THE INTERNATIONAL JOURNAL OF HUMANITIES & SOCIAL STUDIES

Interlinkage of Theories of Corporate Governance with Corporate Social Responsibility: An Exploratory Study

Dr. Avantika Raina
Assistant Professor, School of Business Studies,
Vivekananda Institute of Professional Studies (VIPS) affiliated to GGSIP University, New Delhi, India

Abstract:
Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfil its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term.
Corporate governance is based on principles such as conducting the business with all integrity and fairness, being transparent with regard to all transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner. The Director's just being the guardian of other people's money cannot be expected to guard it as the partners in a private co-partner firm will; therefore the anxiousness of the shareholders is valid while selecting the directors to ensure the responsibility and trust for higher return on investment.
This paper tries to look at a few theories which have their base in economics, trusteeship, Human Rights et al. and that try to resolve the problem of separation of ownership and control and perform social responsibility within business activities.

Key Words: *Corporate Social Responsibility (CSR), Corporate Governance (CG), Director, Return On Investment (ROI), Ownership, Trusteeship, Human Rights*

1. Introduction

1.1. Corporate Governance
Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfil its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term. Stakeholders in this case would include everyone ranging from the board of directors, management, shareholders to customers, employees and society. The management of the company, hence assumes the role of a trustee for all the others.
Corporate governance is based on principles such as conducting the business with all integrity and fairness, being transparent with regard to all transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner. Another point which is highlighted in the SEBI report on corporate governance is the need for those in control to be able to distinguish between what are personal and corporate funds while managing a company.
The directors of companies, being managers of other people's money than their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private co-partner frequently watch over their own'. This statement clearly describes the apprehensions of the shareholders when they select the directors and entrust upon them the responsibility to ensure regular higher returns on their investment. Therefore, let us look at a few theories that try to resolve the problem of separation of ownership and control and perform social responsibility within business activities:
- Agency theory
- Stewardship theory
- Shareholder versus stakeholder theory
- Transaction cost theory
- Sociological theory

1.2. Agency Theory

The agency theory describes the economic relationship that arises between two individuals, one being the principal and the other being the agent. In a corporate scenario, the principal stakeholders/shareholders are the principal and the directors/managers are the agents. This relationship mainly requires three conditions to operate:[i]

i. The agent has the freedom to choose between several courses of action, e.g., in an organization, the managers can choose various ways of utilizing the assets as they have
ii. Effective control over the assets, but keeping in mind the interest of all the stakeholders within an organization.
iii. The actions of agents influence their own growth (through more stability and better remuneration) and also the growth of principals (through rise in share prices, dividends, etc.).
iv. As a result of the geographical spread or complexity of activities, it becomes extremely difficult for the principals to observe the actions of the agents as information is not enough or equal. The crux of the agency theory is doing the things which are in best interest of the various stakeholders.

Figure 1

1.3. Stewardship Theory

This theory is built on the premise that the directors will fulfill their fiduciary duties to the shareholders. It assumes that human beings by nature are good and therefore directors are basically trustworthy. Personal reputation holds a very significant place in the directors/managers behavior; hence they would not indulge in any activity that could damage their self-respect. This theory centre's on the situations in which directors are stewards whose motives are aligned with the objectives of their principals.[ii]

Directors need to take into account the well-being of all the stakeholders of the organization, since they are serving as stewards, but under the law their first responsibility is to the shareholders. This is where governance has to incorporate corporate social responsibility. It is believed that the control of the stewards through rules can be detrimental because it undermines the pro-organizational behavior of the steward by lowering his/her motivation. In fact, the trust reposed on the directors underpins company laws and governance codes.

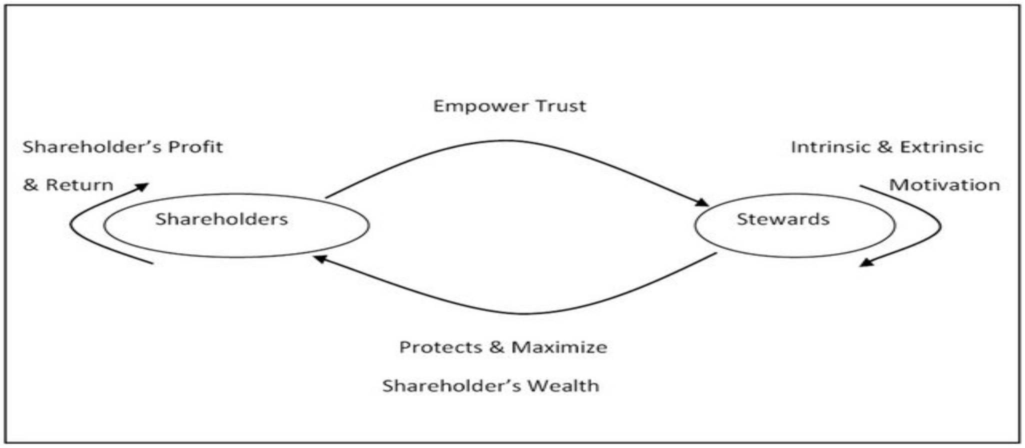

Figure 2

---

[i] Donaldson, L. and J.H. Davis (1991), "Stewardship Theory or Agency Theory – CEO Governance and Shareholder Returns" *Australian Journal of Management*, vol. 16 (1), p-62.
[ii] *Ibid.*

The Figure shows Stewardship concept and suggests that successful organization leads to happiness and hence motivate stewards, not individual success or goals attained (Abdullah and Valentine.
Source: Abdullah and Valentine [2].
H. Abdullah and B. Valentine, "Fundamental and Ethics Theories of Corporate Governance," Middle Eastern Finance and Economics, No. 4, 2009, pp. 88-96.

1.4. Shareholder versus Stakeholder Theory

Shareholder approaches argue that corporations have limited duties/ responsibilities, i.e., obeying the law and maximizing shareholder wealth.

On the contrary, the stakeholder theory is grounded in many normative, theoretical perspectives including the ethics of care, the ethics of fiduciary relationships, the social contract theory, the theory of property rights, and so on.[iii] All these theories deal with practical moral concerns and define what should be the way of achieving ethical relationship among stakeholders of business. Companies need to honor the trust that society places on them. With the growth of mammoth organizations, the impact on all aspects of human interaction is unquestionable. The inclusion of all constituents like shareholders, employees, customers, suppliers, bankers, partners in supply chains, community, environment, government, and nongovernmental organizations is demanded under this theory.

With the collapse of a large number of corporations, the magic of the market has been challenged and there is a strong movement towards social responsibility and sustainability in the business world.

Shareholder:

For corporations, business ethics channels through the primary responsibility to serve shareholder (owner) interests. Obligations to other stakeholders are evaluated within the range of satisfied demands implied by shareholders.

Stakeholder:

For corporations, business ethics initiates with all those affected by the corporation's actions. Shareholders (owners) represent only one set of multiple responsibilities that are weighed in decisions.

Figure 3

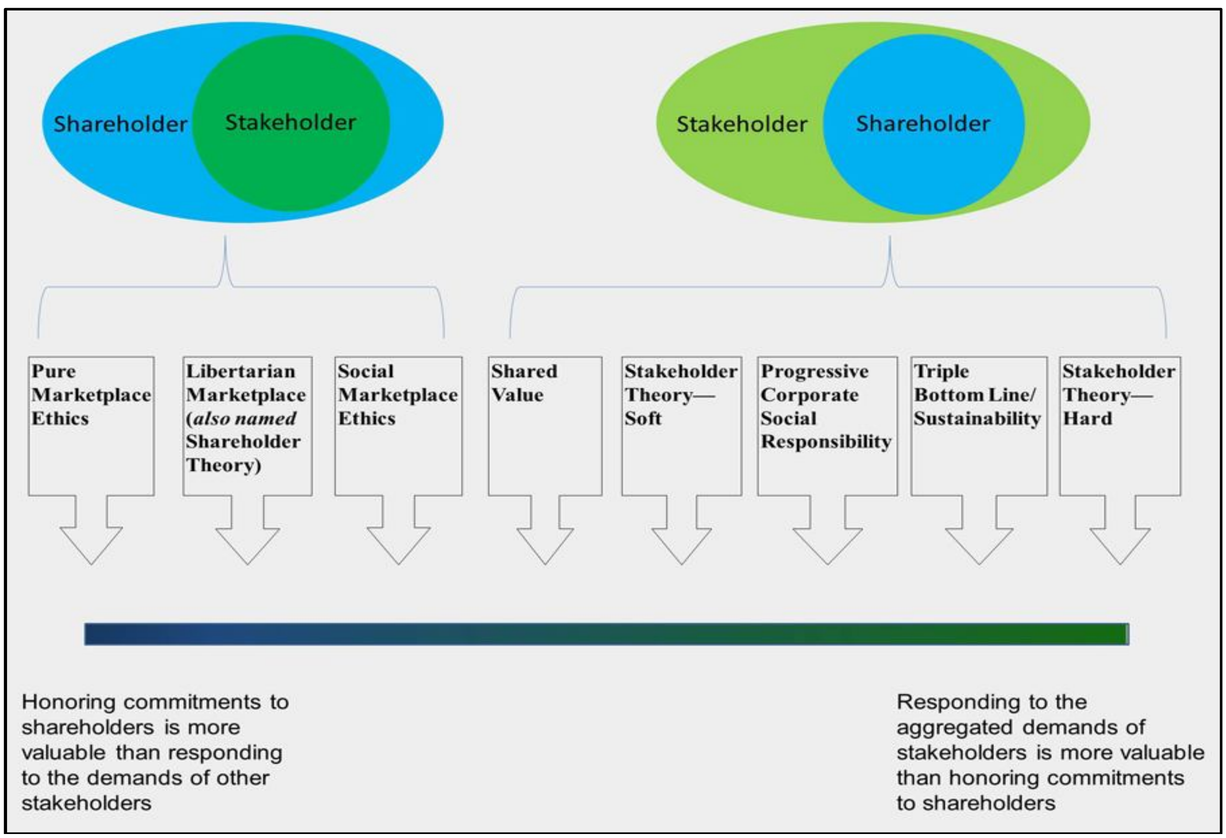

Figure 4
Source: Handbook of Ethical Theories Relating a Business with Society

---

iii Jenson, M. (2001), "Value Maximization, Stakeholder Theory, and the Corporate Objective Function" Journal of Applied Corporate Finance, Vol.14 (3), pp. 8-21.

1.5. Transaction Cost Theory

The idea that transactions form the basis of an economic thinking was introduced by the institutional economist John R. Commons (1931). He says that, the term "transaction cost" is frequently thought to have been coined by Ronald Coase, who used it to develop a theoretical framework for predicting when certain economic tasks would be performed by firms, and when they would be performed on the market.

Stiles and Taylor[iv] explained that 'both transaction cost economics and agency theories are concerned with managerial discretion and both assume that managers are given to opportunism (self-interest seeking) and moral hazard and those managers operate under bounded rationality. This theory is similar to the agency theory as it also discusses how managers may be selfishly driven to undertake transactions that benefit them personally, more than the company. They may also take transaction decisions without much study, as the money invested is not their personal money, and therefore, those deals may not yield the expected profits for the shareholders.[v]

Therefore, to avoid such losses, transaction cost economics is entirely dependent on the mechanisms of internal and external controls like audit control, separation of board chairmanship from CEO, information disclosure, and non-executive independent directors. The purpose is to maintain transparency within corporate enterprise to ensure the best practice and best interest for the various stakeholders of the corporate enterprise.

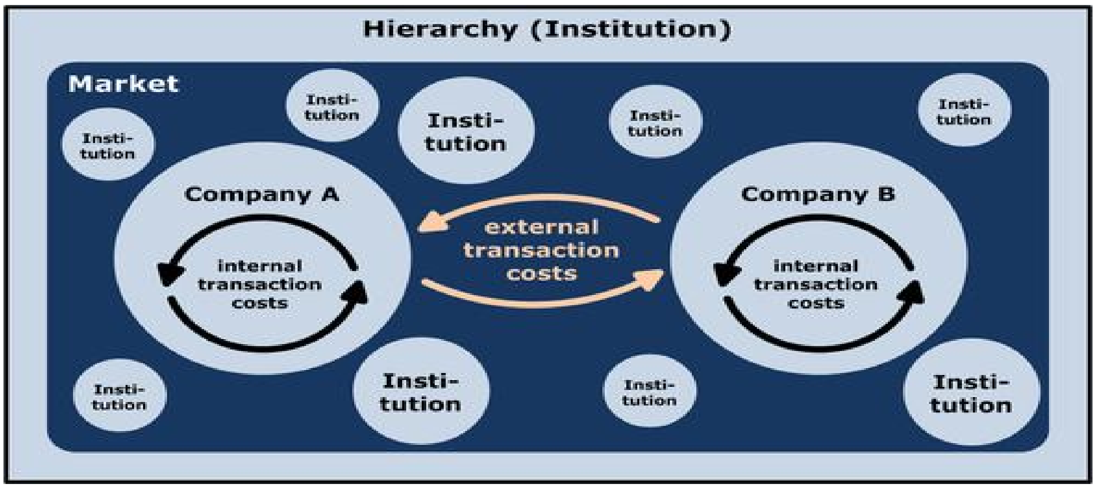

Figure 5

1.6. The Sociological Theory

The theory has focused mostly on board's compositions and wealth distribution. Under this theory, the composition of the board, transparency of financial reporting, disclosure, and auditing are considered central to realizing the socio-economic objectives of corporations.

The requirement from corporate has moved beyond just getting shareholder value. The stakeholder theory is now an integral part of corporate governance. Socially responsible companies are lauded for their involvement in the welfare of all the stakeholders, the community, and the environment. There is a general acceptance that the government alone cannot manage the multifarious needs of the modern globalized society. Public-private partnerships have to be the order of the day to balance the interest of stakeholders with the profit requirements of the shareholders.

Thus, the attitude that the business of business is business only does not hold well in the present situation.[vi] Every business organisation operates within the norms of the society and exists primarily to satisfy its needs.[vii] The society provides the surroundings, external objects, influences, or circumstances under which the business and the business activities exist.[viii] The recognition of 'social responsibility' is instantaneous in this fast changing competitive environment and has lead to the emergence of corporate conscience or corporate responsibility.[ix]

Business is not an end in itself. It is only a means to an end. That end is man himself. Therefore, business has to contribute to man's happiness, his freedom, his material, moral and spiritual growth. In this context, the human resource management[x] (HRM) in any

---

iv Stiles, P. and B. Taylor (2001), Boards at Work – How Directors View their Roles and Responsibilities, Oxford: Oxford University Press, p-68.

v *Ibid*.

vi *Ibid*.

vii Weiss, (2006), *Business and Society: Stakeholders and Issues Management*, Thomson Business Information, p-23.

viii *Ibid*.

ix Lawrence, (2012), *Business and Society: Stakeholder, Ethics and Public Policy*, Tata Mcgraw Hill Education Private Limited, p-68.

x Henceforth referred as HRM.

business provides coherent approach to the management of an organisation's most valued assets – the people working there who individually and collectively contribute to the achievement of the objectives of the business.[xi]

In simple words, the utmost important task of HRM in every business is to employ effective and efficient people; developing their capacities, utilizing, maintaining and compensating their services in tune with the job for the achievement of organisational goals within the predetermined constraints of time, efforts and cost. This is one of the aspects of HRM to sustain and enhance the social responsibility towards human resources employed in the business.[xii]

All the above themes cumulative indicate that there has been a paradigm shift in understanding of business. It has not remained business only for the sake of earning profit for shareholders but it equally owes duties towards the society or environment in which it thrives. It is, therefore, the duty of the corporate not only to understand social responsibility but to adopt it also so that there is a strong relationship between corporate social responsibility and corporate governance.

As a matter of fact, concepts and theories around Corporate Social Responsibility can ultimately be stripped down to the intention of re-thinking the relationship between business and society.[xiii] Dealing with "interaction phenomena" between business and society, CSR encompasses, more or less, the following dimensions of social reality: Economics, politics, social integration, ethics, environmental and legal concerns.[xiv]

Various different scientific branches have therefore distinguished the theory on business's role within larger society under mutual influence: While the political sciences have rethought the firm as a "good citizen", with inherent rights, but also corresponding responsibilities, more business-oriented theories about "good governance" of the firm deal with the economic side of transparent and just relations with various stakeholder groups, especially with investors and employees. Other theories are concerned with sustainable development and the future of the planet, thus come from a more ecological background.

The following are the variety of theories that develop and enhance the concept of CSR and its importance in the business activities:

(i) (Neo) Classical View: Friedman
(ii) Stakeholder Theory : Freeman
(iii) The Pyramid of CSR: Carroll
(iv) The Triple (P) Bottom Line
(v) Competitive Advantage : Porter
(vi) The Different levels of Engagement Theory
(vii) Human Rights Based Approach to CSR Theory.

The most important theories on CSR are those that have remained debated, cited, and thought over by generations of CSR scholars and practitioners interested in the concept. The following contributions to CSR theory are not all favourable to it. The first one is, on the contrary, the most negative view on CSR, rooted in agency theory and actually hostile to any social responsibility of business. A scholarly development paralleling and reinforcing CSR is stakeholder theory, which first stated the variety of constituencies a corporate is responsible to within society, or, as Drucker stated, the "firm is a set of identifiable interest groups to whom management has responsibilities."[xv]

Besides legitimate stakeholder groups' activism, scholars like Carroll pushed the concept of CSR forward by more clearly determining the nature of a firm's social responsibilities from economic over legal, to ethical and philanthropic responsibilities. Similar to the diversity of social obligations, a firm can occupy different stages or levels of CSR engagement on a continuum according to its fulfilment of responsibilities other than economic and legal ones. The Triple Bottom Line is a young concept indicating a firm's success is not only determined by following the traditional bottom line, but comprises also other performance measurements. Finally, authors like Drucker, Porter and Kotler have filled CSR theory with strategic meaning in the sense of it creating considerable and potentially very sustainable competitive advantage through concern for the social and natural environment.

2. Theories for Corporate Social Responsibility

2.1. (Neo-) Classical[xvi] View: Friedman (1950s)

According to the neo-classical point of view, private business exists for delivering products and services to society, and thus for creating (economic) value, and thereby generating profits for its owners. The managers are in power to maximise these revenues for the shareholders, bound through the employment contract as agents for the owners of the firm, the principals.[xvii] Sayings like a "corporation has no conscience",[xviii] and the mentality that "business is business", and shall remain nothing but that, while "society and welfare is not part of corporations' business" easily serve to present the neo-classical view as the expression of some "predator capitalism", where the right of the more powerful prevails, and nothing but profit maximisation counts. Cynical comments on charity by some of its advocates

---

xi Society for Human Resource Management, (2007), *Corporate Social responsibility: HR's Leadership Role*, Oxford: Oxford University Press, p-17.

xii *Ibid*.

xiii Van Mancwijk (2003a), p 100 ff.

xiv Garriga and Mele (2004), p *52* IT,

xv Husted and Allen (2000), p 26 ff.

xvi Also referred to as "neo-classicals", "classicals", "traditionalist" view (or, traditionalists"), or as "the narrow view on CSR".

xvii Milton Friedman in: Allhoff and Vaidyu (2005).

xviii Walton (1999), p 101 ff.

like corporations shall not waste their funds by "building universities for idiots, [...] community centres that will remain empty, [...] give alms to drinkers and numerous charity organisations")[xix] reinforce this image of a "value-free" ideology.

However, the neo-classical view on CSR is not hostile towards values, but, on the contrary, ferociously defending the values underlying it like individualism, contribution to the common good by maximisation of one's own welfare, free society and market system, competition, the "holiness" and inviolability of property rights, and non-intervention by the state in private sector affairs.

According to this perspective, business fulfils its responsibility for society best if it engages in its core business activity as profitably as possible, constrained by the condition this shall happen in lawful ways. Especially Milton Friedman is oftentimes quoted in an incomplete manner that is not doing full justice to his thoughts. His saying "the only social responsibility of business is to maximise profits" is frequently used, but the words he continued with, namely firms were also bound by "the rules of the game" while pursuing profits, meaning they would have to "conform with the norms of society", and "engage in open and free competition without deception and fraud", are all too forgotten. Friedman later clarified what he understood by the "rules of the game", when he stated corporate executives' responsibility would be to "conduct the business according to their employers' desires", thus, in general, to "make as much money as possible", but all that under the assumption of obeying the "basic rules of society", those "embodied in the law,[xx] but also in ethical custom". Leavitt, on his behalf, wrote that corporations had two responsibilities in the end: 'To obey the elementary canons of face-to-face civility", inter-alia, honesty and good faith, and to "seek material gain".[xxi] It is striking to notice that many, if not most, of the corporate scandals from corporate fraud and governance to humanitarian or environmental disasters could have been avoided already, had the "scandalous" corporations like Enron stuck[xxii] with the narrowest possible view on CSR, namely adhered at least to binding laws.

The social obligation of abiding by binding laws and most fundamental ethical values has recently been extended to fit the requirements of the now globalised economy: Informal obligations, local conventions, and cultural sensitivity and requirements shall be equally binding for companies.[xxiii]

What remains unchallenged by the neo-classical view is traditional economic theory's focus on the predominance of property relations. Stakeholders other than shareholders are, if at all, treated as instrumental means for achieving owner interests, or, viewed from a negative stance, seen as potential threats to owner interests. Managers, on their behalf, remain nothing but agents in this conception, their "raison d'être"[xxiv] is the maximisation of net present value from the firm perspective, or of the respective returns from an owner perspective.[xxv]

Concerning the absolute obligation of respecting owner rights as a guarantee for "personal freedom", ideally, shareholders would be able to take any decision concerning their property themselves, especially the decision when to reinvest capital or to rather withdraw dividends. The neo-classical view by generally marked by a high level of distrust towards professional managers, and towards the organisational form of the modern corporation altogether, namely towards the separation of power and control that is judged "artificial".[xxvi] This criticism stands in the tradition of the likes as Adam Smith, who was himself extremely sceptical of the managerial model of firm governance. He took the stance that non-owning managers would not administrate other people's property with due "honesty and integrity".[xxvii] Also from the point of agency theory, corporate (non-owner) executives pose an imminent threat of pursuing their very own self-fulfilment and prestige goals rather than advancing the true interests of their employees, the owners of the firm.

The narrow view on CSR, and generally on the role that the corporation and its top executives should play, can be summarized to some basic-statements: Corporations should be "based on owner rights, not human rights" - spending of shareholders' money for social goals without their (explicit) permission would come close to "despotism", as funds are "alienated of their initial purpose", namely of multiplying investors' capital. And finally, the factual control over the corporation needs to be with those owning it, rather than with those running it.[xxviii]

Managers, as the paid employees of shareholders, shall not under any circumstances act as "protectors of public interest" or of society at large - this must remain the responsibility of the state alone, the division of tasks between the private and the public shall not be disturbed.[xxix] Friedman thinks it highly "undemocratic" if non-elected, "strictly private" individuals and groups shall determine what social interest ought to be, and place such a burden on themselves and on their shareholders.[xxx] Behind this view that private individuals shall not impede public obligations derives from the fear that if private power were extended, the balance within society might be in danger, and too much exercise of power by corporations would lead to regulation and thereby cause the loss of their present freedom of action.[xxxi]

---

xix Walton (1999), p 189 ff.

xx With "embodied in laws", one should add *contractual* obligations, even if Friedman did not mention them explicitly - in the end, they are binding according to civil, commercial and/or corporate law. See Cragg (2000), p 206.

xxi Fisher (2004), p 394 ff.

xxii Enron Stuck

xxiii Cragg (2000), p 206.

xxiv Raison d'etre

xxv Logsdon et al. (1997), p 1216.

xxvi Walton (1999), p 100 ff.

xxvii Walton (1999), p 42.

xxviii Walton (1999), p 101 ff.

xxix Cragg (2000), p 206.

xxx Husted and Allen (2000), p 26 ff.

xxxi Walton (1999), p 90 if.

So, society therefore cannot, and must not, demand anything from corporations, other than dealing with their own business. It's then when the corporation "cares best about the community" surrounding it. If production of goods and services is a responsibility business carries towards society, it shall still remain without any strict obligation to produce goods that are necessary and useful for, or desired at all by society."[xxxii] A striking formulation representative for this idea, which presumes the pursuit of individual self-interest best advances the whole of society, is the following saying: "What is good for General Motors is good for the country".[xxxiii]

Scholars like Friedman are so irritated by the innovation of CSR that they judge it "highly subversive" for the capitalist system, [xxxiv] or even "destructive to free society"[xxxv], as scarce resources would risk to not be allocated efficiently any more.[xxxvi]

Interestingly, also Friedman identifies a threatening degree of power exercised by some, large corporations - the concentration of incredible power in the hands of very few, namely corporate top executives, leads him to fearing the menace of a "corporate state" instead of an "individualistic state".[xxxvii] According to the neo-classical economists the answer to corporate power abuse is to enhance competition. Friedman observes the claim for CSR is especially "fervent" in the existence of a monopoly, and its respective restrictions, threats, and market distortions, so to him, the solution is simple: Only increased competition serves as a cure for this illness of the system. A lightening of competition would strengthen the whole free market system, because competition is the "antithesis to a monopoly"[xxxviii] - and would thus automatically render the demands for CSR obsolete.

However, the traditionalist view does not exactly state there must not be any CSR engagement at all. It is theoretically possible if, and only if, "it makes good business sense". According to Harvard Business School Professor Theodore Leavitt corporate welfare "not infrequently makes economic sense" - but in case it does not, "sentiment or idealism ought not to let it in the door".[xxxix]

As for donations, the traditionalists also fervently criticize the landmark Case A.P. Smith, which establishes not only the right of managers to donate to educational institutions, but goes so far to declare it a "duty" for businesses. To the likes of Hayek and Friedman, it is highly doubtful that private business would have an obligation of any kind to contribute to the provision of the national or regional reservoir of a talented workforce. When determining whether such a donation is acceptable, they distinguish between "profitable investments" and donations to educational institutions "to the advantage of the general public". As expected, they are sceptical about the admissibility of the latter. Friedman judges "higher education and research no legitimate recipients of corporate funds"; if management were to decide to use funds entrusted to them for the explicit purpose of profitable multiplication for any other end they consider desirable, be it of scientific or cultural relevance, this development would constitute an "unbearable concentration of power in the hands of management".

Friedman is also an opponent of the tax deductibility of donations, as it would further increase the "gap between ownership and control", and simultaneously further enhance the undesirable power accumulation in the hands of managers.[xl] Concerning donations in general, Friedman is not anti-charity, but actually welcomes them as philanthropic, socially desirable acts. As private individuals, managers can of course donate as much of their own money as they wish to do.[xli]

The neo-classical view has been prevalent until well into the 1990s among practitioners.[xlii] However, since its beginnings and especially after the series of enormous corporate scandals[xliii], the neo-classical view has "moderated" a lot. Claims CSR would "threaten free society" like Friedman observed have fallen silent. But to do justice to Friedman and like-minded economists, much of the natural destruction, environmental and social disruptions, which are undoubted nowadays, have either not been present at all or not that "pressing at their time. The huge economic, social, technological and environmental overthrows and revolutions pointed out rendered the necessity of CSR ever more necessary and uncontroversial, and have thus outdated neo-classical views on CSR to a great extent.

If today the International Chamber of Commerce actively campaigns against bribery, and criticizes the fact that the "ethical code of companies used to be the criminal code,"[xliv] this apparently signals attitudes have already changed, and that it is now common sense a company's code of behaviour should not begin where corporate behaviour is close to breaching criminal law. The reactionary view on a company's ethical constraints within its business activity seems now a bygone even among trade representatives and interest groups

---

[xxxii] The author names an example: If the corporations of the pharmaceutical industry in a given society decided they would rather want to produce orange juice out of economic considerations, society would not have any claim to drugs being further on produced by the corporation, even if they were much more needed (nan orange juice within this society. The only mechanism private business is responsible to therefore is the market, deciding over its respective success or failure. Walton (1999), p 16 ff.

[xxxiii] Snidci L-I ;il. (2()()3),p 185.

[xxxiv] Frederick (1994), p 151 ff.

[xxxv] Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for the stockholders as possible." Carroll (1999), p 277

[xxxvi] Walton (1999), p 99

[xxxvii] Walton (1999), p 125.

[xxxviii] Walton (1999), p 99.

[xxxix] Garriga and Mele (2004), p 66.

[xl] Walton (1999), p 125 ff.

[xli] Milton Friedman in: Allhoff and Vaidya (2005).

[xlii] This is commonly attributed to the "era of boundless greed" in the 80ies (Cragg, 2000, p 210), which led to a recession and, at the same time, to a reassessment of profitability in the sense of *sustainable* profitability (certainly influenced by parallel well-consolidated findings regarding environmental and social sustainability).

[xliii] Indian Corporate Scandals

[xliv] Cragg (2000), p 207.

themselves. Societal consensus appears to be built on the grounds that laws constitute the absolute minimum standard of objectionable behaviour society is not willing to tolerate. So only the most striking cases of misbehaviour are covered by the law in most cases. Even if corporations decide to comply with this minimum standard only, they have to consider the fact laws evolve constantly because of public pressure and civil society scrutiny especially on corporations. As a consequence, top executives face constant pressure to keep themselves updated with (upcoming) laws, so dealing with acceptable behaviour outside the narrowest boundaries is a necessity to anticipate changes and react to them in time, and not when it is already too late, and therefore a lot more costly.[xlv]

Furthermore, equating legal with ethical behaviour brings with it the risk of "lagging behind" changing stakeholder expectations, and therefore on the one hand being "caught on the wrong foot", and facing costly adaptation to new laws and regulation, but on the other hand also foregoing benefits of meeting stakeholder expectations proactively that are not (yet) required by the law. Quality management is a good example of proactive engagement which has changed into an absolute business necessity: While the "pioneers" in quality management were able to generate considerable customer loyalty and reputation, quality assurance is now expected by consumers, and leaves no room for differentiation anymore.[xlvi] To push it even further, it is increasingly protected by laws,[xlvii] so what starts out as a voluntary commitment can turn into obligation later, and the firms complying earlier with it protect themselves against costly short-term adaptation.

Regarding the basic assumptions taken by the neo-classical economist school, some of them can be reviewed nowadays from a more CSR-friendly point of view:

Firstly, the assumption donating to charity always has to be detrimental to the firm due to the costs occurring through such CSR engagement is quite doubtful from a contemporary perspective. Neo-classical economists affirmed the respective costs would exceed potential benefits, and that profitability and shareholder wealth would inevitably decrease due to these additional costs leading directly into competitive disadvantage, and, in the end, into harm for the whole of society through increased product prices.[xlviii] However, these remain nothing but assumptions failing to take into account intangible assets like goodwill and corporate reputation created through CSR engagement.[xlix]

Secondly, the underlying agency theory, which provides theoretical legitimacy for traditionalists in their wish to constrain managers as much as possible in their choices to the benefit of shareholders and to the possible detriment of other stakeholders, is nowadays widely accepted as generally compatible with satisfying claims by other legitimate stakeholders. Value-creation, especially when seen in the longer term, requires diverse trade-offs among stakeholder interests,[l] and there is no absolute truth, nor standard "recipe" for what works best for all corporations.

Thirdly, other classical economic theories, the neo-classicalists rely upon can only be conferred to today's requirements and changed circumstances in a very restricted manner**:** The most efficient allocation happens through then market mechanism alone according to classical economic theory; but the achievement of an optimum situation in the sense of Pareto,[li] which achieves the greatest possible satisfaction without simultaneously being detrimental to others, is not possible whenever externalities arc imposed on others. A decision that burdens other actors within society with negative effects and consequences of business activities can never be optimal not only following basic considerations of justice or ethics, but also according to Pareto's thoughts[lii]. Let alone the fact that this theory of an optimal market solution assumes market participants with a free will and perfect knowledge[liii] — requirements that seem unthinkable giving the knowledge and power imbalance between large corporations and other market participants. So, the "invisible hand of the market" clearly fails when thinking about (negative) externalities, and reaction of the political system through regulation, taxes, and a minimum of rights to those who carry unjust burdens,[liv] as well as action from within the corporate system seem appropriate, especially in the case of today's visible market failures – even following classical economic thought.

Furthermore, the assumption socially responsible behaviour were incompatible with owner rights to generate as much profit as possible, has proven wrong in itself: Shareholder wealth definitely decreases when firms act in socially irresponsible, let alone illicit, manners.

This leads directly to the now prevalent "moderated" neo-classical point of view calling for "enlightened value maximization" that has come to advocate the integration of some social demands if profitable in the long run,[lv] and it might be capable of even further-going compromise, as societal consensus of what can reasonably be expected of private business shifts.

2.2. Stakeholder Theory: Freeman (1970s)

A research paradigm that parallels the evolution of Corporate Social Responsibility, at the same time complementing and pushing it further, is called stakeholder theory:

---

xlv Logsdon and Yuthas (1997), p 1221 ff.
xlvi Crowther (2004), p 205 ff.
xlvii An example is the tightened warranty and consumer protection regulation within the EU.
xlviii Snider (2003), pi 75 ff.
xlix Goll and Rasheed (2004), p 42 ff.
l Goll and Kashecd (2004), 53 ff.
li Pareto
lii Pareto thoughts
liii Garrigu and Mele (2004), p 55 ff.
liv Garriga ami Meld (2004), p 64.
lv Garrij-ii and Meld (2004), p 54 ff.

The reason it advanced CSR is its notion of corporate responsibility towards a broader public than a firm's owners and customers, as it was the first economic theory advocating a departure from the classical, hitherto largely undisputed primate of shareholder rights in the 1970s, and demanded an increased focus on the intertwined nature of the relationship between society and business, and firms' dependency on the society surrounding it.[lvi] The "pioneer" of stakeholder theory, R. Edward Freeman, states that not only the needs of shareholders, but also of other groups concerned by corporate activity, so-called "stakeholders", are to be met, or at least considered, by the corporation. The groups "concerned" can be both internal and external to the firm, thereby including employees, executives, suppliers, consumers, but also the environment and society at large. Stakeholders can be defined as social groups that "affect or are affected by a firm's actions",[lvii] have an "interest, right, claim or ownership in an organization",[lviii] or a "stake" in the firm.[lix] Management, according to stakeholder theory, carries fiduciary duties[lx] towards the various constituencies, and its main task, therefore is the reconciliation of competing stakeholder demand. A company's success can thus be expressed through how "successfully it can balance competing claims".[lxi] Nevertheless, it is important to note that according to stakeholder theory, stakeholder interests are of intrinsic value, which means they merit consideration for their own sake, independent of whether the corporation has a functional interest in them as well, or whether they can potentially enhance other stakeholder, especially shareholder, interests or not.[lxii]

Stakeholder (relations) management is therefore occupied with balancing a "multiplicity of stakeholder interests", some of which can be compatible, while others might oppose each other, a situation which is referred to as "the crux of ethical dilemmas for managers".[lxiii] The ultimate goal of stakeholder management can be summed up with achieving "maximum overall cooperation between stakeholder groups and the objectives of the corporation".[lxiv]

The reasons for doubting the sole focus on shareholders as the single most important group with rights and "a say" in the company's decision-making lie in the changed circumstances of the 20th century:

First of all, modern Information (and Communication) Technology (ICTs) have rendered investment decisions feasible almost "at the speed of light" due to minimal transaction time. Property is, when corporate shares are concerned, highly dispersed and very mobile.[lxv] Therefore some authors deem a distinction between "real" and "liquid" property adequate, as today's shareholders are not involved with the firm in the same way "traditional" owners were. In most cases, they do not care as much about the corporation's long-term survival or sustainability as they are interested in short-term multiplication of their capital. As a consequence, in case of difficulty or crisis they quickly withdraw capital – and thereby potentially put the corporation in even bigger trouble. For this reason, the concentration on the interests of owners only marginally interested, if at all, in firm continuity and survival, thus in the corporation as such, seems outdated. Shareholders for whom this reproach does not hold true tend to not share objections against the consideration of other group's rights, anyway, but to rather encourage fostering good stakeholder relations for the sake of long-term success of the corporation.[lxvi]

Secondly, as pointed out already, the market mechanisms traditional economic theory relies on fail when it comes to externalities, imperfect information, and power imbalances. Theoretically, markets leave businesses without any social power, hence also without social responsibility, but the assumed "pure competition" with perfect information is inconsistent with the power realities valid for modern organisations. Corporations indeed cause "tremendous social effects" through their power over entire societies.[lxvii] Another observable market failure constitutes the (lack of) allocation of the "common goods" like fresh air, clean water - more generally speaking: the natural environment - through the market.

All of these developments render an increased focus on groups other than owners necessary, especially if participants on the market lack free will to contract, thus in case they are dependent, vulnerable, or exploitable by a more powerful actor. Furthermore, Ricardo's thoughts on employees as just another factor of production, which can and needs to be replaced whenever not profitable (enough),[lxviii] are not applicable in modern corporations: The costs of employee turnover, and the ever increasing dependency on knowledge workers that constitute a more than valuable asset has rendered these theories quite obsolete (not even taking into account labour protection laws including, among other protective mechanisms, maternity leave and considerable compensation payments in case of dismissal in most industrialised countries).[lxix]

Now if stakeholder theory has long since proved the legitimacy of the questions it evoked and its justification in the modern business world, and if the existence of various stakeholder groups' legitimate claims on the firm is largely undisputed in modern economic theory nowadays, the decision which of these groups a firm should respond to (at first) remains quite debated. Stakeholder theory is not one

---

lvi Crowther (2004), p 236 IT
lvii Garriga and Mele (2004), p 59.
lviii Snider el al. (2003), p 176.
lix Garriga and Mole (2004), p 60.
lx Crowther (2004), p 232 ff.
lxi Goll and Rasheed (2004), p 42.
lxii Walton (1999), p 140 ff,
lxiii Husted and Allen (2000), p
lxiv Garriga and Mele (2004), p 59 ff.
lxv Snider et a!. (2003), p. 183.
lxvi Walton (1999), p 140 ff. Such shareholder activism includes the wish for increased corporate engagement for the environment, health and safety, race and gender, working conditions, human rights, but also for higher education institutions. Crowther (2004), 172 ff.
lxvii Davis, 1967. Garriga and MeliS (2(XM), p 66 ff.
lxviii Walton (1999), p 72 ff.
lxix Crowlher (2004), p 215.

theory, and therefore cannot provide a consistent answer to this question, but rather offers a variety of stakeholder theories, as Freeman put it, with varying outcomes about what constituencies are most important. Some take a narrow stance choosing one constituency like consumers or employees the firm should primarily respond to. Others have a broader, but no more consistent view, from caring for the stakeholder groups that maximize total well-being, to responding to the most deprived groups[lxx] first (both of which might yield very different results, as the most beneficial groups to the firm are very probably not identical with the most deprived ones).[lxxi]

Anyway, the idea of "more" or "less important" stakeholders has gained ground, as firms seek to meet key stakeholders' interests, or distinguish between primary and secondary stakeholders.

Similar "rankings" of stakeholder groups seem inevitable due to the vast field of applicability of the stakeholder concept, namely to the whole of society, in its most extended sense. Different corporations might determine their key stakeholders slightly differently, but what seems to be common ground is that the circle of constituencies a firm is "more responsible to" compared to other groups, must include consumers, employees, and shareholders. This is justified by some authors by giving more weight to groups that make part of a "structural consultation" process with the managers of the firm if their interests are concerned.[lxxii] Others draw the line between primary and secondary stakeholders when they identify internal constituencies the firm has "contracted with and that have a direct connection within the organisational or production functions" (namely shareholders, employees and executives), plus external constituencies that have contracted with the corporation (like suppliers, partner firms, or consumers), with whom the corporation therefore has more clearly, "legally defined", obligations and responsibilities - as opposed to the remaining constituencies that do not enjoy protection through laws or contracts to the same extent, including "neighbouring communities, society at large, and the natural environment".[lxxiii]

The primary achievement of stakeholder theory is to present the firm as a set of identifiable interest groups to whom management has responsibilities, and to set the task for the corporation as the most dominant social institution to respond as fully as possible to the needs of its stakeholders. However, the value it creates is not necessarily understood as value-added for entire society by stakeholder theory, but may be limited to "relevant" stakeholders - an approach, which may create controversy when corporate executives make their decisions.[lxxiv]

Figure 6: Representation of Stakeholders in Organisations
Source: Professional Academy.com[lxxv]

The Stakeholders can be classified into two broad categories, namely Internal and External Stakeholders of the organization.

Internal Stakeholders can be classified into members of the organization. Some of the examples for it are:

- Directors
- Managers
- Employees
- Connected Stakeholders (They are also called Primary stakeholders, who have an economic or contractual relationship with the organization. Such as, Customers, Distributors etc.)

External or Secondary Stakeholders are those who are not directly related to the organization. These stakeholders either get impacted or have an interest in the organizational activities. Some of them are as follows:

---

lxx Logsdon and Yuthas (1997), p 1216.
lxxi Utilitarian vs. Rawlsian approach. Husted and Allen (2000), p 24.
lxxii Graafland et al. (2004), p 138.
lxxiii Tencati el al. (2004), p 177.
lxxiv Husled and Allen (2000), p 28.
lxxv http://www.professionalacademy.com/news/stakeholder-mapping-marketing-theories

- Government
- Interest and Pressure Groups
- Media and News Organizations
- Local Communities

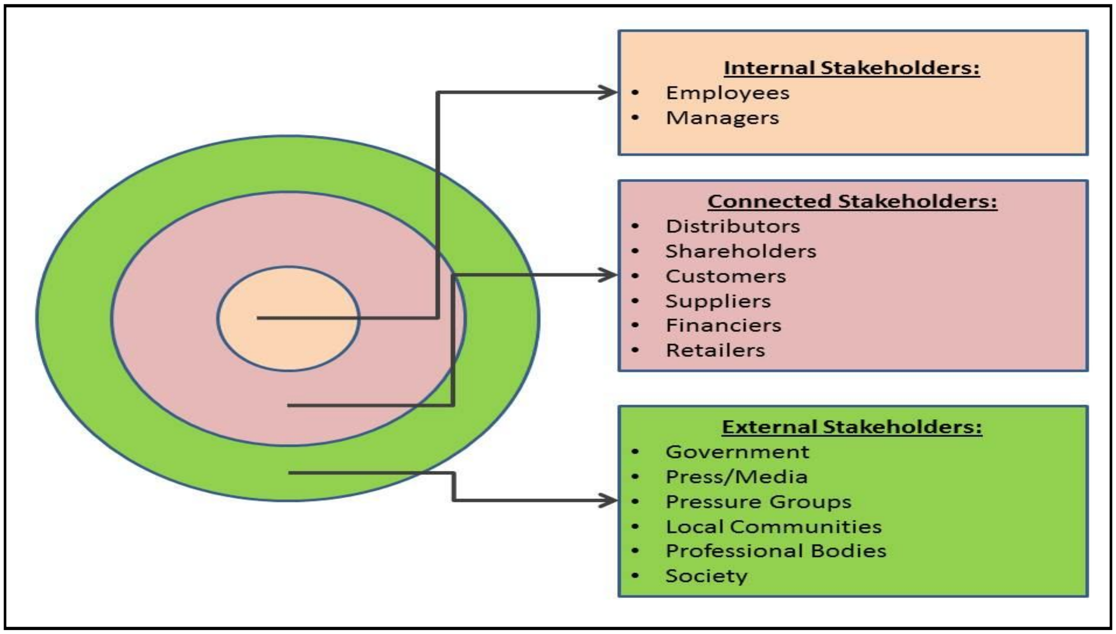

Figure 7: Types of Stakeholders
Source: Professional Academy.com

Grouping stakeholders can be useful at the early stages of any organization, but to entirely separate them from each other should be avoided, as most often these overlap with each other. For example- The customers of the organization can be shareholders or even employees as they are a part of the wider community.

2.3. The Pyramid of Corporate Social Responsibility: Carroll (1980s)

The single most valuable theory concerning the actual content of a firm's social responsibility is Carroll's pyramid of CSR: The very basis of a firm's responsibility is of economic nature,[lxxvi] its primary obligation is to operate at a profit and to "legitimately pursue" growth, and to provide society with goods and services at "fair prices".[lxxvii] Moving up the pyramid; Carroll identifies legal, ethical and philanthropic responsibilities a company faces next to its most fundamental - economic - responsibility.[lxxviii] This might seem broad as a scope for CSR, but the responsibilities encompassed are actually self-evident, as they do not carry the same weight in their degree of obligation.

Aside the economic basis of activity, corporations are required to "play by the rules of the game", to speak with Friedman, society further expects corporations to fulfil its ethical responsibilities, [lxxix] namely to respect also the rights of others that are not embodied in laws[lxxx] (and therefore not legally enforceable), and it desires companies to assume also philanthropic responsibilities, which can comprise any kind of charity or "good corporate citizenship" or "good neighbourliness", especially support for the broader community the corporation is operating in.[lxxxi]

What is important to add is this pyramid of responsibilities, unlike Maslow's pyramid of human needs,[lxxxii] does not indicate any necessity to complete the preceding stage before a company can move up to the next one. This is especially striking when views like "if you don't make money, you can't follow the law"[lxxxiii] are expressed by some managers. It seems quite pathetic; anyway, to imagine someone, be it an individual or a body corporate, would not feel bound by laws due to "not making money". Carroll's theory clearly does not support this (exotic) perspective, as the most basic, and absolutely enforceable, obligations in his model are the ones of economic and legal nature. So while the different forms of responsibilities are not mutually exclusive, but exist simultaneously and without a general primate of one of the categories over the others, the form of the pyramid does indicate the difference in scope:

[lxxvi] Pinkslon and Carroll (1996), p 205
[lxxvii] Pinkston and Carroll (1996), p 199 ff.
[lxxviii] Snider et al. (2003), p 177.
[lxxix] Fisher (2(K)4), p 394.
[lxxx] Pinkston and Carroll (1996), p 200.
[lxxxi] Snider et al. (2003), p 177.
[lxxxii] Maslow's Hierarchy
[lxxxiii] Pinkston and Carroll (1996), p. 205.

While the economic responsibilities are the "broadest" and most encompassing, the tip of the pyramid, namely the discretionary/ philanthropic responsibilities, are the narrowest in scope, and, as the name indicates, the only ones within the discretionary power of the firm, and thus "truly" voluntary responsibilities. Concerning the relation between legal and social responsibilities, Carroll's model clearly demonstrates the point of view a corporation's conscience would be "the Criminal Code" solely[lxxxiv] is out-dated, and that laws constitute an "absolute minimum of guidelines for appropriate (corporate) behaviour" society is willing to tolerate. The scope of what society expects is indeed quite different from the law in many cases what is well within the boundaries defined by the law can by far exceed what is "morally" or "ethically" accepted.[lxxxv] Therefore, it seems quite appropriate to consider the quote "CSR begins, where the law ends"[lxxxvi] in the light of Carroll's model: He does consider economic and legal obligations as not only a part of CSR, but as the most fundamental and comprehensive responsibilities it contends, but as they are enforceable by the state (or enforce themselves through the market), real-engagement without the force of regulation does start only where the law ends. This is also implied in Carroll's distinction between the "requirements" (economic and legal responsibilities), and society's "expectations" (social responsibilities).

Legal and social responsibilities are clearly intertwined,[lxxxvii] but a firm's social obligations exceed the legal ones,[lxxxviii] and therefore prove a popular viewpoint, namely social demands would be considered by business only because of binding laws, wrong.[lxxxix] Society's expectations may constitute just another means of pressuring companies to comply with norms (moral or customary ones instead of laws), and thus constitute just another pressure mechanism aside state authority, but one of Carroll's major theoretical achievements is to show social responsibilities are to be considered by corporations independent of what is legally required. Setting up the first CSR definition, paralleling stakeholder theory, he points out the various dimensions of corporate responsibilities towards all internal and external constituencies.[xc]

These dimensions highlighted in terms of circles which refer to the current status of responsibilities in contemporary society rather than to their abstract nature. The "inner circle" refers to very basic, undisputed responsibilities (jobs, products, growth, thus largely paralleling Carroll's economic responsibilities). The "intermediate circle" refers to a corporation's attention to changed attitudes, values, and expectations within society (inter-alia, environmental and customer protection, or fair advertising - this category therefore comprises legal and social obligations, depending on the respective status quo of national legislation). Finally, the "outer circle" understands a corporation's obligation to react proactively to newly emerging and still amorphous responsibilities (like "poverty and urban blight" - congruent with philanthropic responsibilities).[xci]

2.4. The Triple (P) Bottom Line (1990s)

The "traditional" bottom line refers to financial success only, measurable by changes in market share, growth, and profits,[xcii] and therefore may display a distorted picture of success, or opposed costs and benefits, of corporate business activity: As traditional bottom-line accounting considers only purely internal factors in its profit-and-loss statement, it ignores costs arising from corporate activity externalised outside the corporation,[xciii] and therefore does not account for the important factor of externalities[xciv] at all. As a result, the traditional bottom line measures corporate success by accounting for the whole benefit it derives from its business activity, while negative side-effects are only partly borne by the corporation, and the rest is imposed on society at large. Ideas for internalising the "social costs" (as opposed to private costs) in corporations include principles like the "polluter pays", where firms are held liable for costs and measures taken for environmental recovery.[xcv]

The problem of externalities was at first limited to the environment and pollution in general perception, because this is the area negative by-products and detrimental effects of industrial activity as societal costs are most visible in, but suggestions for a different way of accounting and measuring profits in a more comprehensive way have since then been developed to also include social and environmental dimensions of profits and losses.

[lxxxiv] International Chamber of Commerce, see also II.B.1, p. 47.

[lxxxv] Logsdon and Yuthas (1997), 1221 ff.

[lxxxvi] Gowri (2004), p 33.

[lxxxvii] Almlm," by laws is a social obligation in and for itself. Ostas (2004), p 561

[lxxxviii] This is, of course, conditional on time and place, namely on industrialised societies since the later 20" 'century. Given the difficulty of conferring values that "fluctuate with lime and place" from one context to another, see: Snider et al. (2003),. p 175.

[lxxxix] Garriga and Mele (2004), p 65.

[xc] Snider et al. (2003), p 177.

[xci] Carroll (1999), p 275 ff.

[xcii] Pinkston and Carroll (1996), p 202.

[xciii] Crowther (2001), p 122.

[xciv] Theoretically, externalities may he negative or positive. A positive example of externalities may be an open-air concert that can be heard not only by the people who have paid for it through the purchase of tickets, but also by neighbours. Economically, the neighbours would he referred to as "free riders", enjoying benefits without providing any service in return. However, in most cases, externalities have a negative notion exclusively, and may include pollutants, noise or smell harassment, detrimental effects on health or well-being, or other negative by-products of business activity.

[xcv] Crowther (2004), p 168 ff; p 209 ff.

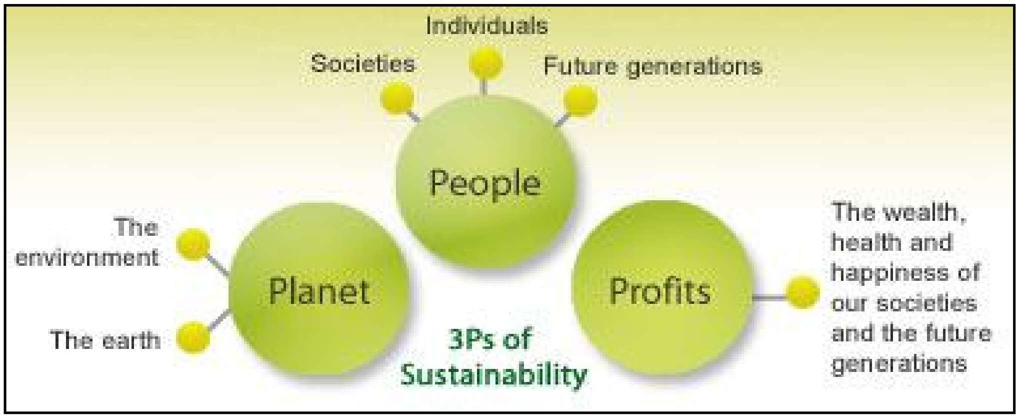

Figure 8: Components of Triple "P"
Source: 2008 CLP Holdings Limited

The triple bottom line is a model on how organizations can measure their success. Elkington (2009) invented the theory.
The triple bottom line and its variants are means to reframe the environmental and social constraints that communities and corporations are experiencing. This also helps to understand new business opportunity by resolving any conflicts in the barter that takes place between people and the environment.

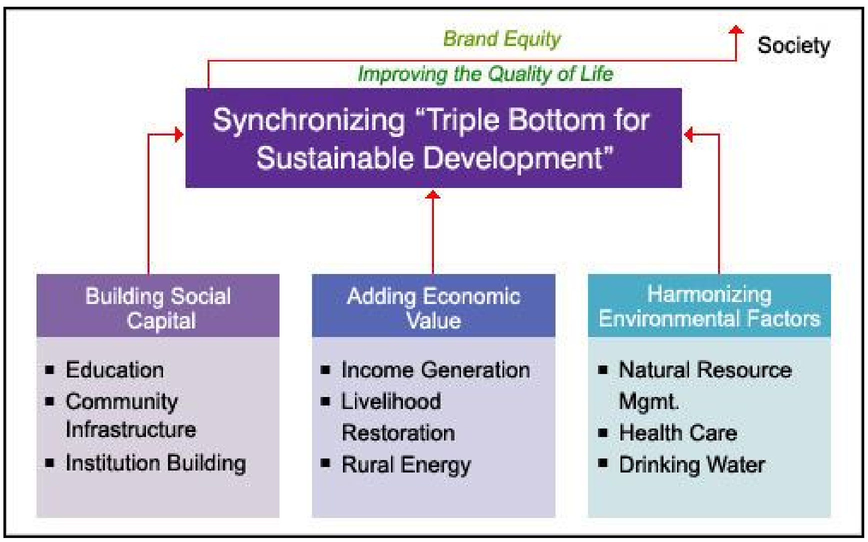

Figure 9: TBL Investment to 360 degree ROI
Source: Tata Power.com[xcvi]

Prior to 1990's decisions regarding selection of Social issues to support tended to be made based on themes reflecting emerging pressures for "doing good to look good." Corporations would commonly establish, follow and report on a fixed annual budget for giving sometimes tied to revenues or prefix earnings. Allocations of funds to social organisations was with an idea that is should create a perception among the moist constituents groups about visible philanthropic efforts. However, at present it is quite different. Decision making now reflects increased desire for "doing well and doing good".
Therefore, the 'Triple (P) Bottom Line" encompasses three areas of profit-and-loss evaluation, instead of just one in the sense of the traditional bottom line: Profits, People, Planet (not necessarily in that order).[xcvii] This triple bottom line therefore clearly states the pursuit of profits is an important component of the bottom line, but in the meantime care for the environment and for social concerns constitute underestimated, but equally important dimensions - the firm as a "value-creating entity" is not exclusively dedicated to generating economic value, but it ought to strive for value-creation concerning human-beings in and outside of the corporation, as well as concerning the natural environment.[xcviii] Or, to put it more negatively, to "prosper over the long term; [a corporation] must continuously meet society's needs for goods and services, without destroying natural or social capital".[xcix]

---

xcvi http://www.tatapower.com/cgpl-mundra/csr.aspx
xcvii Van Marrewijk (2003a), p 101.
xcviii Graafland et al. (2004), p 138.
xcix Elkington in: Sarre et al. (2001), p 310.

2.5. Competitive Advantage: Porter (1996)

Another perspective on CSR is the one advocated, inter-alia, by Drucker and Porter, namely that CSR is of utmost strategic importance, as "corporate philanthropy can often be the most cost-effective way" to improve the competitive context[c] if used wisely. A positive relationship between CSR and business opportunities in terms of "market opportunities, productivity, [and] human competence" can be detected, and, if exploited, improve the "quality of the business environment", both in the home market, and in any of the "locations where companies operate".[ci] What is most important for drawing competitive advantage out of CSR engagement is to avoid "ad-hoc", "piecemeal", or dispersed and unfocused donating.[cii] The primary mistake hindering context improvements through social responsibility according to these authors is the deliberate effort of many business, leaders to "do good" completely independent of the firm's core business, competencies, and strategies, thus to support social issues "least associated with their line of business".[ciii] This leads not only to missed business opportunities for the corporation, but also to foregone chances to considerably advance the charitable cause the company wants to engage in by making it benefit from the unique skills and resources the corporations disposes of. If a company focuses on its current competitive context, its strategic goals and future needs, it can exercise positive influence on all of the four major elements of the business environment that shape also the individual firm's current and future productivity, namely on factor conditions, demand conditions, the context for strategy and rivalry, and related or supporting industries.[civ]

With well-elaborated and meaningful CSR programs, the company can thus at the same time serve its strategic goals while creating benefits for a worthy cause by far exceeding the respective ones created by individual donations - and at the same time generate, positive public relations (PR) and goodwill for the corporation.[cv]

Independent of concrete CSR strategies or strategic engagement with certain causes, organisations or programs, corporations can clearly improve their competitiveness through CSR in the form of enhanced relations, with various stakeholder groups: As for a qualified workforce, when it comes to current or prospective workers and to attracting "top notch" knowledge workers, which the modern corporation is dependent on,[cvi] a socially responsible employer is highly valued by this crucial target group.[cvii] In the end, it is in the best self-interest of every firm to "attract, recruit and retain the most talented employees", and if key stakeholder groups increasingly expect CSR commitments, social criteria become essential in the competition for the likes as employees, consumers, and investors. Building good customer and investor relations is a "must" out of self-interest, sane relations with all kinds of stakeholders have become a necessity to compete and continue competing successfully also in the long run.[cviii]

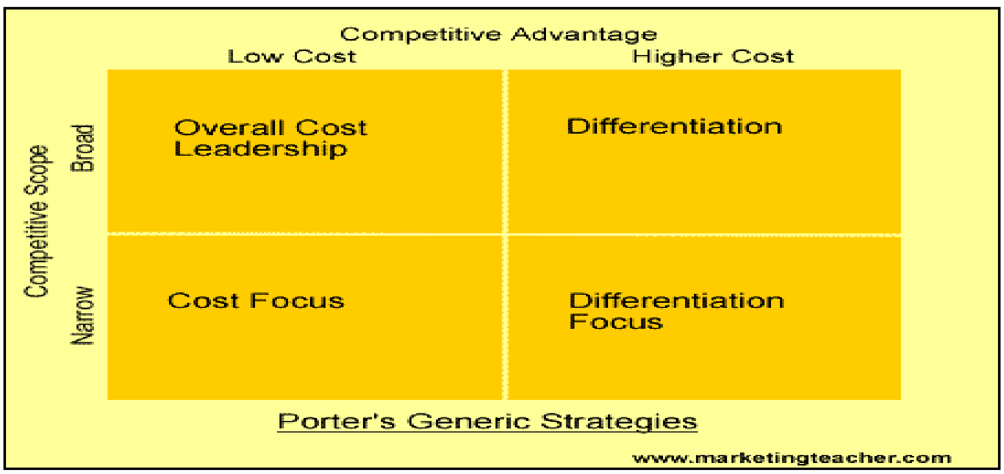

Figure 10: Porter's Generic Strategies
Source: Marketing Teacher.com[cix]

---

c Porter and Kramer in: Harvard Business Review (2003), p 35.

ci Tencati et al. (2004), p 175.

cii Porter and Kramer in: Harvard Business Review (200?). p 31 ff.

ciii Craig Smith in: Kotler and Lee (2005), p 7 ff.

civ Porter and Kramer in: Harvard Business Review (2003), p 35 ff.

cv Porter and Kramer in: Harvard Business Review (2003), p 29 ff. The most famous example for a corporation that successfully implemented such a CSR pro gram and considerably enhanced its competitive standing is Cisco Systems and its "Cisco Networking Academy": As the company perceived a future shortage of web administrators that posed a threat to future growth of the company and its product market, Cisco developed a free education program aimed at the most economically depressed US regions and neighborhoods' - and later extended the program it) developing countries, forming a partnership with the UN – and thus gave deprived and poor populations education of a value that donations could have never achieved, while at the same time confronting and solving a business thrill to the company.

cvi Crowther (2002), p 212.

cvii Kotler and Lee (2005), p 8.

cviii Tencali et al. (2003), p 176.

cix http://www.marketingteacher.com/lesson-store/lesson-generic-strategies.html

2.6. The Different Levels of Engagement (1998)

A variety of theories deals with the question of how to detect the stage a firm finds itself in with respect to CSR, or its level of engagement on a given scale:

One early suggestion about the "four faces" a firm can have regarding its social responsibilities is represented by a 2x2 matrix with four cells, while one axis represents "legal" and "illegal", the other one "responsible" and irresponsible" at its extremes. So, a firm can choose its strategy from acting illegally and irresponsibly, at the extreme, to acting within the boundaries of laws, but still irresponsibly, to the ideal behaviour of legal and responsible corporate action.[cx]

Another approach is the corporate "Levels of Ambition" model, where a firm can move from a compliance-driven, over the profit-driven, to a caring, then to the synergistic, and, finally, reach the holistic stage. The connection to Carroll's dimensions of CSR is obvious, as a compliance-driven corporation accepts laws and regulations coming from "rightful authorities", but does nothing exceeding duties and obligations, while a firm entering the profit-driven stage views CSR as a part of the bottom line, and as a business case: ethical aspects are considered when profitable (if they result in, inter-alia, enhanced reputation on various markets). Their "caring" counterparts balance economic, social, and ecological concerns that are all of intrinsic value (following stakeholder theory) "human potential, social responsibility, care for the planet" are all important "as such". A corporation in the synergistic stage strives for creating value and win-win situations for all stakeholders involved. Finally, the holistic stage is achieved by a firm that has CSR "embedded and fully integrated" in all of its actions, as it assumes a "universal responsibility towards all other beings" due to the state of interdependency and interrelatedness of the firm with its surroundings.[cxi]

Another approach sees five phases of possible levels of commitment lying on a continuum from social obstruction over social obligation to social response and social contribution: This theory is different from the "levels of ambition", because at one extreme, the firm actively resists society's demands; the second level is of defensive nature, marked by mere compliance. If the firm decides to move further on the continuum of CSR, it develops certain responsiveness to social expectations, and, as the highest level, it takes on a proactive stance towards society and its needs.[cxii]

2.7. Human-Rights based Approach to CSR (2003)

In countless international human rights documents, the international organisations refer to governments' obligations to also ensure human and labour rights in the private sector as one part of the international struggle against human rights abuses.

Even though international human rights documents are negotiated by government delegations, and have little impact on corporations' daily business so far, the increased interest of those international agencies and organisations, but also of numerous NGOs, provides insight in what is to-day expected of private actors, but also what solutions involving corporations the human rights community might propose for the world's "most burning problems".[cxiii] Of particular relevance to private corporations are the International Labour Organisation (ILO) conventions, as they are directly tackling daily corporate activity, more specifically working conditions, job security, and basic human rights in connection with work and employment. However, the conventions are directed towards governments, which, on their part, promise to enforce their content upon private actors. The same holds true for other human rights and sustainability commitments.

Nevertheless, the human-rights community can be relevant for corporations, namely when it specifically addresses private actors, especially "large multinationals", to render their contribution to sustainable development, as they "increasingly replace governments as the most powerful global institutions"[cxiv] according to widespread belief. Some MNCs voluntarily assume responsibility themselves under the banner of their corporate "core values"[cxv] – either through signing agreements like the Global Compact, which is a voluntary commitment of nine principles[cxvi] based on the Universal Declaration of Human Rights, the ILO's "Fundamental Principles on Rights at Work" and the Rio Declaration on Environment and Development,[cxvii] or through engaging proactively in human rights issues, for instance by setting up supplier codes of conduct as a prerequisite for doing business, or by partnering with NGOs.

The World Bank, as well as international development agencies and the OECD have all also dealt with CSR or CG, respectively,[cxviii] so human rights defence has clearly reached out to the private sector, as well as positive commitment to making the new "global village" more balanced and just. Therefore, many corporations have contributed to an enhanced enjoyment of the human rights to education and development, making, inter-alia; a reduction of the digital divided[cxix] a top priority also for private sector commitment. These issues are

---

cx Dalton and Cosier, 1982, in: Carroll (1999), p 285.

cxi Van Marrewijk (2003a), p 102 IT.

cxii Davidson and Griffin, Schermerhorn in: Fisher (2004), p 395. A similar terminology is used by Black and Porter: Defenders, accommodators, reactors and anticipators. Yet other scholars adapt the stages of individual moral development pointed out by Kohlberg to organizations and their specific motivations and needs - Kohlberg's stages of moral development will be further elaborated in the section dealing with institutional factors fostering CSR. V.A. Institutional Factors.

cxiii Crowther (2004), p 232 IT.

cxiv Garriga and Mele (2004), p 57.

cxv Crasg (2000), p 212.

cxvi Nine Principles.

cxvii Tencati et al. (2004), 175 ff.

cxviii Jenkins (2005), p 529.

cxix A term referring to the "backwardness" and lack of opportunities concerning ICTs prevalent in the now increasingly being addressed by the human rights community in cooperation with multinational corporations, bringing into another level due to this highly effective international public-private partnership which makes use of the unique resources and skills that a corporation disposes of.

3. Conclusion

To conclude, there is no such thing as an explicit theory called the human rights based approach of CSR", but it rather constitutes a potential field of commitment parallel to national or local political and economic "daily affairs" corporations engage in, providing them with further opportunities to engage in the empowerment of the world's most deprived through bettering their human rights situation - a field that may well grow in importance and general awareness in the near future, as this is where the world's most pressing problems originate.

4. References

i. Donaldson, L. and J.H. Davis (1991), "Stewardship Theory or Agency Theory – CEO Governance and Shareholder Returns" Australian Journal of Management, vol. 16 (1), p-62.
ii. Ibid.
iii. Jenson, M. (2001), "Value Maximization, Stakeholder Theory, and the Corporate Objective Function" Journal of Applied Corporate Finance, Vol.14 (3), pp. 8-21.
iv. Stiles, P. and B. Taylor (2001), Boards at Work – How Directors View their Roles and Responsibilities, Oxford: Oxford University Press, p-68.
v. Ibid.
vi. Ibid.
vii. Weiss, (2006), Business and Society: Stakeholders and Issues Management, Thomson Business Information, p-23.
viii. Ibid.
ix. Lawrence, (2012), Business and Society: Stakeholder, Ethics and Public Policy, Tata Mcgraw Hill Education Private Limited, p-68.
x. Henceforth referred as HRM.
xi. Society for Human Resource Management, (2007), Corporate Social responsibility: HR's Leadership Role, Oxford: Oxford University Press, p-17.
xii. Ibid.
xiii. Van Mancwijk (2003a), p 100 ff.
xiv. Garriga and Mele (2004), p 52 IT,
xv. Husted and Allen (2000), p 26 ff.
xvi. Also referred to as "neo-classicals", "classicals", "traditionalist" view (or, traditionalists"), or as "the narrow view on CSR".
xvii. Milton Friedman in: Allhoff and Vaidyu (2005).
xviii. Walton (1999), p 101 ff.
xix. Walton (1999), p 189 ff.
xx. With "embodied in laws", one should add contractual obligations, even if Friedman did not mention them explicitly - in the end, they are binding accord¬ing to civil, commercial and/or corporate law. See Cragg (2000), p 206.
xxi. Fisher (2004), p 394 ff.
xxii. Enron Stuck
xxiii. Cragg (2000), p 206.
xxiv. Raison d'etre
xxv. Logsdon et al. (1997), p 1216.
xxvi. Walton (1999), p 100 ff.
xxvii. Walton (1999), p 42.
xxviii. Walton (1999), p 101 ff.
xxix. Cragg (2000), p 206.
xxx. Husted and Allen (2000), p 26 ff.
xxxi. Walton (1999), p 90 if.
xxxii. The author names an example: If the corporations of the pharmaceutical indus¬try in a given society decided they would rather want to produce orange juice out of economic considerations, society would not have any claim to drugs be¬ing further on produced by the corporation, even if they were much more needed (nan orange juice within this society. The only mechanism private busi¬ness is responsible to therefore is the market, deciding over its respective suc¬cess or failure. Walton (1999), p 16 ff.
xxxiii. Snidci L-I ;il. (2()()3),p 185.
xxxiv. Frederick (1994), p 151 ff.
xxxv. Few trends could so thoroughly undermine the very foundation of our free so¬ciety as the acceptance by corporate officials of a social responsibility other than to make as much money for the stockholders as possible." Carroll (1999), p 277
xxxvi. Walton (1999), p 99
xxxvii. Walton (1999), p 125.

xxxviii. Walton (1999), p 99.
xxxix. Garriga and Mele (2004), p 66.
xl. Walton (1999), p 125 ff.
xli. Milton Friedman in: Allhoff and Vaidya (2005).
xlii. This is commonly attributed to the "era of boundless greed" in the 80ies (Cragg, 2000, p 210), which led to a recession and, at the same time, to a reas¬sessment of profitability in the sense of sustainable profitability (certainly influ¬enced by parallel well-consolidated findings regarding environmental and social sustainability).
xliii. Indian Corporate Scandals
xliv. Cragg (2000), p 207.
xlv. Logsdon and Yuthas (1997), p 1221 ff.
xlvi. Crowther (2004), p 205 ff.
xlvii. An example is the tightened warranty and consumer protection regulation within the EU.
xlviii. Snider (2003), pi 75 ff.
xlix. Goll and Rasheed (2004), p 42 ff.
l. Goll and Kashecd (2004), 53 ff.
li. Pareto
lii. Pareto thoughts
liii. Garrigu and Mele (2004), p 55 ff.
liv. Garriga ami Meld (2004), p 64.
lv. Garrij-ii and Meld (2004), p 54 ff.
lvi. Crowther (2004), p 236 IT
lvii. Garriga and Mele (2004), p 59.
lviii. Snider el al. (2003), p 176.
lix. Garriga and Mole (2004), p 60.
lx. Crowther (2004), p 232 ff.
lxi. Goll and Rasheed (2004), p 42.
lxii. Walton (1999), p 140 ff,
lxiii. Husted and Allen (2000), p
lxiv. Garriga and Mele (2004), p 59 ff.
lxv. Snider et a!. (2003), p. 183.
lxvi. Walton (1999), p 140 ff. Such shareholder activism includes the wish for in¬creased corporate engagement for the environment, health and safety, race and gender, working conditions, human rights, but also for higher education institu¬tions. Crowther (2004), 172 ff.
lxvii. Davis, 1967. Garriga and MeliS (2(XM), p 66 ff.
lxviii. Walton (1999), p 72 ff.
lxix. Crowlher (2004), p 215.
lxx. Logsdon and Yuthas (1997), p 1216.
lxxi. Utilitarian vs. Rawlsian approach. Husted and Allen (2000), p 24.
lxxii. Graafland et al. (2004), p 138.
lxxiii. Tencati el al. (2004), p 177.
lxxiv. Husled and Allen (2000), p 28.
lxxv. http://www.professionalacademy.com/news/stakeholder-mapping-marketing-theories
lxxvi. Pinkslon and Carroll (1996), p 205
lxxvii. Pinkston and Carroll (1996), p 199 ff.
lxxviii. Snider et al. (2003), p 177.
lxxix. Fisher (2(K)4), p 394.
lxxx. Pinkston and Carroll (1996), p 200.
lxxxi. Snider et al. (2003), p 177.
lxxxii. Maslow's Hierarchy
lxxxiii. Pinkston and Carroll (1996), p. 205.
lxxxiv. International Chamber of Commerce, see also II.B.1, p. 47.
lxxxv. Logsdon and Yuthas (1997), 1221 ff.
lxxxvi. Gowri (2004), p 33.
lxxxvii. Almlm," by laws is a social obligation in and for itself. Ostas (2004), p 561
lxxxviii. This is, of course, conditional on time and place, namely on industrialised societies since the later 20" 'century. Given the difficulty of conferring values that "fluctuate with lime and place" from one context to another, see: Snider et al. (2003),. p 175.
lxxxix. Garriga and Mele (2004), p 65.
xc. Snider et al. (2003), p 177.
xci. Carroll (1999), p 275 ff.

xcii. Pinkston and Carroll (1996), p 202.
xciii. Crowther (2001), p 122.
xciv. Theoretically, externalities may he negative or positive. A positive example of externalities may be an open-air concert that can be heard not only by the people who have paid for it through the purchase of tickets, but also by neighbours. Economically, the neighbours would he referred to as “free riders”, enjoying benefits without providing any service in return. However, in most cases, exter¬nalities have a negative notion exclusively, and may include pollutants, noise or smell harassment, detrimental effects on health or well-being, or other negative by-products of business activity.
xcv. Crowther (2004), p 168 ff; p 209 ff.
xcvi. http://www.tatapower.com/cgpl-mundra/csr.aspx
xcvii. Van Marrewijk (2003a), p 101.
xcviii. Graafland et al. (2004), p 138.
xcix. Elkington in: Sarre et al. (2001), p 310.
c. Porter and Kramer in: Harvard Business Review (2003), p 35.
ci. Tencati et al. (2004), p 175.
cii. Porter and Kramer in: Harvard Business Review (200?). p 31 ff.
ciii. Craig Smith in: Kotler and Lee (2005), p 7 ff.
civ. Porter and Kramer in: Harvard Business Review (2003), p 35 ff.
cv. Porter and Kramer in: Harvard Business Review (2003), p 29 ff. The most fa¬mous example for a corporation that successfully implemented such a CSR pro¬ gram and considerably enhanced its competitive standing is Cisco Systems and its “Cisco Networking Academy”: As the company perceived a future shortage of web administrators that posed a threat to future growth of the company and its product market, Cisco developed a free education program aimed at the most economically depressed US regions and neighborhoods’ - and later extended the program it) developing countries, forming a partnership with the UN – and thus gave deprived and poor populations education of a value that donations could have never achieved, while at the same time confronting and solving a business thrill to the company.
cvi. Crowther (2002), p 212.
cvii. Kotler and Lee (2005), p 8.
cviii. Tencali et al. (2003), p 176.
cix. http://www.marketingteacher.com/lesson-store/lesson-generic-strategies.html
cx. Dalton and Cosier, 1982, in: Carroll (1999), p 285.
cxi. Van Marrewijk (2003a), p 102 IT.
cxii. Davidson and Griffin, Schermerhorn in: Fisher (2004), p 395. A similar termi¬nology is used by Black and Porter: Defenders, accommodators, reactors and anticipators. Yet other scholars adapt the stages of individual moral develop¬ment pointed out by Kohlberg to organizations and their specific motivations and needs - Kohlberg’s stages of moral development will be further elaborated in the section dealing with institutional factors fostering CSR. V.A. Institutional Factors.
cxiii. Crowther (2004), p 232 IT.
cxiv. Garriga and Mele (2004), p 57.
cxv. Crasg (2000), p 212.
cxvi. Nine Principles.
cxvii. Tencati et al. (2004), 175 ff.
cxviii. Jenkins (2005), p 529.
cxix. A term referring to the “backwardness” and lack of opportunities concerning ICTs prevalent in the