CHAPTER – 4

RESEARCH SETTING

This study is conducted focusing the Multinational companies' business operations in the host countries. MNCs and their business ethics in the host country has remained a debatable issue in the fields of business management as well as sustainable development since more than three decades. All most all the international development organizations have discussed MNCs/TNCs and their socially responsible and ethical behaviour using every available platform at various levels. It is a common global understanding that if controlling not possible, regulating MNCs operations is required for the sustainable development irrespective of any regional boundaries. Today, we see many international guidelines which deal with ethical standards of MNCs' operations for the host countries. This chapter helps developing an overall understanding of Multinational companies, their historical development, their entry in to Indian market, their corporate image most often reported and international efforts to set minimum standards to regulate their corporate conduct.

Multinational Corporations (MNCs)

A Multinational Corporation is a business concern with operations in more than one country. These operations outside the company's home country may be linked to the parent by merger, operated as subsidiaries, or have considerable autonomy.

Multinational Corporations Definitions:

- Multinational corporations or enterprises (MNCs or MNEs) are businesses, which have operations in more than one country. In the globalised economy, most large corporations are multinational to some extent: businesses are connected to governments, communities, tax-payers and individuals around the world through investment, supply chains and markets. Corporations that control assets in more than one country are also known as trans-national corporations (TNCs).MNCs are large and powerful. ((Safarian, A.E.1993),

- Multinational corporations (MNCs) are large companies that conduct their business operations in several states. Although trans-national corporations (TNCs) are commonly thought to be synonymous with MNCs they are in fact different in several regards. The primary defining factor is that they keep their financial headquarters offshore to protect them from taxes. Thereby, they lack financial accountability to the states in which they conduct their primary operations. Ideally, MNCs would truly be global in nature; operating across borders with no single national emphasis. However, this is rarely the case. Generally, these companies are dominated by a parent company, typically in the developed world, through which they conduct the bulk of their research and to which they often repatriate profits. The companies that control assets in more than one country are also known as transnational corporations (TNCs). TNCs/MNCs are large and powerful. (Hoos, Janos.2000),

From Wikipedia, the well known encyclopedia:

A multinational corporation (MNC) or multinational enterprise (MNE) or transnational corporation (TNC) is a corporation/enterprise that manages production establishments located in at least two countries. Multinational corporations (MNC) are often divided into three broad groups:

1. Horizontally integrated multinational corporations manage production establishments located in different countries to produce same or similar products.
2. Vertically integrated multinational corporations manage production establishment in certain country/countries to produce products that serve as input to its production establishments in other country/countries.
3. Diversified multinational corporations manage production establishments located in different countries that is neither vertically nor horizontally integrated.

Multinational corporations play an important part in the economies of most countries and in international economic relations. This is of increasing interest to governments as well as to employers and workers and their respective organizations, as are perceived to link rich and poor economies. Through international direct investment and other means such enterprises can bring substantial benefits to home and host countries by contributing to the more efficient utilization of capital, technology and labour. Within the framework of development policies established by governments, they can also make an important contribution to the promotion of economic and social Development; to the improvement of living standards and the satisfaction of basic needs; to the creation of employment opportunities, both directly and indirectly; and to the enjoyment of basic human rights, including freedom of association, throughout the world. On the other hand, the advances made by multinational enterprises in organizing their operations beyond the national framework may lead to abuse of concentrations of economic power and to conflicts with national policy objectives and with the interest of the workers. In addition, the complexity of multinational enterprises and the difficulty of clearly perceiving their diverse structures, operations and policies sometimes give rise to concern either in the home or in the host countries, or in both. Whether these apprehensions are fair or not, many MNCs are now attempting to manage these complex set of issues in the host countries by implementing corporate social responsibility (CSR) strategies because such issues may risk the success of their operations. However, CSR can be an ambiguous tactic because it is often unclear what a corporation can and cannot be held responsible for, particularly when weak governance and institutions are involved.

History Of Multinational Companies.

Multinational corporations have existed since the beginning of overseas trade. They have remained a part of the business scene throughout history, entering their modern form in the 17th and 18th centuries with the creation of large, European-based monopolistic concerns such as the British East India Company during the age of colonization. These were rarely multinational, and often instruments of colonialism. However, traders of the maritime nations of that era led the expansion of trade, which occurred with the age of discovery and the development of accurate long distance navigation at sea.

Multinational concerns were viewed at that time as agents of civilization and played a pivotal role in the commercial and industrial development of Asia, South America, and Africa. Corporations that do business in more than one state are not new. In the fifteenth century, the Fuggers operated on a multinational basis in several parts of Europe. Many companies, such as Singer, Herz, Unilever, and Nestlé, have been active in several countries for most of last century.'

By the end of the 19th century, advances in communications had more closely linked world markets, and multinational corporations retained their favourable image as instruments of improved global relations through commercial ties. The coming of the industrial age saw the need to capture markets for an expanding output of basic manufactures. Improvements in ocean and continental transportation and emerging thought about free trade as an element of political and economic freedom, also gave rise to the first rudimentary MNCs. Possessing multiple markets and raw material sources, the ownership, management and capital of these early MNCs was still largely limited to the nation of origin. They often enjoyed direct or indirect government support by means of tariffs, investment and financing.

By the end of the 20th century, and with many former government monopolies in telecommunication, power generation and transport expanding into international markets, the multinational corporation dominated world trade in goods and services. They account for 70% of total foreign trade of $ 7 trillion. Their operations range from mining, manufacturing and energy to modern financial and communication services of all kinds.

Recently, India has witnessed presence of MNCs through Foreign Direct Investments after the economic reform in 1991. Prior to 1991, the government exercised a high degree of control over industrial activity by regulating and promoting much of the economic activity. The development strategy discouraged inputs from abroad in the form of investment or imports, while the limited domestic resources were spread out by licensing of manufacturing activity. The result was, a domestic industry was highly protected – from abroad, due to import controls and high duties, and from domestic competition due to licensing and reservations. Industrial policy was dominated by licensing constraints, by virtue of which strict entry barriers were maintained under the Industries Development and Regulation Act (1951).

The new industrial policy announced in 1991 led to de-licensing of industry, competition rather than protection as the desired business environment. The earlier requirement of approvals and licenses for any investments and expansions were abolished for all except 18 industries. Within a few years, only five sectors remained under the ambit of industrial licensing. De-licensing gave companies freedom to take decisions for investments, expansions and plant locations. Bureaucratic practices involved in the investment procedures were reduced significantly. Lowering of entry barriers resulted in greater private sector participation. The government also liberalised its policy towards FDI. Many constraints that had historically been imposed on portfolio and direct investment were removed. As the restrictions on foreign investments were reduced or removed, there was a sudden spurt in foreign net inflows. The number of approvals of foreign technical collaborations registered a dramatic increase in the new policy regime, and the number of foreign technology approvals went up. The value of FDI approvals also increased significantly in the post-reform period. 1997, $15.8 billion of FDI was approved in contrast to US$ 0.3 billion approved in 1991. After 1991, foreign investment followed a steep upward curve: from1981 to 1990, FDI grew by 23 per cent annually; this increased to 44 per cent annual growth during 1991 to 2001. (World Bank Development Indicators).

The reduction of rigidities in the investment procedures led to an increase in the number of international collaborations and in the following years presence of MNCs became a regular feature of Indian Corporate World.

Access of MNCs into new markets

Multinational corporations follow four general procedures when seeking to access new markets:

1. Merger with or direct acquisition of existing concerns;
2. Sequential market entry;
3. Joint-ventures.
4. Greenfield-project

Merger

Merger or direct acquisition of existing companies in a new market is the most straightforward method of new market penetration employed by multinational corporations. Such an entry, known as foreign direct investment, allows multinationals, especially the larger ones, to take full advantage of their size and the economies of scale that this provides. The rash of mergers within the global automotive industries during the late 1990s are illustrative of this method of gaining access to new markets and, significantly, were made in response to increased global competition.

Sequential market entry

Sequential market entry often also includes;

1. Foreign direct investment, and
2. Involves the establishment or acquisition of concerns operating in niche markets related to the parent company's product lines in the new country of operation.

Japan's Sony Corporation made use of sequential market entry in the United States, beginning with the establishment of a small television assembly plant in San Diego, California, in 1972. For the next two years, Sony's U.S. operations remained confined to the manufacture of televisions, the parent company's leading product line. Sony branched out in 1974 with the creation of a magnetic tape plant in Dothan, Alabama, and expanded further by opening an audio equipment plant in Delano, Pennsylvania, in 1977.

Sony further diversified its U.S. facilities and now also produces computer displays and data storage systems, semiconductors and personal telecommunications products in the United States. Sony's example is a classic case of a multinational using its core product line to defeat indigenous competition and lay the foundation for the sequential expansion of corporate activities into related areas.

Joint-ventures

Finally, multinational corporations often access new markets by creating joint ventures with firms already operating in these markets. To maximize benefits to local firms, governments in many developing countries have stipulated that foreign firms set up business operations in these countries in the form of joint ventures (JVs), assuming that such cooperation among multinational enterprises and their local partners would facilitate the transfer of technology and business practices.

This has particularly been the case in countries formerly or presently under communist rule, including those of the former Soviet Union, eastern Europe, and the People's Republic of China. In such joint ventures, the venture partner in the market to be entered retains considerable or even complete autonomy, while realizing the advantages of technology transfer and management and production expertise from the parent concern. The establishment of joint ventures has often proved awkward in the long run for multinational corporations, which are likely to find their venture partners are formidable competitors when a more direct penetration of the new market is attempted.

MNEs often prefer to use JVs as vehicles for gaining a better understanding about the business environment in the host countries, and to develop business relationships with other firms, the governments and the bureaucracy. Once these relationships are established, JVs are often dissolved; usually the MNE buys out the equity stake of the others or it enters the market on its own with a wholly owned subsidiary.

Greenfield project

This, refers to a project being conceived and executed where no project, company, assets, or operations exist. A Greenfield site or project location is one where no infrastructure exists to support the project. A Greenfield project entails building a subsidiary from bottom up to enable foreign sale and/or production. Real estate is purchased locally and employees are hired and trained using the investor's management, technology, know-how and capital. A Greenfield uses the resources of the investor and combines them with assets acquired on local markets. A Greenfield project gives the investor the opportunity to create an entirely new organisation specified to its own requirements, but usually implies a gradual market entry.

Multinational corporations are thus able to penetrate new markets in a variety of ways, which allow existing concerns in the market to be accessed a varying degree of autonomy and control over operations.

Power of multinational corporations

Very large multinationals have budgets that exceed those of many countries. They can have a powerful influence in international relations, given their large economic influence in politicians' representative districts, as well as their extensive financial resources available for public relations and political lobbying. Given their international reach and mobility, prospective countries, and sometimes regions within countries, when compete with each other to have MNCs locate their facilities (and subsequent tax revenue, employment, and economic activity) within, offer attractive incentives to MNCs such as tax breaks, pledges of governmental assistance or improved infrastructure, or lax environmental and labour standards. MNCs' annual turnovers dwarf the Gross Domestic Product (GDP) of many countries. In 1998, the top five corporations had annual revenues that were more than double the total GDP of the 100 poorest countries,

Hence, the world's multinational corporations – 63,000 of them at last count – frequently find themselves the target of criticism by the world's anti-globalization protesters. The protesters charge that MNCs are principally responsible for the impoverishment of many of the world's six billion people. They are perceived as:

1. Large, utilitarian enterprises with little or no regard for the social and economic well-being of the countries in which they operate,
2. Being exploitative of both their workers and the local environment, given their relative lack of association with any given locality.

3. Acquiring too much political and economic power in the modern business environment.

4. Environmental protection agencies are concerned about the activities of multinationals, which often maintain environmentally hazardous operations in countries with minimal environmental protection statutes.

5. Finally, government agencies fear the growing power of multinationals, which once again can use the threat of removing their operations from a country to secure favourable regulation and legislation.

Left to their own devices, multinational corporations are likely to fulfill their responsibilities in a minimalist and fragmented fashion. They need strong and effective regulation and a coherent response from civil society.

Reported Controversial operations by MNCs

Below are the few cases of violations that run against the spirit of Corporate Social Responsibility. These cases help understand various forms of violations by MNCs in the host countries where they have business operations.

Nestle and The Infant Formula Controversy.

"The story of the Nestle Baby Formula Controversy begins almost three decades ago with the publication of a pamphlet called 'The Baby Killer' in 1974 by Mike Muller and War on Want, a London-based activist group concerned with problems of the Third World (Akhter 1994). The pamphlet claimed that Third World babies were dying because their mothers were feeding them infant formula that was being marketed by multinationals such a Nestle of Switzerland and United Kingdom's Cow and Gate (Akhter 1994). The aftermath of the publication led to an international crisis for Nestle."

The discussion focused on their sale of breast milk substitutes in developing countries which has been criticised for contributing to the deaths of 1.5 million babies every year. Milk substitutes discourage breast-feeding, with all its immune functions; in addition, poor sanitation, illiteracy and a failure to provide instructions in an adequate number of languages mean it is often mixed incorrectly or with unhygienic water, with fatal results.

In developing countries substitutes had found their way into rural communities with low literacy and poor sanitation. Despite Nestlé's argument that they promote breast-feeding, the widespread availability of substitutes may still discourage mothers from breast-feeding and its undeniable nutritional and health benefits. Perhaps the strongest criticism was their refusal to stop selling the product or limit its use to prescription-only. Evidence suggests the product (which currently forms only 1% of their total sales) contributes to infant mortality. This suggests despite its new 'ethical' claims, Nestle is still driven primarily by profit, challenging whether big business will ever be compatible with social responsibility.

Adapted from: Emma Farleigh 15/2/01) www.heritage.org/Research/SocialSecurity

This is a CSR Case against Faulty Marketing Strategy

Chevron in Nigeria

Nigeria is one of the world's largest exporters of oil; it is also one of the world's poorest countries. Severe environmental destruction is the legacy of 40-plus years of oil drilling by Shell Oil in an area of Nigeria known as the Niger Delta, home to over 14 indigenous ethnic nationalities, including the Ogoni people. Ogoni farmlands were expropriated without compensation, their environment polluted, their communities attacked by the military if they protested. The CIA reports that the Niger Delta has suffered the equivalent of 10 Exxon Valdez oil spills, without ever being cleaned up.

Shell Oil Company has also supported one repressive Nigerian military regime after another, paying for "Shell police" - Nigerian police officers used to guard oil installations and put down protests.

In 1999, a group of Nigerians of the Niger Delta region, where Chevron engages in oil production activities, brought a lawsuit against Chevron in US federal court. The plaintiffs allege that they suffered human rights violations, including torture and summary execution, at the hands of the Nigerian military and police acting in concert with Chevron to suppress the plaintiffs' protests against Chevron's environmental practices in the Niger Delta. The claims against Chevron are based on two incidents. First, two protestors were shot by Nigerian military and police allegedly recruited by Chevron at its Parabe offshore platform. Second, two Nigerian villages, Opia and Ikenyan, were attacked by Nigerian soldiers using helicopters and boats allegedly leased and/or owned by Chevron, and these attacks allegedly caused the death and injury of a number of villagers. In March 2004, the court denied Chevron's motion for summary judgment (i.e., requesting that the court dismiss the case on the basis of the documents before it without a trial, because there are no material facts at issue). The trial is scheduled to commence in the fall of 2006.

In this particularly serious incident on January 4, soldiers using a Chevron helicopter and Chevron boats attacked villagers in two small communities in Delta State, Opia and Ikenyan, killing at least four people and burning most of the villages to the ground. More than fifty people are still missing. Chevron has alleged to a committee of survivors of the attack that this was a "counterattack" resulting from a confrontation between local youths and soldiers posted to a Chevron drilling rig. Community members deny that any such confrontation took place. In any event, the soldiers' response was clearly disproportionate and excessive. In the worst cases, people have been killed by the paramilitary Mobile Police or other security responding to threats to oil production. In May 1998, two youths were killed on Chevron's Parabe Platform, off Ondo State, by members of the security forces transported to the platform by Chevron to remove two hundred protesters who had closed down production. The protesters had demanded compensation for environmental damage caused by canals cut for Chevron which opened local waterways to the sea. Frequently, protesters are beaten and arbitrarily detained, for periods ranging from hours to weeks or months; sometimes individuals are detained who simply go to oil company or contractors' premises asking for compensation for works being carried out. In one case in 1997, landholders interviewed by Human Rights Watch had been detained overnight and released without charge following a spill on their land which Elf alleged had been caused by sabotage. They had apparently been held on suspicion that they had caused the sabotage despite the lack of evidence to this effect and the uncompensated damage caused to their crops. Following a major Mobil oil spill in January 1998, up to three hundred people who demanded compensation were reportedly detained; in July, further protests over damage done by the spill and delays in compensation payments led to disturbances in which eleven people were reportedly shot dead by police. As this report went to press, the fatal shooting of tens of Ijaw youths calling for the oil companies to withdraw from Nigeria was reported, together with the deployment of thousands of troops to the Niger Delta region.

Adapted from: http://www.seen.org/PDFs/chevronfinal.

A CSR Case against Human Right Violation

Union carbide in Bhopal

In 1984, a pesticide factory owned by Union Carbide in Bhopal India exploded killing 2,500 people and injuring additional 300,000 people. The city is geographically divided between rich and poor sections, with the factory located in the poor section. Although it was a multinational, Indian investors owned almost half of the shares of the Indian plant, and Indians operated the plant. The active ingredient for the pesticide was stored in 600 gallon tanks. The size of the tanks themselves was a problem. Larger tanks are economically efficient since they hold more gas, but they pose greater risks in case of a tank leak. For this reason, regulations in Germany required a similar Union Carbide plant in that company to restrict its tank size to 100 gallons. The tank that exploded in the Indian plant was supposed to be refrigerated to zero degrees centigrade; instead the refrigeration unit was not working and it was at room temperature. Although the Indian factory had safety features to prevent disasters, several of the safety systems were not functioning. The temperature alarm was shut down; the gas scrubber was shut off, which was supposed to neutralize escaped gas; and a flare tower was out of service, which was supposed to burn escaped gas.

The explosion started when someone added water to a 600 gallon tank of the chemical, perhaps done as an act of sabotage by a disgruntled employee. The temperature in the tank rose in a chain reaction, and the tank blew up. A fog of the gas drifted through the streets of Bhopal, killing people on the spots that they stood. Long term medical problems for the survivors included respiratory ailments and neurological damage. The Indian government quickly arrested plant managers and eventually spent 40 million on various disaster relief projects. The company eventually paid half a billion dollars to victims. Although the US parent company acted quickly and compassionately to the disaster, the tragedy raised serious questions about the parent company's views on safety in third world countries. Even though Indians ran the Bhopal plant, Union Carbide's laissez-faire policy of decentralizing subsidiaries was not appropriate in matters of safety. The tragic lesson is that multinational should follow U.S. safety standards worldwide, and should not give cost cutting the highest priority.

A CSR case against Safety Standards.

Presence of Unilever in India

At 72, Ruby Martin had hoped to lead a happy retired life with son Christopher Martin Colaraft and her grandchildren. It was not to be. Christopher died in his prime, at 33, of what Ruby calls "long-term effects of unrestricted exposure to mercury". He had been employed at the Hindustan Lever thermometer factory at Kodaikanal in Tamil Nadu from 1985 to 1991. He died in1997.HLL, a subsidiary of multinational Unilever, acquired the thermometer factory from Ponds India in 1997. In March 2001, the plant made news when a report by the Indian People's Tribunal (IPT), under the chairmanship of Justice S.N. Bhargav, supported the allegations made by the locals that the company was dumping mercury in the environment and its negligent safety standards had affected workers' health. HLL strongly denies this charge. "We appointed URS

Dames and Moore, leading international consultants and engineers to make an independent investigation of the situation," said Shubhabrata Bhattacharya, general manager, corporate communication, HLL, Mumbai. "The final report on the environmental site assessment and risk assessment for mercury, presented in May 2001, concluded that the Kodai Lake has not been impacted by mercury and that people who worked at the site have not suffered adverse health effects due to the factory operations, and remedies to the soil are needed at only the site." However, environmentalists claim to have recovered a blue drum filled with mercury waste in the forest, Pambar Shola, adjoining the factory.

Finally, in May 2003, HLL sent 1,416 drums filled with 290 tones of hazardous mercury waste to the recycling firm Bethlehem Apparatus, Pennsylvania, USA, because India did not have the facility to process such material. This ended a dramatic struggle staged by the local people led by the PHCC and Greenpeace, India.

Minding our Business Report-1997 www.isforum.org

A CSR Case against Quality of Work Life, Corruption and Environment

Unilever Use Child Labor in India

Both Hindustan Lever Ltd.an Indian subsidiary of British-Dutch multinational company Unilever as well as the American multinational Monsanto are making use of hazardous forms of child labour in cotton seed production in India on a large scale. An estimated number of 25000 children, mostly girls work an average of ten to thirteen hours a day for Hindustan Lever while around 17000 children work for Monsanto and their Indian subsidiary Mahyco. These children get no education, earn less than 40 Eurocents (Rs. 20) a day and are exposed to poisonous pesticides like Endosulphan during their work. More than 11000 children work under similar conditions for the multinationals Syngenta (Swiss)Advanta (Dutch-British) and Proagro (owned by Bayer of Germany).

Cotton Seeds: Largest Employment of Children

In the Indian state of Andhra Pradesh alone, 247,800 children work in cottonseed production and around 450,000 in all of India, most of them for Indian-owned companies. No other industry in India employs so many children. The cottonseed companies do not employ the children themselves, but they work through agents called seed organisers. The companies unilaterally fix a price for the farmers that make it almost impossible for them to employ adults. A child earns 30% less than a woman and 55% less than a man.

Cottonseed production is very labour-intensive. The sector is 'unique' in the sense that nine out of ten employees are children between 6 and 14 years of age. Generally they are, through advances paid to their parents, bonded to the same employer. According to Dr. Venkateswarlu's research, almost 30% of the children are being recruited by intermediaries to work as 'migrants' away from home. These children work 12 to 13 hours a day and sleep in the farmer's cowshed or in a 'child camp' where ten to thirty children live.

This is the result from the research done by the Indian researcher Dr. D. Venkateswarlu for the Indian Committee of the Netherlands May 14 2003

A CSR Case against Child Right and Employment rules.

Arrogance and Impunity - Coca-Cola in India: By India Resource Center August 10, 2006

How long will it take before the powers that be in India refuse to allow multinationals to treat Indians as guinea pigs? In what can only be characterized as arrogance and impunity, we are learning that Coca-Cola and Pepsi have continued to sell soft drinks in India with dangerously high levels of pesticides - three years after even the government of India confirmed that these products were dangerous. Perhaps the cola companies know something that we do not? Are Indians immune to high levels of pesticides? It is time for the cola companies to provide details of the studies they must have conducted to convince themselves that the average Indian can consume pesticides safely at levels 24 times the average American and European.

- Since April 22, 2002, residents of Plachimada, Kerala have been on vigil—24 hours a day, 7 days a week—outside the gates of Coca-Cola's bottling plant in their village. The panchayat (village council) has refused Coca-Cola the license to operate and the bottling facility, the largest Coca-Cola bottling facility in India, has been 'temporarily' shut down and the struggle is continuing make it permanent.
- Local residents in Mehdiganj, near the holy city of Varanasi, are also leading a struggle against Coca-Cola and over 1,500 members demonstrated against Coca-Cola in November 2004. Protesters were met at Coca-Cola's factory gates by ARMED police, sent to "protect' the plant. This was no mere threat; the protesters were severely beaten up.
- At Coca-Cola's bottling facility in Kala Dera, near Jaipur, Rajasthan, and the sinking water table has created water shortages for over 50 villages. Over 2,000 people marched in August 2004 to protest Coca-Cola's practices.
- In Kudus village in Thane district in Maharashtra, villagers are forced to travel long distances in search of water which has dried up in their area as a result of Coca-Cola's bottling operations. Coca-Cola has built a pipeline to transport water from a river to its plant, and activists opposing the pipeline and the facility are regularly harassed by local police.
- Sensing a pattern, more than 7,000 people in Sivaganga, Tamil Nadu, mostly women, turned out in April 2003 to protest a proposed Coca-Cola factory in

their village. Residents are justifiably worried that Coca-Cola's joint operations with a sugar mill in the area will lead to water scarcity and contamination.

Thousands of people all across India are protesting Coca-Cola's operations in India. Led primarily by women, Adivasis (Indigenous Peoples), Dalits (lower castes), agricultural laborers and farmers, a significant grassroots movement has emerged in India to hold Coca-Cola accountable for its crimes in India and internationally. The campaign is growing and winning extremely important battles in the quest for justice.

A Pattern of Abuse has emerged for Coca-Cola's bottling operations in India. Coca-Cola is Guilty of:

- Causing Severe Water Shortages in Communities Across India
- Polluting Groundwater and Soil Around its Bottling Facilities
- Distributing its Toxic Waste as 'Fertilizer' to Farmers
- Selling Drinks with High Levels of Pesticides in India, including DDT—sometimes 30 times higher than EU standards.

Communities living around Coca-Cola's bottling facilities are facing severe hardships. A majority of the community members affected by Coca-Cola's indiscriminate practices are also some of the most marginalized communities in India- Indigenous Peoples, lower castes, low-income and agricultural day-laborers.

"To me this is another shameless instance of MNCs openly arm-twisting local interests using the crutches of law. Imagine someone digging a bore well in your backyard, dumping the waste in your area, draining your own water resources and then selling you their bottled products to you. People have been crying foul on these biggies polluting the groundwater resources and soil since years. When V.R. Krishna Iyer, a former Supreme Court judge accuses Coke of 'bench shopping' a favorable judgment, it is not as simple as it seems. The "expert committee" found no evidence to shutdown the plant. But it turns out that the "expert committee" had a member from Coke and no one from the Panchayat."(Debashish-June 2005)

A case against exploitation of Natural Resources and Environmental Abuse.

Thus, historically viewed in a very negative light, MNCs have been found guilty of violations of human rights, exploitation of the environment, and corruption of governments. Further, ethical issues unique to MNCs arose from the diversity of national operating locations set against the uniformity of the multinational organization (Tavis, 1996). This invited MNCs to act in an egocentric manner, in part, because of a lack of any other uniform set of standards to apply across multiple cultures and operating situations.

However, there are signs that this has changed in recent times, and that the reputation of MNCs has improved dramatically. Many forces are also at work to keep multinational corporations from wielding unlimited power over even their own operations. Increased consumer awareness of environmental and social issues and the impact of commercial activity on social development and environmental quality have greatly influenced the actions of all corporations in recent years. Labor, environmental, and consumer groups worldwide have long advocated for legally binding regulations for industry, in light of the growing power and mobility of multinational corporations.

Multinational Companies And Corporate Social Responsibility

The contemporary global economy is guided by market competition which brings efficiencies, so to provide better quality goods and services at a lower cost. Globalization has also brought jobs, investment and new technologies to many poor peoples. However, reports have documented the disparities in income and wealth that develop, as those people and nations who possess resources are able to obtain a greater share of benefits, while those who have little resources or skills fall further behind (World Development Report, 2003; Tavis, 2000). Hence, there is a need for effective guidelines for the operation of the international economy that will take into account current inequities, and thus the interests of all people. Globalization, or as some call it Americanization, or marketisation, accelerates this problem. The experience of every country in the early stages of industrialization is that market forces in themselves encourage lower wages, long hours, poor working conditions and shifting the costs stemming from pollution onto others in the larger community.

One generally expects it to be the responsibility of the host country to set fair standards for wages, working conditions and pollution. However, this does not work well in poor countries at times. There is an overabundance of potential workers and work sites in poorer nations; therefore these countries do not have the negotiating power to insist on living wages, humane working conditions and reducing pollution (Sethi, 2003). Or put as a question, What can be done about global resources that are directed at productivity and growth at the expense of so many who are left behind with no institution to represent them? (Tavis, 2000).

As corporate social responsibility is also about the relationships companies choose to have beyond their premises - locally, nationally, Asian/European etc. and world-wide. Good relations with their local setting are important for companies: they recruit most of their staff from the local labour markets and for most companies the local market is also their main market. Companies profit from an ability to accumulate social capital, which means to develop networks around them and to create links to other businesses. Large companies increasingly use these relations to support the integration of their affiliates into the various markets in which they operate. Corporate social responsibility also has a strong international dimension. A growing number of firms are adopting codes of conduct covering working conditions, human rights and environmental aspects, especially in their dealings with subcontractors and suppliers. They do so not only to assume their corporate social responsibility but also to improve their corporate image and reduce the risk of adverse consumer reaction. There is nothing to have certain common expectations from MNCs when they operate in some other country that:

- MNC activity help to reduce poverty in that host countries. Foreign direct investment (FDI) and purchasing by MNCs can drive economic growth, which is necessary for a country to become less poor.
- MNCs create jobs that employ local people, can raise employment standards: they can pay better wages than local firms.
- Their environmental and health and safety protocols can set the standard for local practices.
- MNCs can boost economic development by transferring technology and knowledge to local economies.
- MNCs can bring benefits to consumers in developing countries, enabling them to buy better quality and better-value products.

An encouraging result of this is that the trend seems to be a shift from simple compliance with governmental regulations and avoidance of liabilities, toward a more proactive stance representing adaptation to country-specific needs and innovation in management practices as a means of establishing a competitive advantage. We can see that where countries once passed laws limiting their influence, MNCs are now being courted by national and local governments eager for the economic opportunities that they bring. But their operations need to be watched closely. (Peter Utting, research coordinator at the UN Research). Institute for Social Development (UNRISD) wrote in the report named 'Visible Hands' "While multinational corporations would prefer to comply through voluntary initiatives, the public interest can only be fully served through stronger regulation and monitoring. Many companies have mastered socially responsible rhetoric, he said, but few have taken action. Only a small proportion of companies have introduced corporate codes of conduct. Even when they do, these tend to be narrow in scope and are often not independently verified", he said. "Although MNCs have dramatically influenced the economic growth and prosperity and increased employment, the lack of ethical considerations have allowed MNCs with too much control and power. "Ultimately, most corporations will only respond to stronger regulation and to close monitoring by NGOs (non-governmental organizations), trade unions and consumer groups," he added. The report echoes some recommendations made in the 1999 Human Development Report that called for a multilateral code of conduct, arguing that multinational corporations are "too important for their conduct to be left to voluntary and self-generated standards."

The Rise Of Corporate Social Responsibility Codes

In the mid-1970s, a number of developing countries passed legislation attempting to control transnational corporate activities within their borders. In addition, the UN and OECD adopted draft codes of conduct to ensure that developing countries would share in the gains from the growth of international corporate activity. By the 1990s, the focus of regulation had moved from developing world subsidiaries to developing world suppliers and manufacturers, and voluntary initiatives for labour standards regulation were adopted by the business sector itself. The content of these voluntary codes of conduct varied greatly. Changing public attitudes are an important part of the context in which modern corporate codes of conduct have been adopted. The awareness of global environmental and social issues has increased significantly since the 1970s, fuelled by the development of global communications systems, enabling corporations to control production activity on the ever widening scale.

The growing adoption of codes of conduct is also a response by corporations to the concerted lobbying efforts by labour groups and NGOs for the creation of a global system of labour regulation at the WTO level, and the push for a social clause. MNEs are now aware, more than ever before, of the need to voluntarily account for their labour practices, if for no other reason than to prevent binding regulation from becoming a reality.

What Is 'Code Of Conduct'?

A code of conduct is intended to be a central guide and reference for employees in support of day-to-day decision making. It is meant to clarify an organization's mission, values, and principles, and to link them with standards of professional conduct. A code of conduct provides visible guidelines for behavior and an important means of communication that reflects the commitment that an organization has made to uphold its most important values.

In the CSR literature, codes of conduct are variably described and defined but have common elements, such as being self-regulatory or voluntary in nature, used to influence behaviour of a specified group or groups, and/ or to define intentions/ actions on a certain group of issues or to a certain group of individuals, sometimes from a market-based perspective.

A code of conduct is meant to complement relevant standards, policies, and rules, yet not to be a substitute for them. There are various types of codes that employ different strategies. For example, a distinction can be made between codes of ethics, ethics statements, value statements and codes of conduct. An ethics statement or code of ethics tends to be brief and usually includes guidance of a more aspirational nature; that is, it indicates core values but it does not dictate specific behaviour. Codes of conduct, on the other hand, tend to be far more directive in their behavioural guidelines. What all codes have in common is that they are created to embody and express consensus, and to standardize behaviour. The ways in which they go about doing so, however, differ substantially.

CSR Codes of conduct typically set guidelines on issues including child labour, forced labour, wages, benefits, working hours, disciplinary practices, freedom of association, human rights, and health and safety. They also may incorporate policies regarding legal compliance, ethics, environmental practices, and community investments.

Codes of conduct may be developed independently by individual companies or draw on model codes written by civil society and academics. They may be a short mission statement, or a sophisticated document with articulated standards, principles, criteria for measuring company performance, and mechanisms for enforcement. Guidelines on how the codes of conduct are to be implemented, including clearly defined accountability, have proven to be important for implementation. Codes of conduct use language that reflects the company's intention to enforce their standards of behaviour and cover all important issues to the company. Effective codes of conduct are crafted with the involvement and support of key company managers and stakeholders. Additionally, effective codes of conduct are communicated clearly both internally and externally to the organization. Communication about the code of conduct should be periodic and the code must be regularly reviewed for compliance with legislation and general relevance.

There is no single code or standard, no panacea that will lead to corporate responsibility. Each company is different, with its own challenges, corporate culture, unique set of stakeholders and management systems. The very same company in one region may face different challenges in other parts of the world. Corporate responsibility is a journey for which there is no single map but hundreds of guides. Codes and standards are maps that can be combined in new ways for different journey, but there are countervailing forces at work within corporate responsibility codes and standards:

- On the one hand is the need for convergence to simplify the large numbers of codes and standards; and on the other hand there is the need to foster diversity and innovation.
- It is a paradox that many of the best codes of conduct and standards are not well known and that some corporate responsibility instruments that are well disseminated are not terribly effective.

One of the first steps a company can take to become more socially responsible is to adopt a code of conduct—but taking this step without clear implementation strategies leave companies exposed. Dr Samuel Johnson once said 'A man may be very sincere in good principles without having good practice'; the same is true for companies.

At best, codes of conduct and standards can promote corporate responsibility, but they can also be used as an instrument to deflect criticism. It is ironic that many of the companies involved in corporate scandals, such as Enron and Pepsi/cola, have excellent statements on social policies. The corporate responsibility movement's progress gets affected by these hollow statements.

Types Of Code Of Conduct.

1. Company codes

These codes are adapted unilaterally by companies. They can relate to their own operations and can communicate to stakeholders the organization's commitment to social responsibility.

2. Trade Association / Industry code

These codes are adopted by a group of firms in a particular industry. They also tend to be unilateral measure adopted by firms. Industry codes of conduct generally focus on key issues; for example, the gold industry's code of conduct focuses on cyanide management and the apparel industry's code of conduct are primarily concerned with labor conditions. Industry codes of conduct are often one component of a larger initiative to collectively address specific problems that plague the industry as a whole.

3. Multi-stakeholder code:

These codes are based on negotiations between several stakeholders, including firms, NGOs and / or trade unions. Governments can also be involved. Development of a code of conduct can be an excellent time for any type of organization to engage stakeholders in a discussion about corporate social responsibility and providing better goods and services. Engagement and two-way communication can enhance the company's reputation with stakeholders as a good corporate citizen, decrease risk of investigation, litigation, and bad press, as well as, improved relations with stakeholders, government, and industry officials.

4. **Model codes:**

These codes are designed to provide benchmark with respect to codes of conduct. Although, they are not practiced in totality, they serve as a model to Companies which generally pull from multiple sources applying local laws on some issues, internationally-established standards such as those set by International Labour Organization (ILO) conventions on others, Amnesty International for Human Rights etc.

5. **Inter-Governmental codes:**

These are negotiated at an international level and are agreed upon by national governments. They date back to 1970s when both the OECD's Guidelines for Multinational Enterprises and the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises were adopted.

Benefits Of Code Of Conduct

- Clear Communication of Expected Behaviour. Codes of Conduct are an effective way of communicating with employees about what decisions and behaviours are to be expected.
- Codes of conduct are a useful entry point to addressing social and environmental concerns. They build on management systems familiar to business while requiring business to address broader issues.
- Codes are a voluntary framework for addressing those issues that the company has identified as most important to good stakeholder relations and shareholder value.

- The benefits of an effective industry code include better dispute resolution and a more transparent and efficient industry that inspires confidence and industry growth.

Limitations.

- Codes of conduct are generally **voluntary.** There is frequently no government or industry oversight on the implementation of the code of conduct. However, a code of conduct is increasingly required for the social license to operate and some industries and governments are beginning to understand this.
- **Accountability**: Codes are often written without establishing clearly who in the organization is responsible for ensuring compliance with the code of conduct and how compliance will be enforced. Without mechanisms for enforcement codes of conduct can be rendered ineffective.
- **Lack of independent verification**. Third party verification can be vital to the effective implementation of a code of conduct. However, very few companies involve third parties in the development, monitoring or enforcement of their codes.
- **Corrective action.** Monitoring and verification of codes of conduct without establishing a corrective action plan provides little use to companies. Effective code implementation requires an established plan of corrective action for violations.

In developing countries, CSR is not generally very high on the business agenda (WBCSD-2000). For many, the demand for codes of conduct has been externally driven. Therefore, firms in developing countries, which produce for developed country markets, have somewhat ambivalent attitudes toward codes of conduct. Since their customers need them to meet the required labor or environmental standards, they comply mainly to keep their markets. On the other hand they are more likely to treat the adoption of codes as mere increase in costs. This leads to a situation in which the sub-contractors are more likely to favor relatively weak codes of conduct, which will meet the requirements of their customers without imposing undue costs (Jenkins,2001).

Sethi (2003), however, feels optimistic about the potential of codes of conduct to enable companies to fulfill a wide range of roles- economic, social, and environmental. According to him the problem is not with the concept of voluntary codes, which is a highly desirable concept because it offers a flexible approach to resolving issues that have not been satisfactorily resolved through existing legal and socio-political mechanisms, but lies largely with the MNCs unwillingness to use this approach in a substantive and meaningful manner.

CSR standards promulgated by inter-governmental bodies concerning activities of MNCs on labour and environment, as well as those by NGOs and industrial associations (like standards by ISO, FLA and SAI), have helped articulate social norms of acceptable corporate conduct in all jurisdictions where companies do business. Meanwhile, ISO has begun its work to develop an international CSR standard, which will sit alongside other voluntary standards like the ISO9000 and ISO14000 series upon its completion by 2007.

The Codes of Conduct and CSR Standards cover certain minimum norms for working conditions. These are also often referred to as core standards. The broad coverage of these codes is as below:

1. Prohibitions on Child Labour,
2. Prohibitions on forced labour,
3. Prohibitions on discrimination based on race, religion, or ethnic origin;
4. Requirements to ensure the health and safety of the workplace,
5. Provisions on wages, usually based on local laws regarding minimum wage or prevailing wage levels in the local industries;
6. Provisions regarding limits on working hours, including elimination of forced overtime, in accordance with local laws; and
7. Support for freedom of association and the right to organise and bargain collectively.

Apart from these core labour standards, the codes have started emphasising on environmental management systems. Codes of conduct prescribe bare minimum standards on working conditions and compensation, but they do not limit any company's own novel initiatives.

Standards of Social Responsibility

A number of intergovernmental organizations (IGOs) have started to address the issue, among these, the European Union (EU), the UN Industrial Development Organization (UNIDO), the UN Development Program (UNDP), the UN Commission of Human Rights (UNCHR), and the World Bank, some of which are now participating in the UN Global Compact. Another important international initiative was recently taken by the International Standardization Organization (ISO) to develop standards for social responsibility under the name of ISO26000, covering not only corporations but all organizations. The UN Global Compact and the ISO initiative confirm the increasing importance of CSR internationally, and at the same time give a status of legitimacy to CSR.

Given the absence of global government, globalization is understood to have produced a regulatory vacuum, where no single state has the capacity to regulate the totality of any global company's activities. In this situation the actors that push firms to enact CSR policies are non-governmental advocacy organizations (NGOs). These include NGOs with a broad social justice or environmental mission, such as Oxfam or Centre for Social Environment , as well as NGOs whose work is specific to CSR. NGOs have become a powerful and politically significant social force in the last few decades. There are also corporate interest groups engaged in CSR discourses, either those with a specific CSR focus, such as the World Business Council for Sustainable Development, or those with a broader pro-business focus, such as the World Economic Forum's Corporate Citizenship Project.

From these diverse quarters, multiple norms of responsible corporate behaviour are being articulated at the trans-national level, some with demonstrated transformative power. Basically, there are two main strands of CSR standards. The first broad category defines what it means to be socially responsible by referring to governmental and inter-governmental standards. At the national level, this includes national and sub-national laws and regulations governing businesses. Laws and legal frameworks change over time to reflect changing social values and standards of behaviour, which has a clear bearing on setting the minimum regulatory standards for business behaviour. There are also examples where initial voluntary action has led to regulation (for example, maximum working hours, welfare measures as appear in Factory's ACT-1948) At the intergovernmental level, this includes instruments like the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

The second category relates to private standards developed by NGOs. In many cases, these standards either select parts of existing governmental and intergovernmental standards, applying them to specific activities, or set guidance that goes beyond the existing governmental and intergovernmental standards. These standards may also complement existing requirements (for example, the International Chamber of Commerce Charter for Sustainable Development). On the other hand, there are private standards designed for adoption by the organisations that develop the standards, such as the Caux Roundtable Principles (which advocate a moral capitalism by applying fundamental ethical norms to promote better outcomes for globalisation and business decision-making).CSR reporting and related consultancy services.

The three most important guidelines within the current international framework regulating MNEs and their employment practices are those promulgated by the OECD, the ILO and the UN. Summary of these three standards are presented below for the ready reference and the summary of few other CSR Standards are given in the Annexture-II.

1. The United Nations Global Compact

Origin. United Nations Secretary-General Kofi Annan proposed the Global Compact at the World Economic Forum on January 31, 1999. He challenged world business leaders to help build the social and environmental pillars required to sustain the new global economy and make globalization work for the entire world's people.

Purpose. The Global Compact is not a regulatory instrument, but a tool designed to promote institutional learning. It seeks to use the power of transparency and dialogue to identify and disseminate good practices that are rooted in globally-acknowledged principles. The Global Compact is now endorsed by most national governments, a variety of unions and NGOs, in addition to nearly 1,500 companies in 70 countries.

The Global Compact is not a regulatory instrument to "police" corporate conduct, nor is it a binding set of regulations or a corporate code of conduct. Instead, the goal of the initiative is to advance the ten universal principles through the "self-enlightened engagement of its participants."

Critical Content : The Global Compact contains ten principles based on the UN and the UN organizations' work on human, labor and environmental rights. The tenth principle on corruption was adopted in 2004 in the wake of a UN convention on this.

The ten Global Compact principles are: The following list provides the summary of some of the code, principle or standard may be found in the industries contacted by the researcher since they are internationally acknowledged and expected to be practiced or adopted by the MNCs operating in India.

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence .
2. Make sure that they are not complicit in human rights abuses .

Labour Standards

1. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining .
2. The elimination of all forms of forced and compulsory labor.
3. The effective abolition of child labor.
4. Eliminate discrimination in respect of employment and occupation

Environment

1. Businesses should support a precautionary approach to environmental challenges.
2. Undertake initiatives to promote greater environmental responsibility.
3. Encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

1. Businesses should work against all forms of corruption, including extortion and bribery.

Implementation . To engage in the Compact, companies are asked to have their chief executive officer send a letter to the United Nations Secretary-General, expressing a clear commitment to the Compact. Engagement includes (1) taking concrete steps within the organization to act on the nine principles, (2) sharing these experiences on the Global Compact website, to contribute toward the development of a "comprehensive learning bank", and (3) advocating publicly for the Global Compact

2. International Labour Organization : Tripartite Declaration Of Principles Concerning Multinational Enterprises And Social Policy

Origin The Governing Body of the International Labour Organization adopted the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy in 1977.

Purpose The Declaration is intended to encourage the positive contribution which multinational enterprises (MNE's) can make to economic and social progress, and to minimize difficulties arising from their operations. It provides principles regarding the social aspects of multinational enterprises, for the use of governments, employee organizations, and MNE's themselves.

General Policies MNE's should obey national laws, respect international standards, honour voluntary commitments, and harmonize their operations with the social aims and structure of countries in which they operate .

Employment Promotion Governments should promote full, productive, freely chosen employment. MNE's should endeavour to increase employment opportunities and standards in host and home countries; give priority to the employment, development, promotion and advancement of host country nationals at all levels; and promote employment through use of employment generating technologies and local sourcing arrangements.

Equality of opportunity and treatment All governments should promote equality of opportunity in employment.

Security of employment Governments should take suitable measures to deal with the employment impacts of MNE's. MNE's should strive to provide stable employment and reasonable notice to government authorities when operational changes would have major employment effects. Governments, together with MNE's, should provide some form of income protection for workers whose employment has been terminated.

Training Governments should develop national policies for vocational training and guidance. MNE's should ensure relevant training is provided to all employees, to meet the needs of the firm and those of the host country. Multinationals should also offer opportunities within the enterprise as a whole to broaden the experience of local management.

Conditions of work and life In developing countries, MNE's should provide the best possible wages, conditions of work (including health and safety), and benefits, adequate to satisfy basic needs and within the framework of government policies. Governments should adopt policies ensuring that lower income groups and less developed areas benefit as much as possible from MNE activities. MNE's should provide upon request information concerning health and safety standards observed in other countries which are relevant to local operations.

Industrial relations Workers should have the right to establish and join organizations of their choosing, and protection against anti-union discrimination. MNE's should allow collective bargaining, providing facilities and access to resources that will allow meaningful negotiation. MNE's and national enterprises should consult regularly with employees on matters of mutual concern. All workers should have the right to submit grievances without prejudice, and to have them investigated. MNE's and national enterprises should work to develop resolution mechanisms to assist in the prevention and settlement of disputes.

Implementation Implementation of these standards is on a voluntary basis.

3. OECD Guidelines For Multinational Enterprises

Origin. The Guidelines were originally adopted by the Organization for Economic Cooperation and Development (OECD) in 1976 as one element within its Declaration on International Investment and Multinational Enterprises . They were last revised in June 2000.

Purpose. The Guidelines are targeted specifically towards multinational enterprises from OECD member countries that adhere to the Declaration on International Investment and Multinational Enterprises. They provide multinational enterprises – defined here as "companies or other entities established in more than one country and so linked that they may coordinate their operations" – with voluntary, non-binding principles and standards of good business conduct. The Guidelines are intended to help these enterprises contribute to economic, environmental, and social progress, with a view towards achieving sustainable development.

Content. Section I of the Guidelines ("Concepts and Principles") establishes the broad context for their use and implementation. The remaining sections articulate standards in nine areas:

1. General Policies. **2.** Disclosure **3.** Employment and Industrial Relationships **4.** Environment **5.** Combating Bribery **6.** Consumer Interests **7.** Science and Technology **8.** Competition **9.** Taxation

Implementation. Implementation of the Guidelines ultimately depends upon the initiative of the individual companies. To support their efforts, countries adhering to the Declaration on International Investment and Multinational Enterprises are required to establish National Contact Points (NCPs). The NCPs promote the Guidelines , address inquires about them, and hold discussions with all interested parties. NCPs also come together annually to share experiences and report to the OECD Committee on International Investment and Multinational Enterprises (CIME). CIME meets periodically to discuss the Guidelines and to consult with business advisors, trade unions, and NGOs.

*Some of the other CSR Standards for MNCs/Global Guidelines for different trades and in different parts of the world are given in Annexure-II (page-434)

Implementation Of CSR Standards

For a code of conduct when adopted by a company, to be effective, should contain a clear method of implementation and a means to ensure compliance. While a code will include a statement of principles concerning business behaviour, this does not necessarily result in the application of those principles in the firm's operations. The IOE, for example, has estimated that 80% of codes are really just statements about general business ethics and contain no implementation plan.

Monitoring, Reporting & Auditing

While the monitoring of proper code implementation may be done successfully through internal means, the legitimacy of the code will be heightened by external reporting or auditing of code compliance. External verifiers may be engaged in observing the actual practice of a firm or its suppliers or subcontractors, and may issue a direct report based on such observance. Alternatively, a financial audit analogy can be used—that is, the company itself undertakes the bulk of the information collection, which can then be turned over to externally accredited experts for an audit.

It may also be possible for code of conduct compliance to be audited and certified by an audit company established specifically for that purpose. The independence of both auditors and monitors is critical to the success of voluntary codes of conduct, as is their ability to judge whether a code has been complied with or not. The function of auditors and monitors range from basic observation (e.g. is the factory's fire door blocked) to more specialized judgments (e.g. are equal pay practices being adhered to).

There is also the further question of what sanctions may be imposed when a code is not adhered to. In many cases, no clear sanctions are defined. Approximately 60% of the company and business association codes in the OECD inventory do not specify any penalties for non-compliance.

The Benefits Of Voluntary CSR

Although voluntary corporate codes of conduct have been subjected to much criticism, there are some very clear benefits for those companies that choose to implement them. There are also benefits for employees who are the beneficiaries of code provisions, along with NGOs, suppliers and their employees, and consumers generally.

More and more consumers are "buying ethically" and are specifically seeking out goods and services that are produced under fair labour conditions. Publishing a corporate code of conduct and adhering to it may allow a company to benefit from ethical purchasing, raise its profile as a responsible producer, vendor or retailer and allow it to respond genuinely to criticisms of unethical labour practices. The financial sector's interest in CSR may at least in part be explained by a recent Global Compact report undertaken in partnership with the Swiss government and endorsed by twenty major investment companies. The report, entitled "Who Cares Wins: Connecting Financial Markets to a Changing World," suggests that implementing CSR practices can lead to financial benefits. A 2003 survey indicated that 78% of European fund managers and analysts believe that the management of environmental and social risk has a positive impact on a company's long-term market value. Another direct benefit of adhering to a code of conduct is the potential of attracting socially responsible investment. No longer a fledgling concept, ethical investing is now a mainstream force. While some estimates are more conservative, the UK Social Investment Forum has estimated that socially responsible investment assets in the UK alone increased from 22.7 billion pounds in 1997 to 224.5 billion pounds in 2001. Finally, major stock exchanges in Europe and North America have now created indices comprised of ethically responsible companies, such as London's FTSE4Good.

Voluntary CSR Standards Vs Binding International Regulation

In spite of an increased willingness on the part of employers to address the regulation of labour standards on a voluntary basis, many labour and NGO groups argue that CSR does not go far enough.

- Practice shows that many codes of conduct do not take the ILO Core Conventions into consideration. In a study of 140 codes of conduct in the OECD inventory, there was tremendous variation in the labour issues covered. Only three issues were dealt with in more than half the codes surveyed, namely: a general commitment to a reasonable working environment, an agreement to comply with local laws, and protection against discrimination or harassment. The ILO Core Conventions were specifically mentioned in only one in ten codes.
- The other major limitation of existing codes of conduct is a lack of independent monitoring. Of the 246 codes included in the OECD inventory, only just over 10% included provisions for independent external monitoring and only four out of 100 individual company codes had such provisions. It was with great enthusiasm, then, that labour groups and NGOs welcomed the August 13, 2003 adoption of the Draft Norms on the Responsibilities of Trans-national Corporations and other Business Enterprises with Regard to Human Rights (the "UN Draft Norms") by the United Nations Sub-Commission on the Promotion and Protection of Human Rights. The UN Draft Norms call on companies to "be subject to periodic monitoring and verification" by the UN or independent agencies, implying a level of

enforcement that goes significantly further than the voluntary compliance and reporting encouraged by the Global Compact.

- The proposed UN Draft Norms also go further than voluntary codes of conduct by stating that all private businesses, not just MNEs, should be legally required to comply with socially responsible standards. Currently, the UN Draft Norms are not legally enforceable, but they can be adopted with binding force by individual nation states or used as a guide in drafting domestic legislation. On April 16, 2004, the Commission on Human Rights ("COHR") affirmed that the UN Draft Norms have no legal standing, but requested that the High Commissioner of Human Rights "...compile a report setting out the scope and legal status of existing initiatives and standards relating to the responsibility of transnational corporations and related business enterprises with regard to human rights..."
- Employer groups argue that implementing the UN Draft Norms will cause a negative reaction from the business community at a time when companies are increasingly engaged in voluntary initiatives to promote responsible business conduct and that voluntary codes and guidelines, such as the UN Global Compact and the revised OECD Guidelines, are having a positive effect and should not be undermined by binding legislation.[42] Since 1992, when the United Nations abandoned negotiations on a Code of Conduct for Trans-national Corporations under pressure from the United States and the United Kingdom (among others), voluntary codes have seemed the most promising alternative.

- Proponents also point out that such codes are far less expensive to administer, since no bureaucracy is needed to oversee and enforce them. Instead, public scrutiny is said to do the job.

In view of how strong the profit motive is to businesses, we may wonder how realistic many of these cross-cultural moral principles are. Until a few hundred years ago, most philosophers believed that moral principles were pretty useless unless people believed in God and were afraid that God would punish them for evil deeds. In more recent times, social contract theorists argue that fear of punishment from governments is the only thing that will motivate us to follow moral principles. Perhaps we can generalize from these views and say that we may not follow even the best moral principles unless an external authority monitors our actions and punishes us when we go wrong. We can see the moral responsibility of multinationals in the same light. There are reasonable moral guidelines that multinationals should follow, such as those offered by Bowie and De George, which managers of multinationals can probably figure out on their own. Without an external monitoring authority, though, businesses may set them aside for reasons of profit. Fortunately, several external mechanisms are already in place to punish irresponsible multinationals. News organizations, the United Nations, international human rights groups, and environmental groups all take special interests in seeing that multinationals live up to high standards. All of these organizations have limited clout, though, and rely mainly on the threat of bad publicity to bring about change. But even this is effective since most large businesses believe that their reputation is their biggest asset.

In short, while private CSR standards may entail broad participation by diverse interests, they do not carry the weight or legitimacy of inter-governmental standards in defining substantive social expectations (for instance, the UN Global Compact). Further, private standards usually fall short of creating new substantive standards, and a "pick and choose" approach to interpreting governmental or intergovernmental standards may reduce or even obscure the full scope of the latter.

International CSR Standard By ISO

The idea of an internationally agreed CSR standard was raised as a serious possibility for the first time in 2001, with the International Organisation for Standardisation (ISO) then forming a taskforce to weigh the pros and cons of an international CSR standard. In June 2004, ISO adopted a decision to develop an international CSR standard - the objective was to produce "a guidance document, written in plain language which is understandable and usable by non-specialists" and not intended for use in certification.

The international CSR standard, which is planned for completion by 2007, will sit alongside other ISO voluntary standards such as the ISO 14000 and 9000 series.[1] Working on this CSR standard is another illustration of ISO broadening its scope from merely providing a growing portfolio of technical standards, to supplying solutions for social and environmental issues in the global economy. Progress towards developing a generally-agreed definition of how organisations should understand - and respond to - their social responsibilities has taken a small but significant step forward in Bangkok at the

2nd meeting of the International Organisation for Standardisation (ISO) Social Responsibility Working Group (SRWG). An ISO standard on social responsibility is well on track for completion by 2008 following a successful meeting in Bangkok, reports Paul Hohnen.(consultant on sustainable development and CSR policy issues).

In developing an international CSR standard, ISO has emphasised that it intends to add value to, and not to replace, existing inter-governmental agreements with relevance to social responsibility, such as those adopted by ILO and UN. The work, which will be carried out in a manner consistent with ISO's basic principles (including openness and transparency), will be of great interest to stakeholders such as consumers, workers, NGOs and regulators.

CHAPTER - 4

Corporate Social Responsibility - Theories and Models

The Corporate Social Responsibility (CSR) field presents not only a landscape of theories but also a proliferation of approaches, which are accepted, controversial, complex and unclear. In the literature, there are many theories from which CSR is borrowed and various models have been developed by distinguished analysts of CSR. The discussion on and around CSR as an approach, as an ethical practice whether, to be practiced or not in the interest of business only or for the achievement of the larger social objectives so on and so forth that drew the researcher's attention are presented hereafter.

A recent surge in media and academic interest in Corporate Social Responsibility (CSR) may suggest that theory of the corporation-society interface is a recent phenomenon. The reality is that a long list of authors since Adam Smith, and beyond, has exercised their minds on the subject. Nevertheless there are numerous unresolved theoretical and empirical issues in CSR and historically, academics have drawn on several existing theories to explain critique and study the area. Theories drawn on include: agency theory (Friedman, 1970); stakeholder theory (Freeman, 1984; Donaldson and Preston, 1995); institutional theory and classical economic theory (Jones, 1995); a resource-based-view-of-the-firm (Penrose, 1959; Barney, 1991; Wernerfelt, 1984; Hart, 1995); economic models of CSR (Baron, 2001; Feddersen and Gilligan, 2001) and; systems theory (Preston and Post, 1975) and may be many more according to the need for establishing relevance with one's own work.

The roots of present day CSR may be found as early as in the middle of the of 19th century. However it was not until the 1960s that the concept of CSR became much more fully developed concept. The table below illustrates the journey of 'social responsibility' approach for merely economic gains to incorporating larger social concerns and better quality of life for all.

Figure - 6

Development of CSR

Year	Type	Characteristics
1859-1900	Corporation is responsible to owners and managers only	A firm has primarily an economic responsibility to contribute to the society by making profit and produce goods and services while labor is a commodity to be bought & sold.
1900-1950	Corporation is responsible to owners, managers and employees	A firm's consideration of employees grows more than a mere factor of production as the firm has an obligation to provide a stimulating work environment and recognize employee rights as promulgated by employee unions.
1945-1965	Corporation is responsible to owners, managers, employee and other target environment.	A firm must supply complete product information to consumers and not engage in deceptive practices. Firms must not be abusive in their pricing policies and market unsafe product.
Since 1960 onwards	Corporation is responsible to owners, managers, employees, other target environment and public at large.	A firm must not degrade the environment. must provide opportunities to minority groups and actively work to promote social justice. A firm is a social institution as much as a legal and economic institution.

Source: Kolk 'Economics of Environmental Management (2000)

Hay and Gray (1977) point out that the corporate response to environmental and social issues has been studied by many pioneering authors, which several studies viewed as progressing through three stages. The three stages are profit maximization management, trusteeship management and "quality of life" management.

1. In the **profit maximization management** stage, the belief is that the individual's drive for maximum profits and the regulation of the competitive market would interact to create the highest aggregate wealth for a nation and result in a maximized public good.

The most extreme position on economic CSR and profit maximizing view was taken by Albert Carr (1996) in his classic Harvard Business Review article "Is Business Bluffing Ethical?" Carr said that the sole purpose of business is to turn out a product at a profit. Due to the prevalence of competition and negotiation, he viewed business people as having a lower set of moral standards than those in the rest of society have. He argued that business has the impersonal nature of an isolated game, like poker, in which anything goes within the accepted rules of the game (legally set by the government and the courts). Thus, the lower business ethics standards permit things like misstatement and concealment of pertinent facts during negotiations, lying about one's age on a resume, automobile companies' neglect of car safety—in short, "bluffing," i.e., deception. Those who don't play by the "rules of the game" will not be very successful in business. One's duties to the employer as a loyal agent override her other moral obligations. Carr's only standard of social responsibility above economics was obedience to the law. Like Carr, Friedman too advocated just economic values, not social values, which he felt to lie beyond the company's mandate to maximize shareholder value while acting legally, ethically, and (unlike Carr) honestly.

2. During the second stage of **Trusteeship management**, there was a shift, from the mere profit motive, to the focus of upholding of equality towards all the competing claims from stakeholders like customers, employees, creditors and the community et cetera. Major groups that put more pressure on business during this period were labor unions and national governments.

The concept of '**Trusteeship**', as propounded by Mahatma Gandhi, finds echo in the concept of 'Triple Bottom Line' impact of business. The religion and charity have always been linked in India with business, and people being nurtured in a social environment founded on the belief that 'giving' is good.

3. During the **"Quality of life"** management period, some new social concerns developed. This as a result from the problem that societies became drenched with goods and services because of the economic success. These other issues of concern were inequitable distribution of wealth, air and water pollution, de-graded landscapes et cetera. Enhanced focus about the inherent trade-offs between economic gains and declining social and physical environments emerged in every business discussion. Business was now expected to assume responsibilities beyond the area of

economic considerations, and attempt to be proactively responsive to social and environmental issues in order to improve social concerns.

In the traditional paradigm, most corporate bodies viewed CSR as the extension of a financial input for a humanitarian cause. However, the contemporary context is more complex: "A company that undertakes activities aimed at communities (be they philanthropic, social investment or commercial initiatives) but does not comply with business basics and ethics cannot be termed socially responsible." (Harish S& ShankarV.)

In the corporate social responsibility literature, 'social responsibility is often employed as a synonym for a business's or business person's ethical obligations. A business's or business person's ordinary responsibilities are to manage the business and expend business resources so as to accomplish the specific purposes for which the business was organized. In the case of a business organized for charitable or socially beneficial purposes (e.g., nonprofit corporations such as the Red Cross or the Nature Conservancy and United Way in which the stockholders pass resolutions compelling charitable contributions), it is a manager's ordinary responsibility to attempt to accomplish these goals. Even when a business is organized strictly for profit, it may be part of a business person's ordinary responsibilities to expend business resources for socially beneficial purposes when he or she believes that such expenditures will enhance the firm's long-term profitability (e.g., through the creation of customer goodwill).

Reference Theories and Corporate Social Responsibility Models:

As several theoretical frameworks have been used to examine CSR, the concept of CSR is derived from varied concepts and theories such as legitimacy theory, concepts of social contract and public responsibility, stakeholder theory, business ethics and corporate citizenship etc (Waldon and Schwartz 1997). Historically, the normative theories of business ethics grew out of the literature on corporate social responsibility. Business ethics has come to be considered a management discipline, especially since the birth of the social responsibility movement in the 1960s. In that decade, social awareness movements raised expectations of businesses to use their massive financial and social influence to address social problems such as poverty, crime, environmental protection, equal rights, public health and improving education. An increasing number of people asserted that because businesses were making a profit from using our country's resources, these businesses owed it to our country to work to improve society. Many researchers, business schools and managers have recognized this broader constituency, and in their planning and operations have replaced the word "stockholder" with "stakeholder," meaning to include employees, customers, suppliers and the wider community.

Theory from Business Ethics: Throughout history there has been argued whether ethics in business may be more tolerant than social and personal ethics. Basically there are two different views: **the theory of amorality and the theory of moral unity.** The theory of amorality means that business should act amorally and carry out their business activities without reference to the full range of ethical standards and ideals that is present in the society. The theory of moral unity holds that business activities should be judged by the general accepted ethical standard in the society, not by a special set of more tolerant standards (Steiner & Steiner, 2005).

In the theory of amorality, desire to succeed can be an excuse to neglect ethical standards, and actions are seen as good if they make money, even if they brake an ethical standard. Followers to the theory of moral unity, on the other hand, claims that "Ethical conflicts can not be avoided simply because they arise in the course of business" (Steiner & Steiner, 2005, p. 183).

Thus, the field of business ethics is trapped between two competing and flawed conceptions of corporate responsibility. On the one hand is the shareholder value model, championed by Nobel Prize winning economist Milton Friedman, which claims that corporations owe positive moral obligations only to their shareholders. On the other hand is the normative stakeholder theory, which claims that corporations are morally obliged to secure the interests of a broad range of groups, of which shareholders are only one. And as with any process based on the collective activities of communities of human beings (as companies are) there is no "one size fits all". In different countries, for different companies there are different priorities, and values that shape how business act.

Some Of The Theories Against CSR

Theodore Levitt could be credited with setting the agenda for the debate about the social responsibility of business in his HBR article "The Dangers of Social Responsibility," in which he cautions that "government's job is not business, and business's job is not government" (1958, p. 47). The business was created for the purpose of increasing its shareholders wealth. The state sanctioned the enterprise by granting it a corporate charter. It is logically inconsistent to claim that an artificial creation of the state is more perceptive in assessing social responsibility than the state's legally appointed representatives who were instrumental in the creation of the firm.

Milton Friedman (1970) expressed the same sentiment and added that the mere existence of CSR was a signal of an agency problem within the firm. **An agency theory** perspective implies that CSR is a misuse of corporate resources that would be better spent on value-added internal projects or returned to shareholders. Under agency theory, corporate agents are authorized by shareholders to increase shareholder value. To the extent that corporate agents exceed that authority, they not only violate their employment arrangement, they also undercut the free enterprise system through their intervention in social welfare issues and circumvention of public policy and political processes. It also suggests that CSR is an executive perk, in the sense that managers use CSR to advance their careers or other personal agendas. By undertaking actions that are not consistent with increasing shareholder value opens a venue for individuals to divert wealth from shareholders to others. This is a road to managerial corruption.

Shareholder Theory

Shareholder theory was, and in many business circles still is, a way to understand the responsibilities of corporations to the community at large. Often defined as the "Friedman Paradigm" after its proponent, Milton Friedman, shareholder theory argues that a corporation's social responsibility is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

The neo-classical economist Milton Friedman argued in an oft-quoted article published in 1970 that "the business of business is business" and that corporate social responsibility was a "fundamentally subversive doctrine." He went on to observe:

[Businessmen who believe that] business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers... are ... preaching pure and unadulterated socialism.

Friedman's approach labelled by some as "fundamentalism," embodies the rejection of corporate personhood. He dismissed the idea that corporations are social, and argued that they can have no responsibilities because they are only "artificial persons." Only human actors – in this case, executives – can have responsibilities, and those corporate responsibilities relate exclusively to shareholders. Friedman argued that spending corporate money on social causes amounted to taxation – either in the form of lower shareholder returns or higher consumer prices – and redistribution: (Friedman 1970).

Friedman's paradigm has found limited acceptance in the CSR and Business Ethics literature, as it is said to be based only on economic aspects of business. It is an ethical egoist approach stating that the corporation is to be managed for the sole interest of just one group needs rejection. Using a utilitarian approach that the corporation is to be run for the benefit of only the stockholder group because this will maximize 'the greatest good for the greatest number' is also rejected in the CSR literature.

According to Evan and Freeman (1993), "The corporations are to be managed under the principle of 'respect the human dignity' considering persons as ends in themselves. The corporation serves at the pleasure of its stakeholders and none may be sacrificed as a means to the ends of another without participatory rights". The logic is that the corporation is forum for stakeholder interaction. The interest of all stakeholders outweighs those of any one individual or group. Management acts as a fiduciary to the whole forum. When, management works on shareholder theory as in case of Enron, just to protect stockholders' interest, it reflects absolute disregard for the interest of the other stakeholder groups. In the case of Enron, as a result the loss was in terms of destroyed careers of many executives meaning to loss of livelihood for many others. With this debate, Friedman's views about the social role of the corporation hold little currency today.

Theories that Support CSR

Legitimacy Theory:

According to theory of organizational legitimacy, a business is operating under a mandate from the society, which could be withdrawn if a business is seen not to be doing the thing the society expects of it (Woodward et al 2001). CSR is seen as a contractual obligation a company has towards society. The notion of the social contract implies that a company operates in a society via an implied social contract. It is society that has permitted a company to use natural and human resources and has given it the right to perform its productive function to attain its power status (Donaldson, 1983). However society's license for a company to operate is not permanent and organizational survival and company's growth are based upon this type of social contract. Therefore a company must constantly evolve and adapt to the changing needs and expectations of society and must meet the test of legitimacy and seek society's approval (Patten; 1991).

Legitimacy Theory stresses the way company management reacts to community expectations and may include pollution prevention and remediation of the physical environment, assurance to health and safety to employees and customers and those who reside in the nearby communities where products are manufactured and wastes are dumped, as well as responsibility in relation consequences of unemployment through technological innovation or plant closure (Patten 1991). The theory implies that given the growth in community awareness and concern that companies will take measures to ensure their activities and performances are acceptable to society and meet society's wider and growing expectations (Walder and Schwartz 1997;Wilmshurst and Frost 2000).

This theory has embodied elements of the Social Contract Theory and the Stakeholder Theory.

Social Contract Theory

Social contract theory (or contractarianism) is one approach used to explain the operation of the Stakeholder Theory. It is a concept used in philosophy, political science, and sociology to denote an implicit agreement within a state regarding the rights and responsibilities of the state and its citizens, or more generally a similar concord between a group and its members, or between individuals. All members within a society are assumed to agree to the terms of the social contract by their choice to stay within the society without violating the contract; such a violation would signify a problematic attempt to return to the state of nature. It has been often noted, indeed, that social contract theories relied on a specific anthropological conception of man as either "good" or "evil". The basic idea is a simple one. What makes some particular system of collectively enforced social arrangements legitimate is that it is the object of an agreement for the people who are subject to it. In the case of a literal contract -- say for an exchange of goods -- each of the parties has reason to honour the terms of the contract either in the (bare) fact of having agreed to its terms (under certain circumstances) or in the fact of its terms being agreeable ones. Similarly, in the case of a social contract, each of the parties has reason to honour h/er responsibilities under the terms of the contract -- e.g. to pay taxes, conform to laws, participate in decision-making, etc. -- either on account of h/er agreement to do so, or, perhaps, on account of its being reasonable that s/he do so.

In essence the social contract theory is an agreement whereby people accept certain restrictions on them for the benefit of society. Often such restrictions are enforced by a 'sovereign (or political) ruler' and usually take the form of laws. At the heart of social contract theory the simple assumption is that we can better understand the obligations of key social institutions, such as business and government, by attempting to understand what a fair agreement or "contract" between those institutions entails.

Social contract theorists observe that business decisions often impact large numbers of individuals, groups, or institutions, i.e., stakeholders. Stakeholders include: (1) any individuals or groups affected by the organization's actions, policies, and decisions. (they have a stake in outcome of the company's decisions), as well as (2) any individual or group who is vital to the survival and success of the enterprise (Freeman, 2001).

These theorists see corporations as acting within the boundaries of an implicit agreement with the rest of society, an agreement that is constantly evolving. As societal values change, so do the rules by which corporations must abide. Corporate social contract theorists envision a 'moral floor' that limits corporate actions. They argue that legal constraints alone are insufficient to ensure a minimum acceptable level of socially responsible behavior by firms.

They must be supplemented by constraints on corporate behaviour that are built into the implicit "contract" between the firm and society. (Wexler 2000).

Stakeholder Management Theory

Another theoretical approach that originates largely in the business ethics literature is the "stakeholder" concept that is an "offspring of social contract theory,"and tightly linked with the legitimacy theory. It represents the most influential set of ideas affecting the way that corporations currently practice CSR. The stakeholder-management model minimizes the vagueness of the social contract approach by identifying specific constituents with which the corporation interacts and to whom it owes responsibility.

Despite the lack of consensus on many aspects of stakeholder theory, and a lack of sophisticated understanding of the dynamics within stakeholder groups, stakeholder management theory has proven over time to be of considerable practical relevance. Over the past 20 years, the stakeholder approach has gained legitimacy among management theorists and corporate leaders alike, and has contributed to a "refocusing on a broad set of stakeholder relationships rather than a narrow set of purely economic relationships."

The original stakeholder concept appeared in traditional management through the work of scholars such as Dill(1958) and Aoki(1984) but most of the elaborations and extensions of the concept has appeared in the business ethics literature by Freeman (1984), Caroll (1989); Goodpaster (1991). Donaldson and Preston(1995) have provided a framework for understanding this diffuse literature by classifying it into three branches; "normative", "descriptive" and "instrumental" branches. The normative stakeholder seeks to justify and identify recognizable ethical obligations on the part of firms to respond to the legitimate interest of corporate stakeholders (Kuhn and Shriver1991;Hosseini and Brenner,1992). The instrumental approach establishes a framework for examining the connections, if any between the practice of stakeholder management and the achievement of various corporate performance goals (Preston and Sapienza 1990, Preston et al 1991, McGuire et al 1988). The descriptive stakeholders approach seeks to determine the extent to which firms can be described accurately in terms of stakeholder concept or to what extent extant law requires, or is at least supportive of such approaches (Orts 1992).

In the later part of 1990s a decisive stakeholder approach was emphasized stating 'a company through its policies and operations can impact upon various stakeholder groups. The company may encounter demands from them to devote resources to meet its responsibilities'. (Buchhoiz 1998, MacWilliams and Siegel 2001). Henriques and Sadorsky (1999) classify corporate stakeholders in to four groups.

1. Organisational- that includes customers, shareholders, suppliers and employees.
2. Community- local residents and special interest groups.
3. Regulatory- municipalities, regional & central governments, regulatory systems and
4. Media scholars.

Stakeholder theory emphasizes the necessity for companies to consider the needs, interests, and influence those affected by their policies and operations. Stakeholder management involves taking the concerns of these various individuals and groups in to account in a process of decision making, so they can be satisfied to some extent, at least the most of them(Buchholz 1998).

The greatest elaborations of this approach has been in the work of Ed Freeman (Freeman and Reed 1983, Freeman 1984, 1991 Freeman and Gilbert 1987, Evan and Freeman 1988, Freeman and Evan 1990).

The concept has now reached a watershed in which certain critical normative questions need to be resolved before it can achieve full status as a specialised " theory" of business ethics. The issues raised or controversial are....

- What serves to justify a particular claim by a stakeholder as a stakeholder....?
- It is critically unclear that at the time of competing interest of two sets of stakeholders, whose interest is more legitimate....?

The Stakeholder theory has critiques other than its supporters. Jennings (1998) asserts that Stakeholder Theory is about business strategy and not business ethics. She argues that it fails as an ethical theory because it suffers from "sloppy imprecision" in formulation of how many stakeholders there are or may be. Kaler(2002) categorises one classification of stakeholder definitions as being "influencer" based, requiring the stakeholder status is achieved by any interest group that has capacity to influence the workings of a business. This is a very expensive formulation since " just about anyone in any sort of casual interaction with a business is going to be capable of influencing (or being influenced by) its operations". Kaler lists competitor firma and terrorists as stakeholders under this definition. Jennings,(1998) making fun of such an expansive definition, lists good friends in Mister Rogers' neighbourhood and all the fowls in the air and creatures in the sea and critters in our woodlands". She reminds that the other scholars have expressed similarly wild views including Singer (1993) who includes dogs, Starik (1993) who includes slaves, indigenous people, women, minorities, the homeless, abused children and political prisoners – all of whom have been "affected" by corporation actions and therefore, should be stakeholders and Stone (1972) who, in describing who should have legal rights, includes a cluster of deciduous trees, a star filled evening, or a pool of diving whales. Kaler (2002) rejects previous definition and argues that the proper list is a "claimant definition", requiring that "stakeholders in a business have to be people with a role specific, strong or weak, morally legitimate claim to have their interest served by that business"

Above discussions make the researcher conclude that,

- While the Stakeholder Theory is not simple or easy to be accepted by all, many corporations understand and undertake the corporate community relations interdependent to business success.
- Stakeholder Theory suggests "common good" of the society at large through. prime business activity of 'Profit Making'

Resource-Based Theory.

Resource-based theory (RBT) has developed in a variety of business disciplines – from strategic management (and strategic Human Resource Management – see Wright et al, 2001) to studies of finance and corporate governance (see Jacoby, 2005). RBT's utility in the CSR literature lies in its capacity to explain firstly, why a strong CSR orientation may be a source of competitive advantage and secondly, why some firms are more committed than others to CSR issues. RBT essentially posits that competitive advantage in contemporary organizations often lies in the internal combination of unique firm resources, capabilities, competencies and tacit knowledge. As Jacoby (2005, p97) has explained, RBT has the effect of shifting strategic thinking away from pure market factors towards developing inimitable firm characteristics including unique human capital or a distinctive corporate culture. In Jacoby's (2005, p98) view, 'the resource-based approach is consistent with a stakeholder orientation' since it requires firms to make longer term investments in employees and develop strong relationships with suppliers, customers and communities in which the firm does business.

RBT is helpful in explaining differing levels of commitment to CSR and in identifying some of the economic incentives that are encouraging firms to address CSR seriously.

Various Models of CSR

The Caroll'S CSR Model

Carroll (1979, 1991) and Wood (1991) have contributed to building definitions of the different levels at which organisations respond to their corporate social responsibilities. These levels of responsibility are defined as follows:

Levels of Responsibility

1. ***Economic Level*** : Organisation produces products and services that society wants and sells them at a profit.

2. ***Legal Level*** : Organisation obeys all the laws and rules applied by the state. (E.g.tax, regulation, etc.)

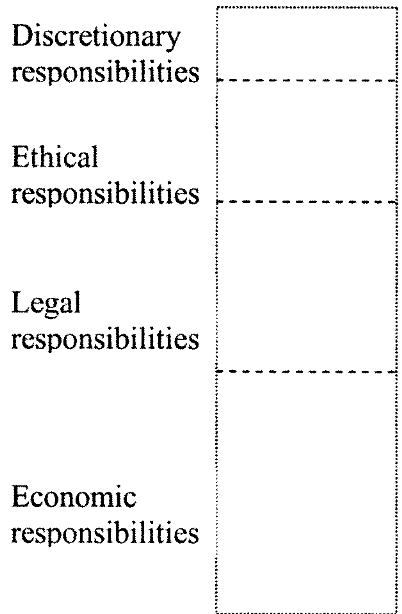
3. ***Ethical Level*** : Organisation views it as its responsibility to satisfy society's expectations of business to go beyond basic legal requirements and do what is just and fair, and their practice is reflective of this.

4. ***Discretionary Level*** : Organisation goes beyond stakeholder views of what is just and is an exemplary corporate citizen.

Carroll (1979) first delineated the now-familiar four categories of CSR in a paper on corporate social performance, depicting them as ordered layers which he labelled economic, legal, ethical and discretionary responsibilities (see Figure 6.1).

Figure 7.1

Social Responsibility Categories (Carroll, 1979)



Carroll (1979) explained that the four classes "are simply to remind us that motives or actions can be categorized as primarily one or another of these four kinds". The order and relative weighting was "to suggest what might be termed their fundamental role in the evolution of importance". In its first conception, therefore, the framework took a retrospective developmental perspective, based on the claim that "the history of business suggests an early emphasis on the economic and then legal aspects and a later concern for the ethical and discretionary aspects".

Figure 7.2

The Pyramid of Corporate Social Responsibility (Carroll, 1991)

Carroll (1991) organized different corporate social responsibilities into a four-layered Pyramid model, called the pyramid of responsibilities. The four different responsibilities are economical, legal, ethical and philanthropical. The pyramid is constructed in a way that one kind of responsibility cannot be achieved if another responsibility located beneath it in the pyramid model is absent. Carroll (1998) stresses that the pyramid of responsibilities has a global reach, resulting in that multinational corporations operating in a globalized economy should practice global corporate citizenship. (cited in Windsor, 2001).

More recently Carroll (2004) implemented the notion of stakeholders in the pyramid of responsibilities model. Carroll makes clear that economic responsibility means doing what is required by global capitalism, legal responsibilities seize that corporations do what is required by global stakeholders, ethical responsibility means to do what is expected by global stakeholders while philanthropic responsibility means to do what is desired by global stakeholders (CSR Quest, 2006).

Describing and explaining the pyramid of corporate social responsibility Carroll (1991) notes that it; "- - - portrays the four components of CSR, beginning with the basic building block notion that economic performance undergrads all else. At the same time, business is expected to obey the law because the law is society's codification of acceptable and unacceptable behaviour. Next is business's responsibility to be ethical. At its most fundamental level, this is the obligation to do what is right, just and fair, and to avoid or minimize harm to stakeholders (employees, consumers, the environment and others). Finally, business is expected to be a good corporate citizen. This is captured in the philanthropic responsibility, wherein business is expected to contribute financial and human resources to the community and to improve the quality of life."

As Carroll's CSR Pyramid is both a durable and useful model for defining and exploring CSR, the criticism of the model also exists in the literature pertaining to CSR.

Carroll is not consistent in his explanation of why CSR is depicted as a hierarchy. Sometimes, he suggests it is the way CSR has developed historically (Carroll, 1979, 1991), other times he uses it to depict an order of dependence

(Carroll, 1991, 2004), and his empirical evidence implies yet another rationale, namely that it reflects the relative perceived importance assigned by managers (Edmondson et al., 1999; Pinkston et al., 1994, 1996). He even suggests at one point that the model was simply conceived to make the point that these various obligations (economic and ethical) should be fulfilled simultaneously (Carroll, 2000).

Although these criticism suggests limitation of his model, he himself has expressed and cautioned that ; "No metaphor is perfect, and the CSR pyramid is no exception. It is intended to portray that the total CSR of business comprises distinct components that, taken together, constitute the whole. Though the components have been treated as separate concepts for discussion purposes, they are not mutually exclusive and are not intended to juxtapose a firm's economic responsibilities with its other responsibilities." (Carroll 1991:42)

Carroll (1998) appeared to briefly retract his controversial equating of philanthropy with corporate citizenship and to abandon his pyramid concept by reconceiving his model as "the four faces of corporate citizenship", but soon returned to his original construct (Carroll, 2000). Most recently Carroll (2004) reproduced his 1991 CSR pyramid once again, but this time attempted to incorporate the notion of stakeholders, in terms of which economic responsibility contains the admonition to "do what is required by global capitalism", legal responsibility holds that companies "do what is required by global stakeholders", ethical responsibility means to "do what is expected by global stakeholders", and philanthropic responsibility means to "do what is desired by global stakeholders".

Keith Davis Model

(Davis, L. (1975). "Five Propositions for Social Responsibility." Business Horizons June: 19-24.)A model of corporate social responsibility that was developed by Keith Davis provides five propositions that describe why and how businesses should adhere to the obligation to take action that protects and improves the welfare of society and the organization:

- Proposition 1: Social responsibility arises from social power.
- Proposition 2: Business shall operate as an open system, with open receipt of inputs from society and open disclosure of its operation to the public.
- Proposition 3: The social costs and benefits of an activity, product, or service shall be thoroughly calculated and considered in deciding whether to proceed with it.
- Proposition 4: Social costs related to each activity, product, or service shall be passed on to the consumer.
- Proposition 5: Business institutions, as citizens, have the responsibility to become involved in certain social problems that are outside their normal areas of operation.

The areas in which business can become involved to protect and improve the welfare of society are numerous and diverse. Some of the most publicized of these areas are urban affairs, consumer affairs, environmental affairs, and employment practices. Although numerous businesses are involved in socially responsible activities, much controversy persists about whether such involvement is necessary or appropriate. There are several arguments for and against businesses performing socially responsible activities.

The best-known argument supporting such activities by business is that because business is a subset of and exerts a significant impact on society, it has the responsibility to help improve society. Since society asks no more and no less of any of its members, why should business be exempt from such responsibility? Additionally, profitability and growth go hand in hand with responsible treatment of employees, customers, and the community. However, studies have not indicated any clear relationship between corporate social responsibility and profitability.

CSR Model By S. Prakash Sethi.

It presents three management approaches to meeting social obligations:

1. ***The social obligation approach*** - The social obligation approach, for example, considers business as having primarily economic purposes and confines social responsibility activity mainly to conformance to existing laws. It is being accountable to stockholders and legal requirements.
2. ***The social responsibility approach*** - The socially responsible approach sees business as having both economic and societal goals. It accepts broader measures of corporate performance that include a social dimension.
3. ***The social responsiveness approach*** - Accepts its role as defined by society and is willing to account for its actions to other groups, including legislators.

Social responsiveness is the degree of effectiveness and efficiency an organization displays in pursuing its social responsibilities. The greater the degree of effectiveness and efficiency, the more socially responsive the organization is said to be. The socially responsive organization that is both effective and efficient meets its social responsibilities without wasting organizational resources in the process. Determining exactly which social responsibilities an organization should pursue and then deciding how to pursue them are perhaps the two most critical decision-making aspects of maintaining a high level of social responsiveness within an organization. That is, managers must decide whether their organization should undertake the activities on its own or acquire the help of outsiders with more expertise in the area.

In addition to decision making, various approaches to meeting social obligations are another determinant of an organization's level of social responsiveness. A desirable and socially responsive approach to meeting social obligations involves the following:

- Incorporating social goals into the annual planning process
- Seeking comparative industry norms for social programs
- Presenting reports to organization members, the board of directors, and stockholders on progress in social responsibility
- Experimenting with different approaches for measuring social performance, and
- Attempting to measure the cost of social programs as well as the return on social program investments

Each of Sethi's three approaches contains behaviour that reflects a somewhat different attitude with regard to businesses performing socially responsible activities. The social responsiveness approach considers business as having both societal and economic goals as well as the obligation to anticipate upcoming social problems and to work actively to prevent their appearance.

Organizations characterized by attitudes and behaviours consistent with the social responsiveness approach generally are more socially responsive than organizations characterized by attitudes and behaviours consistent with either the social responsibility approach or the social obligation approach. Also, organizations characterized by the social responsibility approach generally achieve higher levels of social responsiveness than organizations characterized by the social obligation approach. As one moves from the social obligation approach to the social responsiveness approach, management becomes more proactive. Proactive managers will do what is prudent from a business viewpoint to reduce liabilities whether an action is required by law or not.

Ackerman/Bauer Model of Corporate Responsiveness

This model represents three Phases with three levels of management: CEO, Staff specialists, and Division management.

Concept of social responsiveness emerged as an attempt to escape the unresolved dilemmas that emerged from the social responsibility debate. The focus shifted from moral issues to the way corporations respond to social problems.

Phase 1: The chief executive officer recognizes a social problem to be important, develops an up-to-date company policy, and increases the awareness of the policy's purpose to operating units that carry out the policy.

Phase 2: Staff specialist is appointed to examine the issue and coordinate the corporation's response to the social problem. A specialist develops information and mediates between operating divisions and external organizations, including government.

Phase 3: Division management establishes procedures, reward systems for compliance, performance measurements, etc. as the policy becomes institutionalized.

Shortcomings Of Corporate Responsiveness

1. How should resources be allocated in response to social problems?
2. What pattern of responsiveness produces the greatest social betterment?
3. What is the role of government in the social response process?
4. The concept ignores normative "moral" issues in terms of management-oriented responses without an ethical or moral basis for actions.

CSR Model By Geoffrey P. Lantos (2001)

He proposes three models of CSR: Ethical CSR, Altruistic CSR, and Strategic CSR.

Ethical Model : CSR is morally mandatory and goes beyond fulfilling a firm's economic and legal obligations, to its responsibilities to avoid harms or social injuries, even if the business might not benefit from this.

Ethical CSR involves fulfilling the firm's ethical duties. This is "social responsibility" in the sense that a corporation is morally responsible to any individuals or groups where it might inflict actual or potential injury (physical, mental, economic, spiritual, and emotional) from a particular course of action. Any organization not adhering to its ethical responsibilities would be acting as a morally irresponsible agent. Although harms cannot always be avoided, they should be minimized where feasible. However, experience, anecdotal evidence, and empirical evidence reveal that in the long run "good ethics is good business."(Lantos: 2001).

- First, moral behaviour builds trust and enhances the firm's reputation, which attracts customers, employees, suppliers, and distributors, not to mention earning the public's goodwill.
- Second, ethical actions minimize the cost of fines and litigation, not to mention the bad publicity that unethical actions often attract, especially with today's instantaneous, global communications and media.

The origins of the first ethical model of corporate responsibility lie in the pioneering efforts of 19th century corporate philanthropists such as the Cadbury brothers in England and the Tata family in India.

The pressure on Indian industrialists to demonstrate their commitment to social progress increased during the Independence movement, when Gandhiji developed the notion of, 'trusteeship' whereby the owners of property would voluntarily manage their wealth on behalf of the people. Gandhiji's influence prompted various Indian companies to play active roles in nation building and promoting socio-economic development during the 20th century. The history of Indian corporate philanthropy has encompassed cash or kind donations, community investment in trusts, and provision of essential services such as schools, infirmaries, etc. Many firms, particularly 'family-run businesses', continue to support such philanthropic initiatives.

In India the Tata Group, India's largest industrial and technological conglomerate with vast holdings in iron and steel, power utilities, and textiles was founded by Jamshedji Nusserwanji Tata in 1868. He believed in and set the path for 'trusteeship management' through his company's business operations. The Group built the first steel mill in India in 1911 at Jamshedpur, India's first planned industrial city. The owners of property would voluntarily manage their wealth on behalf of the people.

Altruistic or humanitarian CSR suggests genuine optional caring, even at possible personal or organizational sacrifice. Altruistic (humanitarian, philanthropic)CSR. involves contributing to the common good at the possible, probable, or even definite expense of the business. Humanitarian CSR has firms go beyond preventing or rectifying harms they have done (ethical CSR) to assuming liability for public welfare deficiencies that they have not caused. This includes actions that morality doesn't mandate but which are beneficial for the firm's constituencies although not necessarily for the company. Humanitarian CSR is Carroll's "fourth face" of CSR— philanthropic responsibilities—to be a "good corporate citizen" by "giving back" to society, furthering some social good, regardless of whether the firm will financially reap what it has spiritually sown. It demands that corporations help alleviate "public welfare deficiencies" (Brenkert, 1996, p. 525), such as urban plight, drug and alcohol problems, poverty, crime, illiteracy, lack of sufficient funding for educational institutions, inadequate moneys for the arts, chronic unemployment, and other social ills within a community or society. The business has no "moral obligations," only alleged "social obligations" (DeGeorge, 1990, p. 168). Humanitarian CSR is based on capability responsibility—the company has the resources to be able to do social good. In some peoples' thinking it is also founded on role-related responsibility—companies and their professionals are participants in the social contract.

Strategic CSR or "strategic philanthropy" (Carroll, 2001, p. 200) is done to accomplish strategic business goals—good deeds are believed to be good for business as well as for society. With strategic CSR, corporations "give back" to their constituencies because they believe it to be in their best financial interests to do so. This is "philanthropy aligned with profit motives" (Quester and Thompson, 2001).

Social goals might be profitable in the long run since market forces provide financial incentives for perceived socially responsible behaviour. Stakeholders outside the stockholder group are viewed as means to the ends of maximizing shareholder wealth (Goodpaster, 1996). Such strategic philanthropy grew popular beginning around the mid-1980s (Jones, 1997), and Carroll (2001) expects it to grow in the years ahead. The idea is that while being socially responsible (and ethical, too) often entails short-run sacrifice and even pain, it usually ultimately results in long-long-gain.

Expenditures on strategic CSR activities should properly be viewed as investments in a "Goodwill Bank" (Vaughn, 1999, p. 199) which yields financial returns (McWilliams and Siegel, 2001). These long-term benefits might not immediately show up on a firm's financial statements, as is true of economic outcomes of many marketing activities, such as marketing research and image-building advertising.

The Community Service View And Communitarianism

This most-developed version of CSR demands that corporations help alleviate "public welfare deficiencies," that is., problems such as drugs, poverty, crime, illiteracy, under-funded educational institutions, chronic unemployment, et cetera. (Brenkert, 1996). Whereas the economic, legal, and ethical obligations are mandatory, philanthropic responsibility is desired by society, that is, it is optional in that it is not expected with the same degree of moral force (Carroll, 2001) since corporations are not causally responsible for the deficient conditions they are attempting to rectify. However, there are increasing pressures and rising expectations for such altruistic CSR because there has been a decline in the social institutions that have traditionally tied communities together, viz. families, religious organizations, and neighbourhoods, along with higher mobility, and so it many people believe that it is business' obligation to help fill the void (Carroll, 2001).

According to communitarianism, society is more than the sum of the individuals in it. The communitarian ethic is based on the view that, in a socially interdependent society, no manager can act ethically without considering the claims of others. While managers have direct obligations to stockholders and employees, they must also recognize other claimants (e.g., customers, suppliers, and the community itself from which the corporation derives its existence).

Communitarianism is closely related to social contract theory and emphasizes the social nature of the corporation which exists as the result of a highly implicit and flexible contract that determines its duties and rights. The corporation is portrayed as responsible to and subject to the will of society (i.e., the people). Both the state and the law are creatures of society. Since, from the perspective of communitarians, corporations are created by the government which, in turn, owes its existence to society, it follows that corporations are actually made by society and are responsible to the public to serve whatever is deemed to be in the public interest or for the common good. Since the corporation only exists because of social permission, society is said to be able to legitimately demand that a corporation perform certain activities that the owners and managers do not wish to perform.

During the 20th century, society has been reassessing its expectations of corporations and has pressured them to balance profit-making with social responsibility. Communitarians believe that corporations should be socially responsible both out of gratitude for their existence and a moral sense of reciprocation for benefits received from society, including the purchase of their goods and services and the access to, and use of, public goods. In essence, the corporation is viewed as more like common property than as private property. Some communitarians even propose that the corporation be brought under government control to assure the common good.

These are the various views given by some of the legendry and contemporary thinkers and theorists suggesting universal application of Corporate Social Responsibility as an approach to socially responsible behaviour of any organization. These varied approaches to CSR can be directly linked to dynamic social and political forces shaping the context in which corporations act. These forces have transformed the role of the corporation in society, and society's expectations of its behavior. Understanding these forces may help corporations respond more effectively to the demands of various stakeholder groups. Although this fundamental shift in perspective was induced by globalization, its impact is felt by both national and multinational corporations. These concerns have resulted in greater scrutiny of corporate activities and scepticism about their motives. Globalization has reinforced the notion that we live in a shrinking and increasingly "boundary-less" world, forcing us to rethink notions about the dividing line between business and society, between what is "private" and what is part of "the community."