

Business Ethics and Corporate Governance

Block

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CORPORATE SOCIAL RESPONSIBILITY

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Editorial Team

Prof. K. Seethapathi IFHE (Deemed-to-be-University), Hyderabad	Prof. A. Suresh Babu IFHE (Deemed-to-be-University), Hyderabad
Dr. Ranajee IFHE (Deemed-to-be-University), Hyderabad	Dr. C. Vijaya Chandra Kumar IFHE (Deemed-to-be-University), Hyderabad

Content Development Team

Prof. U. L. Sunitha IFHE (Deemed-to-be-University), Hyderabad	Prof. Sundar Vardhan IFHE (Deemed-to-be-University), Hyderabad
Prof. M. Aparna IFHE (Deemed-to-be-University), Hyderabad	Prof. Rajendra Tolety IFHE (Deemed-to-be-University), Hyderabad
Prof. Manisha Badetia IFHE (Deemed-to-be-University), Hyderabad	Prof. SV Subramanyam IFHE (Deemed-to-be-University), Hyderabad
Prof. Shankar Anappindi IFHE (Deemed-to-be-University), Hyderabad	

Proofreading, Language Editing and Layout Team

Ms. M. Manorama IFHE (Deemed-to-be-University), Hyderabad	Mr. Chandra Sekhar Rao IFHE (Deemed-to-be-University), Hyderabad
Ms. C. Sridevi IFHE (Deemed-to-be-University), Hyderabad	

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Our E-mail id: cwfeedback@icfaiuniversity.in

Centre for Distance and Online Education (CDOE)

The ICFAI Foundation for Higher Education

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Donthanapally, Shankarapalli Road, Hyderabad- 501203

Block IV

Corporate Social Responsibility

The fourth block of the course on Business Ethics and Corporate Governance deals with corporate social responsibility. The block contains three units. The first unit discusses the historical aspects of corporate social responsibility. The second focuses on the stakeholders in an organization. The third unit discusses the role of business in the society.

The first unit, Corporate Social Responsibility: A Historical Perspective, discusses the historical perspective of corporate social responsibility. It discusses the non-conformist challenge in Britain, and the progressives in North America. The unit describes the role of corporate social responsibility during the Great Depression of the 1930s. The unit ends with a discussion on the corporate responsibility scenario after World War II.

The second unit, Corporate Responsibility - Stakeholders, discusses the stakeholders of an organization. The unit discusses the internal stakeholders of an organization such as shareholders, employees, and the management. The unit ends with a discussion on the external stakeholders of an organization such as consumers, suppliers, creditors, competitors, etc.

The third unit, The Role of Business in Society, focuses on the tasks of business in society such as financial tasks, economic tasks, production tasks, etc. The unit also discusses the challenges faced by an organization while operating in a society. The unit ends with a discussion on the standards and values that businesses should have for efficient functioning.

Unit 15

Corporate Social Responsibility - A Historical Perspective

Structure

- 15.1 Introduction
- 15.2 Objectives
- 15.3 Historical Perspective
- 15.4 The Non-Conformist Challenge in Britain
- 15.5 Progressives in North America
- 15.6 CSR during the 1930s
- 15.7 Post-War Statism
- 15.8 Summary
- 15.9 Glossary
- 15.10 Self-Assessment Test
- 15.11 Suggested Readings/Reference Material
- 15.12 Answers to Check Your Progress

Creating a strong business and building a better world are not conflicting goals - they are both essential ingredients for long-term success.

- Bill Ford, Chairman of Ford Motor Company

15.1 Introduction

In the last unit, we discussed the ethical issues in global business. In this unit, we shall discuss the historical perspective of corporate social responsibility.

In its original form, corporate responsibility referred to the codes of conduct written by the public relations departments, without the stakeholders being involved, and without the implementation being either monitored or verified. Mostly, it was measured in terms of charitable contributions, consultations with stakeholders chosen by the corporation, and the corporation's own definitions of best practices with regard to worker safety or environmental impact.

Of late, however, business organizations are being seen not only as economic entities but also as social entities. This is because of two factors. First, as the organizations exist and operate within a social structure, they need to be socially

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acceptable if they are to survive. Second, the organizations need to be socially responsible as they exercise a wide influence on lifestyle in society. Organizations, therefore, focus not only on earning profits but also on satisfying various societal needs. They try to be socially responsible, socially conscious, and consider the social and ethical implications of their decisions. is understood from two different perspectives of business obligations –

- Socio-Economic obligation
- Socio-Human obligation.

According to Keith Davis, “Social Responsibilities refer to the businessman’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest. “In this definition. ‘Social Responsibility’ of business

Corporate Social Responsibility (CSR) refers to the sense of obligation on the part of companies to build certain social criteria and manage business activities by taking strategic decisions. Socially responsible companies need to consider various issues, from the organization of the firm to building relationships with the community.

This unit will first discuss the historical perspective of corporate social responsibility. We shall then move on to discuss the non-conformist challenge in Britain, and the progressives in North America. We shall also discuss the role of corporate social responsibility during the Great Depression of the 1930s. Finally, the unit ends with a discussion the corporate responsibility scenario after World War II.

15.2 Objectives

By the end of this unit, you should be able to:

- Discuss the historical perspective of corporate social responsibility.
- Explain the non-conformist challenge in Britain, and the progressives in North America.
- Identify the role of corporate social responsibility during the Great Depression of the 1930s.
- Recognize the corporate responsibility scenario after World War II.

15.3 Historical Perspective

The Industrial Revolution was a period of change and transformation from hand-made items to machine-made and mass-produced goods. It had both positive and negative effects on life in general. There were changes in the government, arts, literature, music, and the way people looked at life as a whole. There was a rise in the number of working women and children. There was also a rise in pollution

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levels. The two industrial revolutions that took place in 1750-1850 and 1875-1905 respectively, had both productive and dire consequences.

Prior to the first industrial revolution, England's economy was based on its cottage industry, which was owned and managed by one or more people, who maintained close relations with workers. This relationship, however, ended with capitalism.

By 1750, the industrial revolution had begun, and it introduced many changes. Initially, the changes were restricted to the textile industry. Some of the changes were the introduction of the spinning jenny, the power loom, and the spinning mule. These helped in speedier production of cotton goods. Other changes were the introduction of iron and steel, and energy sources like coal being used in steam engines. As cottage industries were replaced by the factory system, new methods of labor organization were used, bringing in specialization and division of labor. New relations were established between employers and employees. The new working conditions led to political changes as wealth shifted from the land owners to the manufacturing classes. There were social changes due to internal migration, a rising population, and the growth of urban areas.

The second industrial revolution utilized electricity, and improved technology and social life. The telephone and telegraph brought about an unimaginable improvement in communications. Socialists like Robert Owen were working at the same time to bring about an improvement in the lives of people. His reforms reshaped the working class, encouraged a rise in pay, improved working conditions, and did not allow children below eleven years to work. Britain experienced a sudden growth in technical and economic development during the second half of the 18th century. A shift from the agrarian economy to a technology-based economy transferred the political power from the land owners to the industrial capitalists.

Between 1740 and 1780, Britain experienced changes in relations between individuals and groups. The period saw people migrating in large numbers from the rural areas to the cities, in search of work. This led to changes in social values that lasted for centuries. The last quarter of the 18th and early 19th centuries led to the rise of technology-minded entrepreneurs. By the 1920s, large manufacturing companies employed as many employees as the population of the cities during the 18th century.

The changes that took place during the industrial revolution in Britain are discussed in detail here.

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15.3.1 Dark Satanic Mills¹

Britain experienced drastic changes in the late 18th and early 19th centuries. The country grew economically due to technological innovations, agricultural development, improvements in communications, growing trade, increased consumer demand, increased labor supply, and rising population.

The shift from an agrarian economy to an industrial economy brought about many changes in the economic lives of the people. Working conditions deteriorated, and there was a rise in pollution levels. Between 1760 and 1815, a process known as 'enclosure' was implemented. Under this process, common lands which were owned by individuals over which others had certain rights such as farming and grazing livestock, were captured and given to private owners. The land was enclosed (or fenced), and the private owner alone was entitled to enjoy the fruits of the land. As a result, locals were deprived of the enclosed common land's share.

The impact of technology and the influences of the 'enclosure' movement led to people migrating from rural to urban areas. As a result, steps were taken to reduce the need for labor on land. There was a greater concentration of land ownership combined with different crops and new systems of husbandry. Migration, meanwhile, led to the growth of cities like Birmingham, Bradford, Cardiff, and Manchester, which helped Britain to grow from a country of villages to a nation of cities by the middle of the 19th century. In these cities, a combination of labor mobility, shifts in ownership pattern, and population reduced by sense of 'responsibility' for others, pressure, and broke the rapport between the individual and the community. This was seen as a characteristic feature of older and rural communities.

Victorian capitalism came into existence with the changes in attitudes. Writers like Samuel Smiles popularized the feeling that saving, thrift, sobriety, and self-restraint would improve the community. In contrast to the local deprivation, i.e., decline in working conditions, increase in pollution levels, etc., Britain experienced a rapid growth in wealth in the early part of the century as against the rest of Europe in general and Germany in particular.

There was a change in the per capita GNP (gross national product). During the 18th century, the GNP doubled in Britain and Germany. The differences between groups began to increase. The positive effects of redistribution of wealth and power were overshadowed by unemployment and recession. The private owners' wealth and activities led to suspicion about their power and the motives behind their actions. The common view was that concentration of power in a few

¹ *Dark Satanic Mills* is a term that was used in the poem, 'And did those feet in ancient time', written by William Blake. The poem is more popularly known as, 'The Hymn, "Jerusalem"', It is based on a legend that young Jesus Christ visited Glastonbury in England, where he created a second Jerusalem (interpreted as heaven), amidst the 'dark satanic mills' (interpreted as the industrial revolution).

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hands would threaten the state and resources allocation.

It was suspected that organizations would threaten the freedom of citizens, and that people were in danger from organized money. Business entities were thought to have no 'conscience' and were seen as focusing only on increasing the power of their ownership. The new industrial working class faced many problems. There was no traditional support from communities. Poverty grew as landlords, in order to maximize their revenues, asked tenants to move out from their estates. Government intervention was minimal as the citizens of Britain played a significant role in changing Britain into a powerful nation. In later years, the role of the state and its understanding of responsibilities led to developments in the country.

Monarchs like Henry VIII and Elizabeth I introduced legislations against traditional enclosures. In the 18th and 19th centuries, the focus of government policy changed. The need for 'improvement' prompted governments to support 'farm-owners'. Between 1760 and 1850, the legislators were involved in removing government rules and regulations on economic activity. During the same period, Adam Smith emphasized the importance of maintaining restrictions of trade, movement, and minimum intervention, in order to enable every individual or groups of individuals to freely pursue their own interests in their own way, and to compete by employing their own capital. The state limited its role to defense, prevention of oppression, and a few public works. Improvements in manufacturing and commercial and economic skills formed the core of British power. Efforts were also made to educate new leaders about 'a moral thoughtfulness', which would help them take the right path.

The concept of CSR had been improving over the years. In 1788, Britain passed a Humanitarian legislation to protect chimney sweeps from exploitation; in 1802, it focused on controlling work conditions for pauper children; in 1803, it focused on protecting emigrants; in 1833, it passed the Factory Act; in 1842, it focused on improving the conditions in mines; in 1847, it started the Poor Law Board; and in 1848, it created the Public Health Act. These legislations resulted from the view that the new businessmen needed to follow a more responsible approach to the needs of workers and communities.

15.3.2 Victorian Philanthropy

The early years of the 18th century reflected the needs of those people who failed to prosper from the industrial revolution.

In Britain, many socialists like Robert Owen, Lord Ashley, and Lord Shaftsbury, supported those who had not benefited from the industrial revolution. The end of the 18th century marked the growth of Methodism, which formed a base for those who identified the difference between equality before God and inequality before man.

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During the period, there were mixed responses to the government's intervention. In 1878, the Salvation Army tried to solve the problems of the dispossessed. Industrialists who tried to solve various issues of concern formed philosophical societies like the Manchester Literary and Philosophical Society. The issues related to parliamentary reform, education, health, and scientific development. The societies expressed a sense of responsibility toward the community. English civic universities were also started in Manchester, Liverpool, Newcastle, and Birmingham.

Example: HCL Shiv Nadar – India's Most Generous 2022

Mr Shiv Nadar, founder and Chairman Emeritus of HCL Technologies Limited (HCL), was crowned as India's Most Generous by EdelGive and Hurun India in their Philanthropy List 2022. This was awarded because of his generous spending on philanthropist activities worth Rs. 1161 crore (above Rs.3 crore per day) during the year 2021. As a philanthropist, he mainly focussed on education building for the people.

This was because during his journey of HCL building, he felt the need of leaders and innovators for future corporate building. As an example, he resigned as a chairman of HCL and made his daughter 'Roshni Nadar Malhotra' as its chairperson in the year 2020, taking HCL to next generation leadership.

Shiv Nadar Foundation of HCL (established in 1994) operationalizes most of his philanthropist initiatives and Mr. Shiv Nadar was the founder and chairman of it.

Sources:

- i. <https://www.indiatoday.in/business/story/hcl-shiv-nadar-india-most-generous-philanthropist-donation-azim-premji-mukesh-ambani-2287932-2022-10-21>.
- ii. dated: Homepage. Accessed on 21.10.22

Activity:

Every organization has a social responsibility to fulfill. Also, there seems to be a shift in the consumer behavior, as they support organizations that endorse social responsibility. Discuss the evolution of the concept of social responsibility of business.

Answer:

Check Your Progress-1

1. Which of the following major changes occurred when people started migrating to big cities in search of work?
 - a. The emergence of a technology-based economy
 - b. Change in social values
 - c. Improvement in working conditions
 - d. Changes in the relationships between employers and employees
 2. Which of the following reforms did Robert Owen introduce during the Industrial Revolution?
 - a. Rise in pay
 - b. Abolition of child labor
 - c. Improved working conditions
 - d. All of the above
-

15.4 The Non-Conformist Challenge in Britain

During the Victorian rule in Britain, religion played a vital role in influencing attitudes and actions. There were differences in the practice of Christianity, especially between the Catholicism of the Irish migrants, and the determined Quakerism. However, the Quakers, the nonconformist section, played a crucial role in shaping the values of the new entrepreneurial groups. The perspective of the entrepreneurs on religion influenced their approach to wealth and industry. Religion gave them a strong sense of community, and placed emphasis on responsibilities related to wealth and success. The responsibilities concerned personal matters such as prudence, thrift, enterprise, and abstinence.

In Britain, the parliamentary reforms were in full swing throughout the century. Continuous efforts were made to widen franchise. There was a stress on eradicating the worst abuses in the factories, mines, and homes. The Nonconformists and Utilitarians created opportunities for self-employment and tried to bring about changes in personal behavior. This led to the opening of Sunday schools, subscription libraries, mechanics' institutes, the Society for the Diffusion of Useful knowledge, the new civic universities, and engineering institutions.

The poor, who were considered to be ignorant, morally corrupt, and brutal, were given guidelines to improve themselves as part of CSR. The Victorian approach to entrepreneurial responsibility saw self-improvement as the way to success. In the 19th century, the concept of self-help was replaced by a number of movements for political, economic, and social reforms.

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New leaders from the entrepreneurial class tried to incorporate a way of thinking which would help organize labor and build communities. They believed that corporate responsibility meant finding a new form of incorporation. For instance, the work of Taylor stimulated 'Scientific Management' simultaneously. and in Europe, progressive movements motivated industrialists like Whitworth, Milnes, Bauwens, and Bessy.

Utilitarians like Hutcheson, Bentham, and Mill influenced the philosophical and ethical atmosphere of industrialization through their writings. They defined moral value in terms of the greatest happiness principle. According to the principle, actions were considered good only if they produced the greatest balance of pleasure over pain for the greatest number of people. Bentham, who popularized this principle, stated that the goodness of an action should be judged by its consequences, rather than whether it was intended for good. He associated utility with human happiness (Bentham defined happiness as a sum of pleasures and pains), and believed that people should aim for the greatest happiness for the greatest number.

The book, "Life of Robert Owen" written by Robert Owen himself, reflected various elements of the 19th century. It explained the impact of the industrial revolution and the socially responsible ways of adapting to its consequences. Owen started working as a draper's assistant. He started business with an initial capital of 100 pounds in Manchester. After ten years, he joined the New Lanark mills (in Scotland) as a manager and part owner of the mills. He was engaged in many social welfare activities such as public health, education, and prohibition of liquor.

While developing a new form of responsible corporation, Owen and his supporters faced three problems. First, they experienced a dearth of capital. They tried to raise funds through small donations, but failed in the attempt. Second, the artisan supporters of Owen lacked the education and trading skills necessary for developing new ventures. This hampered the continuity of the movement. Third, the link between wealth creation, capital accumulation, and wealth distribution was not liked. Yet, some of the elements of Owen's ideas reverberate in the history of corporate responsibility.

15.5 Progressives in North America

Robert Owen's study of the New Lanark mills explains the relationship that existed between the Old and New World. Owen's ideas were adopted by entrepreneurs like Francis C. Lowell, designer of the first American power loom. In the early part of the 19th century, a shortage of labor reflected the similarity in the origin of greater freedom of movement. It prevented the worst aspects of the factory system from emerging in North America. Different economic, political, and social conditions signified that corporate responsibility in North America was

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different from that in Europe, especially during the early part of the century.

The perspective of individual, entrepreneurial, and corporate responsibility in North America was centered on education. It was an important means to personal advancement. There was a close relationship between the early entrepreneurs and educational institutions. And the private universities of Harvard, Yale, Cornell, Princeton, Duke, Dartmouth, and Columbia benefited from their relations with emerging entrepreneurs. At the same time, the entrepreneurs continued with their investment in social welfare activities such as housing and social conditions and health.

Example: CSR IS AT THE HEART OF OUR BUSINESS - North America - Bureau Veritas (BV)

"CSR is embedded in our purpose and corresponds to our will to act in a responsible and sustainable way. Our mission and the nature of our services allow us to serve society by reinforcing safety, improving quality and protecting the environment." Didier Michaud-Daniel, CEO of Bureau Veritas.

A few of the forces altering society as we know it include population increase, the depletion of natural resources, and the speeding up of urbanisation. BV is using its experience in sustainability and safety to tackle these issues head-on. To assist its clients in preserving biodiversity, minimising their environmental impact, enhancing safety, and enhancing their contribution to the development of a better society on both a local and global level, Bureau Veritas has created a wide range of CSR services. Corporate social responsibility (CSR) is integral to everything BV does and strives to accomplish.

There are many employees at Bureau Veritas who have a genuine concern for their communities. Through a number of forums and through supporting several national charitable endeavours, BV promotes community-based donating. Additionally dedicated to environmental stewardship, BV is working to lessen the impact of its activities on the environment and its carbon footprint.

"DAY OF CARING" - Bureau Veritas encourages its employees to participate in community service projects and volunteer for non-profit organisations. A "Day of Caring" shows our dedication to the neighbourhoods where we conduct business and contributes to good change. Every full-time employee is given one day a year to volunteer for their preferred registered charity.

SUSTAINABILITY AT BUREAU VERITAS - According to Bureau Veritas, success is more than just having a healthy bottom line; a successful company must think about its effect and base decisions on the wider picture. At Bureau Veritas, the three bottom lines of financial performance, environmental impact, and community participation are used to determine actual success. At Bureau

Contd.

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Veritas, sustainability refers to adopting choices that will protect our company's future while benefiting the neighbourhoods where we live and work. It involves being honest and acting morally. It's as easy as being accountable.

Source: <https://www.bvna.com/about-us/corporate-social-responsibility>, © 2022 | Accessed on 9th August 2022

15.6 CSR during the 1930s

The Industrial Revolution led to a new economic order in the world. It resulted in the emergence of new sources of wealth and power in the form of an increase in output, population, and concentration of power. This motivated individuals, entrepreneurs, and communities to understand the operations and their interrelationships. The growing number of companies changed economic life. In 1909, 10 of the largest industrial firms in the US made up the new industrial environment, with operations ranging from steel to rubber. These businesses needed skilled operational talent and managers. Diverse projects such as the Mayo Clinic reflected the dreams and ideas of the entrepreneurs. However, their power and authority was challenged by war, recession, and political change. The Great Depression² affected the existing system. Some of the reasons for the depression were war debts, high tariffs, unequal distribution of wealth, and over-production in industry and agriculture. The stock market crash reflected the limitations of the power of the new corporations.

Henry Ford launched initiatives like a surprise wage hike. As a result of the Depression, the US Government began to be viewed as an important agent of change in the US. A major change in US thinking was introduced with the election of Franklin Delano Roosevelt, who believed in government intervention to solve social and economic problems. This belief inspired developments at various parts of the world. This implied that different forms of corporate action should satisfy the changing responsibilities. For example, the working of the Scottish council for development and industry reflected the changed responsibilities. Its aims were:

- To streamline existing resources that support industrial development and job creation in Scotland;
- To support government and other remedial action; To encourage firms to locate in Scotland;
- To create a climate for growth and prosperity;
- To remove myths and misinformation about Scotland and its economic prospects.

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Humanitarian (CSRT) contributions of Henry Ford, Founder of Ford Motors

Ford did a commendable job when it comes to Corporate Social Responsibility from the early 1930s through the recent Covid pandemic. In its 117 - years of existence, Ford responded to many more crises that humanity faced. It all started with development Iron Lungs during Polio Outbreak and led the Arsenal Democracy during World War II. Further, Ford is the pioneer in Covid Mitigations efforts from April 2020. Ford is the first manufacturer to shift the focus to production of personal protection equipment (PPE) kit. Ford produced millions of PPE kits in collaboration with United Auto Workers during the Covid period. Until January 2021, Ford produced an approximate 55 million facemasks and donated the same across the world. It also donated millions of 20 million face shields to all the underserved in all the 50 states in the country through non-profit organizations, state/municipal leaders and schools. Apart from serving the larger society, Ford also extended similar courtesy to its Dealer network in the six eastern states of United States during January 2021. All the expenses were managed from Ford Motor Company Fund. Ford's efforts during pandemic spanned from company's assistance to individuals impacted by Corona, letting consumers postpone their vehicle payments to that of converting their factories to create 50 thousand patient ventilators, 32 thousand air-purifying respirators in collaboration with 3M and 1.4 million washable gowns.

Source: <https://www.psuconnect.in/news/ford-initiated-and-encourage-people-on-new-year-2021/26130>, 2 January 2021 | Accessed on 29 July 2022 and Re-accessed on 14 October 2022.

Activity:

Discuss the growing importance of CSR in the current day world of business. Quote examples of companies that have taken up CSR in a big way.

Answer:

Similar initiatives were implemented across Britain. A few of these initiatives were developed quickly, and the rest were able to survive and adapt to the Scottish council. According to Priestley, from the early 1930s' these employers have acted in good faith, and genuinely prefer to spend their money on their factory and their employees instead of on racing stables and Monte Carlo." In Europe and North America. employees depended on philanthropic employers.

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There were many attempts to tackle the community-wide problems caused by economic change. This in turn resulted in mobilizing the resources of the community.

15.7 Post-War Statism

The end of World War II made it necessary to re-examine the relationship between industry, the state, and the community. Programs like socialist economic planning in Britain, the US Marshall Aid Program in Europe, and MacArthur's reconstruction program in Japan were based on specific assumptions about the industry and the state, and left an impact of their respective roles within the community and the role of corporate responsibility. Many felt that the programs would help in waging wars against poverty, unemployment, and social injustice.

The US economy experienced strong economic growth and a rise in consumer demand during the post-War period. Its GNP increased from about \$200 thousand million in 1940 to \$300 thousand million in 1950 and to more than \$500 thousand million in 1960. Agencies like the Industrial Reorganization Corporation (IRC) opined that concentration and rationalization were required to promote greater efficiency and international competitiveness.

Check Your Progress-2

3. Which of the following refers to the sense of obligation on the part of companies to build certain social criteria and manage the business activities by taking strategic decisions.
 - a. Corporate social responsibility
 - b. Enclosure
 - c. Industrial revolution
 - d. Victorian capitalism
4. Identify the developments that took place after the Second World War.
 - a. The relationship between the industry, state, and community was re-examined
 - b. The US economy experienced strong economic growth.
 - c. There was an increase in the consumer demand in the US.
 - d. All of the above

15.8 Summary

- The meaning of corporate social responsibility has been changing from the days of the Industrial Revolution. As the business environment is changing, the requirements for success and competitiveness are also changing. As a

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result, large corporations are emphasizing the maintenance of strategic relationships with different sections of the society. In the process, corporate social responsibility is gaining importance.

- The focus of social responsibility has changed over a period of time. It was evident that at the end of the 18th century, governments were committed to improvement. They forced the 'enclosure to improve the communities, though it could not serve the purpose of social responsibility. Consequently, there were many other reforms introduced by the then governments.
- Robert Owen showed that production could be efficient and responsible. In the early part of the 19th century, British entrepreneurs concentrated on self-help and co-operation. In North America, education was given prime importance. And most of the North American entrepreneurs were associated with educational institutions.
- The Industrial Revolution led to a new economic order in the world. It resulted in the emergence of new sources of wealth and power in the form of an increase in output, population, and concentration of power. This motivated individuals, entrepreneurs, and communities to understand the operations and their interrelationships.
- Post-World War II, a need to re-examine the relationship between industry, the state, and the community arose.
- Several programs were introduced in the industry and the state that left an impact on their respective roles within the community and the role of corporate responsibility. These programs were believed to help in eradicating poverty, unemployment, and social injustice.

15.9 Glossary

Corporate social responsibility: It refers to the sense of obligation on the part of companies to build certain social criteria and manage business activities by taking strategic decisions.

Social responsibility: It implies the responsibility of a corporation to treat its employees, customers, suppliers and community unbiased is a socially responsible corporation.

15.10 Self-Assessment Test

1. Discuss the historical perspective of corporate social responsibility in detail.
2. Explain in detail the non-conformist challenge in Britain, and the progressives in North America.
3. What role did corporate social responsibility play during the Great Depression of the 1930s? What was the corporate responsibility scenario post-World War II.

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15.11 Suggested Readings / Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

15.12 Answers to Check Your Progress Questions

1. (b) Change in social values

Between 1740 and 1780, Britain experienced changes in relations between individuals and groups. The period saw people migrating in large numbers from the rural areas to the cities, in search of work. This led to changes in social values that lasted for centuries.

2. (d) All of the above

During the second industrial revolution, socialists like Robert Owen were working to bring about an improvement in the lives of people. His reforms reshaped the working class, encouraged a rise in pay, improved working conditions, and did not allow children below eleven years to work.

3. (a) Corporate social responsibility

Corporate social responsibility (CSR) refers to the sense of obligation on the part of companies to build certain social criteria and manage business activities by taking strategic decisions.

4. (d) All of the above

The end of World War II made it necessary to re-examine the relationship between industry, the state, and the community. The US economy experienced strong economic growth and a rise in consumer demand during the post-War period.

Unit 16

Corporate Responsibility-Stakeholders

Structure

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“The emphasis placed by more and more companies on corporate social responsibility, symbolises the recognition that prosperity is best achieved in an inclusive society.”

- Tony Blair, Former Prime Minister of the United Kingdom

16.1 Introduction

In the previous unit, we have discussed the historical perspective of corporate social responsibility. In this unit, we shall discuss the stakeholders of an organization.

Businesses can achieve success only when they maintain good relations with all their stakeholders -- shareholders, employees, management, consumers, suppliers, creditors, competitors, and the community. These relations can be strengthened if organizations fulfill their obligations toward the stakeholders.

This unit will first discuss about stakeholders. We shall then move on to discuss about the internal and the external stakeholders.

16.2 Objectives

By the end of this unit, you should be able to:

- Discuss who are stakeholders.
- Explain who are internal and external stakeholders.

16.3 Stakeholders - An Overview

The stakeholders of an organization are those who participate in the organization's activities. According to Freeman and Reed, stakeholders are a group of people who have a stake in the business; those who are vital to the organization's survival and success; and any group that is affected by the organization's activities. Earlier, most businesses aimed to enhance the shareholder value. Now, the focus is on satisfying all stakeholders by allowing them to share the organizational profits.

Stakeholders can be categorized as internal stakeholders and external stakeholders based on their relations with the organization. Internal stakeholders include shareholders, employees, and the management. The decisions taken by the management have a direct impact on them. External stakeholders such as consumers, suppliers, creditors, competitors, and the community are individuals and groups, who have some interests in the company, who have some say on the company's decisions, and who are affected by the company's decisions.

All the stakeholders play a vital role in the organization's success. The stakeholder theory states that an organization should not give preferential treatment to any stakeholder group over other. The management has to maintain balanced relations among the stakeholders. Any imbalance in these relations would put the company's very survival at risk.

Activity:

Mayur Limited is a FMCG company that manufactures toothpastes, soaps, oils and shampoos. It has been funded by institutional as well as individual investors. 40% of its capital is provided by institutional investors and the remaining 60% by individual investors. It has around 5000 employees in its manufacturing, marketing and sales departments. The company is managed by a board composed of the executives and non-executives of the company. Its supplier base, which spread across the country, provides it the necessary raw material. It has its own retail chain to deliver its products to customers. Mayur Limited has a large and diverse customer base. It faces heavy competition from global companies like HLL and P&G. It has built schools, hospitals and childcare centers in the country as part of its community development program. Identify the major stakeholders of Mayur Limited and explain why they qualify as stakeholders of the company?

Answer:

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16.4 Internal Stakeholders

Shareholders, employees, and the management are the internal stakeholders of an organization.

16.4.1 Shareholders

Shareholders have a primary stake in the business and they are considered to be the 'owners' of the company. All companies owe their primary responsibility to the shareholders and aim at maximizing shareholder value by laying more emphasis on Ownership. Ownership refers to the shareholders' rights and responsibilities with regard to a specific stake in the company.

Shareholders are considered members of an organization who help it achieve its goals by investing in its business. They are entitled to a share in the company's profits in return for their investments. Shareholders expect a good return on their investments as well as the latest information on the company's performance. Shareholders' interests, companies should not overlook others. While protecting the rests.

Shareholders' responsibilities

According to the UK Institutional Shareholders' Committee (ISC) shareholders are the true proprietors of a company. As owners, shareholders have certain obligations toward the organization such as maintaining good relations with the top management and exercising their voting rights. The organization should also win the shareholders' trust. Given here are the responsibilities of the organization toward its shareholders.

- Manage the company effectively to secure a fair and competitive return on the owner's investment.
- Disclose relevant information to shareholders, subject to the legal requirements and competitive constraints.
- Conserve, protect, and increase the shareholders' protect and increase the shareholders' assets
- Act on the shareholders' suggestions complaints, and formal resolutions.

16.4.2 Employees

The relationship between an organization and the employees is governed by a legal employment contract. This relationship is considered to be important by society as the employees contribute their effort and time toward organizational development. Organizational development, in turn, improves the society by providing employment, through its social responsibility initiatives, etc.

The employment contract places certain responsibilities on organizations toward their employees. Employees expect wages, benefits, and security in return for their work. It is also the responsibility of the organization to meet the employees' expectations. Several Japanese companies provide lifetime employment to their employees, thus meeting their security needs. Most organizations also try to ensure the growth and well-being of their employees during the period of their employment. Some companies conduct regular training programs to enhance their employees' skills and also help them to go up in the hierarchy.

Responsibilities of employees and employers

Both employers and the employees have certain responsibilities toward each other. The scope of their responsibilities is determined by the nature of employment. Usually, permanent employees of an organization are more loyal than temporary employees as they have job security, a sense of belongingness, and extend support during difficult times. To win the confidence of the employees, companies should maintain a healthy work environment, where the employer and the employee fulfill their responsibilities.

Given here are some of the responsibilities of organizations toward their employees.

- Provide adequate compensation.
- Provide safe and healthy working conditions.
- Be honest in communicating with employees and open in sharing information.
- Listen to and, where possible, act on employee suggestions, ideas, requests, and complaints.
- Engage in negotiations when conflict arises.
- Avoid discriminatory practices and guarantee equal treatment and opportunity regardless of gender, age, race, and religion.
- Protect employees from avoidable injury and illness at the workplace.
- Encourage and assist employees in developing skills and knowledge that are required for accomplishing the task.

In today's information-driven world, knowledge is very important. The skills and knowledge of employees are vital to any organization. Treating employees

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badly will inevitably hurt the companies in the long run.

16.4.3 Management

Management decisions impact stakeholders. On the one hand, management's stakes are similar to that of employees with some kind of explicit or implicit employment contract. On the other hand, management has to safeguard the company's welfare. The role of the management involves balancing multiple claims of different stakeholders, which are -- higher financial returns for the owners, higher wages and better benefits for the employees, environment-friendly products for the community, and better products for the customers.

Check Your Progress-1

1. Stakeholders are:
 - i. all those who participate in some way in the organization.
 - ii. those who are vital to the survival and success of the organization.
 - iii. any group of people who have a stake in the business.
 - iv. any group that is affected by the activities of the organization.
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
 2. Identify the statement that holds true regarding stakeholders.
 - a. Stakeholders comprise any group that is affected by the activities of the organization.
 - b. Creditors, competitors, and community are not stakeholders of a company.
 - c. Shareholders are external stakeholders of the company.
 - d. All of the above
 3. The objective of the current-day businesses is to:
 - a. enhance the shareholder value
 - b. satisfy all the stakeholders by allowing them to share in the profits of the corporation
 - c. go for as many mergers and expansions as possible
 - d. invest more in profit-making companies
-

Example: Corporate Social Responsibility – Internal Stakeholder Management @ McDonald's

McDonald's, the industry leader in the fast food restaurant sector globally, had created corporate social responsibility (CSR) initiatives to balance stakeholders' interests and limit their negative consequences. The business incorporates stakeholders' interests into its CSR initiatives, particularly in programmes for communities and investors. The primary stakeholder groups for McDonald's were listed in order of importance: *employees, customers, investors, and communities*.

Employees - The business operates Hamburger University, a place for employee training and also promotes leadership development through its worldwide mobility programme.

Customers - McDonald's corporate social responsibility programmes used uniformity and supply chain optimization to keep prices low to ensure inexpensive and nutritious food options.

Investors - These stakeholders had a variety of interests, including increasing profitability and income. Through sound business practices, McDonald's allays these worries. Such interests were also addressed through the launch of new goods, like McCafé.

Communities - McDonald's had a long list of stakeholders who had interests in environmental initiatives and community development assistance. As a result, the organization offers a wide range of CSR initiatives to assist these stakeholders. The firm's sourcing strategy placed a premium on farming and other forms of sustainable production. Additionally, the McDonald's global best of green programme honours and celebrates creative environmental efforts and initiatives.

Source: <https://panmore.com/mcdonalds-stakeholders-csr-analysis>, Panmore Institute © 2022 | Accessed on 9th August 2022

16.5 External Stakeholders

The consumers, suppliers, creditors, competitors, and the community are the external stakeholders of a firm. All these stakeholders contribute to the organization and expect some returns from the organization as well. For instance, the suppliers supply raw materials and other components to the organization to be used in the manufacturing process of products. In return, they expect timely payment, new contracts, and a long-term relationship with the organization.

16.5.1 Consumers

Consumers or customers exchange resources for the company's products, and in return, receive benefits from the products. They provide revenues to the firm. As corporations reinvest these earnings, customers are also said to pay indirectly

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for the development of new products and services. By paying attention to customer needs, management automatically addresses the needs of the suppliers and owners. An organization's responsibility toward its consumers can be summed up by five points:

- Right quality
- right quantity
- right time
- right place
- right price.

Given here are some of the responsibilities of an organization toward its consumers. Produce goods according to the specific needs of consumers, their purchasing power, etc.

Offer quality goods at reasonable prices

- Provide prompt and adequate service to consumers
- Improve standard of living by producing high quality goods and services
Treat customers fairly in all aspects of business transactions
- Ensure health and safety of customers

Customer satisfaction is vital for a company's success. They increase sales of product by spreading positive 'word-of-mouth' about the company, a product or a brand. Due to the active role played by consumers, they are looked at from different perspectives. From one perspective, consumers are said to be demanding. From another perspective, they are considered as kings and the consumer's delight has become a credo for many organizations.

16.5.2 Suppliers

Suppliers play a vital role in the success of any business as the raw materials they supply will determine the final product's quality and price. In this highly competitive business world, the key to profitability is to control costs as well as increase sales. Good supplier relations help reduce costs. A company's relationship with its suppliers and subcontractors must be driven by mutual respect. While dealing with suppliers, organizations should:

- seek fairness and truthfulness in all activities, including pricing and licensing.
- ensure that business activities are free from coercion and unnecessary litigation.
- foster long-term stability in the supplier relationship in return for value, quality, competitiveness, and reliability.
- share information with suppliers and integrate them in the planning processes. pay suppliers on time and in accordance with the agreed terms of trade.

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- seek, encourage, and prefer suppliers and subcontractors whose employment practices respect human dignity.

16.5.3 Creditors

Creditors play a vital role in organizations. Usually, organizations buy goods on credit from suppliers. Though suppliers have an important stake in a business, they may cease to fill orders if a company takes too long to make the payment or fails to pay the amount due.

Organizations often delay in repaying credit to the creditors due to various reasons. The creditors have to decide whether they can extend the repayment time for the organization. Companies should consider both the debtors' and the creditors' point of view. Creditors are suppliers who supply goods to the debtor/company as demanded. And the debtor, though in a position to pay, waits till the last moment to make the payment. The organization is responsible for making timely payments for goods that have already been delivered.

16.5.4 Competitors

Organizations have an obligation to their competitors just as they have an obligation toward their stakeholders. Due to globalization, companies compete with each other to grab a major chunk of the market. In this scenario, the competitive practices adopted by firms can sometimes be questionable. Fair competition is one of the basic requirements for enhancing the wealth of nations. Following are the responsibilities of an organization toward its competitors.

- Foster open markets for trade and investment
- Promote competitive behavior that is socially and environmentally beneficial and demonstrates mutual respect among competitors
- Refrain from either seeking or participating in questionable payments or favors to secure competitive advantage
- Respect both tangible and intellectual property rights
- Refuse to acquire commercial information by dishonest or unethical means such as corporate espionage

16.5.5 Community

The community gives rights to the companies to build or rent facilities, benefit from tax revenues through local services, etc. In return, the companies should act responsibly. The companies should not expose the community to hazards such as pollution and toxic waste. Given here are some of the responsibilities of a company toward the society.

- Respect human rights, democratic institutions, and the integrity of local cultures
- Support public policies and practices that promote human development

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through harmonious relations between business and other segments of society

- Collaborate with such activities that aim at improving the standards of health, education, workplace safety, and economic well-being
- Promote and stimulate sustainable development, and play a leading role in preserving and enhancing the physical environment and conserving the E resources
- Support peace, security, diversity, and social integration
- Encourage charitable donations, educational and cultural contributions, and employee participation in community and civic affairs.

External Stakeholder Management – The McDonald's Way

Every day, McDonald's serves more than 69 million people globally and about 3.5 million in the UK (McDonald's, 2022). McDonald's sources both food and non-food materials from a variety of vendors to maintain its operations. Customers were crucial since every single one of them was what kept the business in business. It was important to note that McDonald's had a policy of keeping reliable connections with its suppliers. McDonald's' relationship with the World Wildlife Fund (WWF) helped it identify raw materials that offered the greatest prospects for sustainable procurement. The fast food chain also benefits from relationships with subject matter experts from various fields, regional communities, non-governmental organizations, and so on. For instance, in order to help McDonald's priorities its raw materials for production, WWF specialists undertook an independent audit of the company in 2010. (McDonald's, 2022).

In order to support good causes, it had joined a number of non-governmental organizations, including the Alliance for a Healthier Generation, WWF's bioplastic feedstock alliance, and the Global Food Safety Initiative. In 2013, it formed a global community leadership board to help foster better global community ties through disaster assistance and charitable giving.

Stakeholder conflict McDonald's - While stockholders were interested in profits and employees in compensation increases. While suppliers wanted to charge more for goods they provided to McDonald's, the fast food chain concentrates on decreasing costs.

How does McDonald's communicate with its stakeholders?

It communicates with the staff through the intranet and weekly newsletters. Customers were given information about the company's products through its advertising campaigns. For all pressed inquiries, McDonald's also had a dedicated media team. (McDonald's, 2022).

Source: <https://howandwhat.net/stakeholders-mcdonalds-analysis-mcdonalds-stakeholders/>,
Copyright ©2017 - 2025. | Accessed on 9th August, 2022

Check Your Progress-2

4. Based on their relationship with the organization, stakeholders can be categorized as:
 - a. moral and immoral stakeholders
 - b. ethical and unethical stakeholders
 - c. internal and external stakeholders
 - d. Both (a) and (b)
5. Identify the statement that holds true regarding internal stakeholders of a company.
 - a. Shareholders, employees, management, and consumers are the internal stakeholders.
 - b. Suppliers, creditors, competitors, and community are the internal stakeholders.
 - c. Internal stakeholders include individuals and groups, who have some claim on the company.
 - d. Any decision taken by the management has a direct impact on the internal stakeholders.
6. Which of the following statements does not hold true regarding external stakeholders of a company?
 - i. Shareholders and competitors are the external stakeholders.
 - ii. Any decision taken by the management has a direct impact on the external stakeholders.
 - iii. Suppliers, creditors, community are the external stakeholders.
 - iv. External stakeholders include individuals and groups, who do not have any claim on the company.
 - a. Only i, ii, and iv
 - b. Only i, ii, and iii
 - c. Only i, iii, and iv
 - d. Only ii, iii, and iv.

16.6 Summary

- Businesses can achieve success only when they maintain good relations with all their stakeholders.
- Stakeholders are a group of people who have a stake in the business; those who are vital to the organization's survival and success; and any group that is affected by the organization's activities.
- Stakeholders include shareholders, employees, management, consumers,

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suppliers, creditors, competitors, and the community.

- Stakeholders can be categorized as internal stakeholders and external stakeholders based on their relations with the organization.
- Internal stakeholders include shareholders, employees, and management. The decisions taken by the management have a direct impact on them.
- External stakeholders such as consumers, suppliers, creditors, competitors, and the community, are individuals and groups, who have some claim on the company.

16.7 Glossary

Ethics and stakeholder's theory: A theory that states an ethical organization is one whose managers act in a responsible manner by paying attention to the "needs" and "rights" of all the stakeholders. It states that an organization should not give preferential treatment to any stakeholder group over other.

External stakeholders: These are individuals and groups, who have some interests in the company, who have some say on the company's decisions, and who are affected by the company's decisions. These include consumers, suppliers, creditors, competitors, and the community.

Internal stakeholders: These include shareholders, employees, and the management. The decisions taken by the management have a direct impact on them.

Stakeholders: A group of people who have a stake in the business; those who are vital to the organizations survival and success; and any group that is affected

16.8 Self-Assessment Exercises

1. Who are stakeholders, and how are they important to an organization?
2. Who are the internal stakeholders in an organization? Explain their role in an organization.
3. What is the significance of a company's relationship with its external company's stakeholders?

16.9 Suggested Reading / Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley

4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

16.10 Answers to Check Your Progress

Following are the answers to the Check Your Progress questions given in the unit.

1. (d) i, ii, iii, and iv

The stakeholders of an organization are all those who participate in some way in the activities of the organization. According to Freeman and Reed, stakeholders may be: any group of people who have a stake in the business, those who are vital to the survival and success of the organization, and any group that is affected by the activities of the organization.

2. (a) Stakeholders comprise any group that is affected by the activities of the organization.

Stakeholders comprise any group that is affected by the activities of the organization. Creditors, competitors, and community are all stakeholders of a company. External stakeholders are individuals and groups, who have some claim on the company. These include consumers, suppliers, creditors, competitors and community.

3. (b) satisfy all the stakeholders by allowing them to share in the profits of the corporation.

Initially, the objective of most businesses was to enhance the value of the shareholders. Now, the current-day businesses are concentrating on satisfying the shareholders by allowing them to share in the profits of the corporation.

4. (c) internal and external stakeholders

Based on their relationship with the organization, stakeholders can be categorized as: internal stakeholders and external stakeholders. Internal stakeholders include shareholders, employees, and management. Any decision taken by the management has a direct impact on them. External stakeholders are individuals and groups, who have some claim on the company. These include consumers, suppliers, creditors, competitors and community.

5. (d) Any decision taken by the management has a direct impact on the internal stakeholders.

Internal stakeholders include shareholders, employees, and management.

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Any decision taken by the management has a direct impact on them. External stakeholders are individuals and groups, who have some claim on the company. These include consumers, suppliers, creditors, competitors and community.

6. (a) Only i, ii, and iv

External stakeholders are individuals and groups, who have some claim on the company. These include consumers, suppliers, creditors, competitors and community.

Unit 17

The Role of Business in Society

Structure

- 17.1 Introduction
- 17.2 Objectives
- 17.3 The Tasks of Business in Society
- 17.4 The Social Challenge
- 17.5 Standards and Values
- 17.6 Summary
- 17.7 Glossary
- 17.8 Self-Assessment Test
- 17.9 Suggested Readings/Reference Material
- 17.10 Answers to Check Your Progress

“Businesses cannot succeed in societies that fail.”

- Paul Polman, Author and ex CEO of Unilever

17.1 Introduction

In the previous unit, we have discussed about the stakeholders in an organization. In this unit, we shall discuss the role of business in society.

Business and society are bound by the contracts under which they operate. Business is expected to create wealth and provide opportunities for employment, while society is expected to provide an environment favorable for business. Business depends on the community in which it operates, and society also expects business to make certain contributions to the community such as providing the necessary goods and services, and employment opportunities for its members.

This unit will first discuss the tasks of business in society such as financial tasks, economic tasks, production tasks, etc. We shall then move on to discuss the challenges faced by an organization while operating in a society. Finally, we shall discuss the standards and values that businesses should have for efficient functioning.

17.2 Objectives

By the end of this unit, you should be able to:

- Explain the tasks of business in society

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- Identify the challenges faced by an organization while operating in a society.
- Discuss the standards and values that businesses should have for efficient functioning.

17.3 The Tasks of Business in Society

Businesses, these days, are expected to be more socially responsible. Their effectiveness depends on their ability to develop themselves into social organizations. Corporate responsibility and accountability are considered to be the building blocks for any organization. Thus, organizations have evolved over time to carry out numerous functions or tasks in society. These tasks include financial tasks, economic and production tasks, maintenance tasks, adaptive tasks, managerial or political tasks, and social tasks.

17.3.1 Financial Tasks

With the rise of corporations and the establishment of joint-stock corporations, companies have realized the need to assure shareholders that they are acting in their interests. The auditing profession has adopted the generally accepted accounting principles. The stock exchanges have also established rules and regulations for governing the functioning and trading of shares. These rules and regulations help investors to invest their savings with confidence. Poor or non-existent regulations lead to billions of dollars being misused and misallocated. Thus, to bring in transparency and accountability in finance there is a need for adequate supervision and regulation.

17.3.2 Economic and Production Tasks

Economic and production tasks are tasks related to the creation and maintenance of wealth such as production and distribution of goods and services, and the development of new products. Manufacturers, distributors, retailers, service providers, and others who make up the commercial world are associated with economic and production tasks. Companies, while trying to maximize shareholders' returns, may monopolize the market through buyouts, mergers, and unfair practices like market manipulation. An economically responsible company will always avoid indulging in such practices.

17.3.3 Maintenance Tasks

Maintenance tasks help in ensuring the normal flow of communication in society. The best examples of such activities are educational, religious, and health and welfare services, which help shape society and culture by transmitting knowledge. These institutions help in transmitting information to society, communicating knowledge, and shaping the culture of the society. The print and electronic media are also called maintenance activities as they help transform society.

17.3.4 The Adaptive Tasks

The adaptive function refers to the tasks through which a society responds to change, and the way organizations adapt to these changes. Organizations adapt to the changes by accelerating their R&D activities to create products that will meet the changes in consumer preferences.

17.3.5 The Management or Political Tasks

Companies are expected to support and promote human rights. Political responsibility, wherein human rights are respected and freedom of speech is allowed, is more difficult to fulfill than financial, social, and environmental responsibility. Organizations may encounter problems with respect to human rights violations in some countries. Business aim at operating efficiently and respecting stakeholders' interests. Therefore, they should be proactive in seeking solutions to global problems and start cooperating with the governments and other institutions. This is possible if companies uphold the local laws of the country in which they are operating.

Corporate social responsibility (CSR) policies should be framed and made available to all the stakeholders. Environmental Tasks Environmental agencies and laws are required to curb unethical practices. Most organizations have established regulations to limit pollution by their factories. These are required to prove that the company is committed to CSR. Self-regulation should be adopted so that an organization operates with corporate responsibility. Most industry associations have established environmental codes of conduct. Companies should develop detailed guidelines or policies to manage their activities and behaviors, and these standards should become a part of the companies' regular practices. Environmentally responsible businesses, non-profit organizations and activists have joined hands to create voluntary codes of conduct or principles that businesses can adopt.

17.3.6 Social Responsibility

A corporation is said to be socially responsible if it displays unbiased treatment toward its employees, customers, suppliers, and community. A company is said to be socially responsible if it does not discriminate against women, minority groups, and the disabled, and adopts policies that ensure equitable treatment of employees. It should also be part of community building activities like providing healthcare, promoting education, or civic amenities. It should provide employees with a healthy and safe working environment.

Companies which have established regulations limiting pollution and voluntary codes of conduct have gained international recognition. International institutions and non- governmental organizations like the International Labor Organization (ILO) have laid down certain standards and codes and played a vital role in promoting social responsibility in organizations.

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Organizations should follow certain values like honesty, trust, and respect to be called socially responsible. These values must be reflected in their policies and procedures. However, there are examples of many multinationals that generate their earnings outside their home country but spend only a small percentage of their earnings in the communities they operate in.

JSW steel teamed-up with BCG to reduce carbon emissions

To achieve the set decarbonization objectives, JSW Steel teamed up with Boston Consulting Group (BCG), a US-based company. JSW Steel has set a lofty goal to cut its carbon emissions by 42% by 2029–2030, keeping the base year 2005. In a press release in July 2022 Mr. Seshagiri Rao, Joint Managing Director of JSW Steel and Group CFO announced that the goal of the collaboration with BCG was to employ digital and analytics to monitor, evaluate, simulate, and improve the company's environmental performance.

The information above demonstrates how JSW Steel collaborated with BCG to be a socially responsible company by lowering its carbon footprints.

Source: PTI (2022), "JSW Steel ropes in BCG to work on decarbonisation goals" retrieved from <https://economictimes.indiatimes.com/industry/indl-goods/svs/steel/jsw-steel-ropes-in-bcg-to-work-on-decarbonisation-goals/articleshow/92949600.cms> Accessed on 05/08/2022

Check Your Progress-1

1. Which of the following is a maintenance task performed by a business?
 - a. Bringing transparency and accountability in financial matters
 - b. Ensuring the normal flow of communication in the society
 - c. Creation and maintenance of wealth
 - d. Adapting to changes in the society
 2. Identify the task a company performs to create and maintain wealth.
 - a. Financial tasks
 - b. Maintenance task
 - c. Safety task
 - d. Economic and production task
 3. LearnShare.com donated about Rs. 5 million worth school supplies to children studying in the rural areas of India. What kind of a task has been taken up by the company?
 - a. Financial task
 - b. Economic and production task
 - c. Maintenance task
 - d. Adaptive task
-

Activity:

An organization's role is not limited only to earn profits. It has certain responsibilities towards its shareholders, customers, employees and the community. Discuss briefly the different responsibilities of an organization in society.

Answer:

17.4 The Social Challenge

A business is viewed as a profitable process of production, distribution, and sale of goods and services. Analysts like Friedman and Hayek have argued that business should confine itself to its commercial roles. The idea that businesses had certain responsibilities gained ground in the 19th century, and some businesses introduced schemes like employee pension schemes and free medical care. As businesses began operating in international markets, they had to deal with several ethical issues due to the differences between their home market and the local market. Companies operating in foreign markets often resorted to corruption or to manufacturing substandard products. To cover up these practices, they began using their wealth to support and sponsor established or prestigious programs, which would help them to stabilize their position.

Meesho Providing New Benefits to its Employees

Meesho, an online retailer, has implemented a new unlimited leave policy. The policy is applicable if an employee or a loved one is affected by a critical disease that necessitates frequent or ongoing hospitalization and will allow employees to take up to 365 days of paid absence. Employees who wish to take time off in order to pursue a passion or objective of their own are likewise covered by the policy.

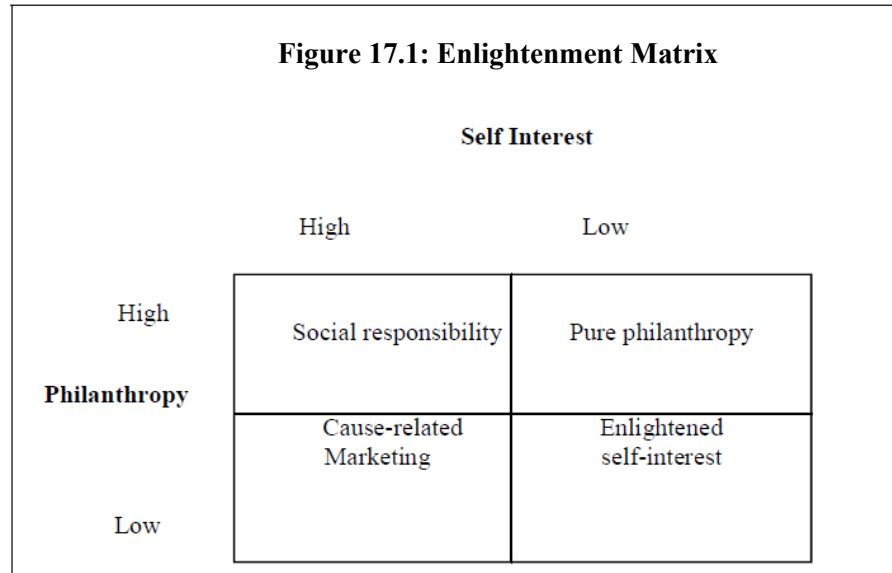
The data above demonstrates that Meesho is giving its employees new benefits.

Source: Brinda Sarkar (2022), "Meesho rolls out infinite wellness leave policy" retrieved from <https://economictimes.indiatimes.com/industry/services/retail/meesho-rolls-out-infinite-wellness-leave-policy/articleshow/92333230.cms> Accessed on 05/08/2022

This type of corporate giving also includes community projects, health, and education. The enlightenment matrix (as shown in Figure 17.1), developed by Tom Cannon, is used for measuring corporate giving. It is used to explain the various options that a company has for engaging in a society. The matrix deals

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with the interests and types of philanthropic behaviors of a company.



Private companies cannot always effectively perform all the corporate responsibility activities like social tasks and economic tasks that include the creation of jobs. All organizations may not effectively fulfill their tasks toward the community. The reasons for this could be lack of funds or ineffective implementation. However, their scope can be expanded through mutually beneficial partnerships between companies and non-profit organizations to bring about improvements in the community. While fulfilling their social responsibilities, companies should carefully select projects and then ensure that they are backed by sustained involvement and quality management. Clutterbuck proposed a systematic approach called the community involvement choice flow for managing such activities.

The community involvement choice flow

A company should first audit its resources and capacity so that it can add real value to its activities. It means that its policies -

- set practical, clear, and achievable objectives.
- can identify the primary aim of the programs that the organizations want to be involved in.
- have some well-defined criteria for choosing beneficiary organizations like healthcare and education.
- can clearly identify what 'not' to support. have fixed budgets for specific programs.
- appoint specialists and other required staff for organizing and delivering the support.

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- install systems for report evaluation, feedback, and change.
- ensure that processed information obtained from these activities are updated on a regular basis.

Apart from taking up specific projects to fulfill social responsibilities, the corporate sector has to create wealth and jobs. Different stakeholders have different expectations from the company, the primary one being maximizing of their returns.

Consumers expect honest and informative advertising; safe, reliable, and useful services; and improvements in product quality. The society expects the businesses to protect the environment and to take care of the health and safety of all those who are exposed to dangerous technologies or substances. It is a challenge for the organizations to fulfill all these expectations.

The success of an organization is determined by its acceptance by the local community. Sometimes, the company's aims may not match with those of the community. Or, the company may not support the goals of the community. This will result in the community going against the company. To avoid such opposition and to gain the support of the local groups, organizations should take up activities that promote the welfare of these groups.

Organizations also face political pressures. Consumer groups have been creating awareness among the general public about the responsibilities of companies. Environment protection groups, in particular, have been very effective in creating awareness about the environmental degradation caused by the activities of organizations. They have sometimes proved so influential that companies, whose products had reportedly contributed to environmental pollution, have been boycotted from manufacturing such products.

Check Your Progress-2

4. Which of the following refer to Clutterbuck's approach of setting clear value systems in organizations?
 - i. Publishing a code of ethics
 - ii. Introducing openness and transparency in the decision-making processes
 - iii. Setting up systems of justice and reinforcing them through contract and ethics statements
 - iv. Drawing up a personal and corporate ethics checklist
 - a. i and ii
 - b. i and iii
 - c. i and iv
 - d. ii and iii

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5. Identify the statement that does not hold true regarding the managerial or political tasks carried out by organizations.
 - a. Organizations are expected to support and promote human rights.
 - b. Organizations are expected to not to suppress basic freedoms of speech and association.
 - c. Political responsibility is an easy task compared to financial, social, and environmental responsibilities.
 - d. Organizations should become proactive in seeking solutions to global problems and in developing the required cooperation with governments and other institutions.
 6. An organization is said to be socially responsible if:
 - i. it provides employees with a healthy and safe working environment
 - ii. its treatment of employees, customers, suppliers, and community is unbiased
 - iii. it gets involved in community building activities like providing healthcare, promoting education, or civic amenities
 - a. it does not discriminate against women, minority groups, and the disabled, and adopts policies that ensure equitable treatment of employees Only i, ii, and iii
 - b. Only i, ii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
 7. According to the community involvement choice flow, the policies of the company should have all the characteristics given below, except:
 - a. They should have fixed budgets for specific programs.
 - b. They should clearly identify the aspects that need to be supported.
 - c. They should identify the primary aim of the programs that the organizations want to be involved.
 - d. They should have some well-defined criteria for choosing beneficiary organizations like healthcare and education.
-

17.5 Standards and Values

For efficient functioning, businesses operating with social responsibility should have standard rules and regulations. Though professional bodies have laid down certain rules, they are inadequate guides for executives. Sometimes, the decision taken by a firm may have unexpected results. Several scientific and technological developments that were initially aimed at benefiting society were later found to harm the environment. For instance, Chloro Fluoro Carbons (CFCs) were initially developed by Imperial Chemical Industries (ICI) for use in refrigeration systems. It came to be known later that these CFCs had harmful impacts on the environment. Managers often face ethical problems as the implications and

consequences of their decisions become more evident. Organizations can internalize responsibility by establishing clear value systems. To avoid ethical dilemmas, managers can follow the approaches of Clutterbuck, Drummond, and Carmichael.

17.5.1 Clutterbuck's Institutional and Control-Oriented approach

- Set a clear example Publish a code of ethics
- Use reward and punishment mechanisms Include ethics in recruitment criteria
- Reinforce policies through training and development Provide mechanisms for negotiating concerns
- Establish openness and transparency into decision-making processes Provide feedback.

17.5.2 Drummond-Carmichael's Personalized Development Approach

- Acknowledge the personal dimension to ethical behaviors Monitor symptoms of personal, ethics-related stress
- Analyze feelings about venture and its activities-link analysis to diagnosis of problems
- Draw up personal and corporate ethics checklist Explain your ground rules to others
- Set up systems of justice, and reinforce these through contract and ethics statements
- Communicate ethics position.

Most of the management thinking is based on the approaches mentioned here. Success can be achieved if organizations can liberalize behavior, and at the same time, ensure that employees behave responsibly. Freedom of action and the existing role of the manager play an important part in developing and training managers. Business schools should bring out the importance of values and standards in business to create awareness among the new generation on these issues, and to give them the knowledge and competence to tackle ethical dilemmas. Following are the important aspects that managers and entrepreneurs have to consider, which are core to their activities.

- Ensure proper systems of corporate ethics and values in enterprise. Have a definite understanding of questions related to compliance.
- Serve the community by looking into the needs of economically and socially disadvantaged groups.
- Bring out environmentally friendly products.

Block 4: Corporate Social Responsibility

UpGrad rewarding its employees

UpGrad, an online higher education startup, announced that 600 of its 2500 workers will get ESOPs as reward for the company's performance in 2020 and as a token of appreciation for their dedication and hard work over the course of their employment.

The above information shows that the business is maintain the standard values by rewarding its dedicated employees.

Source: Sreeradha Basu (2021), "upGrad rewards 600 employees with ESOP grants" Retrieved from <https://economictimes.indiatimes.com/tech/startups/upgrad-rewards-600-employees-with-esop-grants/articleshow/80115381.cms> Accessed on 05/08/2022

Check Your Progress-3

8. In order to avoid ethical dilemmas, Drummond and Carmichael have developed an approach. Which of the following is true regarding this approach?
 - a. It is called as institutional- and control-oriented approach
 - b. It proposes the use of reward and punishment mechanisms
 - c. It advocates the inclusion of ethics in the recruitment criteria
 - d. It recommends the setting up of systems of justice and reinforcing these through contract and ethics statements
9. Which of the following activities should be considered by managers and entrepreneurs in order to bring out the importance of values and standards in business, which are core to their activities?
 - i. They should have a definite understanding of the questions related to compliance.
 - ii. They should ensure proper systems of corporate ethics and values in enterprise.
 - iii. They should serve the community by looking into the needs of economically and socially disadvantaged groups.
 - iv. They should bring products that are commercially successful, even though they are not environmentally friendly.
 - a. Only i, ii, and iii
 - b. Only i, ii, and iv
 - c. Only i, iii, and iv
 - d. Only ii, iii, iv

17.6 Summary

- Corporate responsibility and accountability are considered as the building blocks for any organization. Thus, organizations have evolved over time to carry out numerous functions or tasks in society, which include financial tasks, economic and production tasks, maintenance tasks, adaptive tasks, managerial or political tasks, and social tasks.
- The position of companies or specific endowments can be identified through the enlightenment matrix. It is used to measure corporate giving.
- While fulfilling their social responsibilities, companies should carefully select projects and then ensure that they are backed by sustained involvement and quality management. Clutterbuck proposed a systematic approach for managing such activities called the community involvement choice flow.
- Managers often face ethical problems as the implications and consequences of their decisions become more evident. Clutterbuck and Drummond and Carmichael have outlined some approaches for managers to avoid such ethical dilemmas.

17.7 Glossary

Adaptive Tasks: Tasks those are undertaken by corporations to respond to technological changes.

Community Involvement Choice Flow: A systematic approach to involvement of a company in uplifting the society (Proposed by Clutterbuck).

Economic Tasks: The tasks of an organization that are related to the creation and maintenance of wealth.

Enlightenment Matrix: A matrix that measures the role of business in society.

Environmental tasks: These are the environmental guidelines that a company has to follow to curb unethical practices.

Financial tasks: Framing rules and regulations and bringing in transparency and accountability in financial statements.

Maintenance tasks: These are the tasks that help an organization to ensure stability and normal flow of communication.

Political tasks: These are the tasks that a business needs to follow where human rights and freedom of speech is respected.

Social responsibility: It implies the responsibility of a corporation to treat its employees, customers, suppliers and community unbiased is a socially responsible corporation.

Block 4: Corporate Social Responsibility

17.8 Self-Assessment Test

1. What are the tasks of business in society?
2. What challenges does an organization face while operating in a society?
3. Identify the standards and values that businesses should have for efficient functioning.

17.9 Suggested Readings / Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

17.10 Answers to Check Your Progress

1. (b) Ensuring the normal flow of communication in the society

Maintenance tasks help in ensuring the normal flow of communication in society.

2. (d) Economic and production task

Economic and production tasks are tasks related to the creation and maintenance of wealth. Such tasks include production and distribution of goods and services, and the development of new products.

3. (c) Maintenance task

In the given situation, LearnShare.com has carried out the maintenance task. These tasks help shape society and culture by transmitting knowledge. These institutions help in transmitting information to society, communicating knowledge, and shaping the culture of the society.

4. (a) i and ii

Clutterbuck's institutional and control-oriented approach involves publishing a code of ethics, and introducing openness and transparency into decision-making processes. Options iii and iv are part of the personalized development approach by Drummond-Carmichael.

5. (c) Political responsibility is an easy task compared to financial, social, and environmental responsibilities.

All the statements are true regarding the managerial or political tasks carried out by organizations, except statement (c). Political responsibility, wherein human rights are respected and freedom of speech is allowed, is more difficult to fulfill than financial, social, and environmental responsibilities.

6. (d) i, ii, iii, and iv

A corporation is said to be socially responsible if it displays unbiased treatment toward its employees, customers, suppliers, and community; if it does not discriminate against women, minority groups, and the disabled; and adopts policies that ensure equitable treatment of employees. It should also be part of community building activities like providing healthcare, promoting education, or civic amenities. It should provide employees with a healthy and safe working environment.

7. (b) They should clearly identify the aspects that need to be supported.

According to the community involvement choice flow, a company should first audit its resources and capacity so that it can add real value to its activities. It means that its policies set practical, clear, and achievable objectives; can identify the primary aim of the programs that the organizations want to be involved in; have some well-defined criteria for choosing beneficiary organizations like healthcare and education; can clearly identify what 'not' to support; have fixed budgets for specific programs; appoint specialists and other required staff for organizing and delivering the support; install systems for report evaluation, feedback, and change; and ensure that processed information obtained from these activities are updated on a regular basis.

8. (d) It recommends the setting up of systems of justice and reinforcing these through contract and ethics statements.

All the statements are false except statement (d) regarding the approach developed by Drummond and Carmichael in order to avoid ethical dilemmas.

9. (a) Only i, ii, and iii

The important aspects that managers and entrepreneurs have to consider, which are core to their activities are ensure proper systems of corporate ethics and values in enterprise; have a definite understanding of questions related to compliance; serve the community by looking into the needs of economically and socially disadvantaged groups; and bring out environmentally-friendly products. So, except option iv, all statements are true.

Business Ethics and Corporate Governance

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