

**Business Ethics**  
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**Lecture - 06**  
**Corporate Social Responsibility**

So, we have already discussed about; in the first module of our discussion of today's discussion, we have discussed about how do we define a corporation and we have also discussed about whether corporate do have a moral responsibility or not. Now we will be focusing our discussion on do corporate have a social responsibility or not and why do they think like they have a social responsibility? We will try to focus on 2 views of corporate social responsibility whether first view is for the sort of self-enhancement of the business, it should be taking, some business should be taking the responsibility towards the society which we talk of corporate social responsibility and the other view would be the moral perspective of it. So, let us study these 2 different perspectives.

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When we talk of business reasons for which the corporation should be taking some social responsibility the first view what we call the business reasons is called the enlightened self-interest view of the corporate social responsibility, which talks of the fact like if the business is doing something for the society then it helps to get more satisfied customers. Customers will be happy in buying from organization whom they think are doing good

for the society or giving back to the society. So, first is it helps in getting extra and more customers, satisfied customers.

Second is employees will be more satisfied in working for or committed for these type of organizations and whenever we are talking of corporate social responsibility we should understand which we will elaborate more further in the discussion of stakeholders is, it is not only the responsibility like that we are taking for the external stakeholders of the corporate, but also we are talking of the internal stakeholders of the organization.

So, when employees may be find a good working condition measures of wellbeing taken for them good amount of incentives rewards and compensation which helps them to maintain a proper living condition standard of life this will help them or which has a proper work environment in terms of both like a physical and a psychological climate within the organization. So, it will help them to identify more with the organization and they will feel attracted to work for that organization. So, again forestall legislation. So, if they are following certain ethical principles, it is already some laws are there, abiding by its own nothing of legal pressures on them for which we talked of long term investment which benefits corporation.

So, what is this long term investment is this investment helps to bring in goodwill for the organization and in that case it is an investment, long-term investment which helps to develop the image of the organization in the society's mind and that positive image helps to maintain the buildup, the reputation for that organization and this reputation helps in its further business and sustainability of business in the long run. So, these are called the self enhancement or self interest enlightened, self interest views of why from the business perspective business reasons of why a corporation should be going or going for corporate social responsibility.

But, if we are only focusing on these business reasons of why a corporation should be responsible for doing taking up certain responsibilities for the society in terms of doing certain CSR practices. So, this sometimes this is a narrow concept of looking into the things and it like eases out the responsibility, the moral responsibility that the corporation may have for the society at large.

So, when we are taking the moral responsibility when we are taking the moral reasons for why the corporation should be going for corporate social responsibility we are

looking into the transactions that the corporation has entered into with the society, entered into with the society at large and the other stake holders at large and what we try to see is whether the transactions are like well balanced in the sense is the things that the corporation is taking in as input and the return that it is giving back is it well-balanced or not, what is the degree of positivity and what is the degree of harm involved in this relationship.

So, what we find in many cases as we discussed with is, we discussed with the problems of globalization in the last module is sometimes corporations introduce social problems in nature of social injustice done imbalances created, artificial divisions created and by the nature of its products and services. So, it is moral responsibility also to reduce the harm produced in this way, corporations have a responsibility of using their power in a responsible way. So, that because they are embedded in a society and they are drawing their resources being embedded in the society at the environment at large they have to use their power in a responsible way. And through the way of doing its business it cannot give any purposefully create certain imbalances and then disrupt the tranquility which is there and it has to take care like this risk reduced to the greatest extent which is possible.

And all the activities of the corporate have some or other social impacts we just cannot tell like whatever we have done it does not have any social impact, we may not realize it, we may not see it because that is the limitation may be of the moral imagination of us, but we just cannot deny the fact that whatever we do has some or the other social impact.

Corporations rely only on the not only on the shareholders, but it has to rely for its existence the corporation has to rely on all the stakeholders contributing to it and these stakeholders are very wide stake of set of stakeholders. So, it is not the shareholders only are providing for the organization, but it is all the stakeholders together who are into a relationship with the corporation and the corporation has to take care of all these things.

Here we should mention like the shareholders do have a limited liability to the organization in the sense the shareholders because they do not own the assets of the organization, they do not; they are not responsible for the damages done by the organization to the stakeholders at large. So, the shareholders they are entitled to the dividends and they enjoy the right of taking or participating in some of the decision making process of the organizations, but they do not have any responsibility for the

damage or harm produced by the organization by the nature of its business or the ways of doing things to the other stakeholders other society at large. This is called the limited liability of the shareholders.

But we will discuss in details also about it in the next modules when we talk of responsible investment. So, that the shareholders can also to some extent try to influence on in which business I am investing and to enquire whether they do follow ethical principles and sustainable business practices.

So, what we can understand from here like when we talk of corporate social responsibility it is not only the business reasons, it is not only the moral reasons, but it is the mutuality of both the reasons together, it is the coexistence of both the reasons together which motivates the organization to take up responsibilities which we term as corporate social responsibilities.

Now we will try to discuss about the different natures or the different levels of responsibilities, how we can classify or arrange it in some hierarchical way which we tell like these are the may be the preliminary middle or the topmost level of showing whether the organization or the corporate has some social responsibility or not here we will discuss about the model given by Carroll et al.

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## What is the nature of corporate social responsibilities?

**Corporate social responsibility** includes the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time

(Carroll and Buchholtz 2009:44)

So, before we proceed to the model let us check into the definition of corporate social responsibility which talks of corporate social responsibility includes the economic, legal, ethical and philanthropic expectations. Placed on organizations by the society at a given point in time, so you see there are 4 different things written it includes the economic legal ethical and philanthropic expectations placed on the organization by the society at a given point in time with this definition we will move forward to understand the model given by Carroll et al.

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So, what we find over here, at the lowermost rang here you find economic responsibilities written. So, what are these economic responsibilities here? Like this is the first expectations requirement by the society first expectation primary expectation from the society in terms of the economic benefits that you give to the society at large. Which talks of like you provide employment to the people of the where you are doing your business you pay salary to them, then you give like may be tax which helps in increasing the corpus and that money gets utilized for the benefit of the society at large.

So, these are clubbed under the economic responsibilities that the organization is having towards the society and these are required by the society because this is the first level of relationship and this is the must to be done without doing it, and this is mainly you can see this is both for the stakeholders who are inside and outside the organization because, if you have taken in employees it is your first responsibility to take care that they have a

decent salary or wage and you make them regular payments and you take care because that takes care of their existence to give employment to people from that society you try to enhance their uplift their living conditions. So, these are part of economic responsibilities that the organization is having towards the society and it is an essential requirement.

Next higher up when you talking of economic responsibilities next you find higher up here which is a well-defined thing which we talk of the legal responsibilities. When you are talking of the legal responsibilities this is where the law comes to place. In the last discussion if you remember we have discussed about 2 aspects of like having ethics and law and there is overlap and also a grey area. So, whenever we are talking of legal responsibilities it means it is expected, it is a requirement of the society that the organization coming and doing business in a particular area, particular region follows the rules, regulations as defined by that land, the codes like written for may be the minimum wages act is there equal employment is there. So, all other required contracts whichever are followed.

So, whatever rules and regulations are there defined by the legislation that the organization needs to follow. It just cannot do away with without following the stated law of the land. So, these are called the legal responsibilities of organization and these are required by the society. So, if you can see the model again, the first 2 things are written as required by the society and so these are the like necessary type of conditions, if you have to do business you have to do these 2 things.

Next when you are talking of ethical responsibilities these are if you see starts with expected by the society. So, from here what we can understand when we talk of ethical responsibilities here nothing is legally defined as yes you have to follow, this yes you have to do this, but it is your conscience it is your the organization's understanding and it is organization's ways of defining right and wrong for the concerned stakeholders that certain steps that they do that they take to do things which may not be defined by the legislation by the law or it is not a part of their economic responsibilities also. But you think this needs to be given it would be right to do things in this way and that is how you take up these are called your ethical responsibilities. But when it again gets as we discussed in the last class when it gets defined by law today what is ethical responsibility

may become your legal responsibility tomorrow, if when this comes under the well-defined under the laws.

Suppose now for providing facilities for transport for women employees who are working till late hours at night, if you may feel like it is a part if there are no laws defining it ethical responsibility of either designing your job schedules in certain way like women do not have to work till late hours. But again if it gives rises to question of discriminations then what you may so do is to introduce systems in your organization in terms of transports and other things which facilitates women to work till late hours and also takes care of their safety and wellbeing of the employees.

So, this may be if not is stated by the law like yes as defined by the law you have to do it there is no legal pressure on you to do it, but still you do it because you think it is a part of your responsibility to take care of your employees then this gets classified under ethical responsibilities and that it ought to be expected by the society.

Now, if we move up to the higher level up where we talk of like philanthropic responsibilities this you see it is written desired by society. So, this is the level where we cannot expect the organization to do, but if they do it we feel like it is they have taken some positive steps for the society at large. So, when philanthropic responsibility is where the organization increases its ambit for incorporating the society at large within its ambit and does something for the betterment of the society at large then we talk; it to be under the philanthropic responsibility.

So, suppose organization helps in building up the road for the area like where it is there or it establishes the hospital which is accessed by the like people residents of that place in general though there is no legal pressure on it, though the large part of the society may or may not be under it is like direct employment. But still it feels like because I have established my business over here, so it is a part of my responsibility also to give back to the society in certain way then it comes under this philanthropic responsibility of the corporation to invest in these types of activities. So, what we find the pyramid has 4 different layers economic legal ethical and philanthropic responsibility.

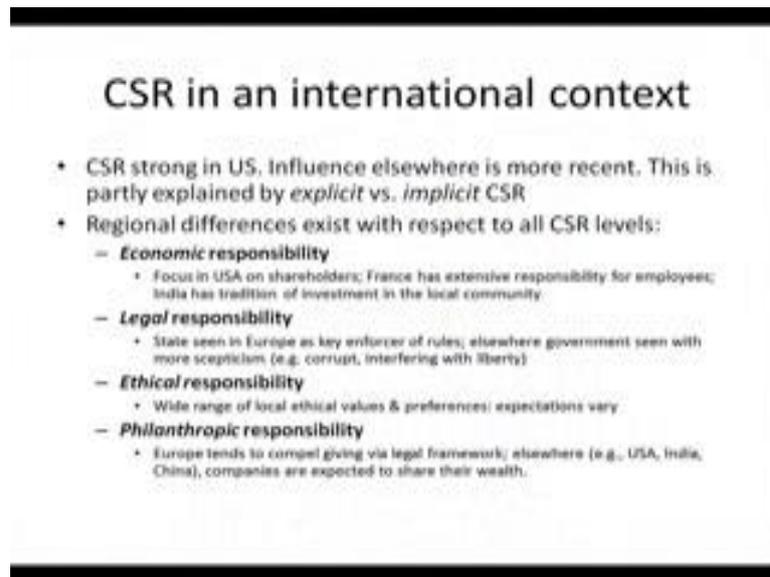
So, in economic responsibilities we talk it to be must done legal responsibilities are also to be must to be followed is the ethical responsibility is the expectation of the society in the sense like the way that you do your business the way that you produce your services

goods or services, the process followed and the outcome is done in an ethically morally right way and that is the ethical responsibility of organization towards the way that it does the business or the way the outcome that is generated and then to keep a check on the like what it gives back and how much it takes in return, how much harm it produces and how to minimize the harm. So, these are expectations and when we talk of the philanthropic layer. So, that is without any pressure without being expected without being insisted upon what you are giving back to the society at large and how do you participate in those activities.

Now, again a point of mention over here, now CSR activities have been because have been made mandatory for corporate while in some cases being left to themselves like it depends may be because this layer which is talked to the philanthropic responsibilities for the organization, and it is not a requirement or expectation of the society it remains to the willingness of the corporation either to participate or not to participate in activities which is in the way giving back to the society through some positive projects taken.

So, in we hear of 2 things like first the CSR contribution to from the profits that made the contribution of percentage which has been mandatory for the corporate and also we hear of a term which is called strategic corporate social responsibility. So, that how at the business the way of doing the business itself, in the way that you see yourself being placed in the competitive scenario. So, how do you incorporate CSR within your business system itself so that that gets institutionalized in the way that you do business and gets reflected to all your stakeholders in the process of you doing your businesses or the product and the services generated and your contribution to the larger society. So, these are the 2 associated terms that I have got connected with the concept of corporate social responsibility.

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**CSR in an international context**

- CSR strong in US, influence elsewhere is more recent. This is partly explained by *explicit vs. implicit* CSR
- Regional differences exist with respect to all CSR levels:
  - **Economic responsibility**
    - Focus in USA on shareholders; France has extensive responsibility for employees; India has tradition of investment in the local community
  - **Legal responsibility**
    - State seen in Europe as key enforcer of rules; elsewhere government seen with more scepticism (e.g. corrupt, interfering with liberty)
  - **Ethical responsibility**
    - Wide range of local ethical values & preferences; expectations vary
  - **Philanthropic responsibility**
    - Europe tends to compel giving via legal framework; elsewhere (e.g., USA, India, China), companies are expected to share their wealth.

So, when we are talking on of corporate social responsibility and we are comparing it in an international context, we see like there is a difference in emphasis placed on the 4 different responsibilities that we have discussed about economic responsibility, legal responsibility, ethical responsibility and philanthropic responsibility where across different regions and if you see on economic responsibility focus in USA is on the shareholders. France has extensive responsibility for employees, India has tradition of investment in the local community, all these are economic responsibilities, but whom you are focusing on is different based on different regions.

When you are talking of legal responsibility then Europe there is a key enforcer of rules elsewhere government seen with more skepticism that is corruption and interfering with the liberty of the people of the organization. When you are talking of ethical responsibility, this is what are the expectations vary from of the society vary from the organizations and they have their own local ethical values preferences and corporations try to adjust to those expectations and do things accordingly. When you are talking of philanthropic responsibility Europe tends to compel giving through a legal framework others in like USA, India and china companies are expected to share their wealth with the society at large. So, there are different channels different ways of giving and different priorities set by the organization for each of the different responsibilities based on the region in which they are doing their business.

Before we move on to the next slab of discussion which is the stakeholder theory of the firm, we need to discuss and the stakeholder theory of the firm is very much related to the concept of corporate social responsibility that we discussed over here. We need to discuss about 2 more important associated terms which are important in this context one is that of corporate social responsiveness and the other is that of corporate social performance. So, in corporate social responsibility we have discussed about a 4 different responsibilities that the corporate may be having, we may put it in the pyramid shape as shown by Carroll or we may think of it is not in that pyramid shape all are linked with each other and all are equally very important economic, legal, ethical and philanthropic it is not like first you do economic then you do legal, then you do ethical and then at the end may be you do philanthropic. But we can tell that all are on the same platform and all are connected with each other and you have to put equal emphasis and all and you have to do all together it is not like after you do this then you go to the next step.

The way you do it these are your responsibilities the way that you answer these responsibilities are called your corporate social responsiveness. So, in corporate social responsiveness how you respond to the requirements or the expectations or the desire of your society you may have its different nature. Accordingly corporate social responsiveness we can classify as you in the sense the organization being in a reactive mode. So, when faced with certain trouble, when faced with certain pressures from the people who are protesting against your business activities then you are taking certain measures to; it is a damage control type of thing first you have done your damage to the society at large then people start protesting about it then you would do some damage control mechanism. So, this is called corporate social responsiveness in a reactive mode.

Then there can be other modes also like you try to defend yourself. So, the defensive mode is what you understand like there could be you have done something wrong there could be certain protests in the way that you have done your business. So, you do not wait for the protest to be launched. So, before that only you try to take certain measures and try to defend your activities by telling others are also doing in the same way what they have done to take care of the society at large, we are giving in terms of the economic responsibilities that we have taken care of, we are giving also in the terms of you are following the legal framework as defined by the law. So, you try to fix up your reasons for defending yourself in the process of how you are doing your business. So,

either you are reacting or you are defending by keeping your justifications ready for what measures you have taken to give back to the society in terms of your stakeholders, in terms of your like economic responsibilities done or legal responsibilities being taken care of.

The third could be the accommodation where you find like you try to listen to the what others are expecting from you and what your stakeholders are expecting from you and what they want from you and you try to assimilate that, accommodate those expectations within your practices or your products or services and then you try to tell these are called and that is how you respond in terms of ethical or your social responsibility.

Suppose if you understand like the may be when we are talking of safety you could understand like may be the product that you have produced may have misused by maybe you have done it for some use by the rational adult person. But you can understand with the changing nature of the time and changing nature of the youth coming up the children coming up suppose it is a TV or a washing machine and you can find like these can be though nobody has protested, nobody has told you anything, nobody has given their expectations to you, but you can understand like yes these are happening. So, this could have a greater connotation. So, I try to or somebody perhaps some incident has happened somewhere where somebody has expressed concerns you try to accommodate those things in your product design or your services and if you can introduce a child lock in your system.

So, these are examples may be of where you accommodating or assimilating. So, may that that is your concern with your consumers there could be examples regarding your like employees also there could be regarding your suppliers also. So, may be from any stakeholders can be from the environment, can be from the society at large if it is. So, like some expectations have generated somewhere which they have expressed to the organization or they have expressed to the others. So, do I take care of those things and accommodate it in the things the products the services the way that I do the business and give back to the society. So, this is called responding in terms of accommodating.

The fourth and the higher level is that of pro activeness which talks again of your moral imagination and how much you feel the organization feels like it is connected with the society at large or the different stakeholders at large. So, in that pro activeness there is no

pressure or expectations from any side, but you use your intelligence, you use your environmental scanning mechanism to find out where expectations or may be generated or whatever desires may come up desires of the society what the society may think that this is desirable for us . And if you take some proactive measures to answer, to those needs those expectations these talks nobody has like forced you to do it, nobody has asked you to do it, but you voluntarily this voluntary nature is very important you voluntarily take it up as an issue for yourself and then you take certain ways of answering to those issues then it becomes a very proactive measure of answering to the social problems and or the expectations of your different stakeholders gave it back to the society.

Like if you take up any social issue as one of your issues and you try to, issues of what you are doing your business for or whether you can feel like your business can make any contribution to that area and you proactively orient your business in such a way; the processes in such a way so that this gets connected to that larger purpose then this is called the proactive orientation of how you are responding to your; responding in terms of corporate social responsiveness. Like when you talk of like every product that you buy part of that money goes to either any of the millennium development goals that have stated and you take a proactive measure to propagate for that and you design your system in that way then it talks of pro activeness and part of the organization to contribute for a social cause or a larger cause related to the any of the stakeholders.

So, this is the way that we can classify corporate social responsiveness starting from we have done something wrong, we have provided certain harm and if detected, if protested we do some damage control mechanism and we are in a reactive mode to higher level of after reacting or we are trying to you know do a self defense of ourselves by telling like, yes we have followed all the legal processes required we have followed all the standards and norms required. So, we are just restricting ourselves towards the thing which requires to be must be done type of thing and we are not violating any legal requirements and that is how we are defending ourselves.

Third, we accommodate the expectations of the society expressed concerns expressed and we try to accommodate that within our products and services and fourth nobody has told us anything, nobody has expected us to do anything, but we voluntarily take up a cause of the society as the cause and then we contribute towards it which is and make our

business gear towards it a part of our business contribution goes towards it. So, this is the proactive way these are 4 different levels.

Next comes when you are talking of corporate social performance. So, when we are discussing corporate social performance, it is the third step means we have a responsibility 4 levels of responsibility or 4 different types of responsibility. We have different ways, 4 different ways of responding towards those responsibilities and the way that we respond gives rise to certain performances and these performances could be like in terms of social policies, social programs and social impacts. Means when we are talking of social policies may be it can be at policy level like we told like a part of the profit generated by the organization should be going towards the CSR activities is at the policy level certain policies taken by the organization for which will have a; will be used for the CSR things. So, it could be at the policy framing level it could be at the social program level also where you take up small programs within your organization and which creates certain difference or awareness in the society's mind about the different issues which are there present in the society.

So, that is at the program level which is in the local level you take up certain programs and that helps to change make some positive changes in the community or in the area or that you are functioning or in the people that you are dealing with. Or you can think of social impact which is the larger impact that the organization may bring in for the society at large by processing, running a moving through a movement that they have started and that is how it produces a larger social impact. And it changes the life of the people, changes the life of or has a major positive brings in, some noticeably major positive changes for the community or for the environment and it has a larger impact. So, those are called social impacts.

And in that respect only we are going to discuss the next thing that whenever we are talking of stakeholders, these are what you have discussed is corporate social responsibility, corporate social responsiveness and corporate social impacts these are what the corporations are responsible for, what or in how they can respond to that responsibilities or what result will be produced if they are responsible in certain way and respond in certain way, but again the major question lies they are responsible to whom. So, when we are discussing they are responsible, whom they are responsible to; in that context in that connection we will be discussing next the stakeholder theory of the firm.

Thank you.