

# Corporate Social Responsibility: A Management Strategy for Sustainable Business

**Juhi Souran and Swati Rao**

**Fourth Year** student at Hidayatullah National Law University, Raipur; Mailing Address : Qr No 1B, Street 5, Sector 9, Bhilai, Chhattisgarh, 490009; e-mail : [juhi.hnlu@gmail.com](mailto:juhi.hnlu@gmail.com); Mob: +91 7415244696

**Fourth Year** student at Hidayatullah National Law University, Raipur; Mailing Address : Qr No 9B, Street 3, Sector 9, Bhilai, Chhattisgarh, 490009; email : [swatir.24@gmail.com](mailto:swatir.24@gmail.com); Mob: +91 9893873868

*Abstract-Corporate Social Responsibility sets a realistic agenda of grassroots development through alliances and partnerships with sustainable development approaches. The paper seeks to analyze the concept of corporate social responsibility, its significance in modern times and the fact that it helps in ethical management of a business. The paper talks about the codes and regulations concerning corporate social responsibility and the forces at work. It traces the history and development of corporate social responsibility and analyses how it is an effective management strategy for sustainable business practices. The position of CSR in India is discussed at length. CSR in India is in a very nascent stage. It is still one of the least understood initiatives in the Indian development sector. It is followed by a handful of public companies as dictated by the very basis of their existence, and by a few private companies, with international shareholding as this is the practice followed by them in their respective foreign country.*

**Keywords:** corporate social responsibility, sustainable development, global business, management strategy, corporate governance.

## **CORPORATE SOCIAL RESPONSIBILITY: AN INTRODUCTION**

The World Business Council for Sustainable Development in its publication 'Making Good Business Sense' defined Corporate Social Responsibility as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. The same report gave some evidence of the different perceptions of what this should mean from a number of different societies across the world. Definitions as different as "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" from Ghana, through to "CSR is about business giving back to society" from the Philippines. The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.

CSR is a means of analyzing the inter-dependent relationships that exist between businesses and economic systems, and the communities within which they are based. CSR is a means of discussing the extent of any obligations a business has to its immediate society; a way of proposing policy ideas on how those obligations can be met; as well as a tool by which the benefits to a business for meeting those obligations can be identified. It is also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible

## **Corporate Social Responsibility: A Management Strategy for Sustainable Business**

business (SRB), or corporate social performance. It is a form of corporate self-regulation integrated into a business model. Consequently, business would embrace responsibility for the impact of its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

Different organisations have framed different definitions - although there is considerable common ground between them. Companies need to answer to two aspects of their operations. 1. The quality of their management - both in terms of people and processes.

2. The nature of, and quantity of their impact on society in the various areas.

There are three basic principles in Corporate Social Responsibility which have to be considered.

**Sustainability-** Sustainability is a concept which is in vogue at present; it is concerned with the effect of action taken in the present has upon the options available in the future. If resources are utilized in the present they are no longer available for future as they are finite in quantity.

**Accountability-** Accountability is concerned with an organization recognizing that its actions affect the external environment, and therefore assuming responsibility for the effect for of its actions. It necessitates the development of appropriate measures of environmental performance and the reporting of the actions of the firm.

**Transparency-** Transparency, as a principle, means that the external impact of the actions of the organization can be ascertained from that organisation's reporting and pertinent facts are not disguised within that reporting.

Social responsibility is an ethical or ideological theory that business should not function amorally but instead should contribute to the welfare of their communities and an entity whether it is a government, corporation, organization or individual has a big responsibility to society at large. This

responsibility can be negative, meaning there is exemption from blame or liability, or it can be positive, meaning there is a responsibility to act beneficently. Thus, the meaning of CSR is two fold. On one hand, it exhibits the ethical behavior that an organization exhibits towards its internal and external stakeholders (customers as well as employees). On the other hand, it denotes the responsibility of an organization towards the environment and society in which it operates.

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.

The key drivers for CSR are:

- i. **Enlightened self-interest** - creating a synergy of ethics, a cohesive society and sustainable global economy where markets, labour and communities are able to function well together.
- ii. **Social investment** - contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.
- iii. **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.
- iv. **Increased public expectations of business** - globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes and employment.

CSR is really about how to manage the following six responsibilities:

- i. Customers
- ii. Employees
- iii. Business Partners
- iv. The Environment

## Corporate Social Responsibility: A Management Strategy for Sustainable Business

- v. Communities
- vi. Investors

### **CODES AND REGULATIONS CONCERNING CSR**

Codes vary according to the areas that they cover. The OECD report categorizes five main areas of conduct:

- (a) Fair business practices;
- (b) Observance of the rule of law;
- (c) Fair employment and labour rights;
- (d) Environmental stewardship; and
- (e) Corporate citizenship.

Codes also vary according to the sponsoring organization or partnership.

According to a report by the United States Council for International Business (USCIB), most existing codes have been developed by individual companies for use in their own operations and management. Four prominent codes of conduct (following Urminsky's definition referred to above) are the GRI, AIOOO, SA8000 and the United Nations Global Compact. The GRI is intended to help companies produce social reports and, as its most recent report states, "the Guidelines themselves are not a code of conduct nor a performance standard"

### **HISTORY AND DEVELOPMENT OF CSR**

Business started long centuries before the dawn of history, but business as we now know it is new - new in its broadening scope, new in its social significance. Business has not learned how to handle these changes, nor does it recognise the magnitude of its responsibilities for the future of civilisation. The history of CSR is almost as long as that of companies. Concerns about the excesses of the East India Company were commonly expressed in the seventeenth century. There has been a tradition of benevolent capitalism in the UK for over 150 years. Quakers, such as Barclays and Cadbury, as well

as socialists, such as Engels and Morris, experimented with socially responsible and values-based forms of business. And Victorian philanthropy could be said to be responsible for considerable portions of the urban landscape of older town centres today.

The history of social and environmental concern about business is as old as trade and business itself. Commercial logging operations for example, together with laws to protect forests, can both be traced back almost 5,000 years. In Ancient Mesopotamia around 1700 BC, King Hammurabi introduced a code in which builders, innkeepers or farmers were put to death if their negligence caused the deaths of others, or major inconvenience to local citizens. In Ancient Rome senators grumbled about the failure of businesses to contribute sufficient taxes to fund their military campaigns, while in 1622 disgruntled shareholders in the Dutch East India Company started issuing pamphlets complaining about management secrecy and "self enrichment". By the 1920s discussions about the social responsibilities of business had evolved into what we can recognise as the beginnings of the "modern" CSR movement. But since the 1930s, and increasingly since the 1960s, social responsibility has become an important issue not only for business but in theory and practice of law, politics and economics.

Adam Smith, in "An Inquiry into the Nature and Causes of the Wealth of Nations," expressed that the needs and desires of society could best be met by the free interaction of individuals and organizations in the marketplace. The Wealth of Nations further noted that, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interest." These laid the foundation of corporate social responsibility, where consumers were aware about the social benefits of creating the wealth of nations and of

financing actions to “advance the interest of society.”

### **FORCES AT WORK**

There are certain forces responsible for the development and relevancy of corporate social responsibility. They are:

**Globalisation** of markets, consumer preferences, supply chains and financial flows. Some business leaders consider globalisation to be a revolution, not simply a trend, since it is having momentous effects on the economies of all countries and on corporations in most sectors.

**Increasing intensity of competition.** Peter Veill used the expression ‘managing in white water’ to express the challenge of meeting the turbulence and instability which global competition has created. It is unlikely we will ever return to the comfortable 1970’s.

**Rapid technological changes** are transforming markets, alleviating burdensome tasks, enabling greater customisation of production, and contributing to high labour displacement. Modern information technology makes it possible to decentralize decision-making without losing control and to introduce more flexible and less hierarchical structures.

### **Increasing affluence**

This is true within developed nations, but also in comparison to developing nations. Affluent consumers can afford to pick and choose the products they buy. A society in need of work and inward investment is less likely to enforce strict regulations and penalize organizations that might take their business and money elsewhere.

**A shift from an industrial economy** to a knowledge and information based economy. Human capital is replacing financial capital as the most important strategic resource.

Traditional concepts of work, of jobs, and of motivation are being challenged.

**Demographic changes** not only threaten the sustainability of our planet but create a mismatch between jobs and suitably trained workers, and between present educational systems and the needs of a knowledge and information-based economy.

**Environmental challenges** caused by pollution and resource depletion test the sustainability of our planet earth. Business leaders are called upon to play an important role in meeting these challenges.

**Changing value systems** are finding expression in different life styles and expectations on the part of employees, customers, and communities as a whole. *Tomorrow’s Company* referred to this phenomenon as the death of deference.

### **ADVANTAGES OF CORPORATE SOCIAL RESPONSIBILITY**

It would help to avoid the excessive exploitation of labour, bribery and corruption. Companies would know what is expected of them, thereby promoting a level playing field.

- i. Many aspects of CSR behaviour are good for business (such as reputation, human resources, branding and making it easier to locate in new communities) and legislation could help to improve profitability, growth and sustainability.
- ii. Some areas, such as downsizing, could help to redress the balance between companies and their employees. Rogue companies would find it more difficult to compete through lower standards.
- iii. The wider community would benefit as companies reach out to the key issue of underdevelopment around the world.
- iv. Corporations who are socially responsible benefit by increasing their

business dealings and potential plus their good standing and the prestige that responsible brings. In the long haul they get their initial investments back.

- v. The companies who implement CSR are not subjected to investigation, litigation, prosecution, regulation or legislation.
- vi. They serve as prophylactic measures for companies; and in fact, companies that have not implemented CSR programs have faced certain risks.
- vii. It encourages businesses to safeguard their corporate reputation for the future. Responsible business practice could help protect a company from consumer boycotts such as those suffered by Shell, Nestlé and Esso.

#### **DISADVANTAGES OF CORPORATE SOCIAL RESPONSIBILITY**

The competitive disadvantage argument against corporate social responsibility suggests that because social action will have a price for the firm it also entails a competitive disadvantage. So either such works should be carried out by government or at least legislated for so that all corporations and industries will be subject to the same requirements.

- i. Additional bureaucracy, with rising costs for observance.
- ii. Costs of operation could rise above those required for continued profitability and sustainability.
- iii. Critics already argue that the CSR of companies is simply to make a profit, and legislation would increase the vocalization of these concerns.
- iv. Reporting criteria vary so much by company, sector and country, and they are in constant evolution.
- v. *The corporate sector?* Like it or not, “voluntary” will be the status quo for the

foreseeable future, with only a few companies interested in legislation to create a level playing field.

- vi. Friedmann argues that the notion of social responsibility in business ‘shows a fundamental misconception of the character and nature of a free economy. Business’s function is economic and not social and hence it should be judged on economic criteria alone.
- vii. The final principle argument against corporate social responsibility is legitimacy : social issues are concern of the government.

#### **CSR IN INDIA**

Given India’s long tradition in this field, its CSR agenda continues to be characterized mainly by philanthropic and community development activities. CSR developed in four stages in India:

##### **First phase: CSR motivated by charity and philanthropy**

The first phase of CSR is predominantly determined by culture, religion, family tradition, and industrialization. Business operations and CSR engagement were based mainly on corporate self-regulation. Being the oldest form of CSR, charity and philanthropy still influence CSR practices today, specially in community development.

##### **Second phase: CSR for India’s social development**

The second phase of Indian CSR (1914-1960) was dominated by the country’s struggle for independence and influenced fundamentally by Gandhi’s theory of trusteeship, the aim of which was to consolidate and amplify social development.

##### **Third phase: CSR under the paradigm of the ‘mixed economy’**

### **Corporate Social Responsibility: A Management Strategy for Sustainable Business**

The paradigm of the “mixed economy,” with the emergence of PSUs and ample legislation on labour and environmental standards, affected the third phase of Indian CSR (1960-1980). This phase is also characterized by a shift from corporate self-regulation to strict legal and public regulation of business activities. The introduction of a regime of high taxes and a quota and licence system imposed tight restrictions on the private sector and indirectly triggered corporate malpractices.

**The fourth phase: CSR at the interface between philanthropic and business approaches**

In the fourth phase (1980 until the present) Indian companies and stakeholders began abandoning traditional philanthropic engagement and, to some extent, integrated CSR into a coherent and sustainable business strategy, partly adopting the multi-stakeholder approach.

In India the CSR multi-stakeholder approach is rather fragmented, and interaction between business and civil society organizations, especially trade unions, is still rare, taking place at best on an ad-hoc basis. Although many civil society organizations are active in India, the empirical findings did not show that their initiatives play a significant role in shaping the country’s CSR agenda. CSR reports reveals that most existing CSR programs in India have tended to focus on the people-centric dimension with active community participation at all levels. India currently is home to approximately 2 million NGOs, employing approximately 25 million people with deep grassroots penetration. These NGOs work in diversified areas and engage with different stakeholders to promote, protect and advance a peoplecentric agenda (CII 2002).

**Corporate social responsibility and sustainable development**

The term sustainable development (SD) was used for the first time at the United Nations Conference on the Human Environment in Stockholm in 1972. However, a working definition of SD was coined in 1987 with the publication of ‘Our Common Future’, popularly known as the “Brundtland Report” of the World Commission on Environment and Development. The Commission’s definition, since widely adopted, was: “Development as the means to satisfy the needs of present generations without compromising the resources of future generations”. Sustainability, the Commission argued, includes not only economic and social development, but also a commitment to the needs of the poor and recognizing the physical limitations of the earth.

The World Business Council for Sustainable Development states that "Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." Thus, corporate social responsibility (CSR) or ‘Sustainability’ is not just obeying the law. It is not philanthropy. It is much beyond that. It implies serious business where organizations have to be seen as partners in their communities and not just as profit centers promoting the interest of their shareholders but as businesses having obligation towards various ‘stakeholders’.

Sustainability therefore implies that society must not use more than it can regenerate. This can be defined in terms of carrying capacity of ecosystem. Measures of sustainability would consider the rate at which resources are consumed in relation to the rate in which they can be regenerated. In practice organizations should aim towards less unsustainability by increasing efficiency in the way in which resources are utilized.

**Corporate Social Responsibility: A Management Strategy for Sustainable Business**

### **Conclusion & Recommendations**

In summary, the concept of corporate social responsibility embraces multiple stakeholders or partners (employees, customers, suppliers, the environment, local authorities, governments and others) in addition to shareholders and other investors. Corporations can no longer be isolated economic actors operating in detachment from society and working solely for shareholders. Rather, they are inextricably linked to the social, ecological and human fabric and they are therefore responsible in varying degrees to all stakeholders. The overall health of corporations affects that of the other parts of society, just as the health of one organ or part of the human body can affect one's overall health.

Companies must transact business on a higher plane. For some time now, relationship based interaction has been suggested as a target objective. Relational base motives and transformational mind set inspires the relationship experience to move to the next level. This interaction promotes forward thinking and problem solving on a peer level.

Corporations today are best positioned when they reflect the values of the constantly shifting and

sensitive market environment in which they operate. It is vital that they are capable of meeting the needs of an increasingly demanding and socially-aware consumer market, especially as brands move front and center of a firm's total value. Global firms with global lifestyle brands have the most to lose if the public perception of the brand fails to live up to the image portrayed. Integrating a complete 'social perspective' into all aspects of operations will maximize true value and benefit for an organization, while protecting the huge investments companies make in corporate brands.

Companies could show their intention to be transparent by adopting an explicit transparency policy in their codes of conduct. The policy should be based upon the principle:

“transparency, unless” and should explicitly state in what situations the company can deviate from this principle. Such clause will lead to a more uniform and unambiguous policy on transparency, since the company will have to justify non-transparency. This will benefit both clients and stakeholders.

A CSR policy should not only be communicated top-down but should be supported by a credible stakeholder assessment and dialogue as well as clear implementation measures. If the daughter company does not fully understand or support the CSR policy of the mother company, the mother company runs the risk that its CSR policy will not be fully implemented. Corporate social responsibility has made significant growth over the last ten years. Policy creation, organizational guidelines, management guidelines, key performance indicators, best practices, and core values have been created or improved upon. This philosophy can be easily transitioned into a service offering that can be marketed by consulting and management firms. Establishing a practice for this initiative and creating grades for potential candidates will serve to create an industry wide service offering.

### **References**

#### **Journals Referred**

1. Archie B. Carroll, 'A Three-Dimensional Conceptual Model of Corporate Performance,' *Academy of Management Review*, 1979, Vol. 4, No. 4, p. 500.
2. Ruth Lea, 'Corporate Social Responsibility: IoD Member Opinion Survey,' *The Institute of Directors, UK*, a. November, 2002, p10
3. *Corporate Social Responsibility; ASOCIO Policy Paper; 2004*

4. Corporate Social Responsibility and Business Success; Marcello Palazzi & George Starcher
5. OECD, 2001, op. cit.
6. USCIB Corporate Responsibility Committee (2002), USCIB Compendium of Corporate Responsibility Initiatives, United States Council for International Business.
7. Wallace B. Donham; Dean, Harvard Business School; North Western University; 1929
8. Adrian Henriques, 'Ten things you always wanted to know about CSR (but were afraid to ask); Part One: A brief history of corporate social responsibility (CSR),' Ethical Corporation Magazine, May 26, 2003
10. Corporate Social Responsibility: an issues paper; Michael Hopkins; Policy Integration Department, World Commission on the social dimension of globalization, International Labour Office, Geneva; 2004
11. A Guide to Corporate Social Responsibility
12. Arguments for and against Corporate Social Responsibility; N Craig Smith
13. Dr. Tatjana Chahoud; Corporate Social and Environment responsibility in India- Assessing the UN Global Compact's Role; German Development Institute
14. Corporate Social Responsibility in India; Sunyoung Lee
5. <http://www.naukrihub.com/hr-today/corporate-social-responsibility.html>
6. <http://www.positiveoutcomes.com.au>
7. [http://www.globalreporting.org/guidelines/2002/gri\\_companion\\_lite.pdf](http://www.globalreporting.org/guidelines/2002/gri_companion_lite.pdf)
8. <http://www.helium.com/knowledge/291263-the-potential-business-benefits-of-corporate-social-responsibility>
9. <http://www.law.com/jsp/cc/PubArticleC.jsp?id=1202423730339>
10. [http://www.article13.com/A13\\_OurPress.asp?strAction=GetPublication&PNID=397](http://www.article13.com/A13_OurPress.asp?strAction=GetPublication&PNID=397)
11. [http://www.globalreporting.org/guidelines/2002/gri\\_companion\\_lite.pdf](http://www.globalreporting.org/guidelines/2002/gri_companion_lite.pdf)
12. <http://www.prlog.org/10018774-sustainable-development-corporate-social-responsibility.html>
- 13.

#### **Book(s) Referred**

1. Corporate Governance : The Current Crisis and The Way Out; A Suryanarayana; ICAI University Press, 2005

#### **Websites Referred**

1. <http://www.mallenbaker.net/csr/definition.php>
2. [http://en.wikipedia.org/wiki/Corporate\\_social\\_responsibility](http://en.wikipedia.org/wiki/Corporate_social_responsibility)
3. <http://www.mallenbaker.net/csr/definition.php>
4. [http://en.wikipedia.org/wiki/Social\\_responsibility](http://en.wikipedia.org/wiki/Social_responsibility)



