

## **Corporate Social Responsibility for sustainable business**

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**Abstract :** Corporate social responsibility (CSR) refers to strategies corporations or firms conduct their business in a way that is ethical, society friendly and beneficial to community in terms of development. This article examines the meaning of CSR based on three theories namely utilitarian, managerial and relational theories. It discusses the different phases of CSR development in India, CSR dimensions, CSR drivers and Key international CSR instruments. This paper details the steps in formalizing CSR projects, cost involved and its implementation, measurement and sustainability. It also explores the role of CSR in community development and competencies required by CSR managers to have a better understanding of the practical aspects of CSR.

**Keywords:** Corporate Social Responsibility, CSR Theories, CSR development, CSR benefits, CSR dimensions, CSR drivers, Clause 135 Companies Act 2013, CSR strategy, CSR measurement, CSR costs, CSR instruments, Stakeholder engagement, CSR implementation, CSR sustainability.

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### **I. Introduction**

There is growing recognition of the significant effect the activities of the private sector have—on employees, customers, communities, the environment, competitors, business partners, investors, shareholders, governments and others. It is also becoming increasingly clear that firms can contribute to their own wealth and to overall societal wealth by considering the effect they have on the world at large when making decisions.

Business opinion polls and corporate behaviour both show increased levels of understanding of the link between responsible business and good business. Also, investors and financial markets are beginning to see that CSR activities that integrate broader societal concerns into business strategy and performance are evidence of good management. In addition to building trust with the community and giving firms an edge in attracting good customers and employees, acting responsibly towards workers and others in society can help build value for firms and their shareholders.

### **II. Corporate Social Responsibility**

Corporate social responsibility (CSR) is also known by a number of other names. These include corporate responsibility, corporate accountability, corporate ethics, corporate citizenship or stewardship, responsible entrepreneurship, and “triple bottom line,” to name just a few. As CSR issues become increasingly integrated into modern business practices, there is a trend towards referring to it as “responsible competitiveness” or “corporate sustainability.”

A key point to note is that CSR is an evolving concept that currently does not have a universally accepted definition. Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society. As issues of sustainable development become more important, the question of how the business sector addresses them is also becoming an element of CSR.

#### **2.1 Importance of Corporate Responsibility**

The most important aspects of CR to the company

- Ethical behaviour on the part of all staff
- High standards of CR
- Transparency in corporate dealings
- Labour practices and employee rights
- Environmental practices
- Equitable pricing and remuneration policies
- Philanthropy and charitable giving
- Ethical investments
- Higher employee morale and commitment
- Enhancement of the brand with customers
- Better relations with governments, local communities
- Competitive advantage over rivals

- Reduced likelihood of regulatory intervention

## 2.2 Theories of CSR

Secchi has come up with a group of theories based on a criterion what role the theories confer to the corporation and society. The theories as shown in Table 1 are: 1) The utilitarian theory, 2) The managerial theory, and 3) The relational theory. On the other hand, Garriga and Mele's (2004) analysis, maps CSR into four types of theories as shown in Table 2. They are: 1) Instrumental theories, 2) Political theories, 3) Integrative theories, and 4) Ethical theories.

**Table 1.** Utilitarian, managerial and relational theories of CSR

| Utilitarian Theory  | Managerial Theory  | Relational Theory   |
|---|--|---|
| <ul style="list-style-type: none"> <li>• Theories on social costs</li> <li>• Functionalism</li> </ul> | <ul style="list-style-type: none"> <li>• Corporate social performance</li> <li>• Social accountability, auditing and reporting (SAAR)</li> <li>• Social responsibility for multinationals</li> </ul> | <ul style="list-style-type: none"> <li>• Business and society stakeholder approach</li> <li>• Corporate global citizenship</li> <li>• Social contract theory</li> </ul> |

**Table 2.** Corporate social responsibilities theories and related approaches

| Types of theory  | Approaches   | Short description   |
|--|--|---|
| Instrumental theories<br>(Focusing on achieving economic objectives through social activities) | <ul style="list-style-type: none"> <li>• Maximization of shareholder value</li> <li>• Strategies for competitive advantage</li> <li>• Cause-related marketing</li> </ul>         | Long term value of maximization <ul style="list-style-type: none"> <li>• Social investment in a competitive context</li> <li>• Firm's view on natural resources and its dynamic capabilities</li> </ul> Altruistic activities socially recognized as marketing tool   |
| Political theories<br>(focusing on a responsible use of business power in the political arena) | <ul style="list-style-type: none"> <li>• Corporate constitutionalism</li> <li>• Integrative social contract</li> <li>• Corporate citizenship</li> </ul>                          | <ul style="list-style-type: none"> <li>• Social responsibilities of businesses arise from the social power the firms have</li> <li>• Assumes that a social contract between business and society exists</li> <li>• The firm is understood as being like a citizen with certain involvement in the community</li> </ul>  |
| Integrative theories   | <ul style="list-style-type: none"> <li>• Management issues</li> <li>• Public responsibility</li> <li>• Stakeholder management</li> <li>• Corporate social performance</li> </ul> | <ul style="list-style-type: none"> <li>• Corporate response to social and political issues</li> <li>• Law and the existing public policy process are taken as a reference for social performance</li> <li>• Balances the interests of firms' stakeholders</li> <li>• Searches for social legitimacy and processes to give appropriate responses to social issues</li> </ul>     |
| Ethical theories<br>(Focusing on the right thing to achieve a good society)                    | <ul style="list-style-type: none"> <li>• Stakeholder normative theory</li> <li>• Universal rights</li> <li>• Sustainable development</li> <li>• The common good</li> </ul>       | <ul style="list-style-type: none"> <li>• Considers fiduciary duties towards stakeholders of the firm. This requires some moral theories</li> <li>• Based on human rights, labor rights and respect for environment</li> <li>• Aimed at achieving human development considering present and future generations</li> <li>• Oriented towards the common good of society</li> </ul> |

## 2.3 Factors leading to increasing attention of CSR

Many factors and influences have led to increasing attention being devoted to the role of companies and CSR. These include:

- **Sustainable development:** Many studies have underlined the fact that human kind is using natural resources at a faster rate than they are being replaced. If this continues, future generations will not have the resources they need for their development. CSR is an entry point for understanding sustainable development issues and responding to them in a firm's business strategy.
- **Globalization:** CSR can play a vital role in detecting how business impacts labour conditions, local communities and economies, and what steps can be taken to ensure business helps to maintain and build the public good. This can be especially important for export-oriented firms in emerging economies.
- **Governance:** Governments and intergovernmental bodies, such as the UN, the Organisation for Economic Co-operation and Development (OECD) and the International Labour Organization (ILO) have developed various compacts, declarations, guidelines, principles and other instruments that outline norms for what they consider to be acceptable business conduct. CSR instruments often reflect internationally-agreed goals and laws regarding human rights, the environment and anti-corruption.
- **Corporate sector impact:** Companies are global ambassadors of change and values. How they behave is becoming a matter of increasing interest and importance

- **Communications:** Advances in communications technology, such as the Internet and mobile phones, are making it easier to track and discuss corporate activities. In the CSR context, modern communications technology offers opportunities to improve dialogue and partnerships.
- **Finance:** Consumers and investors are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues. A sound CSR approach can help build share value, lower the cost of capital, and ensure better responsiveness to markets.
- **Ethics:** A number of serious and high-profile breaches of corporate ethics resulting in damage to employees, shareholders, communities or the environment—as well as share price—have contributed to elevated public mistrust of corporations. A CSR approach can help improve corporate governance, transparency, accountability and ethical standards.
- **Consistency and Community:** Citizens in many countries are making it clear that corporations should meet the same high standards of social and environmental care. In the CSR context, firms can help build a sense of community and shared approach to common problems.
- **Business Tool:** Businesses are recognizing that adopting an effective approach to CSR can reduce the risk of business disruptions, open up new opportunities, drive innovation, enhance brand and company reputation and even improve efficiency.

## **2.4 Four phases of CSR development in India**

The history of Corporate Social Responsibility in India has its four phases which run parallel to India's historical development and has resulted in different approaches towards Corporate Social Responsibility. However the phases are not static and the features of each phase may overlap other phases.

### **2.4.1 The first phase**

In the first phase charity and philanthropy were the main drivers of Corporate Social Responsibility. Culture, religion, family values and tradition and industrialization had an influential effect on Corporate Social Responsibility. In the pre-industrialization period, which lasted till 1850, wealthy merchants shared a part of their wealth with the wider society by way of setting up temples for a religious cause. With the arrival of colonial rule in India from 1850s onwards, the approach towards Corporate Social Responsibility changed. The industrial families of the 19th century such as Tata, Godrej, Bajaj, Birla, Singhania were strongly inclined towards economic as well as social considerations. However it has been observed that their efforts towards social as well as industrial development were not only driven by selfless and religious motives but also influenced by caste groups and political objectives.

### **2.4.2 The second phase**

In the second phase, during the Independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. According to Gandhi, Indian companies were supposed to be the "temples of modern India". Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

### **2.4.3 The third phase**

The third phase of Corporate Social Responsibility (1960–80) had its relation to the element of "mixed economy", emergence of Public Sector Undertaking and laws relating labor and environmental standards. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. Because of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control".

### **2.4.4 The fourth phase**

In the fourth phase (1980 until the present) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 1990s the first initiation towards Globalizations and Economic Liberalization were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing. Globalization has transformed India into an important destination in terms of production and manufacturing bases. As Western markets are becoming more and more concerned about and labour and environmental standards in the developing countries, Indian companies who export and produce goods for the developed world need to pay a close attention to compliance with the international standards.

## **2.5 Benefits of implementing a CSR approach**

No matter the size of an organization or the level of its involvement with Corporate Social Responsibility every contribution is important and provides a number of benefits to both the community and business. Contributing to and supporting Corporate Social Responsibility does not have to be costly or time consuming and more and more businesses active in their local communities are seeing significant benefits from their involvement. Some of the positive outcomes that can arise when businesses adopt a policy of social responsibility include:

### **Company benefits**

- Improved financial performance;
- Lower operating costs;
- Enhanced brand image and reputation;
- Increased sales and customer loyalty;
- Greater productivity and quality;
- More ability to attract and retain employees;
- Reduced regulatory oversight;
- Access to capital;
- Workforce diversity;
- Product safety and decreased liability.
- Increased business leads
- Increased staff morale and skills development
- Innovation in processes, products and services
- Managing the risks a company faces

### **Benefits to the community and the general public**

- Charitable contributions;
- Improved relationships with the local community, partners and clients
- Employee volunteer programmes;
- Corporate involvement in community education, employment and homelessness programmes;
- Product safety and quality.

### **Environmental benefits**

- Greater material recyclability;
- Better product durability and functionality;
- Greater use of renewable resources;
- Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling.

## **2.6 Role of CSR in Community Development**

The role of CSR in CD used in this paper is any direct and indirect benefits received by the community as results of social commitment of corporations to the overall community and social system. The common roles of CSR in CD are as follows:

1. To share the negative consequences as a result of industrialization..
2. Closer ties between corporations and community.
3. Helping to get talents.
4. Role in transfer of technology (TOT).
5. CSR helps to protect environment.
6. CSR is for human right corporate sustainability.
7. Interdependency between a corporation and community.
8. A CSR program can be seen as an aid to alleviate poverty.
9. A CSR program helps in data gathering for other public organization function.

## **2.7 Skills Needed by CSR Managers in Community Development**

The success of CSR is determined by both internal and external factors. Internal factors are economic considerations, culture of the firm including the CEO and employees, and ethical influences; while external factors are compliance with legal requirements and technological influences as well as national culture. Skills possessed by CSR managers are among the internal factors determining the success of CSR practices especially in helping community. Because CSR profession is so new, transferable skills and knowledge from other related

specialization such as environmental management, business ethics, community development, and human resource development are valuable.

Specific skills for CSR managers are very hard to clarify due to the diverse roles and range of disciplines involved. Three main areas of skills are relevant. They are Business skills, People skills and Technical skills.

- Business skills include building insight, communication skills, decision making, commercial awareness, information technology, innovation, strategic awareness, leadership and problem solving.
- People skills cover adaptability and empathy, developing others in the community, influencing without power, integrity, political awareness, altruism, volunteerism, and adult learning.
- Technical skills include technical expertise, understanding evaluation and impacts, stakeholder dialogue, human rights and understanding sustainability.

Based on the above skills grouping, CSR managers should have six core competencies. They are understanding community and community development, building capacity, questioning business beyond profit making, stakeholder relations, strategic business and community partnership, and harnessing diversity. Hence, CSR managers have a wide range of career options such as in marketing, human resources, health and safety, environmental management, ethical investment, public relations, ethical science, community resource development and social research.

### 2.8 CSR drivers

The key drivers for CSR are:

- **Enlightened self-interest:** creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labour and communities are able to function well together.
- **Social investment:** contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.
- **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
- **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.

### 2.9 Costs of CSR

To compile an overview of costs associated with CSR, the first step is to identify which CSR-related activities have been undertaken, and the second step is to estimate the costs related to these activities. Costs can be separated into opportunity costs, sunk costs and recurrent costs as shown in Table 3. The costs of doing CSR vary depending on the CSR subject. Generally speaking, environment-related CSR activities mainly cause costs in terms of capital (e.g. new equipment, improvement of energy use etc.) and minor recurrent costs (such as equipment update and maintenance). In contrast, recurrent costs of CSR activities aimed at improving social aspects of business operations often exceed capital costs.

In addition to costs for the actual CSR implementation, showing credible proof of good CSR performance to consumers or trade partners through auditing and certification based on buyer companies codes of conduct or internationally recognized voluntary sustainability standards can also incur considerable costs.

**Table 3:** Costs of CSR

|  |
|--|
| <b>Costs of CSR</b>  |
| <b>Sunk costs</b>  |
| Costs for investment in equipment, buildings, systems, infrastructure, consultancy, costs for CSR policy development etc.  |
| <b>Recurrent costs</b>   |
| Ongoing costs for wages, overtime payments, management time, social insurance, trainings, benefits for workers, equipment update and maintenance, monitoring and reporting |
| <b>Opportunity costs</b>   |
| Any projects that could not have been undertaken because labour and capital was invested in CSR activities or interest rate on bound investment                            |

### 2.10 CSR dimensions

There are six key responsibilities or dimensions of corporate social responsibility as shown in Figure 1. CSR is really about how to manage these six responsibilities.

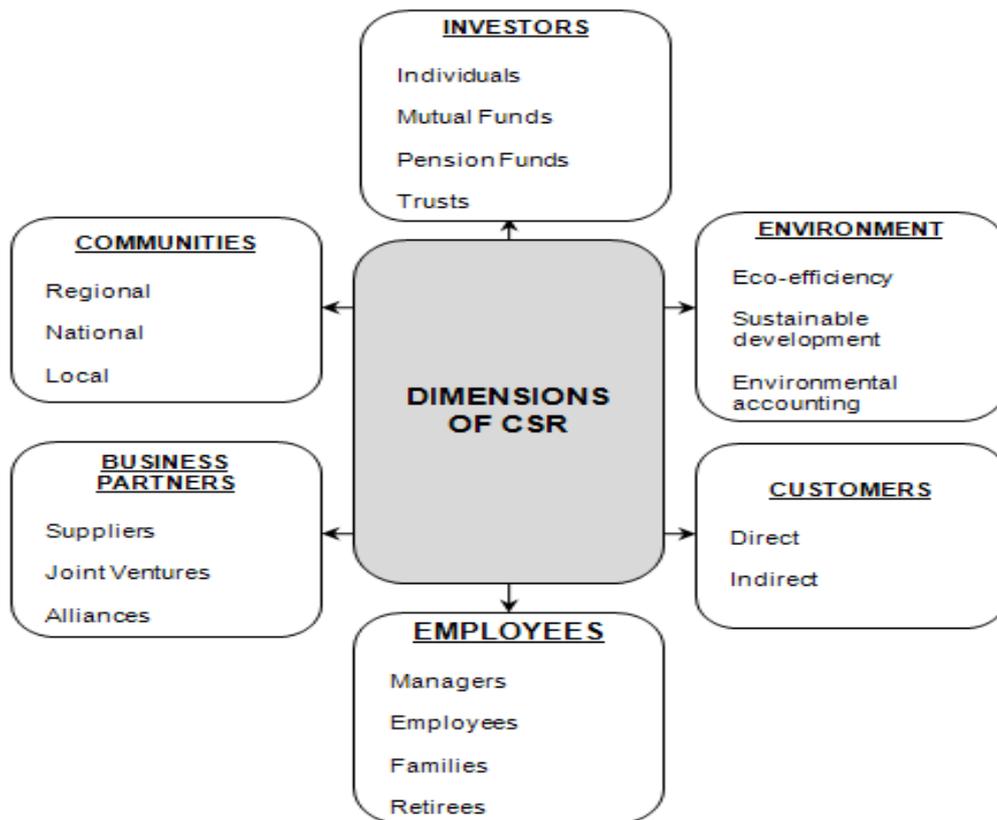


Figure 1. Key dimensions of CSR

### III. Clause 135, Companies Act, 2013

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crores INR and more, or a net profit of five crore INR and more. The new rules, which will be applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director.

The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India.

The Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

Clause 135 of the Act lays down the guidelines to be followed by companies while developing their CSR programme. The company can implement its CSR activities through the following methods:

- Directly on its own
- Through its own non-profit foundation set-up so as to facilitate this initiative
- Through independently registered non-profit organisations that have a record of at least three years in similar such related activities
- Collaborating or pooling their resources with other companies

The CSR committee will be responsible for preparing a detailed plan on CSR activities, including the expenditure, the type of activities, roles and responsibilities of various stakeholders and a monitoring mechanism for such activities as shown in Table 4. The CSR committee can also ensure that all the kinds of income accrued to the company by way of CSR activities should be credited back to the community.

The new Act requires that the board of the company shall, after taking into account the recommendations made by the CSR committee, approve the CSR policy for the company and disclose its contents in their report and also publish the details on the company's official website, if any, in such manner as may be prescribed. If the company fails to spend the prescribed amount, the board, in its report, shall specify the reasons.

**Table 4.** Step towards formalizing CSR projects

| Objective  | Process owners  | Inputs   | Output(s)   |
|--|---|--|---|
| <b>Step 1: Developing a CSR strategy and policy</b>  |   |  |   |
| Developing the CSR strategy and policy   | CSR committee   | <ul style="list-style-type: none"> <li>Guidance from the board</li> <li>Companies Act requirements</li> <li>Corporate business strategy, plan and supply chain</li> <li>Development priorities</li> </ul>  | The CSR policy document and an indication of sectors and issues, geographies and a profile of the beneficiaries.  |
| <b>Step 2: Operationalising the institutional mechanism</b>  |   |  |   |
| Establishing a legal entity and aligning the accounting, tax, finance, administration, HR and IT systems to deliver the commitments made in the CSR policy | CSR committee   | CSR strategy   | <ul style="list-style-type: none"> <li>Creation of a separate legal entity or a CSR department for CSR activities</li> <li>Other institutional mechanisms to align the accounting, finance, administration, HR and IT systems with CSR activities</li> </ul>  |
| <b>Step 3: Due diligence of the implementation partner</b>   |   |  |   |
| Selecting the implementation partner   | CSR department or Company Foundation  | <ul style="list-style-type: none"> <li>CSR strategy and policy</li> <li>discussions with communities, board, staff, other funders, local government officials, local leaders or influencers, auditors</li> <li>studying the accounts books and auditor's report</li> </ul>   | a due diligence report  |
| <b>Step 4: Project development</b>   |   |  |   |
| Developing a feasible project proposal   | The implementation agency (the CSR department, company foundation or the NGO partner) | <ul style="list-style-type: none"> <li>the CSR policy</li> <li>institutional mechanisms</li> <li>information from the government sources, previous studies done in the area, etc</li> <li>information on programs targeting similar geographies and beneficiary groups or strategies</li> <li>monitoring impact measurement reports from any earlier projects</li> </ul> | A project proposal that details: <ul style="list-style-type: none"> <li>a project context including the roles of other development actors</li> <li>key needs of the target beneficiaries</li> <li>project goals, KPIs, baselines &amp; deadlines</li> <li>project milestones dates</li> <li>activities and timelines to achieve the stated project goals</li> <li>budgets along with the basis for estimation</li> <li>risks and mitigation strategies</li> <li>progress reporting: content, frequency</li> </ul> |
| <b>Step 5: Project approval</b>  |   |  |   |
| Approve the project based on the CSR policy objectives, principles and guidelines  | CSR committee or the delegated project approval committee.                            | <ul style="list-style-type: none"> <li>a project proposal</li> <li>a due diligence report</li> </ul>   | An approved project proposal including a monitoring process and reporting and responsibility for this.  |
| <b>Step 6: Finalising the arrangement with the implementing agency</b>   |   |  |   |
| Agree upon and sign the MoU with the partner   | CSR committee   | <ul style="list-style-type: none"> <li>approved project proposal</li> <li>due diligence report</li> </ul>  | MoU with the implementing agency including the disbursement schedule.   |
| <b>Step 7: Progress monitoring and reporting</b>   |   |  |   |
| Monitoring progress, distilling lessons and forming the basis for reporting.   | The CSR committee   | <ul style="list-style-type: none"> <li>approved project proposal</li> <li>previous monitoring reports</li> </ul>   | <ul style="list-style-type: none"> <li>Determining mid-course corrections</li> <li>Recommendations for future project designs</li> <li>Project monitoring reports to the CSR committee</li> </ul>   |
| <b>Step 8: Impact measurement</b>  |   |  |   |
| Measuring the projects outcome and impact  | The CSR committee   | <ul style="list-style-type: none"> <li>resource planning</li> <li>project MoU</li> </ul>   | <ul style="list-style-type: none"> <li>impact measurement report</li> <li>recommendations for future project designs</li> </ul>   |
| <b>Step 9: Report consolidation and communication</b>  |   |  |   |
| Reporting the CSR at an individual project level, aligned with the requirements under the Companies Act, 2013 and the CSR committee.                       | The CSR department  | <ul style="list-style-type: none"> <li>CSR strategy and policy</li> <li>the project MoU</li> <li>monitoring reports from individual projects</li> </ul>  | <ul style="list-style-type: none"> <li>consolidated CSR reports</li> <li>external stakeholder communication</li> </ul>  |

#### IV. Key international CSR instruments

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

##### Human Rights

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

- Principle 2 Make sure that they are not complicit in human rights abuses.

#### **Labour Standards**

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4 The elimination of all forms of forced and compulsory labour;
- Principle 5 The effective abolition of child labour; and
- Principle 6 The elimination of discrimination in respect of employment and occupation.

#### **Environment**

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 Undertake initiatives to promote greater environmental responsibility; and
- Principle 9 Encourage the development and diffusion of environmentally friendly technologies.

#### **Anti-corruption**

- Principle 10 Businesses should work against all forms of corruption, including extortion and bribery.

### **V. Non-governmental CSR-related codes and standards initiatives**

The following are Non-governmental CSR-related codes and standards initiatives

- **Accountability standards:** The AA1000 Series are principles based standards intended to provide the basis for improving the sustainability performance of organizations.
- **Australian standard on compliance programs:** Standards Australia developed AS 3806–1998 to help firms ensure they have effective compliance programs in place. The standard includes structural, operational and maintenance elements. Structural elements focus on commitments, compliance policies, management responsibility, resources and continuous improvement.
- **British Standard on Sustainability Management, BS 8900:** The British Standard is designed to provide a structured approach to sustainable development by considering the social, environmental and economic impacts of their organization’s activities; be applicable to all organizations in terms of size, type, etc., It makes it easier for organizations to adjust to changing social expectations; help organizations connect existing technical, social and environmental standards.
- **Global Reporting Initiative (GRI) Sustainability Reporting Guidelines:** The Global Reporting Initiative develops and disseminates globally applicable sustainability reporting guidelines. These guidelines are for the voluntary use. Organizations report on the economic, environmental and social dimensions of their activities, products and services. Sector-specific guidelines are developed as interest is expressed. GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, and research and labour organizations from around the world.
- **ISO 14001:** ISO 14001 is a standard that provides a structure (an environmental management system or EMS) to help organizations manage and minimize their environmental impacts and achieve continual improvement.
- **ISO 9001:** ISO 9001 is a standard that provides a structure (a quality management system) to help organizations develop products and services that consistently ensure customer satisfaction and continuously improve their products, services and process. The standard uses the “plan, do, check and improve” approach.
- **OHSAS 18001:** Occupational Health and Safety. OHSAS 18001 is a standard that provides a structure to help organizations manage their occupational health and safety programs to ensure employee safety and well-being and achieve continuous improvement. It is based on the British Standards Institution standard BS 8800, and was developed by 13 national standards organizations and international certification bodies. It is said to be compatible with ISO 9001 and ISO 14001.
- **ISO 26000:** ISO framework on a new International Standard on Social Responsibility. It is expected to provide a definition on what is understood by the term “social responsibility” and how organizations of all kinds might go about responding to social responsibility issues and opportunities.

### **VI. CSR Implementation**

Companies face challenges and limitations as they implement CSR. These usually relate either to political issues or to organizational-level concerns and are often embedded in culture. The complexity of operating in a global society places new demands on organizations and their leadership. The biggest challenge in the field of CSR implementation to be the development of leaders for a sustainable global society, asking what kind of leader is needed for building a sustainable global society and how we can best develop individuals with

these leadership capabilities. The task and challenge will be to develop leaders for a sustainable global society by encouraging imagination and the accomplishment of a positive change.

The role of the leader in guiding business toward sustainable social responsibility is complex and vast. Responsible leaders are defined as people of the highest integrity and deep understanding of difficult concepts such as sustainable development, committed to building enduring organizations in association with others, leaders who have a deep sense of purpose and are true to their core values. Leaders of socially responsible organizations have been associated with the charismatic leadership style; the connection between top managers and firm outcomes depends to a large extent on the managers' charismatic leadership under conditions of perceived environmental uncertainty.

Charismatic leadership style communicates an innovation vision, energizes others to innovate, and accelerates innovation processes and CSR; interactive leadership characteristically empowers employees to innovate and to become innovation leaders themselves. The transformational leader is able to communicate so enthusiastically that the result is pulling people to commit to the vision of the leader on sustainability. Some effective organizational models for CSR, however, support a simultaneous transformational and visionary leadership style, together with a need for transparency.

Moreover, CEOs' intellectual stimulation is found to be significantly associated with the propensity of the firm to engage in strategic CSR, or those CSR activities that are most likely to be related to the firm's corporate and business-level strategies. Leadership competencies consistent with "responsible" leaders include courage, business acumen, passion, having a life ("you can't think out of the box if you are always in the box"), compassion, sense of humor, and vision for legacy (instead of vision for activity). A leader should be remembered as a person who designed a society that is educated, environmentally friendly, safe, and economically sustainable.

### **Sample CSR checklist**

A sample CSR checklist can be as shown below:

- Provide a safer working environment and educational assistance to employees?
- Improve contractual relations with employees?
- Enhance gender equality in the workplace?
- Use more energy-efficient appliances (e.g., light bulbs) or vehicles?
- Source more from local suppliers?
- Improve customer service standards?
- Support more local community projects?
- Purchase fair trade products that support workers in developing countries?
- Recycle more waste?
- Ensure a better work/life balance for employees? and
- Be more accessible to customers of various abilities?

## **VII. CSR Measurement**

### **7.1 Measuring CSR**

Measuring social responsibility can be categorized as:

1. **Community Projects:** Those that the company played a significant role or provided substantial support for. These include civic and cultural programs, youth activities, student and social activities and local earth programs.

2. **Contributions:** These include those made to federated drives, education program, urban/civic affairs and cultural activities.

3. **Equal employment opportunities:** These should cover women and minority groups

4. **Environmental concerns and energy conservation:** This is defined as the existence of policies or procedures directed at energy conservation.

5. **Voluntarism:** This measure according to the number of hour contributed by persons loaned to or a given lease time for public service work, this is to encourage individual involvement.

6. **Social Investment:** These include those that would not otherwise have been made under the company's customary lending standards or those in which social consideration played in the investment decision organizations that are focused on corporate social responsibility would proactively promote the public interest by encouraging community growth and development. By having and positive impact to the society, the

organizations are also making a difference to themselves. It is not only when it comes to profits but also how the employees think and the economy.

## **7.2 Indirect approach to measure the impact of CSR on Business Performance**

The EFQM model provides a modern and intuitive approach to integrate CSR activities into the observation of business performance and the measurement of business success on a sustainable foundation. Some companies have already implemented new CSR strategies linked with EFQM evaluation. The EFQM model provides an ideal framework for the measurement of CSR activities and their influence on business performance, in the sense that the model provides guidelines regarding how much weight should be given to different “enablers” and “results” criteria within the overall performance measurement.

First, one needs to identify the contribution of CSR to each examined criteria. Second, since the affected criteria are closely linked to known stakeholders, relevant data of these stakeholders must be collected. An effective method of obtaining data on the basis of the stakeholder concept is the collection of data by means of interviewing different groups, for example in the form of a questionnaire. The satisfaction levels of different stakeholder groups in this concept are the dependant variables, whereas the cumulated CSR activities resemble the independent variable in this simple regression analysis with only one regressor (the CSR activities). In the data collecting process of the dependent variable, the stakeholder satisfaction level, it will be important to eliminate other factors that contribute to the satisfaction level of the examined groups. These factors are e.g. wage, gratification programs, retirement programs, carrier opportunities, an ergonomic workplace and many more. For this reason, the questionnaires must be clearly focused on the effect of only the CSR activities on stakeholder satisfaction. In the case of an employee questionnaire, this can be achieved by formulating questions such as:

- “Are you aware of the fact that your company has participated in program x?”
- “Do you approve of the company’s involvement in program x?”
- “Does the involvement of the company make you think better of the company?”
- “Do you think your company should do more such activities? In which areas?”

However, although these questions will already generate some useful information as far as the acceptance and also effects of CSR activities are concerned, they do not automatically offer useful data for an econometric analysis. For this means, another necessary step must be taken: The collected data must be transferred onto a cardinal scale. For this reason, a model must be developed which accounts for all relevant aspects of the effects of CSR activities on the satisfaction level of a number of different stakeholders and, in a further step, on the satisfaction level of all stakeholders. This will be done by first determining satisfaction levels for various stakeholders and then computing a weighed averaged of all satisfaction values in order to obtain a single value which will be used to perform econometric tests.

## **7.3 Emerging Markets and CSR**

Despite the commercial significance of Emerging Markets, leading global companies are imposing CSR policies designed to respond to pressures in low growth developed markets on developing economies. In these economies, raising living standards is a key development objective, yet none of the CSR policies of the global enterprises reviewed higher living standards as a key objective.

The basic differences between industrialized and emerging economy approaches to matters typically considered core CSR issues need to be understood. They are canvassed in general in the areas of sustainability, labor and human rights, and governance.

### **7.3.1 Sustainability**

In most CSR frameworks, high priority is given to action on climate change. This is the leading issue for NGOs in most industrialized economies. Not so in leading developing countries. Consider this summary of leading sustainability concerns from India’s National Environmental Report: “Environmental degradation is a major causal factor in enhancing and perpetuating poverty, particularly among the rural poor when such degradation impacts soil fertility, quantity and quality of water, air quality, forests, wildlife and fisheries.”

### **7.3.2 Labor and human rights**

CSR programs invariably stress ethical policies in the production link in supply chains usually because of pressure from organized labor in their home markets. Their motive frequently is to see wages lifted in those economies to reduce the competitiveness of exported products.

In most developing countries the leading labor interest, among unions and governments, is instead in increasing and perpetuating jobs. Human rights transgressions are usually a function of lack of respect for those rights by government authorities. Suggestions that private employers should be responsible for correcting such

situations are something most companies are rightly careful to avoid; the range of actions that can be taken by businesses is often limited.

### 7.3.3 Governance

CSR practice is to encourage companies to take responsibility for reducing corruption and fostering greater transparency in transactions with governments. There is an anti-business sentiment among many Western NGOs and that exerts a flavor in the common implication that business might be presumed to be involved where there is corruption. Corruption is a function of poor government, which is why it is endemic in very poor countries. Schemes like the Extractive Industries Transparency Initiative which obliges companies to reveal their financial transactions with governments and puts them under some obligation to pressure governments to reveal how they handle the payments simply increase the cost of doing business and have little impact on the practices of government in developing countries.

For citizens and consumers in developing countries, the primary interest in governance is to see effective delivery of government services. Improved governance means greater transparency and less corruption to western corporations; in Emerging Markets it means more effective administration. Improved labor conditions mean unionization and ethical sourcing; in Emerging Markets the leading interest is job growth.

## VIII. CSR and sustainability

Sustainability (corporate sustainability) is derived from the concept of sustainable development which is defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Corporate sustainability essentially refers to the role that companies can play in meeting the agenda of sustainable development and entails a balanced approach to economic progress, social progress and environmental stewardship. Figure 2 shows the business case for CSR sustainability.

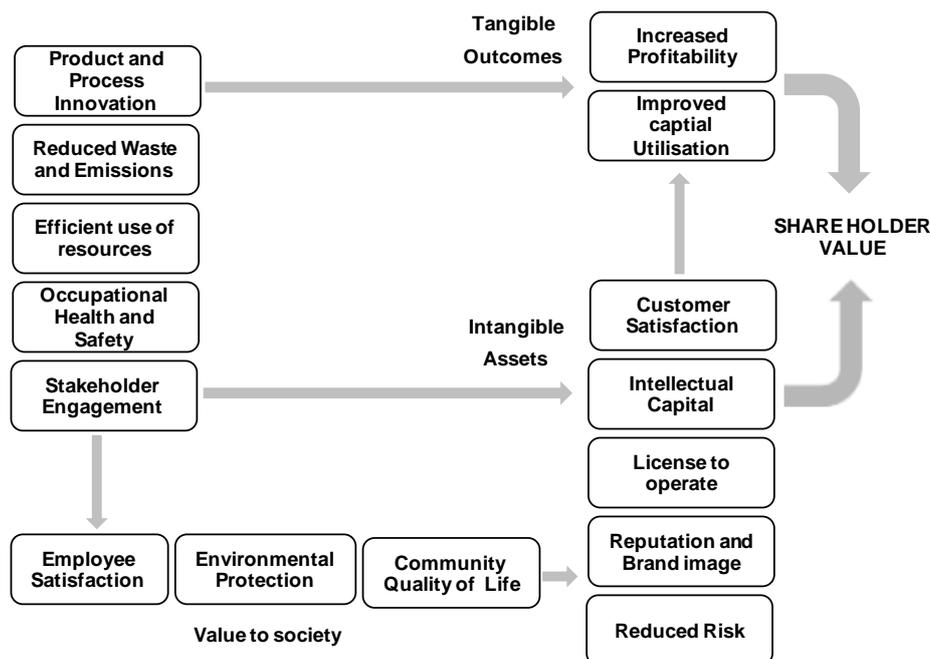


Figure 2. Business case for CSR sustainability

Stuart Hart, in an Harvard Business Review article, discusses the challenge to develop a sustainable global economy and the responsibility of corporations to make it their business to develop and sell profitable solutions to the world’s environmental problems. Few companies, he says, integrate sustainability into their strategic thinking. Most are at best in stage one, that of pollution prevention, and focus on continuous improvement efforts to reduce waste and energy. The leaders are moving to stage two, which is nothing but product stewardship, and focus not only on minimizing pollution from manufacturing but also on all environmental impacts associated with the full life cycle of a product. Some companies in this stage are reaping enormous rewards in the hundreds of millions of dollars in annual profit improvement by reconceptualizing their businesses and reducing costs. The third stage is that of developing and commercializing clean technologies which contribute to the solution of both environmental and social problems.

## **IX. Discussion**

Some experts believe that traditional approaches to CSR can actually stand in the way of achieving optimum performance. The most common mistakes made in CSR are discussed below:

- **Lack of vision:** Instead of asking “where are we now?” think about asking “where do we want to be in 10 years?”;
- **Scale of change:** Some of the biggest business and sustainability opportunities will not be achieved by “bolt-on” approaches. Firms should remain open to radically new approaches and major change;
- **Sub-strategic management:** CSR managed at a staff level may fail to address key issues such as new business opportunities and the structure of incentives systems;
- **Risk/opportunity roles:** By bundling these two issues together, companies can fail to optimize the opportunities that a separate approach might offer;
- **Selective hearing:** Most organizations do not like criticism, and tend to listen to some stakeholders more than others. It is necessary to engage in what some academics have described as “deep listening;”
- **Maintaining old structures:** Understanding and responding to the demands and opportunities of the future will not always be possible within old management structures;
- **“One World” approaches:** Real differences exist across a firm’s activities, supply chains and customers. While common approaches for multinational firms have many advantages, they can disguise innovations and opportunities that might be possible at the local level;
- **Uneven approach:** Some firms have good policies in one sector or country, which are not being best used in other sectors and regions. This can also give the impression that CSR programs are image-driven;
- **Non-participative management:** “Top-down” CSR processes do not harness the skills and potential of employees. Creation of networks of “change champions” may offer better engagement and results; and
- **Failure to see CSR as innovation:** Good CSR involves continuous innovation that links CSR to the firm’s business model. It can use CSR to identify new technologies, markets and approaches.

## **X. Recommendation**

Drawing on the activities of small businesses implementing CSR, a list of practical CSR activities is recommended which a small business can do. These initiatives are likely to be of interest to personnel in larger firms as well.

### **Improving the environment**

- Reduce consumption of energy, water and other natural resources, and emissions of hazardous substances;
- Use or produce recycled and recyclable materials, increase the durability of products, and minimize packaging through effective design (“reduce, reuse and recycle”);
- Train and encourage staff to look for additional ways to reduce the firm’s environmental footprint;
- Use “green” (i.e., renewable energy) power electricity suppliers and energy-efficient lighting;
- Join or start a local “green business” club that can help local firms access conservation grants and expertise for reducing waste, water use and energy;
- Consider using video-conferencing to meet a potential supplier or customer rather than always physically travelling to meetings; and
- Establish an environmental management system with objectives and procedures for evaluating progress, minimizing negative impacts and transferring good practices.

### **Improving human resource management practices**

- Establish policies to ensure the health and safety of all employees and make the policies known to employees;
- Involve employees in business decisions that affect them and improve the work environment;
- Consult employees on how to handle a downturn in business (e.g., offer the option of all staff taking pay cuts or reduced hours instead of layoffs);
- When layoffs or closures are unavoidable, offer outplacement services, retraining and severance benefits;
- Provide training opportunities and mentoring to maximize promotion from within the organization;
- Extend training to life management, retirement planning and care of dependents;
- Be open to job splitting, flex-time and other work-life balance policies;
- Share training and human resources programs with other local small businesses;
- Consider supporting daycare for children or elderly dependants;
- Encourage a healthy workplace (e.g. implement a smoking ban or drug and alcohol abuse support program);
- Provide exercise facilities or offer subsidized membership at a local gym.

### **Promoting diversity and human rights**

- Make sure that all staff know that there are explicit policies against discrimination in hiring, salary, promotion, training or termination of any employee on the basis of gender, race, age, ethnicity, disability, sexual orientation or religion.
- Do not tolerate jokes or behaviour in the workplace that insult employees on the basis of gender, race, age, ethnicity, disability, sexual orientation or religion.
- When hiring, think creatively about where to advertise the job and whether there are any local employability schemes (e.g., run by a local council or employer) to help find work for people who are homeless or disabled.
- Pay comparable wages for comparable work.
- Support organizations that promote fair trade and human rights compliance.
- Check where products are manufactured and look into any associated human rights concerns.

### **Helping the community**

- Encourage employee volunteering in the community and with financial contributions and help in kind.
- Make some of the business's product or services available free or at cost to charities and community groups.
- Look for opportunities to make surplus product and redundant equipment available to local schools, charities and community groups.
- Buy from local suppliers and strive to hire locally.
- Offer quality work experience for students (job shadowing).
- Collaborate with local teachers to make the business the subject of a school project.
- Use the business's experience to help a local school, charity or community group become more efficient and entrepreneurial.
- Use some of the marketing budget to associate the business or brand with a social cause.

In general:

- Develop new environmental and social products and services; innovation brings competitive advantage.
- Share CSR lessons learned with business customers, business neighbours and fellow members of a trade association or business organization.
- Explain the environmental, social and economic performance of the business to stakeholders and consider their ideas and views as the business develops.

Commit to an external code or standard or a set of business principles that provides a framework to measure progress on environmental, and social and community issues.

## **XI. Conclusion**

CSR is becoming a leading principle of top management and of entrepreneurs. Organizations can reexamine their pattern of behaviors in their business framework and begin their journey toward a sustainable approach that is integrated into their business strategy. Over the last years an increasing number of companies worldwide started promoting their business through Corporate Social Responsibility strategies because the customers, the public and the investors expect them to act sustainable as well as responsible. It is concluded that CSR is about business, government and civil society collaboration with the bottom line is the achievement of win-win situation among the three entities. From the social point of view, CSR should benefit community because it consists of individuals with various levels of control of resources physically and intangibly.

It is also concluded that skills needed by CSR managers do vary due to the diverse disciplines involved and also the complexity of the roles and responsibilities of a CSR initiative. There are no specific qualifications required for this field. Because the field is new, transferable skills and knowledge from other related specializations such as environmental management, business ethics, transfer of technology, human resource management and community development, are valued. The specific skills required are further determined by the mission and vision of the organizations where the CSR managers serve. The lines between corporate and community are shrinking, and the value of those from each sector is rapidly being understood and capitalized upon by the other.

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