

Corporate Social Responsibility: Issues and Controversies

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Abstract

In recent times, Corporate Social Responsibility (CSR) has become an ever-increasing debatable topic of discussion among researchers and practitioners. But lack of a unified definition of CSR creates controversies at the conceptual levels of different of its stakeholders. It creates a big problem for the researchers to make a cohesive empirical view of CSR and its impact is difficult to measure. Wide gap also exists between stakeholders' perception of CSR and corporate practices. CSR means different things to different stakeholders. Stakeholder concept of CSR, though is seemingly holistic, nevertheless, generate a lot of issues and controversies at the conceptual levels of various stakeholders. This paper, while investigating CSR literature, will make an attempt to identify various issues and controversies.

Key Words: Corporate Social Responsibility, Corporate Philanthropy, stakeholders

'Corporations are places where both individual human beings and human communities engage in caring activities which are aimed at mutual support and unparalleled human achievement.'

R. Edward Freeman and Jeanne Liedtka

Introduction

'Nations, people and places around the world are in a vortex of rapid change', said **Alvin Toffler**, the world class leading sociologist and author of the masterly written books *The Future Shock*, *The Third Wave*, *Power Shift*. He propagated 'The Wave Theory of Development'. According to him revolution in society comes in the forms of waves. First wave i.e., Agricultural Revolution, (came in 10000 years back and continue no end) brought the villages – dispersed settlements based on renewable energy. Feudalism and joint families were its corner stones. Industrial Revolution, the second wave (since 1760 in UK and 1850s in India) brought in its wake radical changes and problems affecting energy, methods of production, environment and quality of life. Now, the third wave, the Super Industrial Revolution (since 1950s in USA and Japan and 1980s in India) led before us the expanding horizon of Information and Technology. Growth of industrialization, opening of borders because of the advent of liberalization, privatization and globalization, advancement of new technology not only brought about changes in market behaviour, but also had affected multiple of stakeholders associated directly or indirectly with the corporate houses on a massive scale. Industrial majors continue to exploit the World's natural resources in the name of societal development which has its percussion on the triple bottom line: Planet, People and Profit in the long run.

Corporate Social Responsibility (CSR) is associated with the conduct of corporations and in particular whether corporations owe a duty to stakeholders other than shareholders- the basic question has remained as a debatable topic of discussion time and again in industry and academia. Leaving the purely economic reasoning behind doing business, we may ask ourselves the basic questions: 'what would be the goal of the organization?' 'Does the organization exist to make charity?' 'Is profit the only motto of doing business?'

Answer as to why the business enterprises exist, run along a long continuum. At one end, are the followers of the late American economists **Milton Friedman** who challenged the very nature of corporate responsibility for anything other than the economic bottom line. Way back in 1970, he incorporated his view on CSR in one of his classic New York magazines article, "*The Social Responsibility of the Business is to make profit*". The advocates of this proposition argue that the corporate agents (senior managers) are expected to maximize profits, within the 'rules of the game' and the firm has but one stakeholder - stockholders - and they have but one gain, i.e., financial gain. Therefore, if the managers' involvements in socially responsible actions reduce the return to shareholders, that is not CSR, rather it is socially irresponsible business.

A large body of literature has been developed in the last 30 years to find out the relation between corporate social performance and strong financial performance. **Lantos (2001)** argues that companies can involve them

selves in the social responsible activities if they generate profit from its good work.. **Drucker (1954)** has also found a close link between firm's profitability and its social responsible activities. He stated that "It is not enough to do well; it must also do good. But in order to "do good", a business must first "do well."

'A business that does not show a profit at least equal to its cost of capital is socially irresponsible; it wastes society's resources. Economic profit performance is the best, without which business can not discharge any other responsibilities, can not be a good employer, a good citizen, a good neighbor. But economic performance is not the only responsibility of the business.....every organization must assume responsibility for its impact on its employees, the environment, the customers and whomever and what ever it touches. That is social responsibility. But we know that society will increasingly look to major organization, for profit and non profit alike to take major social ills. And that is where we had better be watchful, because good intentions are not always socially responsible. It is irresponsible for an organization to accept- let alone pursue- responsibility that would impede its capacity to perform its main task and mission or to act where it is no competence. (Drucker, 2002). Drucker's view incorporated the views of Friedman and Freeman. Freeman's stakeholder concept of CSR, also called the dominant paradigm of CSR by **Mc Williams (2001)**, originated in response to the Milton Friedman stake holder concept of CSR.

In recent times, Corporate Social Responsibility (CSR) has become an ever-increasing and interesting field of study by researchers and practitioners. However, a complete definition of CSR is, indeed, elusive and opinions vary. **Oketch (2005)** defined CSR as a function that transcends but includes making profits, creating jobs and producing goods and services. Some researchers argue that it has come to mean the positive actions that a company takes to discharge its responsibilities to external stakeholders; while other definitions include financial performance as an aspect of CSR. In line with this, a wide range of behaviors are categorized under CSR including cause-related marketing, sponsoring charitable events, offering employee volunteerism programs, making charitable donations, utilizing environmental initiatives and demonstrating a commitment to health and safety issues (**Maignan & Ralston 2002**). **Carroll (1979)** designed a four-part conceptualization of CSR that included economic, legal, ethical and philanthropic elements. Carroll model entails that all business responsibilities rely upon the economic responsibility, which includes maximizing profitability and maintaining a strong competitive position. Legal responsibilities state firm's compliance with laws and regulations while doing business. Ethical responsibilities replicate societal standards, expectations and norms that have not been specifically legislated. Finally, philanthropic responsibilities comprise actions that are in response to society's expectation that businesses be good corporate citizens. These are distinguished from ethical responsibilities in that they are of a charitable nature and, as such, a company is not considered unethical if it does not provide them (**Carroll 1991**).

Though Carroll model had wide level acceptability, nevertheless, the literature still lacks a unified and definitive understanding of CSR. It provides little guidance as to what practices corporations should be undertaking due to the broad assortment of activities now considered to constitute CSR. For example, if a company reacts to a crisis related to its business activities, such as the Chernobyl Nuclear Power-Plant accident, the Exxon Valdez oil spill, or the Union Carbide pesticide plant accident in Bhopal, does this constitute CSR? Does CSR only enfold behavior not required by society? According to Carroll's definition, this is certainly not the case because Carroll's model includes economic and legal responsibilities, both of which are required.

This lack of a unified definition of CSR also impedes a cohesive empirical view of CSR and its impact, such that research cannot measure CSR effectively, nor pronounce conclusive findings. Nevertheless, whilst a universally accepted definition of CSR will vastly improve progress in the field, how to go about developing this definition is a rather complex process, largely because CSR could mean different things to different stakeholder groups. This is the basis of definitional construct of CSR by Edward Freeman (1984) who argued CSR involves a wide variety of stakeholders such as owners, employees, customers, suppliers, communities and government.

Stakeholder concept of CSR is more complex because of lack of conceptual unanimity at the stakeholder levels. CSR means different things to different stakeholders. Shareholders may interpret CSR in terms of profit maximization. Governments may view it as legislative compliance and ensuring safe products and workplaces. To consumers CSR means delivering high quality products at a good price, and most probably ethical or philanthropic behavior. Finally, to other stakeholder groups such as the community, employees and society, the meaning of CSR is even more likely to vary. In the absence of a unified succinct wide accepted definition of CSR, it is argued herein that an adequate definitional construct of CSR could be developed in terms 'giving back to society' as business enterprise is an organ of society and all the stakeholders operate within the society.

CSR in India

In Indian context, the phrase Corporate Social Responsibility was coined with greater emphasis on the "giving back to society." In India, CSR means giving back to society has been in existence from time immemorial through the phrase was of recent origin. The famous philosopher Kautilya who taught economics to the world in

his masterly written book 'Arthasastra' preached and promoted ethical principles while doing business. The sacred scripture like *The Vedas* and *The Upanishad* also endorsed the concept of helping the vulnerable. Zakaat, followed by Muslim also believes in donating certain portion of their earnings to the poor and disadvantaged. Marwari from Rajasthan and Sadhabas from Odisha also practiced the principles of *Dharmada* (literally means ethics in business which is reflected in their practice of donating certain portion of their profits for some societal works). Though there was no such term as 'corporate' during that time, nevertheless, Indian business used to practice the doctrines of social responsibility.

In the present era, though a series of public companies like NTPC, Nalco, Indian Oil etc. and a few of the private companies like TATA, BIRLA etc., have been imbibing the case for social good in their operations for decades, nevertheless, CSR is still the least understood initiative in the Indian development sector. Many times, these two terms CSR and Philanthropy were used by researchers interchangeably, though mentioned separately, these two are certainly not separate water tight compartments.

Nanduri (2008) divided philanthropy in two categories on the basis of investment the corporate do for community development: Passive and active philanthropy. "Charity giving" by corporations without keeping track of the ways, the money is spent for the community development (through funding the civil society) may be considered as "Passive Philanthropy". In a Corporate Social Responsibility Survey (2002), 48 per cent of the respondents perceived philanthropy (read as charity giving) as a component of CSR. A striking feature of the responses is that the respondents are closely unanimous on the issue that passive philanthropy is no longer sufficient in the realm of CSR. Several corporations in India look into the ways and means of spending of the corporate charity funds through established 'Foundations' and 'Trusts'. More so emergence of non-family-owned businesses in 1960s and 1970s witnessed an increase in number of these trusts set up by businesses. This arrangement where the corporate bodies are actively involved in the community development activities may be considered as "Active Philanthropy". However, these initiatives of community development are independent of each other and choice of the sectors (health, education etc.,) & geographic location is random unlike the planned approaches of State (read as Government) and Civil Society Organizations.

However, CSR includes all other stakeholders mentioned above and thus their inclusion needs to be designed effectively. Not discounting the contributions of corporate bodies in the form of charity giving, the practices of CSR have not moved any further beyond philanthropy. Lack of understanding, inadequately trained personnel, non availability of authentic data and specific information on the kinds of CSR activities, coverage, policy, etc. further adds to the reach and effectiveness of CSR programs. But the situation is changing. And CSR is coming out of the purview of '**doing social good**' and seemed to be fast becoming a '**business necessity**'.

Development Drama consists of three main ACTORS: Politicians, Bureaucracy and Community (**Hall, 1980**). Development is only possible when these three Actors act in concert as in an orchestra. Synergy among these three actors plays vital role in conduct of any societal developmental work.

Majority of the members of the community reside at the **Bottom of the Pyramid** who continues to live as the voice less citizens. They do not have the minimum access to facilities relating to education, health care, amenities etc. and even if they have it, yet are not aware of those.

In such a scenario, can we foresee an increasing role of the market forces (read as corporate bodies) in the sphere of social development through their CSR practices? At this juncture one must be ensured that, corporate philanthropy no where equals CSR, though the former is a sub-set of the latter. Philanthropy means charity without expecting any return. But CSR is associated with profit and brand image of the company. A survey by **Partners in Change (2004)** on a sample of 536 companies across India reveal that philanthropy is the most significant driver (64%) of CSR, followed by image in 1960s and 1970s also saw an increase building (42%), employee morale(30%) and ethics (30%), respectively. In India, the companies like Nalco-India, Indian Oil, Tata groups are earmarking certain percentage of profit as part of their responsibility towards social good. On the other hand, the company like navaratna NTPC-India has not linked its CSR spending with its profit. It has earmarked 17 crores annual spending for social developmental project in India. Besides, there are companies who also interpret CSR as a tax avoiding strategy rather than responsible behavior.

Perception and practices of CSR in India

The empirical investigations on CSR reveal that CSR practices in India have been restricted to a limited set of practices, viz., community development (education, health, social issues), and HR practices (**Kumar, 2003**). Within these limited scope of practices one cannot overlook the importance placed on the 'community development' practices dominating every other CSR practice. This is, indeed, a sharp contrast to the CSR practices reported in the east and western countries where major emphasis is provided to the environment aspects.

These facts raise astounding doubts whether CSR concept as such has made any in-roads into the corporate strategy. Even a look at the certifications (viz., ISO 14000, ISO 14001, Environment accounting and audit,

Social accounting & audit, Safety audit, Social accountability 8000 standards) and awards (FICCI award for Rural Development, Asian CSR Awards in the areas of Education and Environment) that are used as proxy to assess CSR of the corporate reflect this skewed pattern. (Gite, 2006 ; Shrimal. and Verma, 2000 ; Goswami, 2006).

The field of CSR in India principally involves two important dimensions, viz., **inclusion of certain stakeholders** in the ambit of CSR and the **nature & type of CSR activities** practiced by the corporate bodies. (Arora and Puranik, 2004)

Corporate bodies believing in stakeholder model are focusing on stakeholders close to the economic activities of the company and in case of corporate bodies believing in the philosophy of triple bottom line; social dimension appears to have been the only focus. However, in the recent times the communities that remained far from any influence of the economic activity of the company are being gradually recognized as stakeholders of CSR. Efforts for their development are considered as higher order CSR (Gite, 2006).

Corporate houses in India often blame the government for poor governance and shortsightedness. The question that appeals to mind is, does the corporate houses in India perform their duties to contribute to the over all growth of the country? Do they contribute to nation building?

In India, Many of the corporate (both public and private), do not have a clear policy on CSR. While developed countries have separate ministries to look after the CSR issues, in India, the government does not have a clear policy on the issue. Though the government has invoked the oil companies (5%) and other corporate houses (1%) to spend at least certain percentage of profit for social developmental work, nevertheless, many of the corporate houses in India are not transparent on their CSR activities. Lack of unanimity of approach towards CSR, absence of a single succinct definition and opaque CSR policy put a question mark on the CSR panorama in India.

Prasad (2009) in his report titled “CSR Initiatives of Indian Companies - A Study” reconfirms that CSR in India is necessarily an **evolving term** that does not have a **standard definition** or a fully recognized **set of specific criteria**. With the understanding that businesses play a key role on job and wealth creation in the society, CSR is generally understood to be the way a company achieves a balance or integration of economic, environmental ,and social imperatives, while at the same time addressing shareholder and stakeholder expectations.

The concept of **corporate social responsibility** (CSR) has so far failed to take deep root in India because of the conceptual undefined obscurity associated with the nomenclature. The CSR in India is in a nascent stage. Much need to be done to bring about changes in attitude towards CSR and bring awareness among the corporate about their social responsibilities. The market economy has opened the way for enterprise-led development and a new cultural perspective is emerging in **Indian business environment** that has a strong bearing on social responsibilities. Ideally speaking, **corporate citizenship** has **ethical** and **philosophical** dimension, particularly in India where wide gap exists between people in terms of income and living standards as well as social status.

The corporate bodies need to understand different schools of thoughts and approaches of social development to find their niche, rather than making simple, isolated, profit-sharing, philanthropic exercises. To accomplish an organic growth of the economic and social spheres of development in the country, the roles of Corporations, State and Civil society need to be finely integrated. In addition to the current philanthropic endeavors, corporate houses may also contribute towards increasing the effectiveness and efficiency of various government social development initiatives. They should actively contribute towards policy advocacy, policy design, its implementation and assist in reforming the existing governance structures especially the ones responsible for the implementation of development programmes. This can be possible through developing the infrastructure facilities (more so the IT enabled services) and building the capacities of various actors in these governance structures in the direction of good governance. However, one needs to be cautious in differentiating these activities / roles from the lobbying done by the corporate bodies with government for their financial gains / business sops. The emerging roles of corporate bodies may either be taken up through their ‘Foundations’ / ‘Trusts’ or a CSR division created within the parent organization meant for the purpose.

CSR is coming out of the purview of traditionally defined concept of corporate philanthropy and many of the corporate bodies have embraced CSR as one integral part of overall corporate strategy, time now that several of these diverse CSR initiatives undertaken by the corporate bodies should be scaled up through their networks. At this stage, it is noteworthy that the philanthropic intervention of the corporate bodies is nothing short of ‘islands of success’ conspicuously losing the advantages of networking and synergistic operations among several of other efforts. This certainly does not indicate that these initiatives are not made by any player. Several of these initiatives are made by civil society, though corporations have practiced CSR for centuries even before the term has been coined. Now, there is a need to scale up these efforts in a professional and systematic way, where the author finds that the corporate bodies have effective roles to play.

Conclusion

CSR in India is restricted to narrowly defined set of people (read as stakeholders), to fixed set of roles (implementing community development projects) and to the approaches with tunnel vision (community development in sectors of health, education etc.). This is more specific to the country like India where for over a century the approach of CSR remained 'corporate philanthropy and community development'. There is need to augment the scope of CSR with respect to stakeholders involved, CSR practices of corporations (from isolated, independent community development interventions, to more long lasting initiatives through their association with civil society organizations and government in planning, policy making and implementation of various RD interventions). As it is repeatedly cautioned, the approach of CSR is shifting from ethical to statist approach. It is time for the corporate bodies to take proactive steps, rather than allowing the State to define CSR for them or start reacting to the State's policies on CSR.

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