CHAPTER - I
INTRODUCTION

“Social responsibility (is the) responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that is consistent with sustainable development and the welfare of the society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization.”¹

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

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

¹ Working definition, ISO 26000 Working Group on Social Responsibility, Sydney, February 2007
the question of how the business sector addresses them is also becoming an element of CSR.

The World Business Council for Sustainable Development has described CSR as the business contribution to sustainable economic development. Building on a base of compliance with legislation and regulations, CSR typically includes “beyond law” commitments and activities pertaining to:

- Corporate governance and ethics;
- Health and safety;
- Environmental stewardship;
- Human rights (including core labour rights);
- Sustainable development;
- Conditions of work (including safety and health, hours of work, wages);
- Industrial relations;
- Community involvement, development and investment;
- Involvement of and respect for diverse cultures and disadvantaged people;
- Corporate philanthropy and employee volunteering;
- Customer satisfaction and adherence to principles of fair competition;
Anti-bribery and anti-corruption measures;

Accountability, transparency and performance reporting; and

Supplier relations, for both domestic and international supply chains

What does it mean for a corporation to be socially responsible? Academics and practitioners have been striving to establish an agreed-upon definition of this concept for more than three decades. In 1960, Keith Davis suggested that social responsibility refers to businesses' "decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest." At about the same time, Eells and Walton (1961) argued that CSR refers to the "problems that arise when corporate enterprise casts its shadow on the social scene, and the ethical principles that ought to govern the relationship between the corporation and society."  

In 1971 the Committee for Economic Development used a "three concentric circles" approach to depicting CSR. The inner circle included basic economic functions—growth, products, jobs. The intermediate circle suggested that the economic functions must be exercised with a sensitive awareness of changing social values and priorities. The outer circle outlined newly emerging and still amorphous responsibilities that business should assume to become more actively involved in improving the social environment.

The attention was shifted from social responsibility to social responsiveness by several other writers. Their basic argument was that the emphasis on responsibility focused exclusively on the notion of business

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obligation and motivation and that action or performance were being overlooked. The social responsiveness movement, therefore, emphasized corporate action, proaction, and implementation of a social role. This was indeed a necessary reorientation.

**Definitional Aspects**

There are many definitional problems in relation to the Corporate Social Responsibility concept. It is often used in the modern literature as a summary concept whereby companies integrate social and environmental concerns in their operations and in their interaction with stakeholders on a voluntary basis.\(^3\) According to this definition, for a company to be considered socially responsible means that its overall performance should be measured on a triple bottom line approach that is to say on a firm’s combined contribution to economic prosperity, environment quality and social capital.

However, there is no general agreement concerning the concept of the “corporate social responsibility”, therefore, the adoption of any universally applicable definition seems to be ineffective.\(^4\)

In fact, as already noted, at the theoretical level there are claims that either reduce business’ social responsibility to activities that maximize profitability only for its shareholders, or extend responsibilities to cover the needs of the wider stakeholders of an enterprise that affect or are affected by business’ operations. According to Prof. Milton Friedman (1962):

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\(^4\) CBI, In this report it is quoted: “any attempt to develop a “one-size fits all” definition (of CSR) is therefore impractical”. Furthermore, *The Dutch Social and Economic Council* (2001) defines the CSR concept as a sort of “container term” whose definition may change over time.
“…there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud” (p. 133).

Professor Friedman’s views appear too narrow for many observers.⁵ They are considered as mostly to reflect the traditional views on the role of business, whereby contribution to society is assumed through the provision of employment and the creation of wealth. Any involvement in social activities is thus claimed to create opportunity costs against profitable activity.

Diane Flannery⁶ summarises the Corporate Social Responsibility Movement in the United States:

“In recent years a new generation of American corporations has evolved, both large and small, national and global, that firmly defines themselves as socially responsible businesses, with a double bottom line, whereby the companies’ success is measured both by its financial and social performance. These corporations are successfully integrating traditional business functions with aggressive and far-reaching social goals. The companies are redefining the notion of corporate social responsibility and are raising important questions about the capacity of business to serve multiple roles in society. Years ago the number of American companies that would define themselves this way was relatively small. Recently, in the field of professional practice, there has been an explosion of interest in this issue. Business for Social

Responsibility, a membership organisation that promotes responsible business practice, has grown tremendously. Today, the organisation has over 800 member companies that represent over 2.75 million employees and well over $400 billion in annual revenues: a major evolution from its humble grassroots beginnings.”

The totality of CSR can be determined from the three words enclosed within it i.e. ‘corporate,’ ‘social,’ and ‘responsibility.’ Therefore, in broad terms, CSR covers the responsibilities that the corporations (or other for-profit organizations) have towards the societies within which they are based and operate.

Corporate social responsibility is a concept that has become quite familiar in the world-of-business today.

Spectrum Consultants (2009), define CSR as 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 community and society at large. It’s how companies manage the business processes to produce an overall positive impact on society”.

According to Ishola (2010), the CSR policy would “function as built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards and international names. Business would embrace responsibility for the impact of their activities on the environment, consumer, employees, communities, stakeholders and all other members of the public sphere.”

According to the British Government’s Department of Trade and Industry (24.05.02):
“An increasing number of companies of all sizes are finding that there are real business benefits from being socially responsible. Corporate Social Responsibility has become a core issue for many large businesses. About 80% of FTSE-100 companies now provide information about their environmental performance, social impact, or both. These trends are not confined only to big business; a recent MORI survey of small and medium sized enterprises found that 61% were involved “a great deal” or “a fair amount” in the local community. This isn’t happening by accident. There is a sound business case for social involvement. The UK is fortunate to have excellent support organisations helping companies become involved. And Government is assisting with relevant information on a wide range of issues, as well as through many other specific initiatives across the whole spectrum of the nation’s biggest issues.”

Therefore, CSR is a means of analyzing the mutually dependent associations that exist between businesses, economic systems and the communities within which they exist. CSR is a means of not only discussing the degree of obligations a corporate has towards its immediate society; but also suggesting policies as how these obligations can be met. It is a tool through which the benefits to a business for meeting those obligations can be recognized.

The Corporate Social Responsibility debate: background

The European Commission (2002) defines CSR 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 World Bank states: “CSR is the commitment of businesses to behave ethically and to contribute to
sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large.” A notion similar to “voluntary behavior” can be found in definitions of CSR that refer to either “beyond compliance” such as those used by Vogel (2005) or McWilliams and Siegel (2001), who characterize CSR as “the fulfillment of responsibilities beyond those dictated by markets or laws,” or to “self-regulation” as suggested by Calveras, Ganuza, and Llobet (2007).

Attempts to define CSR reveal two basic conceptual features: First, CSR manifests itself in some observable and measurable behavior or output. The literature frequently refers to this outcome dimension as corporate social or environmental performance (CSP). Second, CSP exceeds levels set by obligatory regulation or standards enforced by law. In essence, CSR is corporate social or environmental behavior that goes beyond the legal or regulatory requirements of the relevant market(s) and/ or economy(s).

Two important notions of this definition merit attention: First, it is independent of any conjecture about the motivations underlying CSR. While Baron (2001) takes the view that “both motivation and performance are required for actions to receive the CSR label,” we propose that linking a particular motivation to the respective performance is required only for identifying the CSR mechanism. Second, in order to capture its complete economic relevance, this view emphasizes that CSR can be market driven or “strategic” as opposed to McWilliams and Siegel (2001), who equate CSR only with social or environmental performance “beyond market forces.” In other words, CSR may be strategic, but need not be.
Economic Theory and the Evolutionary Understanding of CSR

The quest to understand CSR as an economic phenomenon began by asking (1) whether it exists, (2) when and to which extent it can be efficient, and therefore, (3) whether and when it should exist. While the fundamental proof of existence, i.e., (1), must be established empirically, (2) and (3) fit the theory agenda well. In light of the neo-classical firm paradigm, economists immediately translated (2) and (3) into one question, namely whether firms do have any social responsibility other than employing people, producing goods or services and maximizing profits. The key to answering this normative question is to compare CSR with other channels of public good provision and to establish if and when CSR will improve total welfare. Another increasingly important research strand takes a less abstract and more positive perspective on CSR and investigates the mechanisms and incentives underlying CSR. The focus is on why CSR occurs and how the underlying incentives work and interact within today’s complex and global economy. Based on the role of shareholder and stakeholder preferences in the determination of firm behavior, we can categorize CSR as strategic, not-for-profit, or the result of moral hazard. Once this distinction is established, strategic CSR mechanisms will be analyzed in depth within three conceptual boxes: Markets, Politics, and Social Norms.

Whether CSR? A New Neoclassical Dichotomy

The initial discussion will focus on comparative welfare implications of CSR. Due to the fact that social or environmental goods and externalities often are characterized by non-rivalry and/or non-excludability, the classical public goods literature proves to be a natural
point of departure. As CSR seems to invade the formerly undisputed government task of correcting market failure inherent in the provision of public goods or reduction of negative externalities, a reevaluation of the classical dichotomy between state and market is in order. The standard argument states that the provision of public goods should be based on public preferences or social objectives. Governments are endowed with the necessary democratic legitimacy and have the power to correct related market inefficiencies such as collective action problems or free riding. The standard argument goes on to state that private firms do not have sufficient incentives to efficiently internalize the costs they cause, but they will comply with regulation or taxation. At first sight CSR challenges this framework, but a growing literature attempts to integrate CSR into the classical public economics agenda and to characterize equilibrium attributes as well as relevant corollaries.

First of all, firms are organizations owned by shareholders, run by workers and managers, and therefore conform to the broad group of private agents. Most importantly, firms often produce a public good or an externality jointly with their main task to provide private goods or services for consumption. This may occur either in connection with the production process of private goods (e.g., less polluting technology or safe/healthy working conditions) or as a direct attribute of the private good or service itself (e.g., less polluting cars or energy saving light bulbs). Therefore, parallels with earlier works suddenly shed new light on old insights. Buchanan referred to the joint provision of a public and private good as an “impure public good,” and relevant results such as those derived by Bergstrom, Blume, and Varian (1986) can be readily translated into the CSR framework. Bergstrom, Blume, and
Varian focused on the interaction between public and private, in their framework voluntary and individual, provision of the public good and the effect on overall levels of provision. They concluded that public provision crowds out its private counterpart almost perfectly. The crucial condition driving this result is that private and public provision are perfect substitutes in consumption.

Along these lines, Kotchen (2006) compares joint corporate provision of private and public goods in “green markets” and separates provision of either. He derives the similar conclusion that the very same crowding out takes place between corporate provision and individual (what Bergstrom, Blume, and Varian called “private”) provision, and may even lead to an overall reduction in the level of the public good if it is a gross substitute for the private good characteristic. The effect of introducing a green market on demand for the public good is driven by a price effect that proves to be always positive if the private and public goods are complements in consumption, but may be negative if they are substitutes depending upon preferences, income distribution and the green technology. In this context, the of corporate public good provision in equilibrium can be interpreted as a welfare enhancing, neutral, or reducing shift between competing supply channels.

Remembering the strict division of labor between government and firms envisioned by the classical dichotomy, Rose-Ackerman (1996) phrases the problem as the “[b]lurring of the analytically motivated division between for-profit, nonprofit and public sectors in reality.” Similarly, Besley and Ghatak (2001) notice that public goods provision has dramatically shifted from public to mixed or complete private ownership in recent years. Their analysis then leads to the
conclusion that in a world of incomplete contracts (i.e., investments related to public goods provision are often non-contractible) a public good or project should be owned simply by the party that “[v]alues the benefits generated by the related investments relatively more,” a result that is based on Grossman and Hart (1986) and Hart and Moore (1990). Note that this holds true irrespective of the relative importance of the investments or other aspects of the production technology. Other works relating CSR exclusively with public good provision include Bagnoli and Watts (2003) and Besley and Ghatak (2007), who define CSR as the corporate provision of public goods or curtailment of public goods independent of legal benchmarks. Besley and Ghatak (2007) outline the above mentioned direct parallel with traditional models of private provision of public goods and show that CSR will exactly reproduce the second best equilibrium levels of public good provision envisioned by the standard literature. Only if governments fail to deliver optimal levels of public good will CSR be potentially efficient. In reality, however, this is an important issue. When we think of potential relative cost advantages of firms vis-à-vis governments, it appears straightforward to conclude that if economies of scope on the corporate side are absent, tasks should be segregated into specialized organizations, i.e., governments provide public goods and firms private ones, while otherwise CSR can be efficient. Of course governments can be opportunistic, corrupt, or have (re)distributational preferences, thereby creating obvious inefficiencies.

The academic debate over social responsibility has been launched within neo-classical economics. The main issue addressed since then is whether business socially responsible activity pays returns for corporate financial performance. Up to now, there is no general consensus on the
matter. In particular, *neoclassical* economists have claimed that there is no (positive) correlation between philanthropic action and profits. Relevant *classical* literature advocates that in the long term Corporate Social Responsibility has positive effects on business performance. Furthermore, early in the 70s W. J. Baumol expressed the idea that Corporate Social Responsibility was a proper incentive to individual firms, other than that created by market mechanisms, for the provision of public goods.

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<th>Economic Components (Responsibilities)</th>
<th>Legal Components (Responsibilities)</th>
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<td>1. It is important to perform in a manner consistent with maximizing earnings per share</td>
<td>1. It is important to perform in a manner consistent with expectations of government and law.</td>
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<td>2. It is important to be committed to being as profitable as possible.</td>
<td>2. It is important to comply with various federal, state, and local regulations.</td>
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<td>3. It is important to maintain a strong competitive position.</td>
<td>3. It is important to be a law-abiding corporate citizen.</td>
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<td>4. It is important to maintain a high level of operating efficiency.</td>
<td>4. It is important that a successful firm be defined as one that fulfills its legal obligations.</td>
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<td>5. It is important that a successful firm be defined as one that is consistently profitable.</td>
<td>5. It is important to provide goods and services that at least meet minimal legal requirements.</td>
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Central to the Corporate Social Responsibility debate is measurement problems. Most of the empirical surveys undertaken in the field since the mid-70s have been unable to establish a relation between Corporate Social Responsibility activity and corporate financial performance.

The question still remained, however, of reconciling the firm’s economic orientation with its social orientation. A step in this direction was taken when a comprehensive definition of CSR was set forth. In this view, a four-part conceptualization of CSR included the idea that the corporation has not only economic and legal obligations, but ethical and discretionary (philanthropic) responsibilities as well.\(^7\) The point here was that CSR, to be accepted as legitimate, had to address the entire spectrum of obligations business has to society, including the most fundamental—economic. It is upon this four-part perspective that our pyramid is based.

In recent years, the term corporate social performance (CSP) has emerged as an inclusive and global concept to embrace corporate social responsibility, responsiveness, and the entire spectrum of socially beneficial activities of businesses. The focus on social performance emphasizes the concern for corporate action and accomplishment in the social sphere. With a performance perspective, it is clear that firms must formulate and implement social goals and programs as well as integrate ethical sensitivity into all decision making, policies, and actions. With a results focus, CSP suggests an all-encompassing orientation towards normal criteria by which we assess business performance to include quantity, quality, effectiveness, and efficiency. While we recognize the

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vitality of the performance concept, we have chosen to adhere to the CSR terminology for our present discussion. With just a slight change of focus, however, we could easily be discussing a CSP rather than a CSR pyramid. In any event, the long-term concern is what managers do with these ideas in terms of implementation.

Companies engage in corporate social responsibility (CSR) when they confer benefits on the communities located in or near where they work which are neither required by law nor an integral part of their primary, profit-oriented operations. Consider the mining company which offers to build a road between its landing strip and a neighbouring community in order to boost local tourism businesses. This is not CSR if
there is a land claim or statute which requires the company to ensure benefits to the local community, because in such circumstances the company is merely doing what is required of it. In Canada we expect companies to obey the law. It doesn’t mean they always do, but a company is not demonstrating ethical behaviour of any special significance if it is merely doing what the law demands. But if there is no such legal compulsion, building the road is a form of CSR.

**The Pyramid of Corporate Social Responsibility**

For CSR to be accepted by a conscientious business person, it should be framed in such a way that the entire range of business responsibilities are embraced. It is suggested here that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a pyramid. To be sure, all of these kinds of responsibilities have always existed to some extent. But it has only been in recent years that ethical and philanthropic functions have taken a significant place. Each of these four categories deserves closer consideration.

**Economic Responsibilities**

Historically, business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. Before it was anything else, business organization was the basic economic unit in our society. As such, its principal role was to produce goods and services that consumers needed and wanted and to make an acceptable profit in the process. At some point the idea of the
profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations. Figure 1.2 summarizes some important statements characterizing economic responsibilities. Legal responsibilities are also depicted in Figure 1.2.

**Legal Responsibilities**

Society has not only sanctioned business to operate according to the profit motive; at the same time business is expected to comply with the laws and regulations promulgated by federal, state, and local governments as the ground rules under which business must operate. As a partial fulfillment of the "social contract" between business and society firms are expected to pursue their economic missions within the framework of the law. Legal responsibilities reflect a view of "codified ethics" in the sense that they embody basic notions of fair operations as established by our lawmakers. They are depicted as the next layer on the pyramid to portray their historical development, but they are appropriately seen as coexisting with economic responsibilities as fundamental precepts of the free enterprise system.

**Ethical Responsibilities**

Although economic and legal responsibilities embody ethical norms about fairness and justice, ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law. Ethical responsibilities embody those standards, norms, or expectations that reflect a concern or what consumers, employees, shareholders, and the
community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights.

In one sense, changing ethics or values pre-cede the establishment of law because they become the driving force behind the very creation of laws or regulations. For example, the environmental, civil rights, and consumer movements reflected basic alterations in societal values and thus

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<td>1. It is important to perform in a manner consistent with expectations of societal mores and ethical norms.</td>
<td>1. It is important to perform in a manner consistent with the philanthropic and charitable expectations of society.</td>
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<td>2. It is important to recognize and respect new or evolving ethical moral norms adopted by society.</td>
<td>2. It is important to assist the fine and performing arts.</td>
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<td>3. It is important to prevent ethical norms from being compromised in order to achieve corporate goals.</td>
<td>3. It is important that managers and employees participate in voluntary and charitable activities within their local communities.</td>
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<td>4. It is important that good corporate citizenship be defined as doing what is expected morally or ethically.</td>
<td>4. It is important to provide assistance to private and public educational institutions.</td>
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<td>5. It is important to recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations.</td>
<td>5. It is important to assist voluntarily those projects that enhance a community’s &quot;quality of life.&quot;</td>
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may be seen as ethical bellwethers foreshadowing and resulting in the later legislation. In another sense, ethical responsibilities may be seen as embracing newly emerging values and norms society expects business to meet, even though such values and norms may reflect a higher standard of performance than that currently required by law. Ethical responsibilities in this sense are often ill-defined or continually under public debate as to their legitimacy, and thus are frequently difficult for business to deal with. Superimposed on these ethical expectations emanating from societal groups are the implied levels of ethical performance suggested by a consideration of the great ethical principles of moral philosophy. This would include such principles as justice, rights, and utilitarianism.

The business ethics movement of the past decade has firmly established an ethical responsibility as a legitimate CSR component. Though it is depicted as the next layer of the CSR pyramid, it must be constantly recognized that it is in dynamic interplay with the legal responsibility category. That is, it is constantly pushing the legal responsibility category to broaden or expand while at the same time placing ever higher expectations on businesspersons to operate at levels above that required by law.

**Philanthropic Responsibilities**

Philanthropy encompasses those corporate actions that are in response to society’s expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill. Examples of philanthropy include business contributions to financial resources or executive time, such as contributions to the arts, education, or the community. A loaned-executive program that provides leadership for a community’s United Way campaign is one illustration of philanthropy.
The distinguishing feature between philanthropy and ethical responsibilities is that the former are not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities, and employee time to humanitarian programs or purposes, but they do not regard the firms as unethical if they do not provide the desired level. Therefore, philanthropy is more discretionary or voluntary on the part of businesses even though there is always the societal expectation that businesses provide it.

One notable reason for making the distinction between philanthropic and ethical responsibilities is that some firms feel they are being socially responsible if they are just good citizens in the community. This distinction brings home the vital point that CSR includes philanthropic contributions but is not limited to them. In fact, it would be argued here that philanthropy is highly desired and prized but actually less important than the other three categories of social responsibility. In a sense, philanthropy is icing on the cake—or on the pyramid, using our metaphor.

The pyramid of corporate social responsibility depicted in figure 1.3. It portrays the four components of CSR, beginning with the basic building block notion that economic performance undergirds all else. At the same time, business is expected to obey the law because the law is society's codification of acceptable and unacceptable behavior. Next is business's responsibility to be ethical. At its most fundamental level, this is the obligation to do what is right, just, and fair, and to avoid or minimize harm to stakeholders (employees, consumers, the environment, and others). Finally, business is expected to be a good corporate citizen. This is captured in the philanthropic responsibility, wherein business is
expected to contribute financial and human resources to the community and to improve the quality of life.

No metaphor is perfect, and the CSR pyramid is no exception. It is intended to portray that the total CSR of business comprises distinct components that, taken together, constitute the whole. Though the components have been treated as separate concepts for discussion purposes, they are not mutually exclusive and are not intended to juxtapose a firm’s economic responsibilities with its other responsibilities. At the same time, a consideration of the separate components helps the manager see that the different types of obligations are in a constant but dynamic tension with one another. The most critical tensions, of course, would be between economic and legal, economic and ethical, and economic and philanthropic. The traditionalist might see this as a conflict between a firm’s "concern for profits versus its "concern for society," but it is suggested here that this is an oversimplification. A CSR or stakeholder perspective would recognize these tensions as organizational realities, but focus on the total pyramid as a unified whole and how the firm might engage in decisions, actions, and programs that substantially fulfill all its component parts.
Therefore, the total corporate social responsibility of business entails the simultaneous fulfillment of the firm's economic, legal, ethical, and philanthropic responsibilities. Stated in more pragmatic and managerial terms, the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen. Upon first glance, this
array of responsibilities may seem broad. They seem to be in striking contrast to the classical economic argument that management has one responsibility: to maximize the profits of its owners or shareholders. Economist Milton Friedman, the most outspoken proponent of this view, has argued that social matters are not the concern of business people and that these problems should be resolved by the unfettered workings of the free market system. Friedman's argument loses some of its punch, however, when you consider his assertion in its totality. Friedman posited that management is "to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical custom". Most people focus on the first part of Friedman's quote but not the second part. It seems clear from this statement that profits, conformity to the law, and ethical custom embrace three components of the CSR pyramid—economic, legal, and ethical. That only leaves the philanthropic component for Friedman to reject. Although it may be appropriate for an economist to take this view, one would not encounter many business executives today who exclude philanthropic programs from their firms' range of activities. It seems the role of corporate citizenship is one that business has no significant problem embracing. Undoubtedly this perspective is rationalized under the rubric of enlightened self-interest.

Corporate Social Responsibility is a concept whereby companies integrate social and environmental concerns into their business operations and in their interaction with their stakeholders (employees, customers, shareholders, investors, local communities, government), on a voluntary basis. Corporate responsibility programs can help businesses entice customers, attract and retain talent, assure investors, reduce

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operating costs, improve employee morale and enhance a company's reputation. However, business owners should understand the benefits and limitations of corporate responsibility programs in order to choose an initiative that benefits the community and the company. Corporate responsibility programs must be embraced and supported by top management and woven into company culture and operations. Stakeholders will soon become skeptical of one-time initiatives or programs that come and go. Convincing shareholders or other financial decision makers to allocate resources to a program designed to benefit something other than the company's bottom line can be the first obstacle a small business owner must overcome. Small businesses owners should not assume that customers and community members know about the company's investment in socially responsible programs.

Among other countries India has one of the richest traditions of Corporate Social Responsibility. Much has been done in recent years to make Indian Entrepreneurs aware of social responsibility as an important segment of their business activity but Corporate Social Responsibility in India has yet to receive widespread recognition. If this goal has to be realized then the Corporate Social Responsibility approach of corporate has to be in line with their attitudes towards mainstream business-companies setting clear objectives, undertaking potential investments, measuring and reporting performance publicly.

The Four Phases of CSR Development in India

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

The First Phase

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

The Second Phase

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

**The Third Phase**

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

**The Fourth Phase**

In the fourth phase (1980 until the present) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 1990s the first initiation towards Globalizations and Economic Liberalization were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing. Globalization has transformed India into an important destination in terms of production and manufacturing bases of TNCs are concerned. As Western markets are becoming more and more concerned about and labour and environmental standards in the developing countries, Indian companies who export and produce goods for the developed world need to pay a close attention to compliance with the international standards.
The Corporate Social Responsibility movement is not well articulated in Europe, especially in some Mediterranean countries.\(^9\) For the promotion of the movement in 1995 the Corporate Social Responsibility Europe network was launched aiming “to help companies to achieve profitability, sustainable growth and human progress by placing in the mainstream of business practice.”

The definition of CSR used within an organization can vary from the strict "stakeholders’ benefit" definition used by many CSR advocates and will often embrace charitable actions and volunteering. CSR may either be based within the human resources, business development or public relations departments of an organization or it can be assigned to a separate unit reporting to the CEO or in some cases straightforwardly to the board. Some companies may even execute CSR activities without a well-defined team or programme. The question here arises is that whether CSR is the obligation for each and every corporate or PSU no matter what kind of business they are in? For example, suppose a cigarette manufacturing company runs an anti-tobacco campaign or a company dealing in Petroleum Products does something for Pollution control, will it be considered as CSR activity? The answer is “No”. Because if you are trying to reduce something that is spread by you only, how can this be considered as responsibility. Rather this becomes your duty.

In fact, several industries cannot even come under CSR research. The absence is due to the assumption that these particular industries fail to achieve ethical considerations of their consumers. These industries include tobacco and alcohol producers (which are also called as "sin industries"), as well as defense firms.

Consider another case. If you have you ever seen or visited the site of a society or township under construction, you would have noticed that the labourers who are involved in building the society/township, live (with family) temporarily on the site itself. The parents work for the whole day (something all through the night as well) and the kids are all alone. Either they play or cry without any proper care. In fact, sometimes the parents give the small kids a little dose of *afeem* (Opium) in order to keep them asleep for the whole day.

The question here is that can’t the builders (who are always the wealthy ones) do anything to save these tiny little tots from being ill-treated. Can’t they provide the child care facility or school facility to these kids? Will that not be the real CSR?

According to the Companies Bill 2012 which was passed in Lok Sabha on 18\textsuperscript{th} December, 2012:

- Every company having net worth of Rs.500 crore or more, or turnover of Rs.1000 crore or more or a net profit of Rs.5 crore or more during any financial year is required to constitute a Corporate Social Responsibility Committee.

- The Corporate Social Responsibility Committee will formulate a Corporate Social Responsibility Policy.

- Such a company is required to spend at least 2\% of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.
• If the company fails to spend such amount the Board shall give in its report the reasons for the same making it a binding obligation on the Board.

But the question is that when should the companies do CSR? Only when imposed by some law? Should CSR be an obligation or an initiative? What is the question of such bill or law? Do the corporates really need to be forced to perform the activities for which they are responsible? Or rather they should recognize their responsibilities and should take initiative to carry out such activities. They should not wait for some law or bill to be passed to execute the CSR actions. Hence we can say that every time is the right time to act upon CSR.

Some companies realize the importance of CSR only when they fell in some crisis. One of the most active stands against environmental mismanagement is the CERES Principles\textsuperscript{10} that resulted after the Exxon Valdez incident in Alaska in 1989.\textsuperscript{11} Other examples include the lead poisoning paint used by toy giant Mattel, which resulted in a recall of millions of toys globally and caused the company to commence new risk management and quality control processes.\textsuperscript{12} Odwalla also experienced a crisis due to several cases of E. coli spread through

\begin{footnotes}
\item[10] a 10-point code of corporate environmental conduct to be publicly endorsed by Ceres companies.
\end{footnotes}
Odwalla apple juice in 1996. As a result, its sales dropped by 90%, and the company's stock price were slashed by 34%. The company ordered a recall of all apple or carrot juice products immediately and not only introduced a new process called "flash pasteurization" but also started open lines of communication with customers.

In yet another case, Magellan Metals in the West Australian town of Esperance was found responsible for lead contamination killing thousands of birds in the area. The company had to stop operation immediately and work with independent regulatory bodies to execute a cleanup.

Precaution is always better than cure. Companies should be proactive in adopting the practices of CSR and should not wait for a crisis to happen and then adopt CSR to rectify it.


The various definitions of CSR say that it covers the responsibilities that the corporations have towards the societies within which they are based and operate. What does that mean? A company which is based in India cannot do any CSR activity in Africa? The question is why such restrictions? In fact, there should be no territories for CSR activities. Of course, the first priority should be the place where the companies are located as they make use of the resources of that area, but they should not be constrained from investing in CSR at other places.

The reason behind CSR within a company will probably be based on one or more of these arguments:

a. **Helpful in Human Resource Development:**

   A CSR program can be a support to recruitment and retention, particularly within the competitive graduate student market. These days potential recruits frequently ask about a firm's CSR policy during an interview, and having a comprehensive policy can give the company an advantage. CSR can also help in improving the perception of a company among its personnel, principally when they can be involved through payroll giving, fundraising activities or community volunteering. CSR has ever been found useful in encouraging the practice of customer focus among frontline employees.

b. **Useful in Risk Management:**

   Managing risk is a vital part of many corporate strategies. Reputations that take decades to develop can be cleaned out in seconds through incidents such as corruption scandals or environmental accidents. Such incidents even draw unnecessary attention from
regulators, courts, governments and media. Hence, developing a genuine culture of 'doing the right thing' within a company can counterbalance these risks.

c. A Tool for Brand Differentiation:

In today’s era of cut throat competition, companies are trying hard for a unique selling proposition (USP) that can separate them from the competitors and can create specific position in the minds of customers. CSR can play a critical role in building customer loyalty based on distinguishing ethical values. Several major corporates, such as Tata, Birla, HUL, etc. are built on ethical values. Even the service organizations can be benefited from developing a reputation for integrity and best practice.

d. Helpful in Building Goodwill:

No company wants any kind of intervention in their business through taxation or regulations. By taking substantive voluntary steps, they can plead the government as well as the wider public that they are sincerely taking care of the matters such as health and safety, poverty, the environment etc. CSR activities, therefore, can be proved as a stepping stone in building goodwill for the company.

e. Innovation:

In the context of CSR, innovation is a huge benefit to a company and society. For example, according to Geoff McDonald (2012), Unilever’s Global VP for HR, Marketing, Communications and Sustainability, using the “lens of sustainability”, the company was able to innovate new products such as a hair conditioner that uses less water. Without
sustainability, the company’s research and development efforts perhaps would not have yielded such a product.

f. **Cost Cutting:**

One of the reasons why a company should embrace CSR is because it’s a way to cut costs. Whether it is the usage of less plastic or less energy, these savings add up quickly. For instance, General Mills is on a trail to reduce its energy savings by 20% by 2015. According to its 2012 CSR Report, they are now in the process of rolling out a new global safety and environmental data management system called GSTEMS (Global Safety Tracking and Environmental Management System). The system will enhance real time tracking of the energy and water use – among many other measurements across all of the GM plants, which will allow the company to better focus its operations to conserve natural resources and money.

g. **Long-Term Sustainability:**

As per Mr. McDonald (2012), “The only reason we’re doing sustainability is to drive the growth of Unilever.”\(^{17}\) In fact, CSR is an attempt to take care of the company’s long-term interest and guaranteeing that the company’s future is well sustainable. Hence, sustainability is a better term than CSR. It is a shift from tormenting about the next quarter’s financial results to the impact business decisions today have on financial (and social) results ten years from now.

h. For Customer Engagement:

What is the point of doing CSR if your customers don’t know about it? For the past few years, Walmart has established itself as a pioneer in environmentalism. In 2008, Walmart ran an ad campaign designed to raise awareness about the environment and the product choices consumers could make. With the help of CSR, a company can engage its customers in new ways. As the message is about something “good,” it can often be an easier way to talk to your customers. As global population is increasing day by day, there is a pressure on limited natural resources which are required to meet rising consumer demand. Industrialization, in many developing countries, is flourishing as a result of both technology and globalization. Today consumers are becoming more conscious of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns. Hence being environmental friendly can definitely give you an edge over your competitors.

i. For Stakeholder Priorities:

Progressively more corporations are motivated to become socially responsible these days because their most crucial stakeholders expect them to understand and concentrate on the social and community issues that are relevant to them. The first and foremost priority is to understand the factors which are important to employees, and this is because of the many interrelated business benefits that can be derived from increased employee engagement (i.e. better loyalty, superior recruitment, improved retention, higher productivity, and so on and so forth). Major external stakeholders include customers, consumers,
investors (particularly institutional investors), communities in the areas where the corporation operates its facilities, regulators, academics, and the media.

Branco and Rodrigues (2007) describe the stakeholder perspective of CSR as the inclusion of all groups or constituents (rather than just shareholders) in managerial decision making related to the organization’s portfolio of socially responsible activities. This normative model implies that the CSR collaborations are positively accepted when they are in the interests of stakeholders and may have no effect or be harmful to the organization if they are not directly related to stakeholder interests.

How should it be done?

a. Through Employee Engagement:

If your own employees don’t know about what is happening inside the organization, you are surely missing an opportunity. Execution of CSR is not possible without engaging the employees in all kind of decisions. Some Companies like Sara Lee have created a cross-functional, global Sustainability Working Team (SWT) to help create a strategy for sustainability. At a more grass-roots level, the Solo Cup Company has introduced the Sustainability Action Network to activate employees in community service focused on the company’s CSR priorities.

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b. By Strategizing The Whole CSR Programme:

As companies practice expansion through globalization, they are facing new challenges that impose limits to their growth and prospective earnings. Government regulations, taxes & tariffs, environmental restrictions and varying standards of what composes "labor exploitation" are evils that can cost the corporates crores of rupees. Most of the companies see the ethical considerations as merely an expensive obstruction. Indeed, they should use CSR methodologies as a strategic policy to obtain public support for their presence in global markets. This will in turn help them gain a competitive advantage by using their social contributions to provide a subconscious level of advertising.\(^\text{19}\) By making a concrete strategic planning for the CSR programme, multinational corporations can not only examine their own labor practices, but also keep an eye on those of their entire supply chain.

c. By Adapting the Concept of CSV:

CSV stands for Creating Shared Value concept. Today the major role of corporate stakeholders is to work collectively to pressurize the corporations to adopt CSR activities. Shareholders and investors themselves, through socially responsible investing are imposing pressure on companies to act responsibly. Using the power of the media and the Internet, the Non-governmental organizations (NGOs) are also captivating an increasing role to enhance their inspection and collective activism around corporate behavior. The advancement of community awareness in holding businesses responsible for their actions is growing fast through education and dialogue. Therefore, now the companies

should refine their collaboration with stakeholders in order to adopt the more community-conscious Creating Shared Value concept (CSV), so that they can execute their Corporate Social Responsibilities in a much better and mutual way.

d. Through Ethics Training:

Now-a-days, the companies need to take the help of ‘ethics training’ in order to change the behavior and culture of employees. The aim of such training is to assist employees in taking ethical decisions when the answers are ambiguous. According to Trivers (1971, 1985), humans are built with the capacity to cheat and manipulate. Hence there is a need of learning normative values and rules in human behavior. The most undeviating advantage is to shrink the possibility of "dirty hands" fines and damaged reputations for breaching laws or moral norms. Organizations also seek secondary benefits in increasing employee loyalty and pride in the organization. Caterpillar and Best Buy are examples of organizations that have taken such steps.

Progressively more companies are now becoming interested in processes that can add visibility to their CSR policies and activities. Companies are even making use of well-grounded training programs, where CSR is a major issue, and business simulations play a part in this.

The documentary that can be quoted here is ‘The Corporation’ in which the history of organizations and the story of their expansion are discussed in detail. According to the documentary, corporate social responsibility (CSR), what a company does in trying to benefit the society, versus corporate moral responsibility (CMR), what a company should morally do, are two significant topics that need to be considered when viewing at ethics in CSR. For illustration, Ray Anderson, in ‘The Corporation’, takes a CMR perspective in order to do what is moral and he begins to shift his company's focus towards the biosphere by utilizing carpets in sections so that they will sustain for longer periods of time.\(^{24}\) This is Anderson thinking in terms of Garret Hardin's "The Tragedy of the Commons," where if people do not pay relevant consideration to the private ways in which they use public resources, they, in the due course, will lose those public resources.\(^{25}\)

**e. With Or Without Government Laws And Regulations:**

CSR should be voluntary or mandatory, is a debatable issue. But the thing is that, with or without Government intervention, it should be done. The proponents of Government regulations say that Government laws play vital role in ensuring that corporations are prohibited from harming the broader social good, including people and the environment which the companies can never realize on their own. CSR critics such as Robert Reich argue that governments should set the plan for social responsibility by the way of laws and regulations that will force a business to operate responsibly.


On the other hand, the opponents have got the view that the issues surrounding government regulations pose several problems. Regulation in itself is unable to cover every aspect in detail of a company's operations. This result in onerous legal processes bogged down in interpretations of the law and debatable issues. For example, General Electric failed to clean up the Hudson River after polluting it with organic impurities. The company continues to argue via the legal process on assignment of liability, while the cleanup remains sluggish.

The second major concern is the financial burden that the regulation may impose on a country's economy. This view was propounded by Bulkeley. According to him, the Australian federal government had refused to sign the Kyoto Protocol in 1997, on the concerns of economic loss and national interest. The Australian government was sure that signing the Kyoto Pact would have caused more significant economic losses for Australia than for any other OECD nation.

Critics of CSR also point out that huge amount of taxes are already collected from the organizations by the government to ensure that society and the environment are not adversely affected by business activities then what is the need of any other regulation?

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Here we can quote the example of Denmark which has a law on CSR. On 16 December 2008, the Danish parliament adopted a bill making it mandatory for the 1100 largest Danish companies, investors and state-owned companies to include information on corporate social responsibility (CSR) in their annual financial reports. The reporting requirements became effective on 1 January 2009. The required information includes:

- information on the companies’ policies for CSR or socially responsible investments (SRI)
- information on how such policies are implemented in practice, and
- information on what results have been obtained so far and managements expectations for the future with regard to CSR/SRI.

Though CSR/SRI is voluntary in Denmark, but if a company has no policy on this it must state its positioning on CSR in their annual financial report.

It’s for sure that the corporate social responsibility (CSR) is not going to eradicate all of the world’s problems. Nevertheless, CSR is a way for companies to benefit themselves while also benefiting society. In the present article, the point that has been stressed here is that CSR is a holistic approach and it would be unfair to consider parts of it in narrow or simplistic terms. A complete picture of CSR has been portrayed with the help of Rudyard Kipling’s Model. Putting it all together, following suggestions can be made:

- Individuals and organizations should be provided with heartening environment and accompanying laws, especially
on certain period of tax-free operation. They should be up to
date on the areas of need and expected obligations as in
education, electric power supply, health and job creation etc.
to facilitate them contribute significantly to poverty reduction,
and sustainable national development.

- Organizations and individuals should see CSR as a profit
re-invested in the business to ensure commitment to business
endurance, prosperity and sustainability.

- Good corporate citizens should watch close at home and
make sure that they conduct their core businesses in
community and environmentally responsible manner.

- Good corporate citizens/enterprises should support education
and other activities such as giving scholarship to students
so that those who are financially weak may also be able
to continue education without any hindrance.

- The corporates should partner with local and state
governments so as to provide infrastructural facilities in
local/rural and urban communities not only for development
but also to become a helping hand for the government.

- Government should assist efficient corporate social
responsibility processes between the public and private
sectors for overall national development.

- Defaulting organizations in CSR should be questioned while
cooperating ones must be encouraged to be more reliably
responsible to sustain their support for the less privileged in the society.

Therefore, this is not to say that CSR is the panacea to the world’s problems. But it certainly does start to move the needle towards an economy that is much closer to one where everyone would like to conduct business and live happily.

**Review of Literature**

There are a large number of books on Management and Business Administration but the focal point of the study Corporate Social Responsibilities which have been hardly discussed by any of the book on management and business administration. Some volumes have touched the subjects here and there.

“Management Leading and Collaborating in a Competitive World” by Thomas S. Bateman and Scott A. Snell (New Delhi: Tata McGraw-Hill Publishing Company Ltd., 2008). In this book author says as the things change in the world, they change in business and management. The metaphorical glass sometimes seems half-empty, because unfortunate world events, disconcerting trends, and ineffective and unethical management practices will continue. But good people will continue to lead as well, managing well and making things better, as they always have. In this book, there are references about many managers, some doing things brilliantly, others making things (with some learning from their mistakes, and some not). Some organizations rise from the ashes, or come from seemingly nowhere, to become the next hot investment. Some organizations are high-flyers one day and come crashing down the next. Some achieve greatness, and have occasional downturns, but continue being great. Here and there it touches the subject under study.
Richard L. Daft in “The New Era of Management”\textsuperscript{29}, has highlighted the dramatic and far-reaching events of the early twenty-first century, the central theme being discussed in the field of management is the pervasiveness of turbulent change and its impact on organisations. This edition of The New Era of Management was revised to help current and future managers find creative solutions to the problems that plague today’s organisations – whether they are everyday challenges or “once-in-a-life-time” crisis. The world in which most students will work as managers is undergoing a tremendous upheaval. The emergence of crisis management, ethical turmoil, e-business, rapidly changing technologies, globalization, outsourcing, global virtual teams, knowledge management, and other changes place demands on managers that go beyond the techniques and ideas traditionally taught in management courses. Managing in today’s turbulent time requires the full breadth of management skills and capabilities. This text provides comprehensive coverage of both traditional management skills and the new competencies needed in a turbulent environment characterized by economic turmoil, political confusion, and general uncertainty for the future. But the volume contains only few pages on corporate social responsibility.

Anil Bhat and Arya Kumar in their work “Management-Principles, Processes and Practices”\textsuperscript{30}, (New Delhi: Oxford University Press, 2008) discusses managerial functions, such as planning, organizing, leading, and controlling as well as organizational functions such as finance, marketing operations management, strategy and human resources in detail. The whole exposition is divided into seven sections as under:

1 Management functions and business environment

2 Economic and financial analysis

3 Excelling through people

4 Managerial competencies

5 Creating and delivering customer value

6 Quantitative methods

7 Operations and technology management

This book has a section dealing with managerial competencies that includes chapters on motivation, team effectiveness, communication, conflict management, leadership, decision making, emotional intelligence, stress management, and creativity and entrepreneurship. But it hardly touches corporate social responsibility.

Y. K. Bhushan in his volume “Fundamentals of Business Organisation and Management” has two parts, one deals with the business system discussing nature of business, evolution of business and launching a business enterprise. While in part two entitled “Ownership of Business Firm” sole proprietorship and partnership and joint stock company etc. has been discussed. More or less this is a textbook of which several editions have been published. One can get only preliminary information from it.

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Robert W. Ackerman and Raymond A. Bruser (1976) in their volume “Corporate Social Responsiveness The Modern Dilemma”\textsuperscript{32} made an effort to treat as a management issue one which has been predominantly as a social and/or ethical issue. As has often been noted, while business has historically been viewed primarily as a provider of goods and services, at all times business has been expected to operate within the law and within prevailing norms, as well as to engage in a moderate amount of philanthropic activity. However, in the late sixties the notion of responsibilities of business took a distinctive turn. The demands on business accelerated sharply and have continued at a high level. But in the short period from about 1968 to 1975, the nature of those demands and the nature of the business’ response to them have changed in important qualitative ways.

The rise of MNCs in global governance has facilitated a debate in the literature over corporate capacity and responsibility in that role. Many scholars begin their inquiry by examining and evaluating legitimacy of MNCs as political actors. In the edited work, \textit{The Emergence of Private Authority in Global Governance}, Rodney Bruce Hall and Thomas J. Biersteker\textsuperscript{33} discuss the legitimacy of private actors on an international level. They attribute the rise of corporate political authority to the social relationship between corporations and the countries where they operate concluding, –the consent to authority is socially constructed through a variety of different political and rhetorical practices--ranging from behavioral consent to routines, norms, and public declarations of

\textsuperscript{32} Ackerman, Robert W. and Raymond A. Bruser, \textit{Corporate Social Responsiveness The Modern Dilemma} (Cambridge: Cambridge University Press), 2012.

recognition." Hall and Beirsteker argue that the current social context of international business has provided MNCs with several necessary social conditions to achieve political legitimacy, and that legitimacy is established in a number of different ways. While Hall and Biersteker allow for a multifaceted approach to legitimacy, Susan Strange believes that as long as the communities in which MNCs operate accept them as legitimate authorities, they are in fact legitimate authorities. Under Strange’s assumptions MNCs do not need any claim or declaration of legitimacy as long as there is no challenge or objection to their authority. In another paper by Nicola M. Black, the political influence of MNCs is regarded as important and integral to global governance because unlike state actors, these corporations have a transnational character providing them with a broader scope. Black’s argument further illustrates the relationship between globalization and the political nature of business.

The previous authors illustrate a common consensus on the rise of MNCs in global governance, however this is not universally accepted. The Danish Institute for Human Rights questions the political authority of MNCs in, “Doing Business in High-Risk Human Rights Environments”. The report states, "human rights are violated or fulfilled within national political contexts. Companies are not political actors, and as a general rule they should not interfere in the internal political affairs of the countries in which they operate." The Danish Institute of Human Rights ignores the relationship between states and MNCs within the International Political Economy and therefore ignores the opportunities of corporate political authority to combat human rights. Although MNCs

34 Ibid.
are not sovereign states or national governments, this article diminishes their role in global governance by refuting them as non-state political actors. This paper will henceforth accept the legitimacy of MNCs in the political arena to address the most effective outlet to regulate MNC behavior in that role.

One approach to MNC regulation in global governance is legal liability. However, the effectiveness of legal action has been hindered by limitations in international law. Rachel Chambers addresses the lack of a binding international legal framework to govern the behavior of transnational corporations. Without an institutionalized framework prosecuting MNCs becomes a question of jurisdiction. Peter Muchlinski underscores the problem of jurisdiction, "despite the convincing arguments for extending responsibility for human rights violations to TNCs, the legal responsibility of TNCs for such violations remains uncertain."

It is unclear whether MNCs are legally responsible to their home country or to the country in which they are operating, making it increasingly difficult to regulate companies using legal practices. Both Chambers and Muchlinski continue their arguments to state what they find to be the most promising aspects of legal accountability. Chambers addresses the importance of individual court cases. She notes that court cases have the ability to set a legal precedent; meaning decisions in emerging MNC lawsuits are actually building the legal framework for

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future disputes. This paper will examine the influence of court cases with respect to the Doe v. Unocal case. The Doe v. Unocal case is specifically relevant to Chevron’s presence in Burma Unocal, was acquired by Chevron shortly after the lawsuit. Unlike Chambers, Muchlinski points to the advancements of soft law as a regulator of MNCs and human rights in the absence of a more traditional hard law framework. This paper will also address the emergence of soft law agreements, such as the Global Compact, as a means of regulation.

The legal arena is not the only approach lacking in a unified method to guide the actions of corporations. Political accountability is similarly decentralized. As Black notes, however, there is as yet no clear or accountable process that adheres to democratic principles, through which the corporation may balance these demands. Black identifies the challenge of applying democratic norms to mediate the needs of both governments and civil societies in both nations of origin and operations. Black concludes her article by providing a theoretical description of Corporate Citizenship. For the purpose of this paper the philosophical arguments of Black’s grounded theory are not relevant to the current evaluation of Chevron’s political measures and mediation.

The aforementioned debates of legal and political methods are echoed in ethical regulation. Current ethical measures of MNCs are generally concentrated in the corporation’s CSR policies. The actually ethicality of CSR has been questioned in recent literature. Prakash Sethi provides a disbelieving view of CSR in Setting Global Standards:

Guidelines for Creating Codes of Conduct in Multinational Corporations.

Sethi considers CSR in many corporations to be public relations rhetoric and then continues to outline a formulaic approach to CSR in which MNCs point to the benefits these operations bring to poor people in developing countries, who would otherwise be worse off than before. (3) They accuse critics of creating misinformation and arousing exaggerated expectations of what companies should do to correct problems.\(^1\) Sethi attributes CSR as nothing more than a communications stunt used by MNCs to appear ethical. A similar view of the oil industry is shared by Matthias Beck and Charles Woolfson, who argue that CSR is used as an integral and useful part of their business strategy.\(^2\) Beck and Woolfson agree with Sethi that CSR has become more about business than about social responsibility. However CSR initiatives can be interpreted in different ways. Black provides the distinction between philanthropy and addressing systemic weaknesses in development capacities. Black believes CSR can be an effective tool, but there is a big difference between charity or goodwill and CSR programs rooted in political change and improvement. The divergent literature on the ethical nature of corporations makes it apparent that a closer examination of CSR activities is needed to determine if a company is committed to bolstering its image or implementing meaningful change.

The debate on the role of MNCs in global governance is varied and contradictory. This paper intends to provide a view of the successes

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\(^1\) Sethi, Prakash, *Setting Global Standards: Guidelines for Creating Codes of Conduct in Multinational Corporations* (Hoboken, New Jersey: John Wiley & Sons, Inc.), 2003, pp. 45-46

and failures of MNC regulation to highlight the most effective methods for the future of corporation regulation.