

# New Paradigm of CSR for the Global Economy

Thankachan Jose Kaitharath

Principal, Christ Institute of Management, Rajkot  
Email: dr.kjthankachan@gmail.com

---

## ABSTRACT

*Corporate Social Responsibility and Sustainable Development are the economics concepts which are defined from various angles very often. The corporate houses which are dreaming about sustainable future have already accepted corporate social responsibility as a core of business objective. Corporate Social Responsibility is a buzz word in modern businesses. In general, however, fulfilling their social responsibility is treated as a way to achieve sustainable development goals. The public concern about private corporations should not only earn reasonable profits and provide justifiable returns to shareholders, but also operate as better corporate citizens. The Socially responsible organizations have spread to the largest Transnational Corporations (TNCs) and seems to have been implemented by companies in almost all the type of countries, whether it is free market or socialistic. Defining Corporate Social Responsibility, Sustainable Business and Globalization, the paper tries to explain the relation between CSR and SD in a global context from a business perspective.*

*Pointing out the steps to be adopted for sustainable development, the paper also narrates briefly the McKinsey Corporation Survey of Global Business Executives on Managing Social Responsibility.*

**Keywords:** CSR, SD, Globalization, Sustainable Business, McKinsey Corporation

---

## INTRODUCTION

The concepts of corporate social responsibility and sustainable development are defined broadly and often used interchangeably. In the today's world everyone looks at long term success. All business houses are dreaming about sustainable tomorrow and for that many of them have already accepted corporate social responsibility as a core strategy of business handling. A thorough explanation is needed to the terms of corporate social responsibilities and sustainable business. Corporate Social Responsibility is a buzz word in modern businesses. In general, however, corporate social responsibility is often seen as a means of attaining sustainable development goals. The growing public concern that private corporations should not only earn reasonable profits and provide fair returns to shareholders but also operate as good corporate citizens and socially responsible organizations has spread to the largest transnational corporations (TNCs) and seems to have been taken up by companies in both richer and poorer countries.

## OBJECTIVES OF THE STUDY

- To ascertain various steps involved in accepting corporate social responsibility as a key to have sustainable development by a business.
- To analyze the relationship exist in between the CSR and Sustainable business in a global context.
- To analyze how corporations that have employed quantity of resources in good business practices can have a positive influence on the social and natural environment of which they are a part and

achieve financial benefits and comparative advantage.

## METHODOLOGY

The methodology adopted for the completion of this paper is literature review.

## DEFINING CORPORATE SOCIAL RESPONSIBILITY

For the World Business Council for Sustainable Development, corporate social responsibility is considered as the ethical behavior of a company toward society in fulfilling its duties. According to an environmental interest group, Social Responsibility of business is operating a business in a manner that meets or exceeds the expectations of all the components of external environment. According to CSR Asia Organization Corporate Social Responsibility is a company's commitment to function in an economically, socially and environmentally sustainable manner keeping the interests of diverse stakeholders in balance. CSR is defined by the International Finance Corporation as the commitment of business houses to contribute to the economic development in a sustainable manner by working with employees, their families and other stakeholders of the local community and society at large for the improvement of the lives of the people in such a way that it do good for business and for development. Milton Friedman has taken the concept in a different way by stating that the only one social responsibility of business is that to make use of its resources and engage in activities designed to increase its profits so long as it stays within the rules and engages in open and free

competition without any unfair practices.

### **SUSTAINABLE DEVELOPMENT**

Sustainable development is a socio-ecological process characterized by the fulfillment of human requirements while maintaining the quality of the natural resources and environment in future time periods also. The term 'Sustainable Development' was first used by the International Union for the Conservation of Nature through its book "World Conservation Strategy" published in the year 1980. The linkage between environment and development was globally recognized and accepted since then.

SD is a concept that has been widely adopted and used by organizations world-wide, national and local governments, and corporate. The concept of sustainable development includes consideration of economic growth, environmental protection, and social equity in business planning and decision-making simultaneously. It calls for all to fulfill the needs of the present generation without compromising or decreasing the ability of future generations to meet their requirements. The sustainable development activities are important in developing economies around the world where there are issues related to environment, where there are poor social conditions and dangerous social relations, and where there is no regulatory protection for people and the environment or where there is it is not effectively implemented.

SD is a concept which has been widely adopted and used by organizations world-wide, national and local governments, and corporate. The concept of sustainable development includes consideration of economic growth, environmental protection, and social equity in business planning and decision-making simultaneously. It calls for all to fulfill the requirement of the present generation without decreasing or compromising the ability of future generations to meet their needs. The sustainable development activities are important in developing economies around the world where there are issues related to environment, where there are poor social conditions and dangerous social relations, and where there is no regulatory protection for people and the environment or where there is it is not effectively implemented.

Many TNC's are engaged in creating voluntary environment programs for efficient and effective management of environment impacts of their plants, facilities, and operations. Some of the approaches to the concept of Sustainable Development is given hereunder:

The origin of the term SD lies in the 18th century and was actually used in forestry. Gone are the days, when it was only allowed to cut down a certain number of trees so that a long-lasting protection of the

tree population was guaranteed. This method ensured a continuous supply of wood without reducing resources for forthcoming generations.

In an International discussion precipitated by the Club of Rome, due to its report, "Limits to Growth" (1972) created an eco-development approach through which protection of resources and environment coming to the fore were affected.

The World Commission on Environment and Development defined SD (1987) as an ethical concept, a development that meets the needs of the present generation without decreasing the ability of future generations to meet their needs. Irrespective of the type of the economy – whether it is poor or rich, whether it is free enterprise or centrally planned, the objectives of economic and social development must be defined in terms of sustainability. It contains within it two key concepts: the concepts of "needs", in particular the essential needs of the world's poor, and the idea of limitations imposed by the state of technology and social organization of the environments on ability to meet present and future needs.

### **SUSTAINABLE BUSINESS**

Even though the concept of sustainable development is a new idea for many business executives, it has received growing recognition. Most of them treated the concept as abstract and theoretical. The possibility of extending the notion of protecting an organization's capital base to the world's natural and human resources is not recognized generally by organizations.

The following sentence depicts the meaning of sustainable business:

Adopting those types business strategies and activities that help the business house meet their own needs along with the needs of its stakeholders today while keeping, protecting, sustaining, developing the human as well as natural resources and environment that will be required by people in future time period.

The definition emphasizes the fact that the existing natural and human resources must not be irreparably destroyed or degraded by the present economic activity. Business is dependent up on not only physical and financial capital but also human natural resources. It further emphasizes that the needs of a business enterprise and its stakeholders who are affected by the organization's activities must be met by the economic development.

The definition is proposed to help the corporate entities apply the concept of SD to their own organizations. The application of the concept must be adopted by all organizations in order to achieve the desired goal. SD is a pervasive philosophy and every stake holders of the global economy must subscribe, if we want to meet today's needs without compromising the future generation's

ability to meet their own needs.

There are certain steps for the business to be adopted while accepting corporate social responsibility as a key to have sustainable development.

**Step 1:** Evaluate the company's overall strategy, the performance of specific operations, and its effects in order to assess the current position of the extend to which the company's activities satisfies the principles of sustainable development.

**Step 2:** Comparison of the stakeholders expectation with company's current performance.

**Step 3:** Review of management philosophies and systems

**Step 4:** Analyzing the scope of public disclosures on sustainability

**Step 5:** Evaluation of the efficiency and effectiveness of the current information systems to produce the required information.

### WHAT IS GLOBALIZATION?

Globalization is the process of intensification of cross-region and cross-border social and economic relationships between nations and transnational interdependence of economic and social activities. According to Giddens, with globalization "the modes of connection between different social contexts or regions become networked across the earth's surface as a whole."

During this process of Globalization, the business firms have massively expanded their activities beyond the national borders. The regulations pertaining to the global relationships get diluted and the state loses much of its regulatory capacity. This cross border relationship expansion give birth to new socio-economic and environments challenges such as global warming, crime and terrorism, diseases etc. which can not be regulated unilaterally.

Globalization also caused the emergence of international players such as international organizations, transnational corporations, NGO's and other civil society groups gaining political influence which are not limited to a certain territory.

The assumption that the responsible firms operate within a more or less properly working political framework of rules and regulations does not hold anymore. The business firma have an additional political responsibility to contribute to the development and proper working of global governance because of the fragile and incomplete nature of this global framework

### CSR FROM SUSTAINABLE BUSINESS PERSPECTIVE

In today's world many MNC's have included the CSR in their strategic planning process. Even though the fundamental aim every business

organization is to generate a product or service in order to earn profit and make their shareholders satisfy, giving importance to social responsibility towards human and environmental responsibility is susceptible. As Adam Smith observed, that ethical considerations are not required in money making activities. Milton Friedman too observed that there is no place for social responsibility as a business function. People those who posses naturalistic view in business are of the opinion that there should have a line of demarcation between exploiting the natural resources for profiteering and sustainability. On the other hand, the humanistic view is that a deteriorating environment and planet is of no relevance in sustaining human life let alone a business. Therefore, the stakeholders society – people, government, competitors etc. - collectively should go for setting up a mechanism that can question and destabilize an organization should its motives or unethical processes become clear

To relate these two concepts, a solid research is required. In today's modern business climate the comparison of the aspects are quite easy also, as these two words are getting more and more famous in the modern business strategies to be successful in the long term. As the business is a part of the society and society should be always taken care by the business to have sustainable growth and also to take care of the welfare of the society.

Sustainability is the concept which has been used the most during the last decades. Concepts such as CSR, Corporate Citizenship, Corporate Sustainability or Social Responsibility are interchangeably used very often. All the above concepts and terms seems to mean the same. But the prime objective is to consider the firm's internal and external environment and its stakeholders. However, in scientific practice these terms are used differently which makes it difficult to point on a common direction and to embed SD as a clear and separate management discipline in business science

The above two terms can be related as under:

There are enough examples to validate the way by which the business houses that have committed ample resources in CSR business practices can achieve a positive effect on their social and natural environment as well as achieve financial benefits and comparative advantage.

The focus of CSR is on the benefits that the companies can accrue for CSR practices and at the same time the market will pay for products and services. The social and environment protection has become a part of global concern and consequently a part of global value chain in some business houses and these practices ultimately help make good business sense. Risk Management as well as

reputation management is one of the outcome of CSR. One of the major CSR impact is that the inclusion of developing countries and social and environmental clauses in contracts and trade agreements by the international players as well as northern governments.

Ample examples are available to prove the proactive nature of companies of successful developing countries to gain the advantage on a local level. The companies in developing countries also can exploit the intangible assets such as brand image and reputation in the same manner as the firms in developed countries can. IT Companies in South Africa has gained considerable success through CSR practices. The Country's economic efficiency can be strengthened and in ways aligned towards sustainable development, when the companies enroot its strategies in responsible business competitiveness.

The constraints and limitations caused out of implementing practicing responsible business standards result in a competitive advantage on multinationals and developed economies over the export of developing countries. However, some developing countries are responding by improving labour conditions by amending labour laws as a way of actively establishing competitive advantage.

The countries which are failed to address the CSR issues maintaining the cost, quality and standards at a low level exposes their business to potential costs related with high labour turnover, poor health and safety for their population. Socially Sustainable companies add values to the organization and to the societies within which they operate by increasing the human capital of individual partners as well as furthering the societal capital of these societies.

The social capital is managed by them in such a way that its objectives can clearly be understood by the stakeholders and can broadly be agreed with the company's value system. The aim of social responsibility is to create higher standards of living of its stakeholders both within and outside the corporation, preserving and protecting the profitability of the corporation, The obligation of the firm is to use its resources in the manner to benefit the society as a member of the society through its committed participation. It has to take in to account the improvement of welfare of the society at large. CSR becomes a leading principle in innovating business practices with a positive image on "people, planet and profit.

CSR has a set of responsibilities - social, political and ecological in nature – which are more than the company's purely legal and economic duty as the environment in which they operate and fulfillment of such obligations are to be considered as more of a matter of nationalism.

## PROMOTING FAIR TRADE

The Adam Smith's laissez-faire and free market philosophies and the Karl Marx's unrealistic concepts of end of history with triumph of communism have been proved failed with the Great Depression of 1930's and Glasnost and Perestroika. The faith on free trade has been decreased substantially. The countries advocating free trade are the ones with high trade tariffs and barriers to trade, which at the same time gives highest subsidies to their own industries. This double standard shows clearly the impossibility of free trade.

The relevance of Fair Trade lies in the fact only. British Co-Op. Super Market Chain is an example of fair trade. In an effort to give West African Producers a stable income and promote the idea of fair trade, the Co-Op. is to make all its own-brand chocolate bars from Fair Trade Cocoa. A deal have been signed with co-operative of small farmers in Ghana to supply cocoa for a guaranteed price which will cover the cost of production and ensure a fairly good living wage. Citing an example, market price of cocoa beans was about \$1,000, but the Co-op paid a guaranteed minimum of \$1,600 per ton, which it calculated was the price the producers needed to get. It paid a further \$150 per ton into a co-operative for community projects which helped villagers to dig wells and build schools and health centres. The Co-op had shown that businesses can trade fairly and still be viable - imagine what benefits would be felt worldwide if others were to follow this example. Thus the practice of fair trade will provide for profitability as well as societal satisfaction.

Kaira District Co-operative Milk Producers' Union Ltd., Amul Dairy, Anand is one of the classic example of fair trade practices.

## NEW PARADIGM OF CSR FOR THE GLOBAL ECONOMY

The empirical argument that the social performance of a business firm contribute to its financial performance are commonly accepted rationality in on-going CSR discussions. The engagement of business firms in the CSR activities is, now, considered as a type of investment as it make in other product attribute such as quality, service, promotion etc. that contribute to the profitability of the firm. The profit making of the firm can be justified on the ground that it take care of the societal needs too, as the firm complies with the rules of the game set by the state and defined by the morality of the circumscribing social structure. It is assumed that the it is the "invisible hand" that guides and leads the economy to the optimum utilization of resources which ultimately decided the economic behavior towards the common good. However, in the globalised world the capacity of the state to regulate economic behavior and to set the conditions for

market exchange is in decline.

Failures of the state machinery and mechanisms in providing public utilities, loopholes and gaps in regulation, lack of enforcement, delay in implementation, externalities of market exchange without provisions from state. The moral standards for business behavior get unclear. People groups started to twisted the values in and the value systems of the social communities for their self-interest. Under these circumstances, without any appropriate moral or legal restrictions economic forces are set free. The economic rationality will become useless and remain good for nothing but worsen the situation. All that what we need to do is to re-establish the political order and restrict economic rationality by new means

of democratic institutions and procedures. i.e. a political regulation above and beyond the nation-state.

Because of the continuous and strong engagement of social movements and growing international movements a new form of trans-regulation is emerging; the Global Governance, the definition and implementation of standards of behaviour of global reach. Not only public actors like national and international governments but private actors alike NGO's, Civil Society Groups business firms etc. will contribute to this new order. Therefore, while conceptualizing CSR, the corporations have to be understood as economic and political actors with the above described consequences.

**Table 1**  
**McKinsey Corporation Survey of Global Business Executives**  
**on Managing Social Responsibility**

<b>Role of business in society</b>	<b>Should focus only on profits while obeying laws and regulations 16%</b>	<b>Should generate high returns but balance contributions to broader public good 84%</b>
Overall contribution that large corporations (public or private) make to the public good	Generally or somewhat positive 68%	Generally or somewhat negative or neutral 32%

**Table 2**

<b>Tactics used by corporations to manage socio-political issues</b>	<b>Tactic used most frequently</b>	<b>Tactic believed to be Most effective</b>
	Media and public relations	49%
Lobbying regulators and governments	48%	25%
CEO speeches and public actions	24%	14%
Advertising and marketing	22%	12%
Publication of sustainability or corporate citizenship report	16%	12%
Philanthropy	14%	11%
Entering new markets or exiting old ones	7%	6%

<b>Table 3</b>		
<b>Tactics believed to be more effective</b>	<b>Tactic frequently used</b>	<b>Tactic believed to be most effective</b>
Increasing transparency about risks of products or process	12%	36%
Policies on ethics and corporate responsibility issues	20%	35%
Engaging stakeholders	15%	33%
Improving compliance with laws and regulations	26%	32%
Using industry coalitions to develop joint response to issues	29%	30%
Changing product lines and processes	8%	12%

  

<b>Table 4</b>		
<b>In your industry who takes the lead in Socio-political issues and who</b>	<b>Takes the lead</b>	<b>Should take the lead</b>
CEO or Board Chair	56%	74%
Public or corporate affairs department	14%	4%
Other executive or members of board	10%	7%
Core business divisions	5%	5%
Department of corporate social responsibility	5%	3%
HR department	2%	1%
Strategy department	1%	3%

Source: Adopted from McKinsey Quarterly survey of 4,238 global business executives, January 2006. All data weighted by GDP of constituent countries to adjust for differences in response rates from various regions

Table 1 to Table 4 shows the result of McKinsey Quarterly survey of 4,238 global business executives, January 2006 which are self explanatory.

## CONCLUSION

The reasons behind the prevailing gap between world recognition of importance and need of sustainable development principles and practices and real business practices are delay in strategy formulation and implementation, lack of commitment to achievement of goals, unrealistic expectations on the side of the disciples and advocates of sustainable development.

National and international governments and environmentalists should not ignore the fact

that the business firms are not charitable institutions with social interest but the goal of every corporate entity is earning profit and after all profiteering. Their overall business strategies and prevailing market conditions will mould their perceptions of how to achieve sustainable development. The competitive advantage of sustainable development strategies is the only aspect which is likely to force them to move beyond compliance of legal requirements, neither regulatory control measures nor interest group

pressure.

The economic and social value of sustainable practices matters. The business houses which are able to internalize those values in their business model are likely to integrate proactive practices into their overall business strategies. Similarly, the positive response of the market towards CSR and socially beneficial products and services, business houses cannot be expected to move more speedily towards innovative, integrated or transforming stages of Corporate Citizenship.

#### **BIBLIOGRAPHY**

1. World Commission on Environment and Development, *Our Common Future*, New York: Oxford University Press, 1987.
2. Organization for Economic Cooperation and Development, "Corporate Responsibility Practices of Emerging Market Companies - A Fact Finding Study," Paris: OECD, 2005, p. 3-4.
3. International Organization for Standardization, *The ISO Survey -2005*, Geneva, Switzerland: ISO, 2005.
4. KPMG International, *KPMG International Survey of Corporate Responsibility Reporting 2005*, (Amsterdam: KPMG Global Sustainability Services, 2005): p. 4-5.
5. William Miller, "Citizenship: A Competitive Asset," *Industry Week*, Vol. 247, No. 15 (1998): 101-108.
6. Dennis A. Rondinelli, "Transnational Corporations: International Citizens or New Sovereigns?" *Business and Society Review*, 107, 4 (2002): 385-413
7. World Business Council for Sustainable Development, "Meeting Changing expectations: Corporate Social Responsibility," Geneva, Switzerland: WBCSD, 1998. *Business for Social Responsibility*, "Introduction to Corporate Social Responsibility," (San Francisco: BSR, 1998): quote at p. 1.
8. United Nations Conference on Trade and Development, *World Investment Report 2003*, New York: UNCTAD, 2003.
9. United Nations Conference on Trade and Development, *Environmental Management in Transnational Corporations*, p. 21-22.
10. Conference Paper 'Corporate Social Responsibility' by Mukti Patel.
11. Conference Paper 'Corporate Social Responsibility: An Indispensable Facet in Globalized World' by Vinit Gupta.
12. Wikipedia.com, for Corporate Social Responsibility and Sustainable Development.
13. Some editorials of *Hindu*, *Business Line* and *Wall Street Journal*.