

# Corporate Social Responsibility – An Overview

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## **Abstract**

Corporate Social Responsibility (CSR) is becoming an increasingly significant category by which a company's reputation is evaluated. Corporate Social Responsibility (CSR) is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, suppliers and the community in all aspects of their operations. A variety of social and environmental issues across a broad spectrum of industries have recently been covered in the media - all of which directly affect a company's reputation and all of which can be considered part of the larger CSR equation. Whether CSR is considered merely the latest fad in business management or whether it is laying the foundation for a newly advanced way of doing business, an overview of recent business news and corporate communications shows that CSR is certainly a relevant factor for how a company positions itself in the marketplace. This paper examines the concept of Corporate Social Responsibility, approaches towards CSR, social orientation of business, extent of social orientation and involvement, factors affecting social involvement, responsibility towards different groups, arguments for and against corporate social responsibility.

## **Introduction**

Corporate Social Responsibility (CSR) is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. In civics students used to study that every individual has some responsibility towards the society, and these are requisites for a proper functioning of any social system.

Similarly when we talk about businesses as an independent entity, we must acknowledge the obligations required to be carried out by any business activity. So, social responsibility of business refers to what the business does, over and above the statutory requirement, for the benefit of the society. The word responsibility connotes that the business has some moral obligations to the society. [1]

The term corporate citizenship is also commonly used to refer to the moral obligations of business toward the society. This implies that, just as individuals, corporate are also integral part of the society and that their behavior shall be guided by certain social norms. Corporate Social Responsibility (CSR) is generally understood to be the way a company balances the economic, environmental and social aspects of its operation, addressing the expectations of its stakeholders. A company's stakeholders are all those who are influenced by, or can influence, a company's decisions and actions. These can include (but are not limited to): employees, customers, suppliers, community organizations, subsidiaries and affiliates, joint venture partners, local neighborhoods, investors, and shareholders (or a sole owner). Companies now perform in non-financial areas such as human rights, business ethics, environmental policies, corporate contributions, community development, corporate governance, and workplace issues.

Social and environmental performances are considered side by side with financial performance. From local economic development concerns to international human rights policies, companies are being held accountable for their actions and their impact. Companies are also more transparent in disclosing and communicating their policies and practices as these impact employees, communities, and the environment. In the new global economy, companies that are responsive to the demands of all of their stakeholders are arguably better positioned to achieve long-term financial success. It is no longer optional for a company to communicate its environmental and social impacts; such information is pertinent in an information-driven economy, and improved communication has become critical for sustainable business growth. It has been supported not only by the shareholders but stakeholders by and large encompassing the whole community. "Corporate Virtue Is In" is the slogan and why not, as it offers so many advantages including a hike in profits. CSR is the point of convergence of various initiatives aimed at

ensuring socio-economic development of the community which would be livelihood oriented as a whole in a credible & sustainable manner.[2]

## **History**

The nature and scope of corporate social responsibility has changed over time. The concept of CSR is a relatively new one—the phrase has only been in wide use since the 1960s. But, while the economic, legal, ethical, and discretionary expectations placed on organizations may differ, it is probably accurate to say that all societies at all points in time have had some degree of expectation that organizations would act responsibly, by some definition. In the eighteenth century the great economist and philosopher Adam Smith expressed the traditional or classical economic model of business. In essence, this model suggested that the needs and desires of society could best be met by the unfettered interaction of individuals and organizations in the marketplace. By acting in a self-interested manner, individuals would produce and deliver the goods and services that would earn them a profit, but also meet the needs of others. The viewpoint expressed by Adam Smith over 200 years ago still forms the basis for free-market economies in the twenty-first century. However, even Smith recognized that the free market did not always perform perfectly and he stated that marketplace participants must act honestly and justly toward each other if the ideals of the free market are to be achieved.

In the century after Adam Smith, the Industrial Revolution contributed to radical change, especially in Europe and the United States. Many of the principles espoused by Smith were borne out as the introduction of new technologies allowed for more efficient production of goods and services. Millions of people obtained jobs that paid more than they had ever made before and the standard of living greatly improved. Large organizations developed and acquired great power, and their founders and owners became some of the richest and most powerful men in the world. In the late nineteenth century many of these individuals believed in and practiced a philosophy that came to be called "Social Darwinism," which, in simple form, is the idea that the principles of natural selection and survival of the fittest are applicable to business and social policy. This type of philosophy justified cutthroat, even brutal, competitive strategies and did not allow for much concern about the impact of the successful corporation on employees, the

community, or the larger society. Thus, although many of the great tycoons of the late nineteenth century were among the greatest philanthropists of all time, their giving was done as individuals, not as representatives of their companies. Indeed, at the same time that many of them were giving away millions of dollars of their own money, the companies that made them rich were practicing business methods that, by today's standards at least, were exploitative of workers. [3]

Around the beginning of the twentieth century a backlash against the large corporations began to gain momentum. Big business was criticized as being too powerful and for practicing antisocial and anticompetitive practices. Laws and regulations, such as the Sherman Antitrust Act, were enacted to rein in the large corporations and to protect employees, consumers, and society at large. An associated movement, sometimes called the "social gospel," advocated greater attention to the working class and the poor. The labor movement also called for greater social responsiveness on the part of business. Between 1900 and 1960 the business world gradually began to accept additional responsibilities other than making a profit and obeying the law.

In the 1960s and 1970s the civil rights movement, consumerism, and environmentalism affected society's expectations of business. Based on the general idea that those with great power have great responsibility, many called for the business world to be more proactive in (1) ceasing to cause societal problems and (2) starting to participate in solving societal problems. Many legal mandates were placed on business related to equal employment opportunity, product safety, worker safety, and the environment. Furthermore, society began to expect business to voluntarily participate in solving societal problems whether they had caused the problems or not. This was based on the view that corporations should go beyond their economic and legal responsibilities and accept responsibilities related to the betterment of society. This view of corporate social responsibility is the prevailing view in much of the world today.

### **Approaches to CSR**

An approach for CSR that is becoming more widely accepted is community-based development projects, such as the Shell Foundation's involvement in the Flower Valley, South Africa. Here they have set up an Early Learning Centre to help educate the

community's children, as well as develop new skills for the adults. Marks and Spencer is also active in this community through the building of a trade network with the community - guaranteeing regular fair-trade purchases. Often alternative approaches to this is the establishment of education facilities for adults, as well as HIV/AIDS education programmes. The majority of these CSR projects are established in Africa. A more common approach of CSR is through the giving of aid 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.[4]

### **Social Orientation of Business**

There are some models, which try to describe the evolution and extent of social orientation of companies. Notable include Carroll's model, Halal's model and Ackerman's model.

Archie B. Carroll, who defines corporate responsibility as the entire range of obligations business has to society, has proposed a three dimensional conceptual model of corporate performance. According to Carroll, a firm has the following four categories of obligations of corporate performance. [5]

Economic

Legal

Ethical

Discretionary

The firm being an economic entity, its primary responsibility is economic i.e. efficient operations to satisfy economic needs of the society and generation of surplus for rewarding the investors and further development.

Legal responsibilities are also fundamental in nature because a company is bound to obey the law of the land. Ethical responsibilities are certain norms, which the society expects the business to observe though they are not mandated by law. For example, a company shall not resort to bribing or unethical practices, unfair competition. Discretionary responsibilities refer to the voluntary contribution of the business to the social cause, like involvement in community development or other social programmes.

Carroll points out that the four categories are not mutually exclusive and the boundaries between them are difficult, if not impossible to define. William E Halal's return on investment model of corporate performance recognizes the fact that no corporate social posture will be value-free, and this makes corporate social responsiveness tremendously difficult task. Beyond a certain level of economic activity, the social issues at stake may become conflicting. For example, large spending for social cause may affect the profitability of the firm, which could have implications for the stakeholders, and the future of the firm. This calls for trade-offs, which involve both economic and ethical decisions that will not necessarily satisfy the needs of every stakeholder.

According to the Ackerman's model, there are three phases in the development of the social responsiveness of a company. The first phase is one when the top management recognizes the existence of a social problem, which deserves the company's attention and acknowledges the company's policy towards it by making an oral or written statement.

The company appoints staff specialists or external consultants to study the problem and suggest ways of dealing with it characterizes the second phase. The third phase involves the implementation of the social responsibility programmes.

### **Extent of social orientation and involvement**

On the basis of the extent of social orientation and involvement of companies, the author classifies them into the following categories. [6]

**Antisocial:** These are those companies, which do not have any Social involvement, but they also engage in unfair practices in the conduct of business. For example, bribing the govt. officials or other concerned authority to get a contract or many a times Promoters and top managerial persons may involve in insider trading, price rigging and the like.

**Indifferent:** These are those companies, which have no social involvement beyond discharging the legal as well as the economic responsibilities. The attitude is that going by the rules and regulations is good enough; there is govt. and other NGOs, which are supposed to work for the social cause, and it is not the business of the business.

**Peripheral:** These companies are slightly a shade better than the indifferent category. They have a little bit of social involvement but only for namesake.

**Socially oriented:** Companies in this category have a high level of social orientation but their real involvement is constrained by limitations of resource. For example, I as business may want to take up the task of providing health care facilities for the area where I am operating, which may be limited only because of the limitations of various resources required for the same. Here it is important to understand that intention and sincerity of efforts does count.

**Committed and very active:** These companies are characterized by high level of social involvement in the societal welfare programmes.

### **Factors affecting social Involvement**

The factors affecting social involvement are enumerated as follows:

#### **Promoters and top management:**

The values and vision of promoters and top management is one of the very important factors, which influence the corporate social responsibility. [7]

#### **Board of directors:**

Since it is the board of directors, which decides the major policies and resource allocation of company, the attitude towards social responsibility of the members, make all the difference.

#### **Stakeholders and internal power relationship:**

The attitude of various stakeholders like shareholders, creditors, employees etc. and the internal power relationships also effect the social orientation of a company.

#### **Industry and trade associations:**

Industry and trade association also influence the behaviour of firms by establishing professional and ethical codes and norms and collective decisions.

#### **Government laws:**

Legislation to curb corruption, unfair practices etc. are ways through which the govt. tend to play its role in forcing businesses to adopt social responsibility. Through legislations govt. tend to enforce pollution control measures or guidelines to ensure quality, persuasion incentives such as tax exemptions.

### **Competitors:**

Competitive behaviour can also influence social orientation. When one or some companies become socially involved, others may be encouraged or provoked to do something. Sometimes, there may be competition between companies to outperform each other.

### **Resources availability:**

The social involvement will be greatly affected by the financial strength of the firm, since every activity eventually causes expenditure of money for the firm.

### **Ethical influences:**

As we discussed in Business ethics the ethical decision-making and self-regulation aspects will make a lot of difference

## **Responsibilities to different sections**

Now who are the ones who can claim responsibility from a business?

### **Responsibility towards Shareholders**

This concept itself arises since there is a need to recognize that the shareholders have taken a risk in making investment. If a company fails to cope up with changing situation shareholders interest is affected. Therefore it is the responsibility of the organization to grow and adapt to the changing situations. [8]

- To safeguard the capital of shareholders and provide dividend
- To inform about the progress of the organization by presenting correct accounts.
- To treat equally different types of shareholders.
- To ensure proper utilization of invested capital.

### **Responsibility towards Employees**

Human resources earlier meant, to get work done but now it has become means for growth and development. Therefore, the business becomes responsible towards its internal customers.

- Payment of proper wages
- Good working conditions e.g. ventilation, drinking water etc.
- Fair working standards



- Proper training and educations, for example training for new machines.
- Chances of and system for promotion since everyone wants to grow.
- Recognition, appreciation and encouragement of work e.g. incentives for reaching targets, Bonus
- Grievance handling system etc.

### **Responsibility towards Consumers**

Business owes responsibility towards the consumers since they are the ones who bring business to a firm and hence businesses tend to have greater accountability towards them.

- To provide quality products at reasonable price.
- Proper information about the product either in the form of marketing communication or packaging information. Some other information such as quality standards etc. For example, the latest trends in cosmetics is “not tested on animals” mark.
- R & D for better and new products.
- Improve distribution network to make product easily available.
- To check black-marketing and fake goods availability in the market.
- To provide after sales services and warranties.
- To redress genuine grievances.

### **Responsibility towards Community**

As we have earlier said that a business firm since it draws its sources from the community, so it has responsibility towards the same.

- Steps to check environmental pollution
- Assisting overall development of locality for example, employment to local employees
- Taking part in social development activities for example, plantation drives, education awareness etc.
- To contribute to raising of standard of living.
- Not to resort to indecent advertisements.

### **Responsibility towards Suppliers**

Business owes responsibility towards suppliers also. If these people do not supply things in time, production will suffer and consequently the reputation of the organisation will suffer.

- Making timely payments.
- Informing about the tastes of consumers.
- Giving appropriate price of the material supplied.
- Informing them of future development plans

### **Arguments for and against social involvement**

The arguments for and against social involvement are listed as under:

#### **Arguments for undertaking of social responsibility by business:**

- Since business utilizes the resources of the society hence they tend to be accountable to the society.
- A resourceful business holds a special responsibility towards the society.
- By involving in social activities businesses can develop harmonious relationships between the society and business and this will be mutually beneficial.
- Businesses being social responsible will be able to avoid additional government regulation and intervention.
- It helps to create better public image for the company, which may help it in attracting customers, efficient personnel and investors. [9]

#### **Arguments against undertaking of social responsibility by business:**

- Business should be concerned about commercial activities only; there are govt. and government. Agencies and NGOs, which can carry out social activities that too in a very good manner
- The economic health of any business may be adversely affected by social involvement.

- The cost of social involvement is mostly passed on to the consumer in the form of increased prices, hence there seems to be no point in pursuing something which will eventually put the burden on the society itself.
- The business managers are usually adept at handling business activities but may be poorly skilled in managing social activities

## **Conclusion**

In the nutshell, today social responsibility has become the hallmark of mature, global civilization. The business, which vacillates or chooses not to enter the arena of social responsibility, may find that it gradually will sink into consumer and public disfavour. Therefore, it is natural to assume that it is beneficial to businesses to integrate social responsibility into their activities and philosophy. These days the scale of measurement or evaluation of business is not as it used to be about fifty years ago. At that time only that company was considered good, which was earning profit, but today the situation is absolutely changed. Today the responsibility of business is not limited to its owner but it has assumed large dimensions. Business has to look to the interests of many other parties along with the interests of the owner. The employees, shareholders, customers, suppliers and community happen to be the other parties. The new slogan CSR has become the password to not only overcome competition but to ensure sustainable growth

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