# CHAPTER - 1

# INTRODUCTION

India, the world's largest democracy has been one of the best performers in the world economy in recent years. A dynamic economy with a vibrant electorate, active judiciary and civil society groups, and a fiercely independent media has projected a consistent 8-9% growth rate that has been supported by a number of favorable economic indicators including a huge inflow of foreign funds and growing reserves in the foreign exchange sector. All of these positive changes have resulted in establishing the Indian economy as one of the largest and fastest growing in the world. The Government of India had proclaimed the new decade (2001-2010) as a Decade of Development, during which India will meet bold targets for economic growth and social development. During his address to the nation from the ramparts of the Red Fort, the Prime Minister announced on August 15, 2000 that the government had set a target of doubling India's per capita income by the year 2010. This seemed an ambitious target at that time, but we believe, is certainly made achievable in past seven years of reported economic growth. For four years running, excluding 2005, the Indian economy has produced annual growth rate of 8.8%. The growth rate of 2006 was phenomenal, when the country achieved a record 9.6%, the highest rate attained in the last 18 years. The Indian economy has been stable and reliable in recent times, consistently posting robust growth numbers in all sectors leading to impressive growth in Indian GDP.

As a march towards this first target, economic reforms started in the country in the last decade at the backdrop of major fiscal and balance of payment crisis. The reform measures included a greater private sector role in India's development by improving the investment and tax regimes, dismantling industrial licensing, and opening infrastructure to private investment, reforming public enterprises and the financial sector, and reducing price controls. The package also initiated the liberalisation of foreign trade and exchange regimes. As a result, Indian Economy grew consistently and recorded an annual average growth of 7.6 per cent during the Tenth Plan and has set a target of 9 per cent for the Eleventh Five Year Plan. One of the landmark structural changes achieved by Indian economy is that today services sector contributes more than 50% of India's GDP, which is a general characteristic of any developed economy. The growth rate of the service sector was 11.18% in 2007 and now contributes 53% of GDP. The industrial sector grew 10.63% in the same period and is now 29% of GDP. Agriculture is 17% of the Indian economy (WDR 2007).

Today, the economy is diverse and encompasses agriculture, handicrafts, textile, manufacturing, and a multitude of services. Although two-thirds of the Indian workforce still earns their livelihood directly or indirectly through agriculture, services are a growing sector and are playing an increasingly important role of in the economy. The advent of the digital age, and the large number of young and educated populace fluent in English, is gradually transforming India as an important 'back office' destination for global companies for the outsourcing of their customer services and technical support. At the same time new liberalised economic policy, coupled with large market and cheaper labour has helped widening opportunities for shifting manufacturing base either

through Mergers and Acquisition or Green Field Projects for big corporate from the world over. In the context of the globalization, it is our common aim to have an economic structure in place so that-India can become a leading developing country, economically, in the World in the coming years. Towards the realization of this, an analysis of the progress of implementation of plan programmes during the first four Annual Plans, 2002 – 2003 to 2005 – 2006 has indicated a very satisfactory realization of physical and financial targets in most of the core, major and priority sectors.

Despite its many noteworthy achievements, India presents a paradox. On the one hand it shows 8.8% averaging GDP growth and rising incomes for four years in a row. On the other hand the social sector development is in a mess. As Amartya Sen puts it, "economics is not the only yardstick with which one evaluates a nation's performance. And, on the political and social front there is much concern about India's recent experience even though its economic prospects look encouraging". (Amartya Sen 1995). The economy is decelerating, the incidence of unemployment on current daily basis is high, there is widespread under nourishment, the infant mortality rate has been stagnating, electricity is not available to 40% of rural and 20% of urban households, the environment has been deteriorating and gender inequality persists. India has performed poorly in the United Nation's Human Development Index for 2006. It stands 126 in the ranking of 177 countries. The UN's annual Human Development Report examines parameters such as life expectancy, school enrolment, and access to health, literacy, gender parity and sanitation levels. It shows that improvements in child and infant mortality in India are slowing, that gender disparities persist

3

and that India is off-target for achieving the Millennium Development Goals. Infant and child mortality rates, a key indicator, are particularly disturbing. One child in every 11 dies during the first five years of life. The number of child deaths annually is 2.5 million. Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh account for over half of all child deaths. Life expectancy at birth in India is 63.3 years; adult literacy rate, 61%; and gross enrolment ratio in schools 60%.

**Other findings:**

➤ Half the country's children are malnourished.

➤ 1 in 4 girls and 1 in 10 boys do not attend primary school.

➤ Girls aged 1-5 are 50% more likely to die than boys.

➤ One-year-olds fully immunised against TB -- 80%; measles -- 67%

➤ Births attended by skilled health personnel -- 43%

➤ Amount of GDP spent on public health -- 1.3%; private health -- 4.8%.

(Source: HDR – 2005)

To achieve the second target of social development, commitments of sustained efforts and investment of economic resources not only by the government but other economic sectors is very much required. The targets can be achieved only if India is able to achieve:

1   A decline of infant mortality rates from around 80 per 1000 live births to below 30 per 1000 live births by 2010. This should be combined with explicit targets for halting the AIDS epidemic, and treating key diseases such as malaria, tuberculosis, and other major killers.

2  A reduction of adult illiteracy from around 45 percent to less than 20 percent by 2010.

3  Universal primary education for ages 5-14 for girls and boys by 2010, with a school for all within 5 kilometres of home.

4  all villages possessing electricity, a trunk road, telephone and internet connectivity, a school, clean water and sanitation, and effective village health worker and local self-government by 2010 (Bajpai, Sachs 2000).

To bridge this gap between economic and human developments, the 10th plan took a more comprehensive view on the human development aspects. Some of the focus area of the 10th plan were employment creation, institutional reform to facilitate a greater private sector role in industrial and infrastructure development, greater emphasis by Government on social sector development, overhaul of the existing healthcare system, increase in gross domestic savings and investment ratio, fiscal health, civil service reform, improved capacity and funding for major institutions of decentralization, and measures to ensure equitable gains from globalization.

This shows that two basic pillars of holistic development are human development and economic growth. Human development signifies the ability of every individual to reach their full potential as healthy and educated citizens. This in turn requires major commitments to health, education, and political participation of all citizens in the country – with equal opportunity for all, and without discrimination by gender, caste, or region. No individual should be left behind. This emphasizes Gandhiji's concept of ' SARVODAYA'-welfare of all

which means, " welfare of all at all aspects of life which includes material and non-material things. It includes better schooling and education, proper nutrition, health care services, safe drinking water, adequate shelter and secure livelihood through productive and remunerative employment, easy and cheap availability of transportation and communication modes, along with non-material aspects as satisfaction of life, safe working condition, freedom of speech and movement, equal opportunities, satisfying family life, adequate leisure time and a sense of purpose in life.

No policy maker can guarantee the achievement of all, or even the majority of these aspirations, but policies followed by sustainable programmes can create the opportunities for its fulfilment. This requires action for preparing a strategy of development which can be implemented effectively by the available instruments of administration. It needs to be supported and supervised by an organized voluntary movement of people at individual and group level committed to the goals of social development. The Prime Minister of India addressing the India Economic Summit in the year 2000 called on the corporate sector to work towards making benefits of globalisation reach the people so that it no longer is perceived as a 'threat', but an 'opportunity'. Noting the enhanced partnership between Government and Industry not only in the economic sector, but also in the social sector, the Prime Minster said that Indian Industry must deepen its involvement in the crucial social sector so that the 'gains of income will be more equitably shared'.

Economic growth signifies the broad-based and sustained increase in per capita GNP. Sustained economic growth depends on favourable business conditions, high levels of private-sector investment, technological upgrading, and successful integration into global markets. There can be no sustained economic development without strong successes in both social development and economic growth. The declaration of social development Summit in March 1995 emphasizes that social development is a necessary foundation for sustainable economic development and vise-a vise broad based and sustained economic development is a perquisite for social development. Material prosperity is necessary for social development, but is far from being sufficient. In a World Bank document, Birdsall (1993) asserted that investment in social development is good economics.

Development strategy therefore requires major commitments to social sectors, and improvements in the patterns of expenditure in social sectors' undertakings. Policy makers have made numerous lofty claims about economic growth, but public expenditure for social development has decreased consistently in the last decade as seen in the following Figure-1,

# FIGURE - 1

## Social Sector Development Input

| Composition of Social Sector Expenditure-INDIA | | |
|---|---|---|
| Year | Capital | Revenue |
| 1990-1991 | 95.09 | 4.91 |
| 1991-1992 | 94.92 | 5.08 |
| 1992-1993 | 95.21 | 4.79 |
| 1993-1994 | 95.63 | 4.37 |
| 1994-1995 | 94.70 | 5.30 |
| 1995-1996 | 95.36 | 4.64 |
| 1996-1997 | 95.31 | 4.69 |
| 1997-1998 | 95.47 | 4.53 |
| 1998-1999 | 95.20 | 4.80 |
| 1999-2000 | 95.50 | 4.50 |
| 2000-2001 | 94.87 | 5.13 |
| 2001-2002 | 93.75 | 6.25 |
| 2002-2003 | 93.39 | 6.61 |

(Source-India Development Report 2005.)

One of the major problems in the development of Social Sector is the high share of revenue expenditure (mainly salaries) is higher than Capital Expenditure (physical infrastructure i.e. schools, hospitals medical technologies etc.) This confirms a neglect of basic social sector infrastructure.

The lack of expenditure by the government in social sector development like, availability, utility and accessibility of health care service, education, communication and transportation facilities and also recreational services which can be means of constructive leisure time, particularly in rural India are few areas which need utmost attention. Notably in the past few years the cities in India have undergone tremendous infrastructure up-gradation but the situation is not similar in most part of rural India. Similarly in the realm of health and education and other human development indicators India's performance has been far from satisfactory, showing a wide range of regional inequalities with urban areas getting most of the benefits. Growth without development will deepen inequality and have dangerous socio-economic consequences that could undermine the very essence of growth and development. In order to attain the status that currently only a few countries in the world enjoy and to provide a more egalitarian society to its mounting population, appropriate measures need to be taken to improve our ranking in world's development reports.

Acknowledging the relative achievements of the stabilization and reform programs during the 1990s, India's future progress in reducing poverty and improving social indicators critically depends on the country's ability to accelerate economic growth and maintaining a sustained development of its

social sector through adequate investments. It is the related hypothesis inherent in the human development paradigm put to the centre stage of the development debate by UNDP in collaboration with eminent thinkers such as the late Dr. Mehbubul Haq and the Nobel Laureate Amartya Sen. This Paradigm advocates that human beings are not the means to development but its very purpose. Thus any activity, public or private which detracts from this ultimate goal will not be sustainable in the long run. At the time of launching the new economic policy, Dr. Manmohan Singh, the pioneer of economic reforms in India had observed, 'This programme is for a self-reliant India; an India that in few years time can boast of having eliminated poverty; an India that provides dignity and skills to its children; an India that emerges as a vigorous participant in the global economy and plays a role of leadership in the comity of nations; an India that has an economy commensurate with the size, human resources and its potential(Times of India,Aug1991)".

The economic reform facilitated growth of the private sector phenomenally, both in size and capability. Private sector was expected to play a pivotal role in India's economic development by mobilizing investments in the form of FDIs to execute projects, in infrastructure and core sectors. With a mandate to contribute to the realization of national growth targets by the private sector, the government's role shrunk in business. One of the key components of this new policy was a significant widening of the range of activities in which foreign firms could enter as well as an easing of the conditions under which they came in. Restriction on entry, diversification and expansion of multinational

10

corporations had been recklessly lifted. Direct foreign investment up to 100 per cent equity in a business venture is being allowed on a wide-ranging basis.

Globally, in the last 20 years, multinational corporations have played a key role in defining markets and influencing the behaviour of a large number of consumers. Increasing number of Multinational Corporations in India is the outcome of this liberalized economy of 1991. It is assumed that Multinational corporations (MNCs) can spur economic activities in developing countries and provide an opportunity to improve the qualities of life, economic growth, and regional and global commons. At the same time, they are often also accused of destructive activities such as damaging the environment, complicity in human rights abuses, and involvement in corruption. Whether these accusations are fair or not, many MNCs are now attempting to manage these complex set of issues in the host countries by implementing corporate social responsibility (CSR) strategies because such issues may risk the success of their operations. However, CSR can be an ambiguous tactic because it is often unclear what a corporation can and cannot be held responsible for, particularly when weak governance and institutions are involved.

The past three decades have also seen a tremendous growth in both the number and diversity of non-governmental organizations and community-based organizations, and in the scope of their contribution to the development of our social and environmental sectors. Our State Governments have a wealth of experience of planning and executing developmental activities on their own. More than Fifteen years ago, we amended our Constitution to empower our

Panchayati Raj Institutions to function as effective agents of decentralized development. But one can observe the wide gap between India's developmental potential and her actual performance due to the lacunas in the planning process, in monitoring various developing sectors' activities and developmental programmes and also in insufficient appreciation of resources mobilized for these programmes. The answer to this lies in the need for a partnership between all the five drivers of national development. India needs a strong partnership between its five agents of development — the Union Government, State Governments, Local Self Government, the private sector and non-governmental and community-based organizations — to achieve all-round development. Among these five agents, other than the governments, the role of the most organized and resource rich sector of the society i.e. private sector / corporate in business is very crucial. The challenges of globalisation is to find the rules and institutions for stronger governance to preserve the advantages of the global market and competition but also to provide enough space for human and social development which includes environmental protection to ensure that globalisation works for people and not against them. Gone are the days when clear distinction between the role of government and other economic institutions could be made. There is a need for strong and sustained partnership between public and private sectors to ensure well being of people. It's a fact that Business Entity is a creation of the society. We live in an age in which corporations, equivalent in wealth to countries call the shots and control much of the earth's resources. Because corporate intervene in so many areas of social life, they must be responsible towards society and the environment. Business being one of the major economic institutions depends for its success on the health, stability and prosperity of the society and communities

12

in which it operates. Community focused business like banks; retailers, housing finance companies etc. cannot prosper in declining localities. So the problems of poverty and unemployment, education and health, etc. dramatically affect business. While business has traditionally considered these to be exclusive domain of government, today more and more corporations are accepting part of the responsibility to improve the communities in which they do business since society at large looks to them for answers to contemporary social and economic issues. In India as in the rest of the world there is a growing realisation that capital markets and corporations are, after all, created by society and must therefore serve it, not merely profit from it.

Today the reality is, corporate are as powerful as states. The hundred largest corporations in the world have a turnover more than the GDP of half the world put together. It is to be kept in mind that, like any other organization, business also operates in society via a social contract expressed or implied, whereby its survival and growth are based on:

1. Its capacity and willingness to deliver some socially desirable ends to the society in general and,

2. The distribution of economic, social and political benefits to groups from which it derives its resources and power.

Secondly, in a dynamic society sources of institutional power and the needs for its services are never constant. This has resulted in a complex

relationship of corporate sector to the society and these complexities are becoming more recognized. Corporate activities are increasingly regarded as a necessary part of the network of organizations involved in creating social infrastructure or addressing social issues. A corporation in its attitude towards risk taking, in its efforts to develop and market a new product, in its decision to diversify in certain areas, and in the culture it develops as a work organization forms and expands the opportunities available to the society. It has a power to change society by creating social future of that society in which it operates, as the organizations are expressions of human aspirations, sources of status and security in which people devote huge proportion of their emotions and intellectual commitments. Perhaps for the same reason 'Robert Dahl's expression that 'every large corporation should be thought of as a social enterprise; that is as an entity whose existence and decisions can be justified in so far as they serve public or social purpose'(1972) should be at the core of corporations policy making. Social impact of corporate policies is direct or indirect on the society. For example, a government's decision to make investments in developing social infrastructure or transport in a particular area is based on the level of economic activity in that area, which in turn influence corporate decision to expand their business activity there and in turn it has multiplied impact on the surrounding communities.

There is no doubt that companies can contribute greatly to the "evolution of equitable and sustainable communities and societies". The key question is, how to channel their energy and resources for this purpose. This question of HOW have two dimensions:

1. How can society induce companies to accept their social responsibility and act accordingly?

2. How can companies who accept this challenge effectively translate a vision into policy, and then into consistent practice?

This may not be difficult when the corporations make shift from corporate 'philanthropy' to 'social responsibility' as business corporations are discharging their social responsibility in three broad areas: Corporate Philanthropy, Corporate Social Responsibility and Ethical Business. Where, Corporate Social Responsibility (CSR) has only recently been evolved as a concept, there is a long history in both the East and West of a commitment to social philanthropy, in the belief that the creation of wealth is primarily geared for social good. The corporate houses such as Tata, Birla, Arvind, Godrej, Bajaj and others have been involved with this "giving back" ideology and practices in their own ways, long before "corporate social responsibility" was talked of and considered necessary. The Tata Group pioneered labour welfare measures such as the eight hour working day (in 1915), establishment of welfare department (1917) and ensuring maternity benefits (1928) to name just a few, even before these were enforced by law. Mahatma Gandhi talking of "Trusteeship" also emphasized this aspect of Social Responsibilities. After independence, our age old values and wisdom on social responsibility were imbibed while drafting the Constitution of India.

But in the present day environment of Human Right perspective, Corporate Social Responsibility (CSR) is qualitatively different from the traditional concept of corporate philanthropy. Corporate Social Responsibility (CSR) acknowledges the debt that the corporation owes to the community within which it operates, as a stakeholder in corporate activity. It also defines the business corporation's partnership with social action groups in providing financial and other resources to support development plans, especially among disadvantaged communities. The emerging perspective on corporate social responsibility focuses on responsibility towards diverse sets of stakeholders (Figure-2) - shareholders, employees, management, consumers and community and also government, environment, suppliers, business associates etc. rather than on maximisation of profit for shareholders.

# FIGURE - 2

## Groups of Stakeholders



It is pertinent here to mention that the stakeholder concept was developed and championed by R. Edward Freeman in the 1980s. Since then it has gained wide acceptance in business practice and in theorising relating to strategic management, corporate governance, business purpose and corporate social responsibility(CSR).

There is also more stress on long-term sustainability of business and environment and the distribution of well-being.

The best business leaders in India take a broader view of the business of business than do many economists and business analysts as their businesses work amidst an environment of very poor people whose basic needs are not yet met by institutions in their country. According to a recent international survey India is one of the very few countries in the world where business corporations are admired. The reason behind this can be found in the expressions of Mr. Jamshetji Tata " In an enterprise, the community is not just another stakeholder in business but is in fact the very purpose of its existence. No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people." The Indian Express — March 16, 2005 At the National Seminar on "Business Volunteering: Corporate in Community", jointly organised by the United Nations Development Programme (UNDP) and Business and Youth Starting Together (BYST), the corporate volunteering arm in 2000,.it was stated the UNDP Deputy Resident Representative, Ms. Dorothy Gordon that "...business volunteering in India had emerged as a pivotal strategy for sustainable corporate social responsibility in the post-liberalisation era. With the emergence of the private sector as an important agent of economic and social development and a growing influential player at the global level, charity and philanthropy were giving way to a much broader strategy focusing on mobilising the commitment of business leaders for larger social investment....". The Chairman and Managing Director of Bajaj Auto Limited, and Vice Chairman, Board of Trustees of BYST, Mr Rahul Bajaj had said "...., while creating wealth

18

and making profits was necessary, there is growing recognition among companies of their responsibility in complementing the efforts of the Government in the field of social infrastructure, notably, education and health as well as in sustainable human development (BYST 2000)."

Since recent past, 'Ethical business' is the more fundamental, emerging trend on the international scene. Corporate Social Responsibility when integrated with ethics in over all business operations strengthen the feeling of symbiotic relationship between business and society and helps them to enter into a mutually rewarding relationship. Besides, CSR is not just a purely altruistic affair, it makes good business proposition too as it lends credibility to the organization, seen as an entity, sensitive to the societal and environmental concerns. These concerns of business are recognised as triple-bottom-line: People, Planet and Profit. The triple-bottom-line stresses the following:

1. The stakeholders in a business are not just the company's shareholders .
2. Sustainable development and economic sustainability.
3. Corporate profits to be analysed in conjunction with social prosperity.

In an ethical business the essential thrust is on social values and business is conducted in consonance with broader social values and the stakeholders' long-term interests. The concept of business ethics has come to mean various things to various people, but generally it's coming to know what is right or wrong in the workplace and doing what's right -- this is in regard to effects of products/services and in relationships with stakeholders. Attention to business

ethics is critical during times of fundamental change -- times much like those faced now by business. In times of fundamental change, values that were previously taken for granted are now strongly questioned. Many of these values are no longer followed. Philosophers have been discussing ethics for at least 2500 years, since the time of Socrates and Plato. Many ethicists consider emerging ethical beliefs to be "state of the art" legal matters, i.e., what becomes an ethical guideline today is often translated to a law, regulation or rule tomorrow. Today, many philosophers consider ethics to be the "science of conduct." The emergence of business ethics is similar to other management disciplines. For example, organizations realized that they needed to manage a more positive image to the public and so in the past, the discipline of public relations was born. Organizations realized they needed to better manage their human resources and so the recent discipline of human resources was born. As commerce became more complicated and dynamic, social dimensions of work place were addressed through human rights and equality perspectives, organizations realized they needed more guidance to ensure their dealings supported the common good and did not harm others -- and so social responsibility and business ethics was born.

To understand Corporate Social Responsibility (CSR) in its true spirit, it is necessary to review the integration of various social concerns in entire business operations. For the purpose, CSR as defined at different parts of the world provides apt basis.

## Corporate Social Responsibility: A Concept

There is no unanimity in the definition of what constitutes CSR. Most definitions of corporate social responsibility describe it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Different organisations have framed different definitions - although there is considerable common ground between them. Below are some examples of CSR definitions espoused by international organizations.

Business for Social Responsibility (BSR), a leading non-profit organisation promoting integration of CSR with business operations, defines CSR as "achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment." It further says that CSR means addressing the "legal, ethical, commercial and other expectations society has for business and making decisions that fairly balance the claims of all key stakeholders."(BSR-2005) The stakeholders include customers, employees, communities, owners/investors, government, suppliers and competitors.

In more precise words "operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business". Elements of CSR include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance.

**Other Definitions:**

➢ The World Business Council for Sustainable Development (WBCSD, 1998), a group of 120 international companies in its publication "Making Good Business Sense" by Lord Holme and Richard Watts, used the following definition. "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

"The same report gave some evidence of the different perceptions of what this should mean from a number of different societies across the world.

➢ Definitions as different as "CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, community and the government" from Ghana, through to "CSR is about business giving back to society" from the Phillipines.

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

➢ The European Commission defines corporate social responsibility (CSR) in a Green Paper as "a concept whereby companies integrate social and

environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons. This model can be more sustainable because;

1. Social responsibility becomes an integral part of the wealth creation process - which if managed properly should enhance the competitiveness of business and maximise the value of wealth creation to society.

2. When times get hard, there is the incentive to practice CSR more and better - if it is a philanthropic exercise which is peripheral to the main business, it will always be the first thing to go when push comes to shove.

➢ In Australia, Ernst & Young defines it as an organisation's adaptability and responsiveness to the needs and expectations of key stakeholders in relation to ethical, social and environmental issues. Responsibility is seen to encompass a spectrum- from the running of a profitable business to the impact on the social and physical environment in which a company operates.

Ernst & Young views corporate social responsibility strategy as a business approach to create long-term organizational value through the effective management of risks and opportunities associated with ethical, social and environmental factors.

➤ The United Nations Conference on Trade and Development (UNCTAD) defines CSR as concerning essentially "how business enterprises relate to, and impact upon, a society's needs and goals". Specifically, CSR touches upon social responsibility standards and performance of multinational corporations, and their roles in developing a stable, prosperous and just global society.

➤ The International Organization of Employers (the "IOE") defines CSR as "initiatives by companies voluntarily integrating social and environmental concerns in their business operations and in their interaction with their stakeholders." This definition recognizes, first, that CSR is voluntary corporate action and goes beyond simple legal compliance with domestic laws. Second, the definition views CSR as being a core aspect of business activities throughout a company and recognizes CSR as a means of engagement with stakeholders in the various markets in which a company operates. CSR includes: (i) compliance with domestic laws, even if those laws are poorly enforced; (ii) adherence to international standards; and (iii) adoption of voluntary codes of conduct.

➤ The World Bank, on the other hand, uses the following definition "CSR is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve the quality of life in ways that are both good for business and good for development" (Fox, 2004).

➢ According to Indian NGOs.com "Corporate Social Responsibility is a Business Process wherein the Institution and the Individuals within, are Sensitive and Careful, about the direct and indirect effect of their work on Internal and External Communities, Nature and the Outside World".

A Close look at this definition of CSR will indicate that this definition does not limit CSR to just corporate. It is applicable, in equal measure, to the Governments, the Media, the Research Laboratories and the weapons machineries, the Non Governmental Organisations, the Education Institutions...and just to any and every Institution.

➢ CSR as defined by Ethics in Action, "CSR is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit"(www.ethicsinaction.com).

➢ "CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation". ( Michael Hopkins A Planetary Bargain: CSR Comes of Age, Macmillan, UK, 1998).

This definition, of course, begs the question on what is meant by 'ethical' and what is meant by 'stakeholder'. Without going into a long discourse on ethics, ethical behaviour is clearly in the eye of the beholder and, like beauty, we know it when we see it but find it difficult to define. Who the stakeholders of a company are has also sparked intense debate but, at minimum they include those both within the company: the board of directors, shareholders, investors, managers and employees; and those outside the company: suppliers, customers, the natural environment, Government, and local community. (September 2004 Michael Hopkins).

➢ A dedicated team of professionals Neela Bettridge ,Dr Paul Toyne Jane Fiona, (2001)who have worked at senior levels nationally and internationally in the corporate social responsibility, sustainable development, governance and communications arenas say that: 'Corporate social responsibility, or CSR, generally refers to business decision-making linked to ethical values, compliance with legal requirements, and respect for people, communities and the environment'. CSR is seen by leadership companies as more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management.

This approach is derived from principles of sustainable development.

> Canadian Business for social Responsibility-a consultancy firm, believes that the definitions of CSR range from business ethics, to sustainability, to corporate citizenship. Some companies simply see CSR as "the right thing to do"; while others see it as a strategic differentiator for their company and a means to achieving greater business value and defines CSR as 'a company's commitment to operating in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large' (www.cbsr.ca).

> According to Carroll (1983) "corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent" ⟨ ⟩. By Carroll's (1999) own admission, this is only one of countless definitions which have proliferated in the literature since the 1950s.

This diversity of conception is testimony to Moon's (2002) observation that CSR, similar to other important concepts like democracy and justice, is "essentially contested". Moon (2002) also makes the point that CSR "is only one of several terms in currency designed to capture the practices and norms of new business-society relations. There are contending names, concepts or appellations for corporate social responsibility". This is confirmed by a survey of CSR

27

education in Europe, which found 50 different labels for CSR modules, 40 different labels for CSR programmes and numerous CSR synonyms, the most popular of which were: business ethics, corporate citizenship, sustainability or sustainable development, corporate environmental management, business & society, business & governance, business & globalization, and stakeholder management. Reviews of CSR literature by Carroll (1994; 1999) and Garriga & Mele (2003) reach similar conclusions regarding multiplicity of aligned terms.

Nevertheless, common ground between these nuanced concepts and CSR is widely acknowledged (Madsen & Ulhoi, 2001; Moon, 2002; Van Marrewijk, 2003; Wheeler, Colbert, & Freeman, 2003). The definition of corporate responsibility by Sustainability (2004) is a good illustration of this confluence and interdependence of terms, describing it "an approach to business that embodies transparency and ethical behaviour, respect for stakeholder groups and a commitment to add economic, social and environmental value."

These different visions could be seen as different answers to these two interrelated concepts. Looking closely and analyzing these definitions brings clarity that:

➤ While the concept of CSR is widely accepted, there is no single, universally accepted definition of CSR.

➤ It generally refers to business decision-making linked to ethical values, compliance with legal instruments, and respect for people, communities and the environment.

28

➢ A collection of policies and practices linked to relationship with key stakeholders, ethics and values, and

➢ The commitment of business to contribute to sustainable development, commonly understood as sustainable development, (that is the ability of the current generation to meet its needs without compromising the ability of future generations to meet theirs).

At the aftermath Corporate Social Responsibility can be concluded as

An approach by which a company:

➢ Recognises that there is a direct relationship between its activities which have a wider impact on the society in which it operates; and that developments in that society in turn impact on its ability to pursue its business successfully;

➢ pro-actively addresses the economic, social, environmental and human rights impact of its activities across the world, basing these on principles which reflect international values, reaping benefits both for its own operations and reputation as well as for the communities in which it operates;

➢ seeks to achieve these benefits by working closely with other groups and organisations - local communities, civil society, other businesses and home and host governments.

## Why Corporate Social Responsibility?

David Wheeler and Maria Sillanpa in "The Stakeholder Corporation" state that by 1998, 51 out of the 100 largest economies were not nation states, but corporations. According to Wheeler & Sillanpa, in 1998, General Motors was bigger than Denmark; Toyota was bigger than South Africa. Yet at the beginning of the 21 century, the gap between the world's rich and poor is wider than ever

before. In 1999, The United Nations reported that the world's then three richest people - Bill Gates of Microsoft, the Sultan of Brunei and the Walton family of the Wall Mart retail chain - were worth more than the combined gross domestic product of the world's 34 poorest nations. Thus, the modern day large corporations are often larger than nation states. Rich individuals own and command resources that are so large, often larger as compared to smaller/poorer nations. With great power (and size), comes great responsibility.

The second important development in the late $20^{th}$ century has been the rolling back of the State. It is increasingly being realised that the State cannot and should not perform all functions it was performing in the earlier periods. In many countries, national and local governments have taken a "hands off" approach to regulating business, both due to

a) Globalisation of trade & commerce - Most experts are averse to legal interventions.

b) Internationally, self-regulation linked to openness, transparency & accountability seems to generate by far, the maximum response.

c) In response to liberalisation, role of state is shrinking.

d) Shrinking of resources - Most of the governments at the national and local levels are experiencing shortage of funds and a shrinking resource base.

Thirdly, today most business leaders are managing in times of turbulence and accelerating change. Over the past decades, a growing number of companies have recognised the business benefits of CSR policies and practices. Their

experiences have been bolstered by a growing body of empirical studies, which demonstrate that CSR has a positive impact on business economic performance and is not harmful to shareholder value. Companies have also been encouraged to adopt and / or expand CSR efforts as a result of pressures from customers, suppliers, employees, communities, investors, activist organisation and other stakeholders. As a result CSR has grown dramatically in recent years with companies of all sizes and sectors developing innovative strategies.

When India is poised to emerge as a strong economic power, the thrust on CSR would go a long way in growth of business and also sustainable development of the society and environment. Globalisation of market, increasing intensity of competition , demographic changes and environmental challenges combined with changing value systems expressing different life styles may be affecting an organisation's desirability for carrying out social responsibility. At this time, the word "Corporate" in CSR may be misleading, as companies may get an impression that CSR is only meant for large corporate houses, and that small and medium enterprises or non-business entities need not bother. On the contrary, social responsibility should be and is everyone's business — especially in a country like India, where small and medium enterprises contribute to a large proportion of industrial output and employment.

## History of 'corporate social responsibility'

After having a holistic understanding about CSR, it is relevant to look through the journey of CSR as it traversed business operations. This helps to understand its roots and its context in present day globalization. A large number

of documentations have been referred for this purpose. Some of the conclusions that emerge out of these documentations are –

1. Few companies have often willingly taken on social obligations, without the prompting of governments.
2. Some have undertaken corporate social responsibility inspired by religion.
3. Fewer had proactively addressed social issues.

Company townships, such as Pullman in the US and Jamshedpur in India were constructed, ,long before realisation of CSR as a concept -the argument being that well housed workers would be more productive than their slum dwelling contemporaries.

In the UK and the US, companies introduced pension and healthcare benefits long before governments told them to do so. Proctor & Gamble pioneered disability and retirement pensions (in 1915), the eight-hour day (in 1918) and most important of them all guaranteed work for at least 48 weeks a year (in 1920). Henry Ford became a cult figure by paying his workers $ 5 an hour – twice the market rate. Henry Heinz paid for education in citizenship for his employees, and Tom Watson's IBM gave its workers everything from subsidised education to country club membership. Critics tend to dismiss all this as window dressing. But Richard Tedlow, a historian at Harvard Business School, argues that we confuse the habit of capital markets with those of companies. Capital markets may be ruthless in pursuing short-term results. Corporations, according to him have always tended to be long termist. Most

companies do good because they genuinely believe that taking care of their workers and others in society is in the long term interests of their shareholders. The majority of the successful companies have eschewed short-termism in favour of "building to last".

The thrust on concept of CSR in today's global perspective could be traced back to 1972 with the Stockholm Conference. This brought out the public awareness about the need for protecting the environment. Subsequently Rio conference in 1992 focused on sustainable development, with emphasis on corporate roles to meet the requirements of future generations.

Following this, the primary drive for ethical business and corporate social responsibility came from the USA and Europe in the '80s and '90s, from campaigns run by pressure groups such as Greenpeace and Friends of the Earth. Consumer boycotts, direct action, shareholder action, ethical shopping guides, ethical product labelling schemes, media campaigns and ethical competitors became increasingly effective in changing corporate perspectives.

The mid-'90s were the watershed years for the new consciousness in international corporate polity. This was the time when two prominent MNCs were compelled by 'ethical market forces' to re-orient their business attitudes. In 1995, Shell dumped its Brent Spar oil platform in the North Sea. Public agitation in Europe was so intense that in Germany sales fell by 70 per cent within a fortnight. Similarly, Nike, the shoe and apparel giant, ran aground thanks to a campaign against child labour and worker exploitation in many of the 700

33

factories across 40 countries where Nike worked with subcontractors. That prompted the company to set up a full-scale team under a Vice President, Corporate Responsibility in 1997.

It was in the post-war period that the character and nature of business began to change in the western world, with proprietary firms taking on corporate structures. By 1998, there were 45 registered MNCs and the income of the top 10 MNCs was higher than the GDP of over 50 countries.

In the changing political paradigm world over, the market has begun to play a crucial role in shaping the priorities and inclinations of the State and society. As the world is now on the threshold of the second phase of the globalised economy we observe that other value additions have intervened in the world market. An opinion poll conducted on behalf of CSR Europe concluded that:

1. Over half of those surveyed felt that businesses do not pay enough attention to their social responsibilities.
2. Over one-quarter said that they had engaged in activities in the previous six months that either introduced ethics into actual consumer purchase decisions or else made such views known by other means.

A recent survey showed that 86 per cent of about 4,000 people aged 15 or older in Europe, expressed preference for purchasing a product from a company 'engaged in activities to improve society' (Fleishman Hillard, 'Consumers Demand Companies with a Conscience', London). In the UK, the Co-operative

Bank report on ethical consumerism recently found that consumers expect more, as citizens, from business corporations.

## CSR In Indian Context

Unlike the western world, in India, however, the concept of CSR is age old, well embedded in Indian ethos and Indian scriptures, consumers' awareness in preferring/purchasing products of a more socially responsible company is yet to be seen. We find references of Shreshtha dharma prescribing roles and responsibilities of Kings & Shreshtha (Seth/the endowed ones) towards the society. The first treatise on Economics, Arthshastra says, "Prajasukhe Sukham Shreshthah" i.e. In the welfare of the society lies the happiness of endowed people/privileged section. Similarly the Theory of "Rina" or Debt talks about five types of Rin that we all have to discharge by returning debts to the society that we draw from as we grow & prosper along in life (K.K.Sinha,2004).

But as social arrangements turned in to social evils in the form of staunch casteism woven with selfish interpretation of 'karma theory' the ethos of the Indian scriptures were shadowed. The concept of, , "Prajasukhe Sukham Shreshthah" became limited to "insiders" - you looked after members of your own immediate and perhaps your extended family, you might even extend some minimum care to members of your clan, or at most to members of your caste. Other "outsiders" had no relationship to you, so their welfare was not your responsibility. If the system failed some people, that was simply a matter of fate and you certainly did not interfere in that. This attitude had undergone continuous change during the 300 years of British Rule under the influence of

Christian as well as Hindu religious preachers. The work of reformers, whether Indian or from foreign land, was enormously facilitated by British rule which, though initially little more than organised robbery, changed under the influence of the British Evangelicals. As a result from as early as the 1850's the founders of many of the dynastic enterprises were active in social development in order to develop the country. In the twentieth century, Indian reformers, such as Ram Mohan Roy and Mahatma Gandhiji launched reform movements that slowly began to change our values. We began to accept strange ideas such as the equality of all humans, the value of work, the imperative to read and to think for oneself and stand up for what one concludes is right, yet in a manner that respects the right of others to reach different and even opposing conclusions.

Then, the industrial revolution of the 19th century broke up existing social networks like family, neighborhood and community. The loss of social support was partially compensated by associations of workers. In addition a few socially responsible entrepreneurs organised welfare funds (illness, old-age, etc.) and provided some form of welfare facilities for their workers, as well as education for their children. Workers, however, had no say in the management of welfare facilities and funds.

There were various motives for these early socially responsible enterprises: fear of labour unrest and social radicalism, the desire to keep the trade unions out of the factories and the entrepreneur's sense of duty dictated by liberal or religious convictions. There were also commercial motives, such as the desire to attract better workers. To bind workers to the company, the regulation

of the various welfare schemes, particularly in large companies, ensured that the employees would lose their rights to the amounts already saved if they left to work at another company.

Socially responsible business was by no means universal during the 19th century. Employers who provided welfare did so voluntarily, as there were scarcely any legal obligations on them to do so. There were major social problems and working conditions in many companies were often dreadful. This led to recognising the need for further social legislation leading to the social security system. Socially responsible employers, like other employers, objected to social legislation not because they were opposed to a social security system but because they objected to an obligation imposed by public authorities.

Another important factor was the arrival of trade unions and the development of their ideas on social issues at the end of the 19th century. The first trade unions concentrated on representing the interests of their members, especially over wages and working hours. They also established funds to provide assistance during illness, in old age and in the event of death.

During the 1930s only, Gandhiji advocated that industry was the temple of modern India and had a strong role to play in human progress. During the Independence struggle, Indian companies, which began to proliferate and prosper from the mid-nineteenth century, threw in their lot with Mahatma Gandhi in struggle of Independence, and the resulting concern for the nation caused many

of them to be involved in providing education, health services, and even clean water.

After independence in 1947, the involvement of business in society continued. . In the 1960s and 1970s the issue of human rights and fundamental labour standards arose. In 1965 the government held a seminar on 'Social Responsibilities of Business' where it declared that, an enterprise is a corporate citizen and is judged by its actions in relation to the community of which it is a member, as well as by its economic performance. What followed has largely been Indian businesses practicing corporate philanthropy by providing health care, education and housing facilities. Then during the 1970s, came the concern for the environment. There was a growing realisation that production, distribution and consumption were having an increasingly negative impact on the environment.

With the introduction of public social security the focus of socially responsible business shifted from providing welfare services for the company's own employees to issues of concern beyond the walls of the company itself. So the manifestation and content of CSR has changed over time, depending on time and place. A common thread that runs through the changing manifestation is a certain complementarities between government, business and social organisation with respect to solving societal problems.

Recently at Asia Society's 16th Asian Corporate Conference, March 18-20, 2006 the UNDP chief said, "India, with its long tradition of high corporate

accountability to the social sector, presents a model example of a broad alliance involving the government, the business community and the UN agencies working together for the national development effort. "We want to take lessons of this model partnership to the rest of the world".

The experience of the past decade has served to reinforce this viewpoint. The modern Indian companies such as Wipro, Infosys, Reliance etc. are on the same path as the traditional corporate houses, and are extensively working shoulder to shoulder with government and development agencies to meet national developmental challenges. With companies facing increasing scrutiny in the global economy, the corporate responsibility agenda now encompasses a wide range of issues including provision of quality, safe products at fair prices, fair employment policies, environmental protection and ethical business practices. The two related issues, which the researcher thinks, still need utmost attention and where corporate India can play an influential role are the issues of corruption and infrastructure development within rural India.

## Recent Efforts \ Activities

Floodgates were opened and private sector role came up in a very big way since liberalization of economy in 1991. The private sector has grown to become an entity in itself, and has been assigned role to partner developmental responsibilities with the government. This laid firm foundation for CSR and the need for its practice. These observations are corroborated well through the report of TERI called 'Altered Images: The 2001 State of CSR in India poll' states 4 Models of CSR in India: The 'Ethical model' as suggested by Mahatama Gandhi,

39

the 'Statist model', by Jawaharlal Nehru, the 'Liberal model' by Milton Friedman and the 'Stakeholder model' championed by R. Edward Freeman and according to the report all the four models co-exist in India today (Prakash-Mani, 2002).

While a few companies and business groups have taken a lead in promoting CSR in India, the role of the industry associations must be recognised as significant. While the CII has various committees for social development activities and have even developed a voluntary social code for its members, chambers like FICCI, Progress, Harmony and Development Chamber of Commerce and Industry (India) PHDCCI, Bharat Chamber of Commerce and so on have set up foundations for this purpose. However, the overall approach still seems to be driven by philanthropy rather than integrating it with business as has been happening in the west.

A number of regional workshops/ consultations have been undertaken to promote awareness about the Social Code and facilitate its implementation. This includes joint UNDP-CII advocacy initiatives linked to the messages of the Human Development Reports.

A step-by-step approach has been worked out for building capacity of companies. A workshop with senior corporate managers held in Calcutta in December 2002 focused on issues like the core constituents of CSR in a market driven economy, possible framework for CSR, implementation mechanisms, and the support needed for mainstreaming CSR. A consultation with CEOs at

Mumbai in December 2002 observed that CSR is beyond compliance with regulatory and ethical requirements, and symbolizes reaching to the larger community. There was a consensus that business needs to find its role in the traditional development model. Dovetailing of small and medium enterprises with large corporate in social development initiatives was advocated. Also the need for suitable recognition for the best corporate practice in CSR was voiced. A pioneering initiative towards mainstreaming CSR was undertaken by the Tata Council for Community Initiatives (TCCI) with technical support from UNDP. Combining the experience of UNDP in human development indexing and reporting, and the Tata Business Excellence Model, TCCI has evolved its own Index on Sustainable Human Development for Tata Industries. This experience would be invaluable for a broader initiative in CSR indexing and monitoring.

Over the years, the corporate sector in India has made an effort to participate more actively in developmental work. Currently institutions such as the Federation of Indian Chambers of Commerce and Industry (FICCI), Confederation of Indian Industry (CII) and the Association of Chambers of Commerce (ASSOCHAM) represent the combined approach of the corporate sector to contribute, along with the Government, to national development efforts. The joint adoption for long-term rehabilitation scheme for the people of Gujarat, ravaged by the recent earthquake, by CII, FICCI and ASSOCHAM, is indicative of this new role.

At the international level, 'The International Business Leaders Forum' is working with international business and entrepreneurs at all levels to promote a

visionary approach to business leadership, business standards and innovative partnerships for development. IBLF has also brought business leaders and UN and intergovernmental organisations together to define how business contributes to development and achievement of the Millennium Development Goals.

While formalization of WTO and globalization at Seattle Meet in 1998, it was raised that the big corporate do not adopt the same standards while working in the developing countries as they do in the developed countries. This conflict was considered as a major impediment to the process of globalization of business. To clarify and bring focus to the very purpose of globalization, Millennium Development Goals (MDGs) plays a major role. The involvement of various countries under UN leadership in planning and setting of MDGs, represent a global partnership that has grown from the commitments and targets established at the world summits of the 1990s. Responding to the world's main development challenges and to the calls of civil society, the MDGs promote poverty reduction, education, maternal health, gender equality, and aim at combating child mortality, AIDS and other diseases.

Set for the year 2015, the MDGs are an agreed set of goals that can be achieved if all actors work together and do their part. Poor countries have pledged to govern better, and invest in their people through health care and education. Rich countries have pledged to support them, through aid, debt relief, and fairer trade.

As recently as a decade ago, many companies viewed business ethics and corporate social responsibility only in terms of administrative compliance with legal standards and adherence to internal rules and regulations. Today the situation is different. The new CSR paradigm has become even more urgent in the context of globalisation which provides increased opportunities for development and growth, but also raises concerns about the danger of further marginalizing the poor and vulnerable sections of society. Attention to social responsibility of business is on the rise across the world and many companies realize that in order to succeed, they must earn the respect and confidence of their stakeholders. Moreover, consumers, investors, community members and potential employees are all seeking and demanding information on a corporation's social performance; thereby asking corporate to be conscious of their responsibilities towards society. Anu Aga (Khandwalla, 2004) voices similar sentiments. She says that the fundamental idea embedded in CSR is that business corporations can no longer act as isolated entities, detached from the broader issues of society. Like never before, corporations are being asked, encouraged and prodded to improve their business practices to emphasize legal and ethical behaviour. Companies, professional firms and individuals alike are being held increasingly accountable for their actions, as demand grows for higher standards of corporate social responsibility. Companies are increasingly expected to perform according to a 'triple bottom line 'of economic, social, and environmental performance irrespective of their motive for being socially responsible. The two complementary motives of the companies to undertake CSR are said to be,

1. accepting the Moral Case for CSR - the companies ought to be socially responsible

2. Considering that there is a Business Case for CSR - companies whose values and activities reflect those of the society where they operate generally deliver higher profits.

Moral case for CSR includes all philosophies, policies, procedures, and actions intended to enhance society's welfare and improve the quality of life, and it involves linking core corporate competencies to societal and community needs even at the cost of any business's ultimate goal of profit maximization. Moral CSR then, goes beyond ethics to somehow making the world a better place by helping to solve social problems.(Lantos: 2001).This can be referred as a 'moral case' for CSR, whereas the fulfilment of a firm's "social welfare responsibilities"—is, however, admirable since it creates a win-win situation in which both the corporation and one or more stakeholder group benefit is a 'business case' of CSR.

There are several reasons for the correlation between social responsibility and profitability. Companies who manage their social responsibility effectively tend to be managed well in other areas too, and good management is the single most important factor in corporate profitability.

In addition, increasing focus is being placed on the growth of corporate power and the need for greater accountability and transparency to society, for example through reportage and stakeholder dialogue. This captures the whole set

of values, issues, and processes that companies must address to minimize any harm resulting from their activities and to create economic, social, and environmental value.

Also, a company's reputation is less likely to be damaged if it is perceived to be socially responsible - a very important factor when recent studies suggest that more than 70 per cent of the value of a company is attributable to intangible assets such as 'reputation'. There is well documented evidence that establishes that CSR is not charity but the 'right' and 'profitable' way of doing business. A BSR document 'Overview of Corporate Social Responsibility' shows numerous examples of companies that have gained tangible benefits, as a result of CSR initiatives:

# Figure - 3

## Outcomes of CSR Initiatives
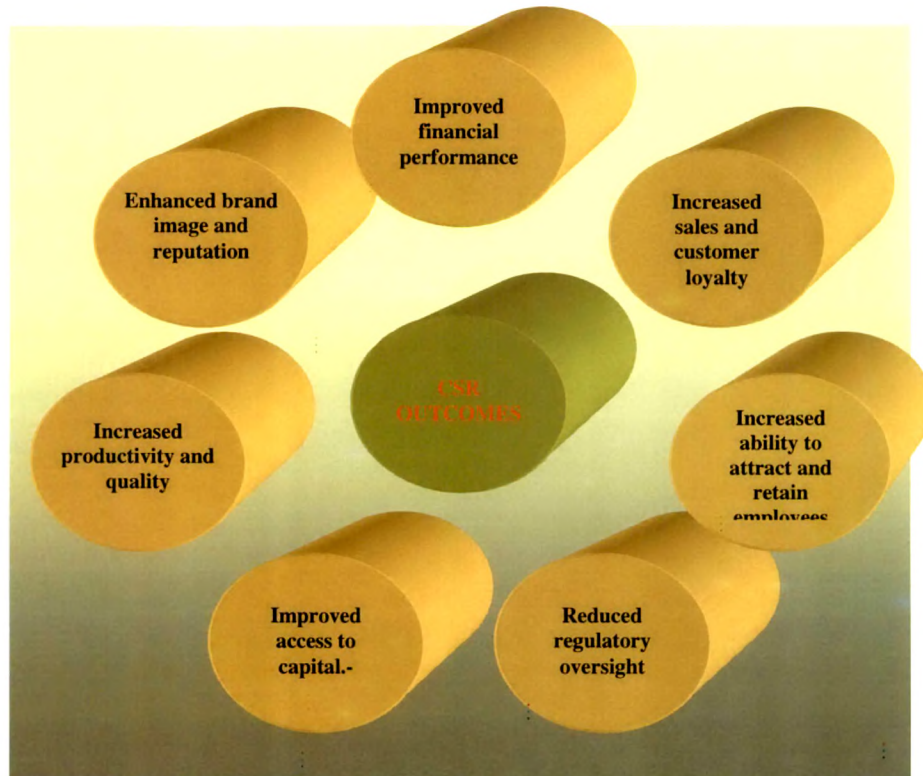


1. ***Improved financial performance*** : A recent longitudinal Harvard University study has found that "stakeholder balanced" companies showed four times the growth rate and eight times employment growth when compared to companies that focused only on shareholders and profit maximisation.

2. ***Enhanced brand image and reputation***.- A company considered socially responsible can benefit - both by its enhanced reputation with the public, as well as its reputation within the business community, increasing a company's ability to attract capital and trading partners. For example, a 1997 study by two Boston College management professors found that excellent employee, customer and community relations are more important than strong

shareholder returns in earning corporations a place an Fortune magazine's annual "Most Admired Companies" list.

3. *Increased sales and customer loyalty.*- A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must first satisfy customers' key buying criteria - such as price, quality, appearance, taste, availability, safety and convenience. Studies also show a growing desire to buy based on other value-based criteria, such as " sweat shop-free" and "child labour-free" clothing, products with smaller environmental impact, and absence of genetically modified materials or ingredients.

4. *Increased ability to attract and retain employees.*- Companies perceived to have strong CSR commitments often find it easier to recruit employees, particularly in tight labour markets. Retention levels may be higher too, resulting in a reduction in turnover and associated recruitment and training costs. Tight labour markets as well the trend toward multiple jobs for shorter periods of time are challenging companies to develop ways to generate a return on the consideration resources invested in recruiting, hiring, and training.

5. *Reduced regulatory oversight.*- Companies that demonstrate that they are engaging in practices that satisfy and go beyond regulatory compliance requirements are being given less scrutiny and more free reign by both national and local government entities. In many cases, such companies are

subject to fewer inspections and paperwork, and may be given preference or "fast-track" treatment when applying for operating permits, zoning variances or other forms of governmental permission.

6. *Improved access to capital*.- The social Investment Forum reports that, companies addressing ethical, social, and environmental responsibilities have rapidly growing access to capital that might not otherwise have been available.

7. *Increased productivity and quality* resulting in reduced operating costs due to the all above factors.

The experience with investment in environmentally responsible technologies and socially responsible business practice suggests that going beyond legal compliance can contribute to a company's competitiveness. Going beyond basic legal obligations in the social area, for example, training, working conditions, management-employee relations, can also have a direct impact on productivity. It opens a way of managing change and of reconciling social development with improved competitiveness. However, CSR is not a philanthropic activity, in which a company gives without expecting a return or a benefit. To quote from UNCTAD's 1999 report on The Social Responsibility of Trans-national Corporations (UNCTAD, 1999), "an external programme of good deeds will not protect a firm whose actual operations harm its surrounding society."

In the past quarter of a century, an era of rapid economic globalization, there has been a remarkable growth in both the number of trans-national and multinational corporations (TNCs & MNCs) and the quantity of foreign direct investment (FDI). MNCs have grown in number from 7,000 MNC parent companies in 1970 to over 65,000 in 2002. These parent companies are associated with over 850,000 foreign affiliate companies. Together, these globally linked corporations make up one-tenth of world GDP and one third of world exports. Flows of FDI have grown considerably in recent decades. In 1985-95 the level of FDI inflows in India stood at US$ 455 million, and by 2003 it stood at US$4,269 millions. Given this weight of trans-national investment, it is clear that MNCs are very important global actors. Because they tend to invest in sectors that are environmentally sensitive, they are especially important players in international environmental politics and policy. Though the developing world receives less than 20 percent of global FDI, it is a key source of capital for these countries and its impacts can be enormous on the economy, and the environment.( Jennifer Clapp)*

Marian Miller was very interested in the role of corporations in global environmental governance. Her concern laid with the power of transnational corporations, in particular their ability to influence policies and environmental outcomes in the developing countries. She saw this power of corporate actors as draining sovereignty away from Third World countries, and exhausting their resources. Though corporations have "greened" themselves in the course of the past 10 years by claiming to be environmentally and socially responsible via a number of voluntary corporate-based initiatives, and even by claiming to

promote sustainable development in the South, they were, according to Miller, in need of being closely watched. ( Miller 1998, 174; and Miller 2001.Global Environmental Politics 5:3, August 2005 2005 by the Massachusetts Institute of Technology}.

Corporations that adhere to regulations in their home countries often abuse labor, human rights and the environment in other countries, especially poor countries. Union Carbide's gas leak in Bhopal, India that killed about 15,000 people and Shell Oil's link with human rights abuses and pollution in Nigeria, Nike's involving child labor are the few examples from many, who have violated the most basic standards of human rights and fair labour practices. Various multinational corporations (MNCs) still maintain substantially lower environmental and social standards in poor countries than in their home nations. Companies such as Reebok, Nike, and Levi Strauss have exploited the human labour in Indonesia. Workers live in deteriorating, leaky, mosquito – infested apartments and only earn a mere $39 a month for producing thousands of products worth well over $100 each. Indonesia's economy is booming because of massive direct foreign investment while the cheap labour is suffering from inhumane living conditions and illegal wages.

Moreover, globalization has also weakened regulation at the national level, through a combination of investor pressure, new international trade rules and weakened government tax bases. Many countries have set up special investment zones that are not only tax free but also free of virtually all

regulations. Budget cuts have resulted in the non-enforcement of existing

regulations. ( Jennifer Clapp 2005)
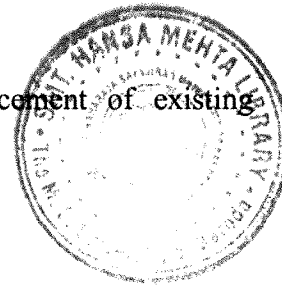
Critics frequently accuse multinational corporations of exploiting the resources and workers of third world countries. Agricultural businesses often take the best land and use it for export crops, which diminish the amount of good land that the locals can use for their own food needs. Drug companies and hazardous chemical industries take advantage of more lax safety regulations, which often results in disaster. Mining industries exploit the wealth of the country for only a few rich landowners. Since many of these natural resources are in finite supply, developing countries have little hope of relying on them for future security once they are used up. Banks and financial institutions do not hire the local people, yet these businesses benefit by bringing in local money. Manufacturing and service industries introduce poverty to many areas by attracting more people to a factory than they can employ. They typically pay much less to third world employees than to nationals, which suggest a double standard of labour value. If they pay wages to third world employees that are higher than what indigenous businesses can pay, then they attract the best workers, which hurt employers in surrounding businesses. Also, all of the above types of businesses destroy the local culture by introducing a different climate.
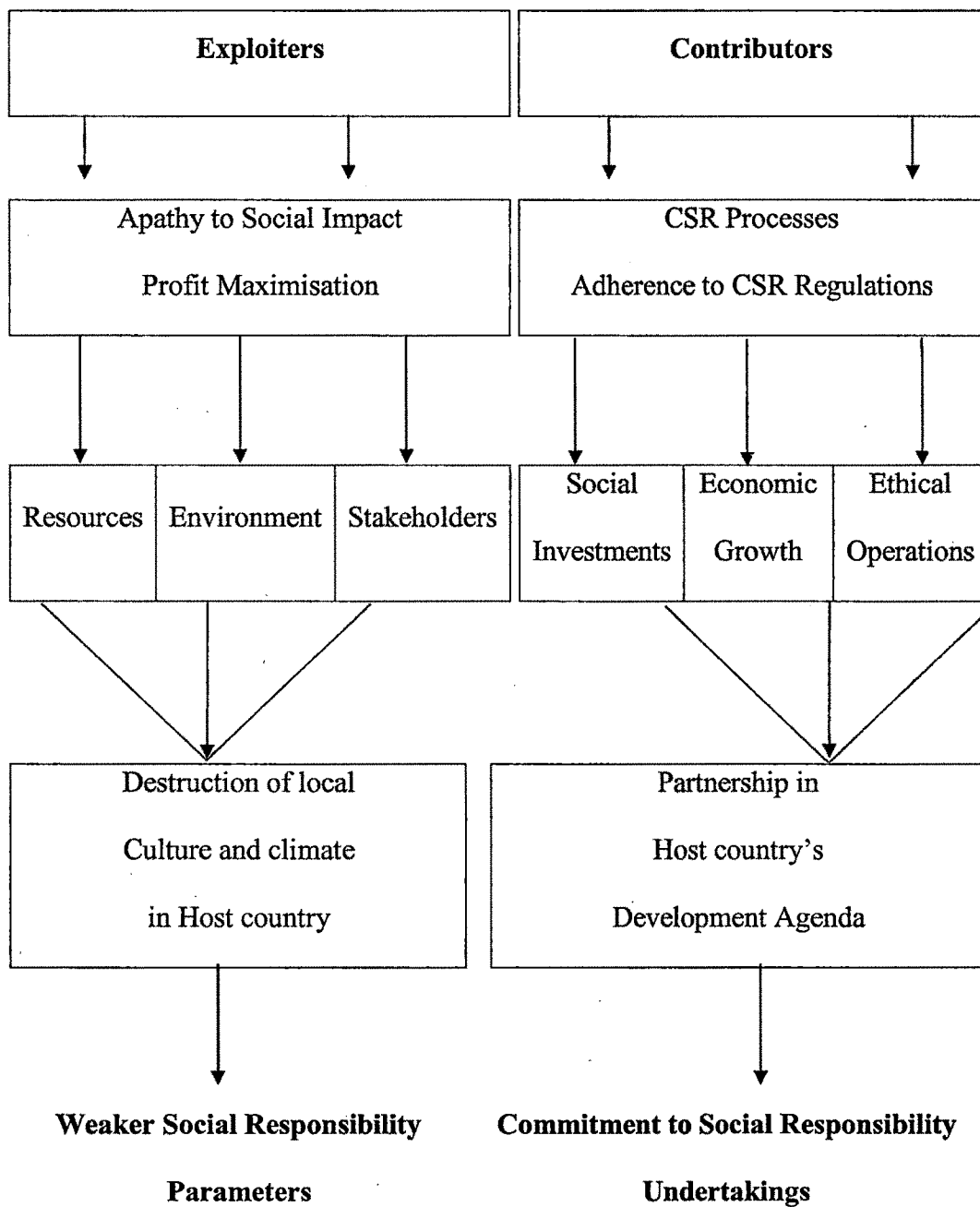
So, if we grant that there is some commonality to moral values around the world, then, to that extent, multinationals have moral responsibilities that cross cultural boundaries. Philosopher Norman Bowie recommends three universal moral standards that are appropriate to the activities of multinationals. First,

51

multinationals should follow the norms that constitute a moral minimum, which are advocated in all societies. Second, multinationals should follow principles of honesty and trust, which are moral norms of the market place. These are required as foundational for any business operations, and the systematic violation of moral norms of the marketplace would be self-defeating. Third, multinationals should not violate human rights, such as basic liberty rights. Business depends on economic liberty, which is part of political and civil liberty in general. So, if we accept economic liberty, we must accept the whole liberty package.

**Figure – 4**

**Conceptual Framework**

**Corporate Social Responsibility Undertakings**

**by Multinational Companies.**

| Exploiters | Contributors |
|---|---|

| Apathy to Social Impact<br><br>Profit Maximisation | CSR Processes<br><br>Adherence to CSR Regulations |
|---|---|

| Resources | Environment | Stakeholders | Social<br>Investments | Economic<br>Growth | Ethical<br>Operations |
|---|---|---|---|---|---|

| Destruction of local<br><br>Culture and climate<br><br>in Host country | Partnership in<br><br>Host country's<br><br>Development Agenda |
|---|---|

**Weaker Social Responsibility**

**Parameters**

**Commitment to Social Responsibility**

**Undertakings**

Philosopher Richard T. De George offers a more specific set of guidelines for the MNCs operating in other than its homeland as following:

1. Do no intentional direct harm to the host country

2. Produce more good than bad for the host country

3. Contribute to the host country's development

4. Respect the human rights of its employees

5. Pay one's fair share of taxes

6. Respect the local culture and work with it

7. Cooperate when local governments reform social institutions, such as

8. Land and tax reform.

With this, Corporate Social Responsibility (CSR) as a concept and Corporate Social Responsibility (CSR) with special reference to Multinational Companies (MNCs) are introduced. The following work in the thesis is intertwined around this centre thought that whether MNCs are exploiters or contributors in the host country as reflected in the conceptual framework.