



Theories of Corporate Social Responsibility: A Critical Analysis

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ABSTRACT:

During the process of globalisation, the nation-states lose much of their political steering capacity. The state's enforcement power remains bound to its territory while the subjects of state regulation, especially the business firms, expand their activities beyond national borders. This has brought to the fore the serious limitations of the state's capacity to regulate business activities of its corporate organisations and also at the same time highlighted the increasing need for the responsible behaviour by corporate entities to ensure the welfare of the societies and the well-being of the people. Thus, the significance of Corporate Social Responsibility (CSR) as a concept becomes more critical than ever before for us as a global civil society. CSR is broadly understood in terms of continuing commitment by business firms to behave ethically and contribute to economic and social development of the local communities and sustainable development of global societies. The debate on Corporate Social Responsibility (CSR) has been helpful in raising awareness about the non-financial responsibilities of the business organisations who are benefitting in a large measure financially by exploiting the resources, both natural and human that are made available to them by the societies they are operating in. An understanding of the theoretical aspects of Corporate Social Responsibility would probably help in realising the potential of this as a tool to enhance the capacity of our government organisations and also improve the outcomes of the government programmes.

KEY WORDS: *Corporate Social Responsibility, Business, Ethics, Society.*

INTRODUCTION

Corporate Social Responsibility (CSR) encompasses many dimensions of business activity ranging from social and environmental to economic and developmental issues. In the past, profit making was assumed as the objective of any business activity. This idea about the conventional role of business confining it to private profit has undergone a radical change in the modern times. In the globalised world, today business is regarded as not just an economic but also a social institution, forming an integral part of the social system, performing a social mission and having a broad influence on the way people live and work together. The increasing influence and role of businesses in society means that businesses have to endeavour to become responsible actors and members in society. This could help promote inclusive and sustainable development of the societies. The US provided the birth place of the idea of CSR as it is known today (Bowen, 1953). The roots of CSR in the UK may be found in nineteenth century business philanthropy, as previously described in the United States (Moon, 2004). In the 1990s, the concept broadened from community involvement to an eventual and abiding concern for socially responsible products, processes, and employee relations.

MEANING OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Bowen (1953), often regarded as the father of CSR, defined the social responsibilities of 'businessmen' as their obligations to 'pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society'. Kotler and Lee (2005) stated simply that CSR was about 'doing good'. Kakabadse



et.al. (2005) argue that people within and outside the field of CSR promote and defend different interpretations of what it is, and refer to it as what they believe is closest to the cause that is of interest to them. This explains why Crowther and Rayman- Bacchus (2004) argue that CSR means different things to different people and why Moon (2004) suggests that CSR is a difficult concept to pin down since it overlaps with other concepts such as corporate citizenship, sustainability, environmental responsibility, the triple bottom line, social and environmental accountability, business ethics, and corporate accountability. This consequently explains why Carroll (1991) and McWilliams and Siegel (2001) have argued that there is still no universally acceptable definition of CSR but it still is a very critical concept in the context of civil societies and governments in the modern world.

THEORIES OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Garriga and Mele (2004) mapped the field and classified the CSR theories and concepts into four categories: Instrumental CSR theories, Political CSR theories, Integrative CSR theories, and Ethical CSR theories. Instrumental theories refer to research demonstrating CSR's contribution to corporate performance aligning CSR with the maximisation of shareholder value (Pralhad 2006). Political CSR focuses on theories stressing corporate power in CSR theorising e.g., corporate citizenship- Moon, Crane, and Matten (2005). Integrative CSR theories aim to integrate all business and society relationships into a single framework (Freeman (1984). Ethical theories encompass normative works defining the moral foundations of CSR (Donaldson and Preston (1995). Integrative theories such as the Stakeholder Theory are being increasingly accepted since they take into account interests of all stakeholders.

STAKEHOLDER THEORY :The stakeholder theory states the variety of constituents a corporation is responsible to within a society. It focuses on the multiple factors related to the successful functioning of any corporation and thereby emphasises on the corporation's responsibility towards promoting the interests of these constituents, which will promote its own long term goals of profit maximisation and sustainability. McWilliams and Siegel (2001) define CSR 'as actions that appear to further some social good, beyond the interests of the firm and that which is required by law'. In its normative version, this theory is based on ethical perspectives and is related to 'ethical responsibility theory' of Windsor (2006). Freeman and Velamuri (2006) have suggested that the main goal of CSR is to create value for stakeholders fulfilling the firm's responsibilities to them, without separating business from ethics. Stakeholder theory can be considered a CSR theory because it provides a normative framework for responsible business towards society. This theory seems ethically superior to maximising shareholder value, because it takes into consideration stakeholder rights and their legitimate interests, and not just what is strictly required by law.

TRIPLE BOTTOM LINE THEORY (TBL): A relatively young theory by John Elkington (1998)- 'triple bottom line' (TBL) theory states that a firm's success is not only determined by following the traditional bottom line, but comprises also of other performance measurements. The TBL concept demands that a company behave responsibly towards all its stakeholders rather than only the shareholders. "People, Planet and Profit" succinctly describes the triple bottom lines and the goal of sustainability. "People" or the human capital, pertains to fair and beneficial business practices towards labour and the community as well as the region in which a corporation conducts its business. "Planet" or the natural capital, refers to sustainable environmental practices. "Profit" is the economic value created by the organisation after deducting the cost of all inputs, including the cost of capital tied up. The TBL approach is



aimed at promoting sustainable development of communities, business organisations and the environment.

CORPORATE SOCIAL PERFORMANCE THEORY : In the 1970s and 1980s, research moved from CSR's normative foundations to issues of CSR management. This shift was described by Frederick (1978) as a move from the "old" corporate social responsibility to the "new" concept of corporate social responsiveness, and focused on the actual management of external pressures by corporate executives. This move to the concept of Corporate Social Performance (CSP) by scholars like Wartick and Cochran (1985), Wood (1991) integrated competing approaches to CSR such as Friedman's narrow economic view of CSR with ethicists' broad approach to CSR. In line with Carroll's (1979) seminal integrative paper, several authors developed this line of research, refining the CSP framework to encompass developments in the strategy field and ethical theories (Wood, 1991). This theory is basically grounded in sociology and is understood as 'the configuration in the business organisation of principles of social responsibility, processes of response to social requirements, and policies, programmes and tangible results that reflect the company's relations with society' (Wood, 1991). This theory maintains that business, apart from wealth creation, also has responsibilities for social problems created by business or by other causes, beyond its economic and legal responsibilities. This includes ethical requirements and discretionary or philanthropic actions carried out by business in favour of society (Wood, 1991).

SHAREHOLDER VALUE THEORY : Milton Friedman is considered the most significant representative of this view. This theory holds that the only social responsibility of business is making profits and, as the main goal, increasing economic value of the company for its shareholders. Other social activities that companies could engage in would be acceptable only if they are prescribed by law or contribute to the maximisation of shareholder value. It treats shareholder value maximisation as supreme for corporate governance and business management. Generally, this theory goes along with the 'agency theory' (Ross, 1973), in which the owners are the principal and managers are the agent. In this theory, managers are generally subject to strong incentives in order to align their economic interests with those of the owners, and with the maximisation of shareholder value.

AGENCY THEORY : The theory with the most negative view on CSR is the agency theory. This theory is critical of and hostile to any social responsibility or activity assigned to business organisations. Agency model employ two actors: the principal and the agent. The principal delegates authority to the agent to act on his behalf. Agency theorists, like Kenneth Arrow (1985) generally assume that agents seek their own interests rather than those of the principal. Although principal- agent models focused on the stockholder as the principal, Arrow (1985) has argued that the principal may encompass other stakeholders. Agency theory plays a key role in Milton Friedman's critique of CSR. He states that the 'manager is an agent of the individuals who own the corporation, and his primary responsibility is to them' (Friedman,1970). According to this view, CSR activities will reduce the firm's financial performance and value. In contrast to this perspective, Navarro (1988) found that charitable giving or social investments are profit maximising. He observes that such activities act as a kind of advertising expense and accrues benefits for the organisation.

CORPORATE CITIZENSHIP THEORY : The increasing popularity of the corporate citizenship concept has been due to certain factors that have had an impact on the business and society relationship, such as globalisation, the crisis of the welfare state, and the increasing



power of the multinational companies. For decades, business leaders have been involving their companies in philanthropic activities and donation to the community where businesses operated. This has been understood as an expression of good corporate citizenship. This meaning is still accepted by some scholars. Thus, for Carroll, 'be a good corporate citizen' includes 'actively engaging in acts or programmes to promote human welfare or good-will' (1991) and 'be a good global corporate citizen' is related to philanthropic responsibility, which 'reflects global society's expectations that business will engage in social activities that are not mandated by law nor generally expected of business in an ethical sense' (2004). Since 1990s, this concept has frequently been used as equivalent of corporate social responsibility (Matten et al., 2003).

The term 'citizenship', taken from political science, is at the core of the 'corporate citizenship' notion, and invokes duties and rights within a political community. For Waddock and Smith (2000), 'citizenship, fundamentally, is about the relationships that a company develops with its stakeholders'. They understand that being a good corporate global citizen, basically, is respect for others. At the same time, this 'involves building good relationships with stakeholders and that such citizenship is the very same thing as doing business well'. This theory is criticised for its lack of clarity about who is responsible for creating the standards for global corporate citizenship (Munshi, 2004).

A CRITICAL ANALYSIS OF CSR THEORIES

The Stakeholder theory is considered to be ethically superior because this theory takes into account the rights of stakeholders and also their legitimate interests. It is not restricted to only doing what is strictly required by law in manager-stakeholder relations. Stakeholder theory addresses the concrete interests and practices of the people affected by business activity (Blair,1995). Another strength of the stakeholder theory is that it is not a mere ethical theory but is also a managerial theory. This theory is considered to be more respectful of human dignity and rights. The weakness of the theory is that it cannot provide a sufficiently specific objective function for the corporation. Stakeholder theory is also criticised for managerial opportunism.

The Corporate Social Performance theory is a synthesis of various developments on CSR upto 1980s. The theory provides a coherent structure for assessing the relevance of research topics to central questions in the field of business and society (Swanson,1995). The weakness is the lack of integration between ethical normative aspects and business activity. The Stakeholder value theory is supported for the model it creates for creating wealth. Managing and governing a company towards maximization of shareholder value benefits both the people and the businesses. This approach is widely supported by law and government policies. The critics of this theory argue that economic performance is not the whole public good. Profits can increase but workers could be oppressed and environment seriously destroyed. The Corporate Citizenship theory highlights the fact that corporation sees its rightful place in society, next to other citizens and thus is part of the community itself (Matten et. al, 2003). The theory overcomes the narrow vision of business and emphasizes the social and ethical dimensions of business by focussing on contributing to social welfare and human development within society.

CONCLUSION

The theories on Corporate Social Responsibility (CSR) can help explain what companies are actually doing and the reason behind such actions. They can also be understood as normative theories showing what companies should do to maintain appropriate behaviour in society. It is acknowledged that not all theories which can be proposed are equally acceptable. Broadly, the



four theories come from different fields of knowledge, with their corresponding premises. Corporate Social Performance (CSP) is related to sociology, Share Holder Theory to economic theory, Stakeholder Theory is rooted in several ethical theories, and Corporate Citizenship Theory comes from the political concept of citizen. The theory with the most negative view on CSR is 'the agency theory'. This theory is critical of and hostile to any social responsibility or activity of business. 'The stakeholder theory' however, focuses on the multiple factors related to the successful functioning of any corporation and thereby emphasises on the corporation's responsibility towards promoting the interests of these constituents, which will promote its own long-term goals of profit maximisation and sustainability. Despite these important efforts at consolidating CSR research, and multiplication of concepts and theories for corporation-society relationships, there remains a lot of ambiguity regarding the actual role and practices that businesses need to adopt. There is a lot of scope for the researchers to delve into the various aspects of the concepts and practices under CSR, which would enable both governments and businesses to work in collaboration and partnership.

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