An Overview on the Theories and Approaches of Corporate Social Responsibility

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Abstract:

Corporate Social Responsibility is the responsibility of the business towards society for the resources it has used. It is the reimbursement to be done by the organizations. The reimbursement may be ethical, environmental, financial or social. This concept is not known to the world, but has been since the businesses developed. Though there was lot of research and theoretical developments in this concept, there is no specific definition to the word CSR. This paper reviews various dimensions, theories and approaches of CSR.

Keywords: Stakeholders, people, planet, profit, social, ethical, environmental, economical

Introduction:

A Society has lot of institutions like financial, social, personal and political. All these institutions work individually and collectively for the benefit of the people in the society. Business is a financial institution which tries to strengthen the economical elements of its stakeholders. Stakeholders are defined in its first usage in a 1963 internal memorandum at the Stanford Research Institute, as "those groups devoid of whose support the business would come to theclosing stage."[1]

Corporate Stakeholders are either primary stakeholders or secondary. Primary stakeholders are those who provide services to the organization and in turn get direct financial benefits. Secondary stakeholders are those who are affected by the organizational activities indirectly, but do not get anything inturn.

All the business firms make use of the wealth of the society in the form of either natural or human resources. They exploit the environment and enjoy the rights of the people on environment. Sometimes the activities of a firm may affect the normal life of people negatively. Hence, it is the liability of the organization to pay some of their financial benefits in the way of compensation to the society. It is almost an act of contrition to the business being about financial benefits and self interests, so that some social reimbursement is essential [2] . This social reimbursement can be termed as Corporate Social Responsibility. The concept of CSR stresses that the secondary stakeholders also should be benefitted with the industrial activity and so the environment. A socially responsible corporation is one that runs a profitable business that takes into account of all positive and negative, environmental, social and economic effects which has its impact on society

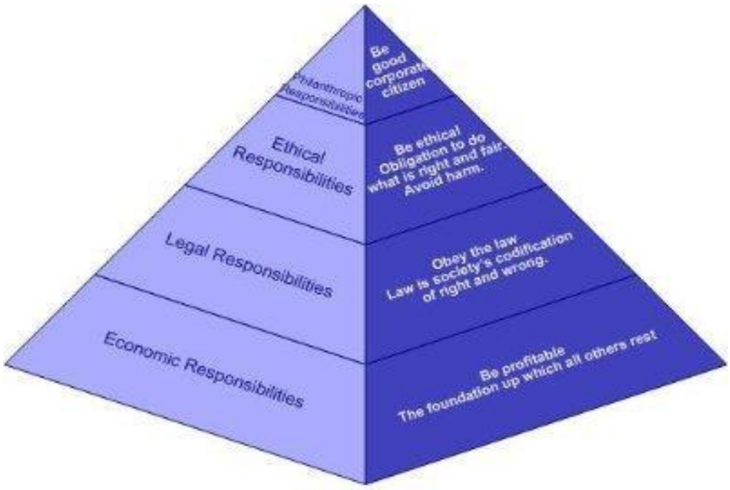
Objectives of the paper:

- To analyse various definitions of CSR
- To critically study the dimensions and theories of CSR.

Models of CSR

CSR is needed to be built into the business. It should not be seen something separate from the business. People who advocate CSR should see that ethical and social concerns are as important as profits [4]. According to Carroll,[5] "Corporate social responsibility includes the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time." He denoted these different responsibilities as constant levels within a pyramid. The definition proposed by him known as model of Carroll got tremendous recognition. His model explained the above four dimensions priority wise.

Fig 1.1 Carroll's CSR Pyramid



Carroll's CSR Pyramid

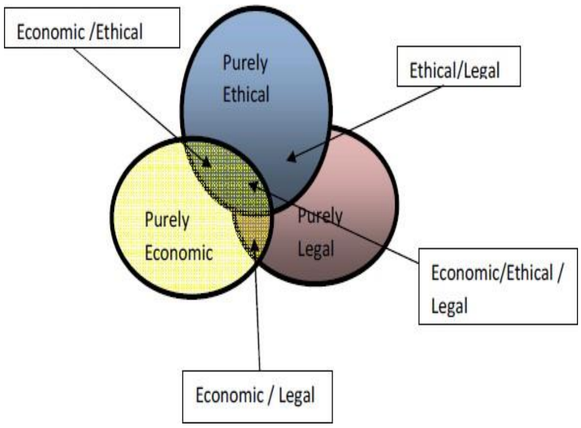
Source: Carroll, 1991

In the pyramid, the main thrust is given to economic responsibility as the prime concern of the business is addressing the interests of the primary shareholders. The second right of way is of legal responsibility. Any business should obey the existing rule of law in the country where it is operating. Ethical responsibility and philanthropic responsibilities are the next preferences respectively. But Carroll ignored the social and environmental dimensions of business. His probable assumption might be that ethical and philanthropic responsibilities come under the social head.

Schwartz and Carroll (2003)[6] opine that, although there is considerable value in Carroll's model, it has some limitations. Firstly, they opine that people may confuse that the category at the top of the pyramid is the most important and one that thefirmsshouldgivepriority.ThispropositionwasalsosupportedbyThorneetal. (1993)[7] when the pyramid was introduced; many people felt that the pyramid was like Maslow's Needs Hierarchy, in which there was natural progression from lower category (Economic) to higher category (Philanthropic). Hence, Carroll (1991) explained that these four categories are neither mutually exclusive nor intended to show a continuum with economic concerns one end and social concerns on the other.

Schwartz and Carroll later proposed another figure to show the relation between economic, legal and ethical dimensions of CSR. He along with Schwartz states that it is not correct to name these dimensions as 'responsibilities' because they are basically guided by business obligations.

Fig 1.2: The three domains Model of Corporate Social Responsibility



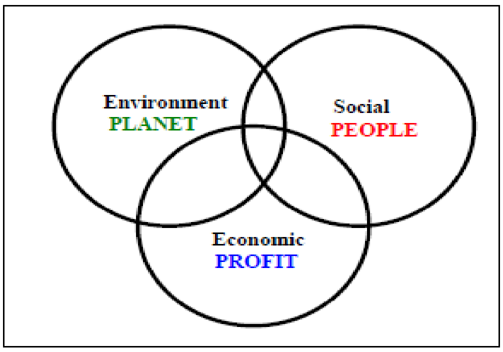
Source: Schwartz and Carroll (2003)

This concept was elaborated by Elkington[8] in 1998, the founder of a British Consultancy called 'Sustainability'. He proposed 'Triple Bottom Line' concept for the sustainability of the business organization. This proposition represents the idea that businesses don't have the addition of economic value as one single goal, but they also aim at adding environmental and social value, in order to achieve sustainability.

He argues that firms should prepare 3 bottom lines. The first and foremost one is the conventional method of corporate profit. It relates to how the firm is responsible towards its primary stakeholders. The second bottom line is the company's 'people account' or social dimension. It explains how an organization is socially responsible in course of its operation. And the third line of the firm is the measure of how it is responsible to environment. These responsibilities of the firm are coined as Profit, People and Planet respectively, which are simplified as 3 Ps. This concept tries to assess economic, social and ecological accomplishments of the business organisation over a period of time.

In this model Elkington pays attention on the interdependence among the social, economic and environmental aspects and suggests an overall view on the issue of Corporate Responsibility and sustainability. Figure 1.3 shows Elkington model of CSR shown by Korkchi and Rombaut [9]

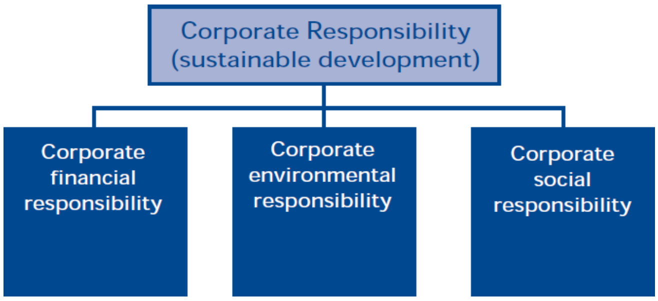
Fig 1.3 Components of triple bottom line



Source: Korkchi and Rombaut

The opinion of Elkington was further supported by WBCSD, 1999 [10] by proposing the following facets for corporate sustainability. When CSR is discussed in the context of sustainable development this diagrammatic representation is more appropriate. It emerged from the WBCSD's dialogue session. Crowther (2008) in his book "*Corporate Social Responsibility"* also mentioned that CSR has three dimensions: Sustainability, Accountability and Transparency.

Fig 1.4: Dimensions of Corporate Responsibility (WBCSD)



Source: Watts, P., & Holme, L. (1999).

Dimensions of Corporate Social Responsibility:

The above discussion reveals that CSR is a multi-dimensional concept. Hence various dimensions of the CSR have to be discussed in detail in this context.

Social Dimension:

The social dimension of corporate responsibility entails the relationship between the business and the society. Addressing the social dimension of business implies that the business is aiming its activities for the benefit of the society as a whole. This involves taking efforts that are useful to society. [11]

In present days, social investment is considered to be a part of business especially in underdeveloped economies that are suffering with a lack of infrastructure and capacity to build social capital. Social Responsibility was taught by the Vedas (the Hindu Scriptures) of India. They preach that there are four goals of life viz. *Dharma* (ethics), *Artha* (Economics), *Kama* (desires) and *Moksha* (deliverance). These four goals of man proclaim that 'Man can live individually but can survive only collectively'. **[12]** The same is applied to the business, as it is said that 'the business cannot be successful where the society fails.' Hence, it is the liability of the business firm to pay something back to the society where itoperates.

A firm is considered to be socially responsible when it is utilising the shareholders' funds optimally and providing high quality of goods and services to the customers (Carroll, 1991).

Ethical (Voluntary) Dimension:

Ronald R. Sims states that "Ethical behavior is that in which is morally accepted as 'good' and 'right' as opposed to 'bad' or 'wrong' in a particular setting. [13] For the individual, it means acting in ways consistent with one's personal values and the commonly held values of the organization and society.

As said above the Indian philosophy gives more emphasis on ethics and morals. The Vedanta stresses on intangibles that consist of values, order, benevolence, altruism, philanthropy and charity for the social good. The Hindu *Neethi shastras* (Treatises on state-craft), *Dharma Shastras* (Treatises on Law) and epics (Ramayana and Mahabharata) give message and stories as to the restraints on royal absolutism, the responsibility of ministers and the authority of thepeople. [14]

According to Carroll and Buchholtz (2003), every firm has to obey the law because the law reflects the society regards as accepted or denied. This is the legal dimension of business under CSR. The activities of business that go beyond law for the well-being of the society are called ethical responsibility of the business. Ethical responsibilities of business are not required by the law but expected by the society. Avoiding questionable and debatable practices and trying to operate at the maximum standards of the law are the examples of ethical responsibility of business.

The law couldn't refer to all ethical predicaments of business. Some issues may be legal but unethical. Legal practices address processes and policies put up with law, but ethical practices refer to attempts of the business to reach the stakeholders' expectations. For example recycling of plastics is not the legal obligation, but many firms are doing this to meet customer and public expectations. If the business does not abide by ethical responsibility that will be rejected by the society. Enron, Satyam Computers, Kingfisher Airlines etc., are some of such examples of social boycott.

Environmental Dimension:

The environmental dimension of CSR refers to the impact of business activities on the environment. The objective of a socially responsible company is to connect its business activities with the conservation of environment. Environmental responsibility starts from the assertion that natural resources especially non-renewable resources are limited. If these are deteriorated, the future generations would suffer a lot. Conservation of resources, therefore, is very important for them, as does the development of new sources. Not only the resources are finite, but our earth is also limited in its ability to regenerate clean air, water etc., from the pollutants produced by manmade activities. Hence, environmental responsibility of an industry is to facilitate nature's renewal, recycling or cleaning up the contaminations that were caused by it. This responsibility of the firms is to be accepted not because they are legally liable to do so, but for the preservation of the planet.

Economic Dimension:

This dimension offers the effects of CSR on the profitability of the firm. It has to meet this responsibility in the form of equitable returns to the shareholders, fair payment to the employees, supply of accepted quality of goods to the customers etc. This is why Carroll (1991) mentioned this responsibility of the organization, at the bottom of his CSR pyramid, with optimum importance. As such, this dimension is mandatory for the survival of the organisation. Carroll says that 'all firms have a responsibility to earn a profit, as a free market society considers that it is essential. Business is created as economic entity, devised to provide goods and services to the members of the society' (Carroll, 1991). He adds that the 'economic responsibility is the most basic one as all other business responsibilities are tailed to the economic responsibility of the firm, because without it the others become trivial matters' (Carroll, 1991). For all the business operations, there have to be profits. Without profits there is no business and no business ethics.

Philanthropic Dimension:

The philanthropic activities of the corporation are within the discretion of it to improve standard of living of employees and other stakeholders and the society at large. Donations to education, health and recreation, support to art, sports and culture are some of the illustrations for this dimension. Philanthropic activities are desires of the business but not expected by the society. Vineet Nair, Former CEO, HCL started SAMPARK FOUNDTION donated 650 Crore rupees for improving education system in India.

Theories of CSR:

There are different views and arguments in favour of and against CSR. Beginning with Adam Smith the purpose and role of business has been a focus of debate. It was continued during the industrial revolution, the Great Depression and also Globalization. [15]This debate particularly focused on shareholders and stakeholders and hence both the stakeholder theory and shareholder theory were affected with the dichotomy. Jesen (2002) opines that the advocates of CSR concept generally support the stakeholder theory and the opponents hold their views on shareholder theory. [16]

The share-holder Theory:

This theory represents the traditional approach to business, i.e. the responsibility of the firm lies with the benefits of the shareholders (Cochran, 1994)[17]. This is also referred to a classical or fundamentalist theory by Curran, 2005[18]. This theory propounds that the business organisations are the instruments for creating economic value for those who invest their capital in the company[19]. Any activity if it increases the value of the firm to its shareholders is justified and is not justified if the value of the firm is reduced (Cochran,1994).Levitt (1958)[20] opines that such an approach boosts the long term survival and success of the firm.

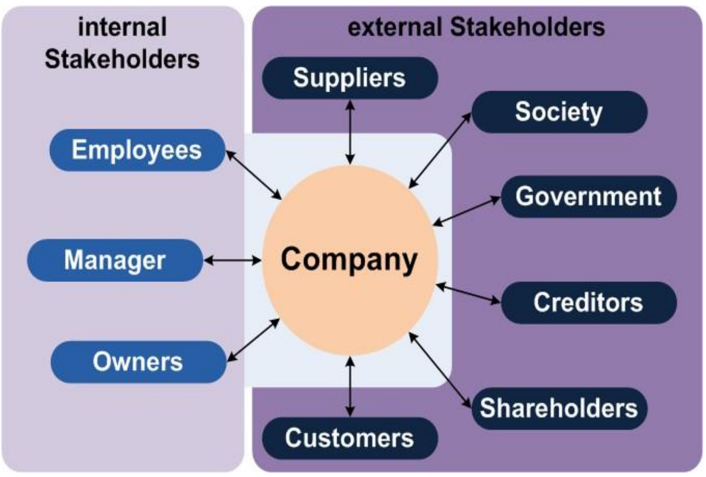
Friedman is said to be pioneer of this theory as he argued always that the only responsibility of business is to increase profits by abiding by legal and social expectations (carroll, 1998)[21]. Hence it is argued by this theory that the duty of the manager is to maximize the profits for the shareholder. The firm has no responsibility for the welfare of the society and it should act in such a way that ‘business is for businesses and nothing else.

The Stake-holder Theory:

Most of the followers of Friedman argue that by creating economic value a firm is serving the society in terms of profits and also creating employment, generating income etc., hence this theory is said to be the traditional approach of business. But the modern business is in crisis and is facing heavy competitions. Hence the firm has to look at all the stakeholders both internal and external to create goodwill for itself. Thus, the stakeholder theory has emerged as an alternative to shareholder theory [22]. Bourne, 2009 opines that an individual or group who will be impacted by or can influence the success or failure of an organization’s activities either directly or indirectly can be called as a stakeholder. He adds that his impact or influence may be as ownership, legal or moral rights or contribution in the form of knowledge or support. [23]

Stakeholders may be internal stakeholders and external stakeholders. Internal stakeholders are those who are within the business such as employees, investor, and directors etc. External stakeholders are entities not within the business but care for or are affected by its activities. They are consumers, suppliers, government etc.[24] Deck (1994) gave an interesting explanation to this theory saying that the objective of the organization is to create wealth and distribute the wealth to the investors. But he says that investors include the employees and also society who invest in the firm in the form of knowledge, expertise and infrastructure. [25] The resources invested by the stakeholders may include social acceptance as well as other contributions like capital, labour and revenue. Hence it is also the responsibility of the firm to attend the benefits of the society also. Because there is a mutual relationship between the society and business and both they are dependents on each other. The point to be stressed that corporations are not simply managed in the interests of the shareholders alone but a whole range of stakeholders have legitimate interest in the company as well. The internal and external stakeholders of business can be figured out as follows:[26]

Fig 1.5: Internal and External Stakeholders of Business



Source: Boundless(2016)

The Dichotomy of the shareholders theory and the stake-holder-theory:

The debate between these two views is as old as CSR itself. It is a point of discussion for long time that the corporate decision makers should also consider the issues other than profits. But it should also be remembered that the primary objective of the business is the financial welfare of the shareholders. Most of the proponents of the stakeholders’ theory don’t oppose this view. Keith Davis (1960) believes that the primary economic purpose of the business firm has to be achieved; otherwise the firm will lose its existence. However, this does not go against the non-economic functions.

Elkington (1997) who proposed the triple bottom line concept also believes that all P's (people, planet and profit) are equally important. He says that "Society depends on the economy and the economy depends on the global ecosystem, whose health represents the ultimate bottom line."

Carroll, who is the strong believer of CSR, also didn't neglect the economic interests of the business. In fact, he gave the primary and utmost importance to the profit maximization, by keeping the economic responsibility at the bottom. Even Friedman, a strong opponent of CSR, also in his definition included the words "by abiding by legal and social expectations." It means that while earning profits the business should not overlook the legal and social aspects.

Hence it can be concluded that though the stakeholder theory is important, the foremost priority of the business is to the shareholders. And in the hierarchy the other stakeholders' benefits are to be given importance.

Approaches to CSR:

The Traditional Approach:

This is the more common approach and also called as Philanthropic Approach. This includes aid and donations given to non-profit organization for development of arts, education, housing, health, social welfare, women empowerment, environment protection etc., Until the 1990s CSR was dominated by the idea of philanthropy and business efforts were often limited to one time grants. Philanthropy is one of many ways that small businesses can approach corporate social responsibility.

According to Fortune 500[27], *Gilead's cash contributions are* $446.7 million and Walmart's contributed $301 million in 2015. Microsoft employees gave $125 million to the non-profits in 2015. Satya Nadella, CEO Microsoft announced that they were going to donate $1billion in cloud computing over the next 3 years to 70,000 non- profits and NGOs worldwide[28]. Corporate Philanthropy and CSR are two different angles. But the difference is not clear, particularly in a country likeIndia.

The Business Case Approach toCSR:

The perception of CSR as a means of enhancing both social and financial performance is called as the business case for CSR or 'enlightened self-interest'.[29] This approach born long ago advocates that managers could help their organisation to discover win-win opportunities that improve their social and environmental performance while simultaneously increasing the shareholders' wealth. The stakeholder theory of CSR is based on this approach.

The New Approach: Support Corporate Objectives as well

Decision making now reflects an increased desire for "doing well and doing good". Corporations now pick up a few strategic areas of focus that fit with corporate values; selecting initiatives that support business goals; choosing issues that provide opportunities to meet marketing objectives, such as increased market share, market penetration or building a desired brand identity; evaluating issues based on their potential for positive support in times of corporate crisis or national policy making; involving more than one department in the selection process, so as to lay a foundation of support for implementation of programs; and taking on issues the community, customers and employees care most about. Long term commitment, in-kind contributions such as corporate expertise, technological support, access to services and donation of retired equipment, volunteer employee time, integrating the issue in marketing, corporate communications, human resources, community relations and operations; to form strategic alliances with one or more external partners. Evaluation now has increased importance and methodologies are being designed to make this happen.

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