility. Here companies disclose it's CSR with a view of public benefits, government request and issue information to every stakeholder by considering people in twenty first century are better educated than past. **Heide (2008)** paper based on a case study is the best example to handle the CSR critical incidents and utilize its experience in enforcing the CSR policies. The study concluded that CSR should be managed by handling unexpected incidents, by reducing the gap between stakeholders and their expectations and company performance and finally maintaining relationship with society through interplay between actor, resources and activities. **Holmqvist (2009)** be argued that over the last few decades corporations are paying special attention towards their social responsibility of workers health and their well beings. The strategy has two fold advantages including, ensuring better health and wellbeing for employees at work place and, sustaining responsible organizations in the socio- competitive environment. He viewed corporate social responsibility as corporate social control.

Finally, as corporates are profit making organizations, basic assumption is that they should be sensitive to the needs of communities or society at large in which they operate; similarly their products and services should not bring negative impact on people and planet. The concept of CSR has wider scope. All the three components -Profit, People, Planet are to be taken into consideration for a bright future.

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