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CORPORATE SOCIAL RESPONSIBILITY

[1] Introduction ::

CSR is a concept that frequently overlaps with similar approaches such as corporate sustainability, corporate sustainable development, corporate responsibility, and corporate citizenship, being an expression used to describe what some see as a company's obligation to be sensitive to the needs of all of the stakeholders in its business operations.

[2] Definitions ::

Companies need to answer to two aspects of their operations. 1. The quality of their management - both in terms of people and processes (the inner circle). 2. The nature of, and quantity of their impact on society in the various areas.

Outside stakeholders are taking an increasing interest in the activity of the company. Most look to the outer circle - what the company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities, or in how it treats and develops its workforce. Out of the various stakeholders, it is financial analysts who are predominantly focused - as well as past financial performance - on quality of management as an indicator of likely future performance.

Other Definitions :

Traditionally in the United States, CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving.

The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons. Personally, I believe this model is more sustainable because:

1. Social responsibility becomes an integral part of the wealth creation process - which if managed properly should enhance the competitiveness of business and maximise the value of wealth creation to society.
2. When times get hard, there is the incentive to practice CSR more and better - if it is a philanthropic exercise which is peripheral to the main business, it will always be the first thing to go when push comes to shove.

But as with any process based on the collective activities of communities of human beings (as companies are) there is no "one size fits all". In different countries, there will be different priorities, and values that will shape how business act.

While CSR does not have a universal definition, many see it as the private sector's way of integrating the economic, social, and environmental imperatives of their activities. As such, CSR closely resembles the business pursuit of sustainable development and the triple bottom line. In addition to integration into corporate structures and processes, CSR also frequently involves creating innovative and proactive solutions to societal and environmental challenges, as well as collaborating with both internal and external stakeholders to improve CSR performance.

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 neighbourhood, investors, and shareholders (or a sole owner).

CSR is closely linked with the principles of "Sustainable Development" in proposing that enterprises should be obliged to make decisions based not only on the financial/economic factors but also on the social and environmental consequences of their activities.

[3] The Four Myths of CSR ::

Deborah Doane, the chair of the Britain-based organization CORE Coalition (for "Corporate Responsibility"), wrote an article for the Fall 2005 issue of the Stanford Social Innovation Review where she listed and debunked what she called "the four key myths of CSR." Those myths are:

1. "The market can deliver both short-term financial returns and long-term social benefits." According to Doane, not only are the interests of profit-seeking corporations and broader society often at odds, but socially responsible investments by corporations "are particularly unlikely to pay off in the two- to four-year time horizon that public companies, through demands of the stock market, often seem to require."
2. "The ethical consumer will drive change." Doane writes, "Most surveys show that consumers are more concerned about things like price, taste, or sell-by date than ethics. WalMart's success certainly is a case in point."
3. "There will be a competitive 'race to the top' over ethics amongst businesses." While CSR efforts often "offer good PR," which companies of course like, "in some cases businesses may be able to capitalize on well-intentioned efforts, say by signing the U.N. Global Compact [see below], without necessarily having to actually change their behaviour."
4. "In the global economy, countries will compete to have the best ethical practices." Although companies often claim that their presence in "developing" countries will improve health, environmental and labour conditions, Doane counters, "companies often fail to uphold voluntary standards of behaviour in developing countries, arguing instead that they operate within the law of the countries in which they are working. In fact, competitive pressure for foreign investment among developing countries has actually led to governments limiting their insistence on stringent compliance with human rights or environmental standards, in order to attract investment."

[4] Development and Analysis ::

Today's heightened interest in the proper role of businesses in society has been promoted by increased sensitivity to environmental and ethical issues. Issues like environmental damage, improper treatment of workers, and faulty production leading to customers inconvenience or danger, are highlighted in the media. In some countries Government regulation regarding environmental and social issues has increased, and standards and laws are also often set at a supranational level (e.g. by the European Union). With the growing popularity of CSR in the last few years, especially in Europe and more recently in the U.S., a number of major PR firms have responded by establishing specialist CSR practice groups within their companies.

It is important to distinguish CSR from charitable donations and "good works". Corporations have often, in the past, spent money on community projects, the endowment of scholarships, and the establishment of Foundations. They have also often encouraged their employees to volunteer to take part in community work thereby create goodwill in the community which will directly enhance the reputation of the company and strengthen its brand. CSR goes beyond charity and requires that a responsible company will take into full account the impact on all stakeholders and on the environment when making decisions. This requires them to balance the needs of all stakeholders with their need to make a profit and reward their shareholders adequately.

A widely quoted definition by 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". (CSR: Meeting Changing Expectations, 1999). This holistic approach to business regards organisations as (for example) being full partners in their communities, rather than seeing them more narrowly as being primarily in business to make

profits and serve the needs of their shareholders.

[5] Corporate Social Responsibility Reporting ::

The application of the principles of Sustainable Development through the introduction of a CSR policy is often accompanied by what is called triple bottom line reporting which declares not only financial results but also the social and environmental impact of the business. Some countries (e.g. France) have made such reporting mandatory. However the measurement of social and environmental performance is difficult and new measurement techniques need to be developed. CSR is often used to promote voluntary corporate initiatives, as an alternative to additional or existing mandatory regulations. The International Chamber of Commerce has aggressively promoted a standards-free concept of "corporate responsibility" that enables companies to proclaim their "responsibility" without necessitating companies to meet minimum standards.

Many large companies now produce annual reports that cover Sustainable Development and CSR issues, and these reports are often externally audited. But there is no common template for the reporting and the style and the evaluation methodology varies between companies (even within the same industry).

[6] The business case for CSR ::

The benefits of CSR to businesses vary depending on the nature of the enterprise, and are typically very difficult to quantify. A major meta-analysis has been conducted seeking to draw a correlation between social/environmental performance and financial performance. This is Orlitzky, Schmidt, Rynes 2002 which found that corporate virtue is likely to pay off in this sense. The business may not be looking at short-run financial returns when developing its CSR strategy, however.

It should be noted that the definition of CSR used within business can vary from the strict 'stakeholder impacts' definition used in this article and will often include charitable efforts and volunteering. CSR may be based within the human resources, business development or PR departments of a company, or may be given a separate unit reporting to the CEO or in some cases directly to the board.

One thing that is for sure - the pressure on business to play a role in social issues will continue to grow. Over the last ten years, those institutions which have grown in power and influence have been those which can operate effectively within a global sphere of operations. These are effectively the corporates and the NGOs. Those institutions which are predominantly tied to the nation state have been finding themselves increasingly frustrated at their lack of ability to shape and manage events. These include national governments, police, judiciary and others.

There is a growing interest, therefore, in businesses taking a lead in addressing those issues in which they have an interest where national government have failed to come up with a solution. The focus Unilever has on supporting a sustainable fisheries approach is one example. Using the power of their supply chain, such companies are placed to have a real influence. National governments negotiating with each other have come up with no solutions at all, and ever-depleting fish stocks. That is not to say businesses will necessarily provide the answers - but awareness is growing that they are occasionally better placed to do so than any other actors taking an interest.

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