

## AN ECONOMIC ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY

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### ABSTRACT

Corporate Social Responsibility (CSR) stands for socially and ecologically responsible actions of companies which are based on the fundamental idea of creating lasting and sustainable economic activity. From the businesses' point of view a holistic and dynamic interpretation of CSR that combines all three aspects of entrepreneurial action – the economic, environmental and social dimension – is crucial. Only companies that are competitive can be successful and thus fulfill their social responsibility. At the same time CSR is in the companies' own best interest. Since only enterprises that live and respect the principle of sustainability will be economically successful in the long run.

**Keywords:** Ethics, Business, Social Responsibility, Society, Models, Corporate perceptive

### INTRODUCTION

Businesses live their social responsibility in a number of ways. They are active on four levels: in the company, along the value chain, at the company's location and on the market. In doing so they are supported by the state with a range of tools. Recently, Switzerland published an official position paper on CSR and it is heavily involved in the implementation of updated international standards (the UN "Ruggie-Principles", the OECD Guidelines). A change is also taking place in corporate reporting. Many companies today openly name their existing conflicts and challenges in the area of CSR and point out how they intend to provide remedy in these situations in future. This approach also paves the way for a closer cooperation with authorities and non-governmental organizations (NGOs) offering their expertise in solving particular problems. Confrontation turns into cooperation. It is such cooperation of all stakeholders that makes CSR more effective. Nonetheless, there are natural limits to CSR that arise for various reasons. For instance, companies may be able to take complementary actions thanks to an active CSR, however, they cannot replace states and their statutory tasks where governance structures are weak.

Over the last decade, certainly in Australia, funding for human services organisations has undergone significant change. The days of filling out an annual evaluation report and expecting to be automatically re-funded are gone. Simply ensuring you meet the objectives of last year's funding is not enough. A competitive tendering process is now a harsh reality in the realm of community services. What implications does this have for social work practice?

First of all, we need to get comfortable with the notion of "competition". It's a word that doesn't seem to feel comfortable with most social workers. And yet, in the tender process, that is exactly what we face. May the "best" organisation win. No matter what your values and passions may be as a social worker, no matter how much you abhor the thought of competing with another well-meaning, non-profit agency, no matter how much you talk about collaboration and partnerships, the bottom line is that you have to provide evidence that your organisation deserves a portion of limited funding more than another.

Secondly, we need to become acquainted with the word “business”. Traditionally, funding in community organisations is prioritized to the grass-roots workers – those who deliver service to the client group. The rest of the “business” is expected to be run by volunteers. Or the coordinator of the service works double the paid hours to ensure everything is running smoothly at a business level. At times a small portion of funding is reluctantly allocated to a bookkeeper or administrative assistant or allocated to the social workers who are already overloaded meeting client needs. Besides being an unrealistic addition to workload, most social workers do not have an effective skills set in business practice.

This reluctance to allocate funds to the business side of the organisation exists because traditionally, community organisations are “supposed to” spend allocated money on client service delivery. This has been perceived to mean “direct service”. But tell this story to any small business, or a corporate organisation and they’ll ask “how does your organisation (business) run effectively and professionally without business and marketing expertise? “ Every business knows, to compete effectively in the market place, you need people with both business and marketing skills. Private businesses are born in a tough, competitive market place so this notion is simply accepted as part of business life. Community services however, were born in a “charitable, gentle, cooperative” market place.

Time to wake up – things have changed. As many of the larger community organisations have proven, allocating funds to the “business” side of an organisation enables growth. These large community organisations have whole departments allocated to “operations”, “marketing and communications” and “fundraising”. Those employed to deliver client service are able to focus on just that – their clients. The business side of the organisation is fine-tuned by those with specific skills in those areas. The ultimate result for those organisations is that they’re highly competitive in the tender process. And the more tenders they win – the more their client needs are met.

So how would a small community organisation start the process of being competitive in a business sense when funding is so limited? First of all do what you’ve been taught to do as social workers: look at the big picture. Empowering your clients is not just about casework and running groups. The stronger your organisation is, the more chance you have of gaining the funds you need to initiate or expand service provision. Then question the status quo. Just because it’s always been done this way, doesn’t mean that’s what works best.

Perhaps the well-meaning volunteer, or the overworked caseworker are not the best people to be focussing on business operations or communications strategies. Where there really is no funding to employ more people, start placing some priority on business practice. Think of ways existing staff and volunteers can be up-skilled so that they understand and possibly assist in strategic planning, fundraising, marketing and business operations. Talk to some of the larger organisations and ask them how they raised the funds to break away from the traditional charitable approach to a solid business approach. They also started out small.

Then ask yourself these questions: How many social workers know how to write up a business plan? Or understand that a marketing plan is an integral part of a business plan? How many social workers understand that innovation and creative thinking are essential elements of any successful and sustainable business? Or at a smaller level, how many social workers understand how to promote their services to their client base?

Social workers traditionally are not business oriented. Social workers want to see all human services as affordable. But in a world where values change, where government priorities become unpredictable and outcomes are consistently measured according to standards set by external assessors, isn’t it time social workers took on some business sense? We’re not the

traditional “do-gooders” anymore. We’re agents of change. It’s time to look inward at our profession and take some responsibility for the lack of funding to critical operations funding in our organisations.

After all, we continue to accept and work under the premise that our organisations should only allocate funding to direct service, not to administration. Ironically we do this because we’re used to another kind of tender – being gentle. Ultimately, this quiet acceptance significantly reduces the chances of community organisations gaining momentum and successfully competing for effective client services.

### **BUSINESS PERSPECTIVE: CORPORATE SOCIAL RESPONSIBILITY IS ESSENTIAL IN BUSINESS**

Corporate Social Responsibility, or CSR, means companies aligning their values with a greater good and taking action to have a positive effect. They often do so through “cause marketing, joining forces with non-profit organizations and focusing advertising campaigns on those philanthropic relationships.

Corporate social responsibility is about the integration of social, environmental, and economic considerations into the decision-making structures and processes of business. It is about using innovation to find creative and value-added solutions to societal and environmental challenges. It is about engaging shareholders and other stakeholders and collaborating with them to more effectively manage potential risks and build credibility and trust in society.

It is about not only complying with the law in a due diligent way but also about taking account of society’s needs and finding more effective ways to satisfy existing and anticipated demands in order to build more sustainable businesses.

Ultimately, it is about delivering improved shareholder and debt holder value, providing enhanced goods and services for customers, building trust and credibility in the society in which the business operates, and becoming more sustainable over the longer term.

Each company or organisations have their own way of giving back to the society. For example every Sunday I watch a program on Citizen TV called Omo pick a box. This program was mainly created to give back to the society for being loyal clients to Unilever by buying their famous washing powder called Omo since it was introduced. Other organisations like ORIFLAME a cosmetic company- which I subscribe to, has given back to the community by building a clinic and now an IT college is under construction in a small town in Kenya.

As much as many companies are now embracing the need to participate in the CSR’s, many more are still lagging behind when it comes to giving back to the society. Corporate social responsibility may come across as a highly idealistic endeavour but it actually produces highly favourable and observable results.

Recent research studies reveal that companies that are perceived by the public to adopt more socially responsible business practices and ethics are more likely to perform financially better than those companies which don’t. So why should companies engage in social corporate responsibilities? Practitioners of Corporate Social Responsibility gain better reputation and brand image in the process. Enhance employee relations that yield better results respecting recruitment, motivation, retention, learning and innovation, and productivity.

A better reputation in business often translates into better sales and more investors. Customer loyalty also increases in the process. It is the best way to make the environment sustainable

and available for future generations. Stronger financial performance and profitability through operational efficiency gains with responsible corporate citizenship, wealth begets more wealth in the process.

CSR can make you more competitive and reduces the risk of sudden damage to your reputation (and sales). Improved relations with the investment community and better access to capital as investors recognise this and are more willing to finance a company. Generally defined, corporate social responsibility (CSR) refers to linking business decision-making to ethical values, compliance with legal requirements, and consideration for people, communities and the environment.

The World Economic Forum (WEF) describes CSR as the manner in which a company manages its economic, social and environmental relationships, and the way it engages with its stakeholders, employees, customers, business partners, governments and communities has an impact on its success.

As such, CSR is a guiding tool for companies that wish to contribute to the sustainable development of communities where they live, work and impact. It has been identified by industry experts worldwide as the path towards sustained profit growth for the company and creation of long-term value for its stakeholders. On the other hand, it builds reputation, trust and employee morale, each of which represents an ever-increasing part of the value of a company in today's fast changing world.

## **FUNDAMENTAL PRINCIPLES**

- **Actions that are legal, are not always morally legitimate**

Also companies do distinguish between law and morality. Businesses recognize their responsibility for the compliance with laws and provisions for the protection of people and environment within the scope of their business activities and possibilities irrespective of the regulatory environment.

- **Corporations cannot replace the state**

The responsibility of enterprises, however, has clear limits. It is the duty of states to create legislation on their territory and enforce the laws. Corporations cannot act as representatives for this state function. They do not have the necessary jurisdiction or the state monopoly on the use of force. They can thus not compensate for a lack of regulatory provisions or institutional shortcomings. As a rule, the radius of action for companies is limited to their own scope of business, whereby the actual ability to exert influence is very different and depends on the structure and complexity of the supply chain as well as the market position of the company.

- **Level playing field with the competition abroad**

The legislative activities in Switzerland should also be reflected against the international context and possible consequences for the competitiveness of the corporations should always be considered. A "Swiss Finish" does not only damage the attractiveness of the business location, but also undermines international efforts to create a "Level Playing Field".

- **Juridification entails many risks**

Rigid laws and liability provisions that are too rigorous stifle innovation in business, lead to cumbersome bureaucracy and undermine the entrepreneurial initiative in the field of CSR. Companies would have to withdraw from critical countries for compliance reasons (risk assessment), which would lead to the loss of valuable jobs. The opportunities offered by CSR

activities would then fall along the wayside. A juridification of CSR would entail that the legal process would have to be followed with procedures that often last for years, are expensive and whose outcome remains uncertain.

## **LIMITS OF CORPORATE RESPONSIBILITY**

Businesses that operate at an international level are expected to use their ability to exert influence to ensure that their partners in developing and emerging countries comply with high labor and social standards as well. which instruments have been developed at the international level to further specify these expectations. The UN Guiding Principles and the OECD Guidelines for Multinational Enterprises are mentioned in first place. These international standards facilitate a globally coordinated approach with regard to CSR topics. Nevertheless, the standards are flexible enough to allow for a quick response to specific challenges on the ground. At the international level the actors assume that shortcomings cannot be remedied from one day to the next. Time is needed to enforce the necessary standards with every supplier and in the administration. The instruments of the international community therefore focus on a pragmatic approach based on the multi-layered interaction of all the parties involved. This approach also builds the basis for the grievance procedure provided in the OECD Guidelines in case of controversial corporate behavior. Also in this case the parties should work towards finding a solution for the future through dialogue and the exchange of experiences with the stakeholders concerned. Thus, the contribution that companies make to promote sustainable development worldwide is valued in the same manner as the efforts to prevent violations of social and environmental standards. Internationally coordinated CSR standards help to overcome the differences between the various legal cultures as well as the issues of responsibility. This ultimately allows the pursuit of more ambitious objectives and the actual and effective improvement of the situation “on the ground”. A constructive dialogue requires solid mutual trust. If Switzerland single-handedly subjects CSR to regulation, it will undermine the willingness of companies to talk and commit to voluntary measures that go beyond the legal requirements.

### **Promote Cooperation**

The majority of enterprises shows a clear commitment to responsible corporate management and thus actively contributes to a sustainable economy. In this context communication plays an important role. Since CSR can only take full effect when stakeholder groups and the wider public are informed on the social engagement as well as the impacts of the businesses' economic activities. This requires a trustworthy communication style, true to the old adage “Do Good and Talk About It”. In their CSR communication many corporations also transparently disclose their fields of conflict and challenges in the CSR area (“Knowing”) and at the same time explain (“Showing”), how they intend to address these situations in future. This commitment to transparency strengthens trust and promotes a proactive discussion of the stakeholder groups about the social engagement of the company.

## **STANDARDIZED REPORTING**

Corporations use various channels to report on their CSR engagement. For instance, employee magazines, brochures as well as the web presence are used for this purpose. A particularly important tool is the company's own CSR- or sustainability report. These reports emerged from the environmental reports of past years. In recent years a number of reporting standards have evolved. These guidelines create standardized conditions by providing indicators and guidance for the individual report components, which in turn help businesses compare their performance and activities in the CSR area. The Global Reporting Initiative (GRI) standard is applied most frequently in Switzerland and world wide. It was created with

all kinds of stakeholder groups and experts and is continually updated. Depending on their scope the reports are divided into three application levels (level A, B and C) and are marked with a plus sign, if the report is subject to external review

## **CONCLUSION**

Corporate Social Responsibility is far more than compliance. Firstly, it is CSR when a company invests in the education and further training of its employees. It is secondly CSR when a company invests in the infrastructure and education system in its locations. It is thirdly CSR when a company works towards minimizing the social and environmental risks in the global production chains. And last, but not least, it is fourthly CSR, when a company addresses social issues with market-based solutions. In sum: CSR has an effect in the corporation itself, at its locations, along the value chain and on the market. The public, however, does not perceive CSR in its entirety. Grievances over the misconduct of individual companies dominate the headlines. Therefore, CSR is often tainted with the image of being a mere PR activity. The misconduct in individual cases should not blind us to the fact that these are exceptions and that the economy is not interested in any kind of irregularities. An efficient company needs a stable society. This is also the reason why more and more companies – as shown by the examples in this brochure – are approaching CSR strategically.

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