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International and National Perspectives on the Corporate Social Responsibility: A Harbinger of Quality Change

ABSTRACT: *CSR (Corporate Social Responsibility) has been around for a long time and seems to have a timeless concern for reputation, ethics, and values of a corporation. However, the modern and the scientific era of CSR began with the publication of the first definitive work entitled "Social Responsibilities of the Businessman" by Howard R. Bowen (1953); and later the publication of "Strategic Management: A Stakeholder Approach" by R. Edward Freeman (1984). This article tries to elaborate, by using the literature and theoritical review, the international and national perspectives on CSR. The CSR concept has been subjected to a lot of managerial and professional opinions, discussions, and research. In spite of the seemingly endless discussion and research about its contours, it has seen a lot of growth and development in both academic circles and practitioner communities all over the world. It is an exemplar of commitment to improve the well being of a community through social and environmental stability vetted with the concept of sustainability, benevolent business practices, and responsible stakeholder investment in different ways, which assumes a great significance and is assayed within the framework.*
KEY WORD*: Corporate Social Responsibility; Stakeholder; Corporations; Principles; Quality.*

IKHTISAR*: "Perspektif Internasional dan Nasional tentang Tanggungjawab Sosial Perusahaan: Sebuah Perubahan Kualitas a la Harbinger". CSR (Tanggungjawab Sosial Perusahaan) telah hadir dalam waktu lama dan memiliki kepedulian abadi dalam hal reputasi, etika, dan nilai-nilai dari suatu perusahaan. Namun, era modern dan ilmiah tentang CSR dimulai dengan publikasi karya definitif pertama yang berjudul "Tanggung Jawab Sosial Pengusaha" oleh Howard R. Bowen (1953); dan kemudian publikasi "Manajemen Strategis: Sebuah Pendekatan Pemangku Kepentingan" oleh R. Edward Freeman (1984). Artikel ini mencoba untuk menguraikan, dengan menggunakan kajian literatur dan teoritis, perspektif internasional dan nasional tentang CSR. Konsep CSR ini telah mengalami banyak pendapat, diskusi, dan kajian dari para manajer dan golongan profesional. Terlepas dari diskusi dan kajian yang tak berujung tentang kontur CSR, ianya telah mengalami banyak pertumbuhan dan perkembangan di kalangan akademisi dan praktisi di seluruh dunia. Ini adalah sebuah contoh komitmen untuk meningkatkan kesejahteraan masyarakat melalui stabilitas sosial dan lingkungan tentang konsep keberlanjutan, praktek bisnis yang baik, dan investasi pemangku kepentingan yang bertanggung jawab dengan cara berbeda, yang mengasumsikan sebuah kerangka dengan makna besar dan teruji.*
KATA KUNCI*: Tanggungjawab Sosial Perusahaan; Pemangku Kepentingan; Korporasi; Prinsip; Kualitas.*

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INTRODUCTION

CSR (Corporate Social Responsibility) has been around for a long time and seems to have a timeless concern for reputation, ethics, and values of a corporation. However, the modern and the scientific era of CSR began with the publication of the first definitive work entitled *Social Responsibilities of the Businessman* by Howard R. Bowen (1953); and later the publication of *Strategic Management: A Stakeholder Approach* by R. Edward Freeman (1984).

CSR has been subjected to a lot of managerial and professional opinions, discussions, and research. Fundamentally, the CEC (Commission of the European Communities), in 2001, issued "Green Paper: Promoting a European Framework for Corporate Social Responsibility" and identifies twin dimensions of companies implementing CSR (CEC, 2001). These are categorised as internal dimension relating to practices internal to the company and an external dimension involving multi-stakeholders.

Literature and Theoritical Review. Adam Smith (1776), in his "magnum opus" book entitled *An Inquiry into the Nature and Causes of the Wealth of Nations*, commented as follows:

> All for ourselves and nothing for other people, seems, in every age of the world to have been the maxim of vile for the masters of mankind (Smith, 1776).

In this context, M. Friedman (1970) and followers of the neo-liberal school of economy stand firmly on the position that business should not have any social responsibility, since its goal is only to make the profit; and that is all. In his article and interview for *The New York Times Magazine*, on 13 September 1970, M. Friedman also explicitly declared that the social responsibility of business is to maximize its profits (Friedman, 1970).

On the other hand, Einer Elhauge (2005) simply defines CSR (Corporate Social Responsibility) as a device of sacrificing of profits in the social interest (Elhauge, 2005). The followers of the neo-liberal school are slightly more benevolent to the issue of managerial ethics, but just as long as ethical norms directly support business activities; and, thereby, continues to contribute and maximize the profits of the business (Nunn, 2015).

Jean B. McGuire, Alison Sundgren & Thomas Schneeweis (1988) hold the dominant view that the idea of social responsibilities, pre-supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society extending beyond the said obligations, per se (McGuire, Sundgren & Schneeweis, 1988). On the other hand, social responsibility assumes that business tycoons, followed by government officials, academicians, and politicians advocate social responsibility as an indispensable part of sustainable business environment and strategies (Shah, 2013); and tend to link social responsibility and ethics into one connected issue (Carroll, 1979 dan 1999).

There is also a question, how could different models of social responsibility co-exist and compete in the same economy or on the global market. Globalization of economy and the increased scrutiny by firm stakeholders has resulted in the rapid growth of a number of instruments used to measure the performance of the CSR according to the EC (European Commission). Among other guidelines, the EC communication concerning CSR, a business contribution to sustainable development, COM (Communication from the Commission), in 2002, stated that codes of conduct should be build on the ILO (International Labour Organization) conventions; and the OECD (Organization for Economic Co-operation and Development) on the "Guidelines for Multinational

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Enterprises" as a common minimum standard of reference (CEC, 2002).

The EC communication on promoting core labour standards and improving social governance in the context of globalisation, COM, in 2001, supported the use of the normative framework of ILO's core conventions as a common minimum standard to improve transparency and producers' compliance capacity (CEC, 2002). The accounting, auditing, and various reporting initiatives of the corporations, organizational performance and professional ethics in management are issues still highly debated since, on the one hand, corporations and portfolio managers have a fiduciary duty to maximize the profits for the shareholders; and, on the other hand, the shareholders accept the inevitable financial risk of doing any kind of business and in return receive the residual profits. Both are loaded with ideological thinking (CEC, 2002; and Kumar *et al.* eds., 2006).

CSR can be examined in the international dimensions as well as in the national dimensions. Many multinational companies have different standards for operating in developed and developing world (Shah, 2013; and UN, 2015).

INTERNATIONAL PERSPECTIVES

The international dimensions will relate to the international norms located in the UN (United Nations) Covenants and Conventions and other Treaty practices, such as WTO (World Trade Organization), ILO (International Labour Organization), and WHO (World Health Organization). Several overarching initiatives have been undertaken by the UN, its specialised agencies, ISO (International Standards Organisation) and other voluntary organisations, of which the UNEPFI (United Nations Environment Programme Finance Initiative), Verite's Guidelines, AA (Account Ability) 1000 Standards, Earth Checks Certification Standards, the GRI (Global Reporting Initiative), and Equator Principles are of immense importance as the same have helped in the awareness of CSR (Corporate Social Responsibility) and Sustainable Development among the stakeholders and the masses (Ismail, 2009).

Various guidelines have been developed *vis-a vis* the human rights responsibilities of companies and the notable among these include: (1) the OECD or Organization for Economic Co-operation and Development's Guidelines for Multinational Enterprises in 1976, revised in 2000; (2) the United Nations Global Compact in 2000; and (3) the International Finance Corporation Performance Standards on Social and Environmental Sustainability in 2006 (UNHR, 2012).

The scope of the CSR is conceptually quite unbound at the present time with a versatile framework. CSR programs usually involve multiple dimensions that affect almost all facets of a corporation (UNHR, 2012; and Nunn, 2015). It is an amazing phenomenon. This framework encompasses the current efforts to internationalize the regulation of CSR through various guidelines and instruments. It adverts to the line of repeated commitments and efforts of the UN (United Nations), developments at the European level, initiatives of the various nations, organisations, and stakeholders.

All are to promote the effectiveness and credibility of sustainable codes of conduct within the corporations through a wide spectrum of programs and initiatives, because there are too many norms, process guidelines, and management systems to regulate the corporate code of conduct *vis-a vis* environmental standards, human rights, and principles of labour and corruption (Graham & Woods, 2006). Among

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the major performance standards, guidelines, and instruments include: OECD (Organization for Economic Co-operation and Development) Guidelines; ILO (International Labour Organization) Declaration; CERES (Coalition for Environmentally Responsible Economies) Principles;[1] Factor 10 Club; EITI (Extractive Industries Transparency Initiative); Equator Principles; Global Compact; Global Sullivan Principles; MacBride Principles; UN (United Nations) Norms; and Universal Declaration and Voluntary Principles on Security and Human Rights. Among the process guidelines and management systems: AA (Account Ability) 1000, ISO (International Standards Organization) 14001, SA (Social Accountability) 8000, GHG (Green House Gas) Protocol, and GRI (Global Reporting Initiative) forms the basic edifice (Graham & Woods, 2006; Ismail, 2009; and Nunn, 2015).

Further, the commission communication on agricultural commodity chains, dependence, and poverty, also known as COM (Communication from the Commission), in 2004, stated that multinational commodity enterprises should be encouraged to comply not only with local laws, but also with OECD Guidelines and the ILO Tripartite Declaration on principles concerning multinational enterprises and social policy, in 1977, as revised from time to time and last revised in 2006 (CEC, 2002; Ismail, 2009; and Nunn, 2015).

These guidelines and performance standards includes guidance and principles for responsible business actions that underpin economies with values essential for more sustainable and inclusive growth on chain accountability, transparency, and decision-making by rendering enterprises liable; and responsible for the circumstances under which products are manufactured and produced with a firm commitment to promote the effectiveness, probity, and credibility of sustainable codes of conduct within the corporations (Graham & Woods, 2006; Ismail, 2009; and Nunn, 2015).

Through the OECD Guidelines, 41 adhering governments initiated recommendations to foster companies in all major areas of business ethics to ensure that they operate in harmony with government policies and nation-states. The guidelines are supported by a unique implementation mechanism, known as NCPs (National Contact Points); and the government agencies responsible for the guidelines offer their good offices to help parties resolve disputes amicably. The business community and trade unions officially support the guidelines (CRs, 1996; Graham & Woods, 2006; Ismail, 2009; and Nunn, 2015).

The G8 (Group of Eigh) has called on private corporations and business organisations to adhere to the principles ardently and invited developing countries to associate themselves with their values, ethics, and standards (Hajnal, 1999; and Dobson, 2011). The UN (United Nations) Secretary General's Special Representative on Business and Human Rights, John Ruggie, had stated that the OECD Guidelines are "*the most widely applicable set of government-endorsed standards related to corporate responsibility and human rights*" (cited in Delo, 2012).

NGOs (Non Governmental Organizations) and Civil Society groups, including women, have also formed a coalition to advise their stakeholders on the use of the guidelines (Mostashari ed., 2005). The OECD Guidelines have received prominent recognition from the OECD, G8, and various specialised UN bodies. Employee actions, consumers'

[1]See, for example, "About Us: CERES Principles". Available online at: http://teclim.ufba.br/jsf/ecoeficiencia/Ceres%20principles.PDF [accessed in Srinagar, India: April 30, 2015].

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boycotts, lawsuits, scandals, and NGOs' pressure may critically expose entities that do not welcome ethical attitudes. The Bruntland Report and the famous masterpiece Silent Spring exemplifies global discourses in environmental and sustainability fields (cited in Mostashari ed., 2005; and Delo, 2012). Amnesty International has also produced a checklist of human rights principles to assist multinational companies in complying with codes of conduct and international human rights standards effectively (cited in Kumar *et al.* eds., 2006; and Bradford, 2014).

Green finance and sustainable development is considered as an important factor for modern financial institutions. It also becomes evident that non-CSR (Corporate Social Responsibility) activities may negatively affect the overall performance of the business enterprises and consequently all stakeholders. Therefore, the development of CSR strategies seems to be indispensable for all business activities that understand the theme to improve the risk management, control over credit risks, importance of clients, and other like strategies. CSR is also gaining wide importance, due to different ISO standards intended for different types of organizations in the private, public, and non-profit sector, regardless of the size and location of the entrepreneurship, to ensuring the social responsibility of the businesses (UN, 2012; and Bradford, 2014).

Global Compact is working to foster and advance the twin aims to advance two complementary objectives of mainstreaming the ten principles in business activities around the world in the areas of human rights, labour, the environment, and anti-corruption; and to catalyze actions in support of broader UN goals, including the MDGs (Millennium Development Goals). The Global Compact's operational phase was launched at the UN headquarters in New York, on 26 July 2000, and through its power of collective action, the Global Compact seeks to promote responsible corporate citizenship, so that business can be part of the solution to the challenges of globalisation (Atkins, 2007; UN, 2012; and Bradford, 2014). In this way, the private sector in collaboration with other social actors can help realize, a more sustainable and inclusive global economy.

The ILO can enrich the debate on how to best implement minimum CSR standards for corporations by contributing their wealth of knowledge and decades of experience in implementing the basic human rights of employees. The ILO could support initiatives to create minimum CSR standards, as it is likely that a legally binding instrument will have more impact than such a voluntary instrument (Bradford, 2014; and UN, 2015).

However, this declaration, which was published almost 30 years ago, has until today not been transformed into binding legal principles. Thence, the voluntary integration of labour, environmental, and social considerations, including corruption, into core business operations over; and above legal obligations that are based on dialogue with stakeholders is the need of the hour.

GRI (Global Reporting Initiative). The GRI, as a subject of talk, is a multi-stakeholders process, which, of course, has been gaining acceptability worldwide. It is an independent institution, whose mission is to develop and disseminate globally applicable sustainability reporting guidelines.[2]

EPs (Equator Principles). The EPs is a set of voluntary risk management framework, adopted by financial institutions around the world, for determining, assessing, and managing

[2]See an article entitled "RG: Sustainability Reporting Guidelines". Available online at: https://www.globalreporting.org/resourcelibrary/G3.1-Guidelines-Incl-Technical-Protocol.pdf [accessed in Srinagar, India: April 30, 2015].

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environmental and social risk; and these guidelines and performance standards are ardently intended to provide a minimum standard to support responsible risk decision-making (Wright & Rwabizambuga, 2006).

Ten financial institutions on 3rd of June 2003, formally embraced the EPs, initiating an implementation trend that currently involves eighty EPFIs (Equator Principles Financial Institutions) in thirty-five countries. Since the birth of the instrument in 2003, two revisions were made, in 2006 (EPs II) and in 2013 (EPs III). Thus, EPs have become globally recognized good practices in dealing with environmental and social risk management (Wright & Rwabizambuga, 2006; and Nieuwenkamp *et al.*, 2013).

***Factor 10 Club*:** The Factor 10 Institute is an international body of senior government, non-government, industry, and academic leaders, who called for the adoption of a factor ten increase in energy and resource productivity in developed countries, while reducing the total use of natural resources globally.[3]

The Factor 10 Institute has been created to provide practical support for achieving significant advances in sustainable value creation, in particular through increases in resource productivity throughout the economy and proposes that within the next generation (30-50 years), human energy use must decrease by a factor of 10, while resource productivity and efficiency must increase by a factor of 10 (*ibidem* with footnote 3). The limited physical carrying capacity of the earth became more accepted with clear targets, eco-efficiency, and innovation as indicators to delink economic growth from physical growth in its 1994 Declaration.

ESI (Enironmental Sustainability Index). This index ranks countries based on such measures as health, governance, technology, and international cooperation; and evaluates the likelihood that a country will be able to preserve valuable environmental resources effectively over the period of several decades (Johnson *et al.*, 2002).

The MacBride Principles. These Principles, consisting of nine fair employment affirmative action principles, are a corporate code of conduct for USA (United States of America)'s companies doing business in Northern Ireland. The Caucus and the Principles positively encourages non-discriminatory USA investment in Northern Ireland to carry out the desired purpose of the MacBride Principles (McManus, 1997).

CERES (Coalition for Environmentally Responsible Economies) Principles. The CERES Principles is a ten-point code of corporate environmental conduct to be publicly endorsed by companies as an environmental mission statement or ethics standards voluntarily beyond the requirements of the law to fulfil; and publicly assert their belief that corporations have a responsibility towards the healthy and balanced environment.[4]

CEPAA (Council on Economic Priorities Accreditation Agency). The CEPAA, as a vital benchmark, is an advisory board established in 1997, by the CEP (Council on Economic Priorities) that included participants from unions, universities, human rights groups, corporations, and accounting firms helped draft a SA (Social

[3]As cited also, comparatively, in "History and Definitions of Eco-Efficiency". Available online at: http://prepare-net.com/sites/default/files/history_and_definition_of_eco-efficiency.pdf [accessed in Srinagar, India: April 30, 2015]; and "The International Factor 10 Club's 1997: Carnoules Statement to Government and Business Leaders". Available online at: www.factor10-institute.org [accessed in Srinagar, India: April 30, 2015].

[4]See again "About Us: CERES Principles". Available online at: http://teclim.ufba.br/jsf/ecoeficiencia/Ceres%20principles.PDF [accessed in Srinagar, India: April 30, 2015].

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Accountability) standard, conceptually mirroring the ISO (International Standards Organisation) quality standard that has been widely accepted within the international business community (*cf* Atkins, 2007; Ruževičius & Serafinas, 2007; and Nieuwenkamp *et al*., 2013).

EITI (Extractive Industries Transparency Initiative). The EITI, as a vital concept, is the global transparency standard for improving governance; and accountability of the natural resources among 26 IDA (International Development Association), 10 IBRD (International Bank for Reconstruction and Development) countries, and one OECD (Organisation for Economic Co-operation and Development) country, i.e. Norway. In this initiative, the WB (World Bank) plays a key role in helping countries implement the EITI principles of greater transparency and accountability (Christopher, 1998; and Ölcer, 2009).

Indeed, nowadays, firms aim to embrace responsibility for their actions and encourage a positive impact through their diverse activities with values essential for more sustainable and inclusive growth that influence transparency, accountability, and appropriate decision making.

NATIONAL PERSPECTIVE: CASE OF INDIA

The national dimension will relate to the constitutional guarantees and responsibilities flowing from other statutes, such as the Protection of Human Rights Act, in 1993, health laws, and environment laws. CSR (Corporate Social Responsibility) is directly linked to the concept of sustainable development and integrates within its ambit economic, social, and environmental operations; and impact on human rights (Cochran & Wood, 1984; Du, Bhattacharya & Sen, 2007; and Eccles, Ioannou & Serafeim, 2010).

In India, too several major CSR initiatives have been launched by CII (Confederation of Indian Industry), ICSI (Institute of Company Secretaries of India), ICAI (Institute of Chartered Accountants of India), and NFCG (National Foundation for Corporate Governance). Among these is the first voluntary code of corporate governance, "Desirable Corporate Governance: A Code", an initiative by the CII (cited in Kumar, 1998).

The Ministry of Corporate Affairs in India has taken another initiative by establishing the NFCG. This is a collaboration with the CII, ICSI, and ICAI. Its purpose is to promote better corporate governance practices and raise the standard of corporate accountability and governance in India towards achieving sustainable development and growth (Kumar, 1998).[5]

Going by the normative framework of the Companies Act, in 2013, in India, the said legislation mandates that the corporations have to spend out an optimal two per cent of their three years annual average profits towards the activities of CSR, thereby fulfilling its social objectives. The main highlights of the Companies Act of 2013, related to CSR and SG (Sustainabilty Guidelines), are enumerated as follows (*cf* Kumar, 1998; Atkins, 2007; and UN, 2012 and 2013):

First, the net worth, turnover, and net profits are to be computed in terms of the framework of Section 198 of the 2013 Act, as per the profit and loss statement prepared by the company in terms of Section 381 (1) (a); and Section 198 of the 2013 Act.

Second, the net profits from every overseas branch of the company, including those branches that are operated as a separate company, would not be included in the calculation of net profits of a company.

[5]See also "National Foundation for Corporate Governance". Available online at: http://mca.gov.in/Ministry/pdf/NFCG.pdf [accessed in Srinagar, India: April 21, 2015].

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Third, the dividends received from other companies in India, which tend to comply with the CSR guidelines, would not be included in the calculation of the net profits of a company.

Fourth, the unutilized budget or portion of the budget, which is earmarked for the CSR and sustainability activities planned for a year, will not lapse and will, instead, be caried forward to the next year.

Fifth, it mandates that every company, having net worth of Rupees five hundred crore or more, or turnover of Rupees one thousand crore or more or a net profit of Rupees five crore or more during any financial year, shall constitute a CSR Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. The committee shall be responsible for formulation of CSR policies, budget, and its implementation (section 135).

Sixth, it delineates that the report of the Board of Directors, attached to the financial statements of the company, would also need to include an annual report on the CSR activites of the company, in the format prescribed in the CSR rules setting out inter alia a brief outline of the CSR policy, the composition of the CSR Committee, the average net profit for the last three financial years, and the prescribed CSR expenditure.

Seventh, as against the *Miniratna* companies or PSUs (Public Sector Undertakings), only the *Maharatna* companies, which have larger resources for CSR and sustainabilty activites, will have to submit details of one additional project for evaluation.

A wide range of overarching CSR initiatives ranging from income generation activities for livelihood; to provision of management and development of natural resources, health services, and education are being carried out by many corporations in the world. For sustainable management and development of resources, many corporations have been working for tree plantation, watershed management, waste management, and total quality management through various IMS (International Management Standards) issued by the ISO (International Standards Organization).

It is evident that due to globalization and technological change, only the effective corporations will survive and continue to retain the top position and gain a competitive edge in the long run (Kumar, 1998; Du, Bhattacharya & Sen, 2007; Eccles, Ioannou & Serafeim, 2010; and Bradford, 2014). Thence, proper disclosure of the CSR policy by the corporations and also reasons for not meeting the required expenditure on various activities that may be included in the CSR agenda of the companies are the main highlights of the Companies Act, in 2013, in India.

CONCLUSION

CSR (Corporate Social Responsibility) is a very vital theme in the current responsibility, because it is a new business strategy to reduce investment risks and maximize profits by taking all the key stakeholders into confidence. Due to the significance of social and environmental stability vetted with the concept of sustainability, benevolent business practices, and responsible stakeholder investment, it is necessary for the survival of an enterprise; and the interdependent relationship of corporations and society denotes that both business decisions and social goals must follow the doctrine of shared value. Surely, choices must benefit both the sides. That is temporary gain to one will undermine the long-term prosperity of both.

Further, the positive CSR ratings amplify the popularity of a corporation between media, public, and the state. So far as the nature of CSR is concerned, corporations are directly under an obligation under many laws.

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But, corporations may also be obligated indirectly through the state, in which they are registered.

The UN (United Nations) Sub Committee on Promotion and Protection of Human Rights, in 2003, adverts to both the kinds of responsibilities. Companies can demonstrate their willingness to voluntarily accept social responsibilities through a variety of CSR-initiatives, like *Collevecchio* Declaration on Financial Institutions and Sustainability; London Principles; Global Reporting Initiatives; Verite's Guidelines; AA (Account Ability) 1000 Standards; Earth Checks Certification Standards; or signing the landmark UN Global Compact's Ten Universal Principles; issuing and spending on self-appraisal and sustainability reports; and engaging in optimal benefit of all stakeholders and diverse groups.

However, some companies are more successful than others; and are able to qualify for indexes like the Dow Jones or FTSE (Financial Times Stock Exchange) sustainability stock indexes, or are selected for the list of the top hundred sustainable companies, presented annually at the WEF (World Economic Forum). CSR is also gaining wide importance due to different ISO (International Standards Organisation) standards intended for different types of organizations in the private, public, and non-profit sector, regardless of the size and location of the entrepreneurship, ensuring the social responsibility of the businesses. CSR is a Harbinger of quality change.[6]

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CSR (Corporate Social Responsibility) is a very vital theme in the current responsibility, because it is a new business strategy to reduce investment risks and maximize profits by taking all the key stakeholders into confidence. Due to the significance of social and environmental stability vetted with the concept of sustainability, benevolent business practices, and responsible stakeholder investment, it is necessary for the survival of an enterprise; and the interdependent relationship of corporations and society denotes that both business decisions and social goals must follow the doctrine of shared value.

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