

Corporate Social Responsibility
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Lecture - 03
Why CSR?

Welcome back to the MOOC course titled corporate social responsibility. My name is Aradhna Malik, and I am helping you with this course. And I teach at the Indian institute of technology in kharagpur, west Bengal India. So, we had just started with what corporate social responsibility is all about what this titled mean, what this phrase means, and what it converts. In this lecture we are going to discuss the theories of corporate social responsibility. And we will keep touching upon the relevant theories in various sections of the course, but just to give you an idea of how this whole idea came about and we know, what really propels this whole activity of corporate social responsibility of giving back to the society, the various names for it.

So, all of these we will be discussing at some point you know, it is corporate social initiatives is one corporate social performance is another, corporate citizenship is another, I mean various ways in which this whole needs to give back to the society, has been conceived is going to be discussed through the length and breadth of this course. So, today we will talk about in this lecture we will talk about the theories of corporate social responsibility.

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Legitimacy Theory
(Fernando & Lawrence 2014)

- The society gives organizations their resources. So, the organizations are expected to fulfil the expectations of the society they function in
- "Organizations can only continue to exist if the society in which they are based perceives the organization to be operating to a value system that is commensurate with the society's own value system." (Gray et al., 2010, in Fernando & Lawrence, 2014)

The first theory that we will talk about is legitimacy theory, which states that the society gives organizations their resources. So, the organizations are expected to fulfill the expectations of the society this functions in, all of the society this function, now what does this mean? You know, we have discussed this we were talking about the iron law, in the previous lectures.

So, we say from the society, we take from the environment, we by virtue of you know having an organize just sorry, you have we just having an organization and office in a place we are affecting the environment around it. The physical environment is affected, the social environment is affected, the ecological environment is affected. So, the political environment affects the organization and is in turn affected by it. So, all of these environments are giving the organizations the stability, it needs they are giving the organization the place it has in the corporate milieu and the organization is making a profit out of it when you are talking about a corporation we are essentially talking about an organization that makes profits.

So, we are talking about organizations that are you know generating income from the resources they have. And because they are in a environment in a milieu they are expected to give back to that milieu. So, legitimacy theory states that since the organizations are taking from the society from the or, from the environment they are expected to get back to that environment. Now organizations can only continue to exist if the society in which

they are based perceives the organization to the operating to a value system that is commensurate with the societies own value system. In order to give back to the society we need to be able to understand, when I say we, I am are talking about corporations profit making organization.

So, we need to understand that the society that we exist in has some expectations. Our value system needs to be in line with the value system of the environment that we function in. Our value system as a profit making organization needs to be tuned to the needs of the environment that it is survives in. We may want to give back in a certain way, but the environment around us may not want it like that. So, it has to be on the same wavelength you know, like we talk about same wavelength. So, it has to be in the same wave as what the society is expecting from, and that is what the legitimacy theory states. How do organizations legitimize their operations? The report.

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How do organizations legitimize their operations? (Fernando & Lawrence, 2014)

- "To educate relevant stakeholders about their actual performance": Reporting
- Change the perceptions of the relevant stakeholders about the underlying issue without changing the organization's behavior": Public impression management
- "Distract or manipulate the attention away from the issue of concern and seek to divert the attention to a favorable issue": CSR Activities and advertising
- "Seek to change external expectations about the organization's performance"

So, the educate relevant stakeholders about their actual performance through reporting. We tell the society what we are doing.

The second method is public impression management. They make change the perceptions of the relevant stakeholders about the underline issue without changing the organizations behaviour. So, they explain what they are doing. I am releasing effluents into the water, and releasing pollutants into the air. So, I explain why this is not really damaging them. So, I say no they are being processed they are my factory is there we

will not make noise you know this kind of. So, I mean I just tell them that this is required we are generating something that is of no use to you than the harmful effects of this organization being there, or when we say talking about the issue of acquiring farmland to setup factories for example. So, we say where farmers are not ready making any profit.

So, we can cultivate land in another place we will give you jobs people in your homes, we will have jobs we will have electricity because we will have access to electricity we can pass that on to you. So, we change the perceptions of the people we say, yes we are occupying farmland we are destroying farmland by building a factory here, but we are giving you this. So, when organizations do that, this is public impression management this is one more way of changing what or changing the perceptions of the relevant stakeholders about the underline issue. So, we does not that it is not out bad there is something good to it also. The third method is the CSR activities and advertising. So, we distract or manipulate the attention away from the issue of concern and seek to divert the attention to a favorable issue.

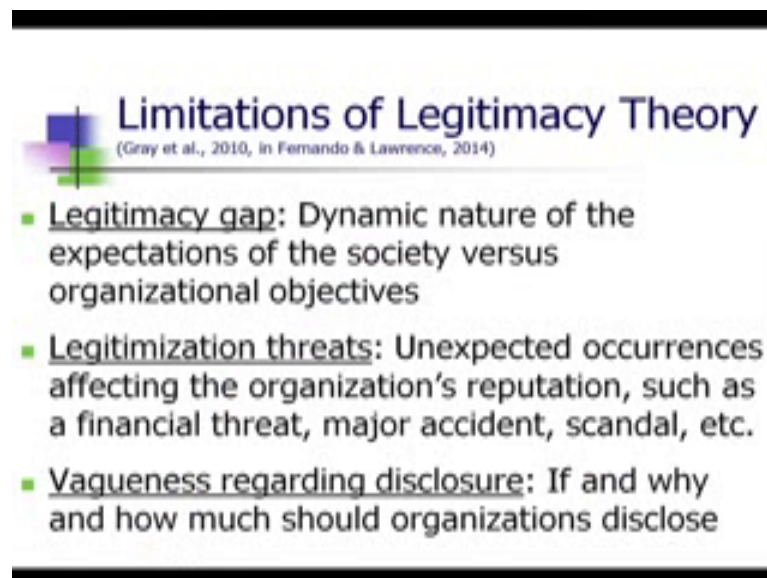
So, we say what you are talking about is not so important, we not change the perception we just divert the attention to something else. So, we take the attention from the issue that people may be concerned about and we direct their attention to something else. And that is done in and through the activities that we do we say yes we are harming you sorry, but we will give you something else, that has absolutely no connections to be harm that we are inflecting in this place. So maybe, we have acquired formula and we say we will build a school somewhere else you are not giving you job it is building a school in another locality. So, something like that. So, it is not really commence rate, but you just directly attention you say we are doing. So, many good things we have this mobile hospital we have a school and you will say, but what about my family and we just do not pay much attention to it.

So, that is the done through the CSR activities. We say we are we distributing the free blankets we giving you free meals you know. So, do not any think about the farmland that you have lost think about the benefit is you getting in other areas. And the fourth method is seek to change external expectations about the organizations performance. So, the organization itself gets into the minds of the people the organizations tries to change tries to make the community believe that their expectations needs to evolve, because the organization has come in and set up and so it is there. So, what you are expecting, let us

just take the issue of the farmland, and we say well we have set up shop here. Now with because you set up shop here farmland is gone. So, please do not expect us to compensate you for the farmland, what has been destroyed has been destroyed. Please change your expectations understand that acquisition of farmland, destruction of farmland is a problem that comes with development. Development will cause the farmland to go away you should not expect that the farmland will be saved.

Now, what else can we do? Start expecting something different. So, that is we are at least we are honest, at least we are not you know we are paying our workers as well here not engaging in any illegal activity.

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Limitations of Legitimacy Theory
(Gray et al., 2010, in Fernando & Lawrence, 2014)

- **Legitimacy gap:** Dynamic nature of the expectations of the society versus organizational objectives
- **Legitimization threats:** Unexpected occurrences affecting the organization's reputation, such as a financial threat, major accident, scandal, etc.
- **Vagueness regarding disclosure:** If and why and how much should organizations disclose

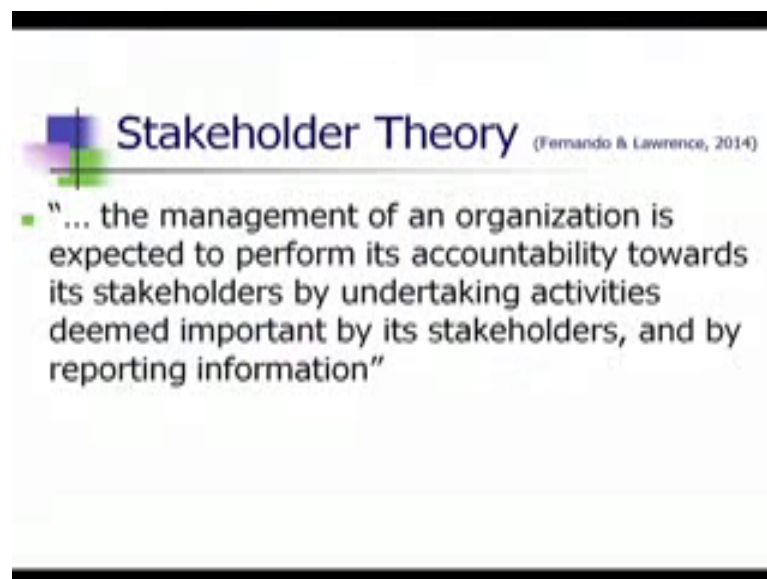
So, all of that is this fourth strategy or this is how organizations legitimize their operations. Limitations of this theory, one is the legitimacy gap. The dynamic nature of the expectations of the society versus organizational objectives, the expectations of the society keep changing. What the society expects from an organization is constantly changing. Now the organization has certain objectives to make. So, it becomes difficult to keep evolving the objectives of the organization in line with the changing expectations of the society. The second is legitimization threats, unexpected occurrences affecting the organizations reputations for example, of financial threat major accident scandal etcetera.

So, there is the fire in the factory. Or I mean various things and some carelessness one worker was careless, somebody did something, there is a scandal there is some mistake

where people are working they will make mistakes. Only people who work make mistakes actually people who do not work cannot not make mistake. So, the organization is trying to do something and somebody makes a mistake that results in major harm to the community in general. And that in turn brings down the legitimacy of the organization and that becomes a limitation of this theory.

So, the theory says that we must that we must match our activities towards the communities, not expect too much. And we are not able to live up to the communities expectations. Because of this unexpected events, our efforts to live up to the communities expectations are further sorted. So, that is one big limitation. Then vagueness regarding disclosure that is the third big limitation here, how much if and why the organizations should disclose what they are doing, and how much should organizations disclose and why do organizations choose to disclose something, and why do they choose to not disclose other things. So, that is one big limitation here ok.

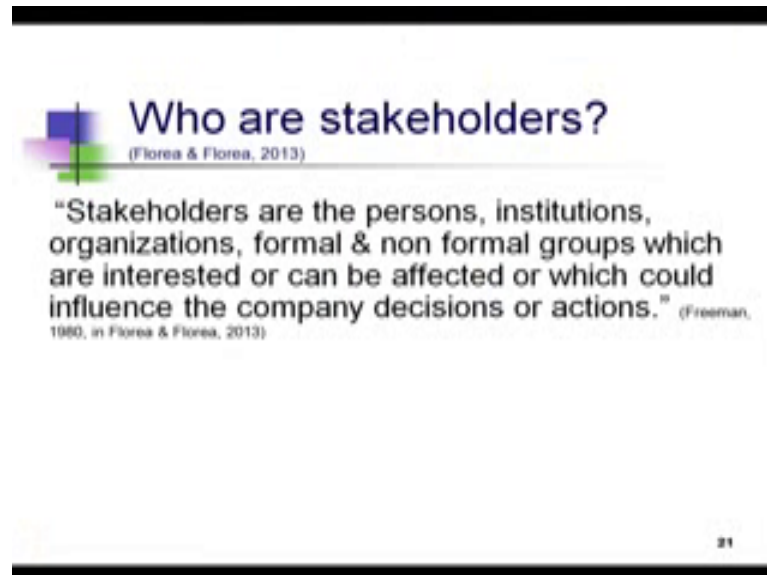
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The next theory that we will talk about is the stakeholder theory. Stakeholder theory will deal with this in much greater detail in the upcoming lectures. Stakeholder's theory states that the management of an organization is expected to perform its accountability towards its stakeholders by undertaking activities deemed important by its stakeholders and by reporting information. So, this will begin upon the legitimacy

theory. Which means, that the organization needs to do things that are considered important by the stakeholders by people who are been affected by the organization.

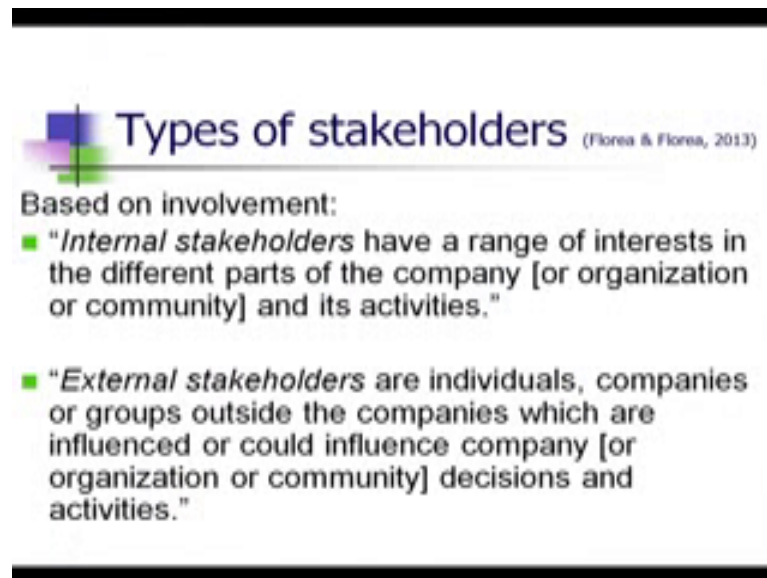
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Now who are stakeholders? Stakeholders are the persons, institutions, organizations, formal and non formal groups which are interested or can be affected or which could influence the company decisions or actions. So, these are stakeholders. Stakeholders these are groups of people are people who can be affected in any way shape or form.

Now, I am using the same slide that are used in a previous course. So, those of some these slides are the same. Those of you who have taken the course called strategic communication for sustainable development what have seen the next 2 or 3 slides.

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Types of stakeholders (Florea & Florea, 2013)

Based on involvement:

- "*Internal stakeholders* have a range of interests in the different parts of the company [or organization or community] and its activities."
- "*External stakeholders* are individuals, companies or groups outside the companies which are influenced or could influence company [or organization or community] decisions and activities."

So, this is the same material because it is relevant here. Types of stakeholders based on involvement we have 2 types of stakeholders. We have internal stakeholders who have a range of interest in different parts of the company or organization or community and it is activities. So, they are the inside it. External stakeholders are individual companies or groups outside the companies which are influenced or could influence company or organization or community decisions and activity. So, they are not really insiders, but they are outside the organization, but they could influence the company and they could be influenced by the activities of the company, they are not within the same organization.

So, based on the level of involvement we have 2 types of stakeholders then based on, how they are influenced by decisions or actions.

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Types of stakeholders (Contd.)
(Florea & Florea, 2013)

Based on how they are influenced by decisions/ actions

- **Primary stakeholders** are the people or groups which are directly affected, in a positive or negative way, by a strategy, decision or action of a company, organization [or community].
- **Secondary stakeholders** are people or groups that are indirectly affected, either positively or negatively by a company [or organization or community] decision or action."
- **Key stakeholders** play an important role in [the] decision making process & also in its implementation because they are involved in company management or financing [or management & financing of the organization or community], [e.g.] policy makers, officials, important professionals or community personalities having a strong position or influence."

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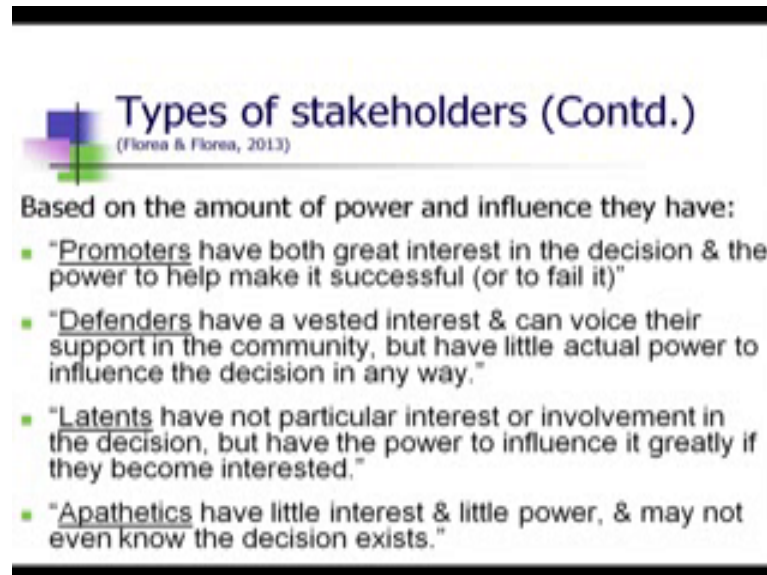
We have 3 types of stakeholders. We have primary stakeholders, who are the people of groups which are directly affected in a positive or negative way by a strategy, decision, action of a company organization or community. These are the people who are directly getting affected. Secondary stakeholders are people or groups that are indirectly affected either positively or negatively by a company or organization or community decision or action. So, through somebody say the families of these workers of the employees in a company are secondary stakeholders.

Primary stakeholders some company decides to change the way to works or decides to change the method of remuneration. So, in that way the primary stakeholders here are the actual employees who are working in the organization. The secondary stakeholders are the families of these employees who are affecting because somebody, from their family is directly being affect, or this community around the organization or around the physical setup of the company. Key stakeholders play an important role in the decision making process and also in it is implementation because they are involved in the company management or financing or management and financing of the organization or community. For example, policymaker's official's important professionals or community personalities having a strong position or influence, these are the people who get heard.

Key stakeholders are the people who have the voice who are the face of the company or who have the power either political or personal power to effect or maybe the financial

power to influence what is going on in the organization. So, these are the key stakeholders.

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Types of stakeholders (Contd.)
(Florea & Florea, 2013)

Based on the amount of power and influence they have:

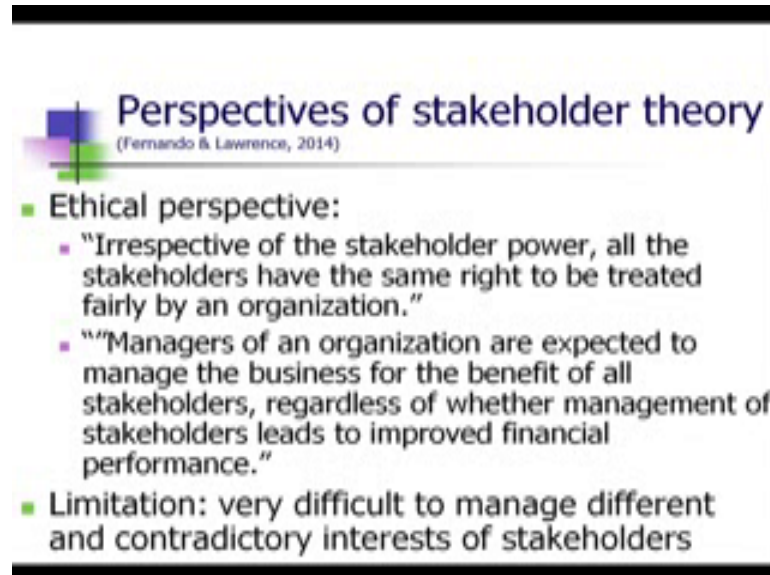
- "Promoters have both great interest in the decision & the power to help make it successful (or to fail it)"
- "Defenders have a vested interest & can voice their support in the community, but have little actual power to influence the decision in any way."
- "Latents have not particular interest or involvement in the decision, but have the power to influence it greatly if they become interested."
- "Apathetics have little interest & little power, & may not even know the decision exists."

Then based on the amount of power and influence they have we have 4 types of stakeholders. We have promoters who have both great interest in the decision and the power to help make it successful or to fail it. These are the people who can really put a cog in the way. Then defenders have a vested interest and can voice their support in the community, but have little actual power to influence the decision in any way.

So, they are the ones who can support they are the ones with the powerful voice promoters will push it forward. Defenders have a vested interest and they can voice their support in the community, but they do not really have a very much power to influence the decision in anyway. Latents do not have particular interest or involvement in the decision, but they have the power to influence the greatly if they become interested. So, they are just sitting on one side and watching and you know, but if required they can jump in and they can affect the decision. They are the latent's, and then we have the apathetics who are who have very little interest little power and may not even know that a particular decisions exists. So, they are being affected, but not very much there on the side, they do not want to speak they are with either way with the whichever way the decision go. So, they are the apathetic.

So, the highest level of involvement is that of the promoters, then the defenders who will have a voice, but not very much they can voice their concerns, but they may not have a send the decisions and then we have the latent's and then the apathetic ok.

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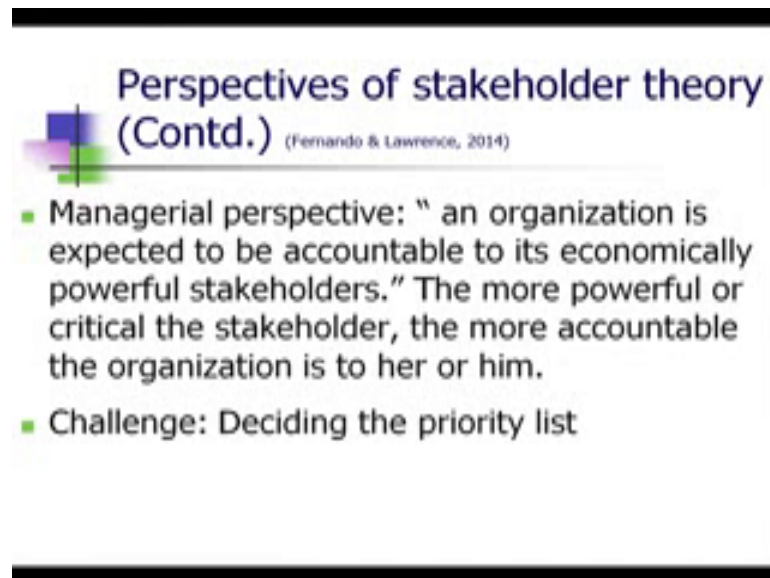
Perspectives of stakeholder theory
(Fernando & Lawrence, 2014)

- Ethical perspective:
 - "Irrespective of the stakeholder power, all the stakeholders have the same right to be treated fairly by an organization."
 - "Managers of an organization are expected to manage the business for the benefit of all stakeholders, regardless of whether management of stakeholders leads to improved financial performance."
- Limitation: very difficult to manage different and contradictory interests of stakeholders

Perspectives of the stakeholder theory are, you have 2 types of perspectives. We have the ethical perspectives which is irrespective of the stakeholder power all the stakeholders have the same rights to be treated fairly by an organization. This is what this prospective says that, it does not matter how much power these stakeholders have. Every stakeholders should be treated equally in the organization, every stakeholder should be treated fairly by the organization. Managers of an organization are expected to manage the business for the benefit of all stakeholders regardless of whether management of stakeholders leads to improve financial performance.

So, everybody who is getting affected should be taken care of, that is what the ethical perspective stage. The limitation is it becomes very difficult to manage different and contradictory interests of stakeholders. If you really start looking after the everybody maybe your profits can get affected and we will have, more details discussions on balancing the financial and social performance of organizations at a later stage we will have that in this course.

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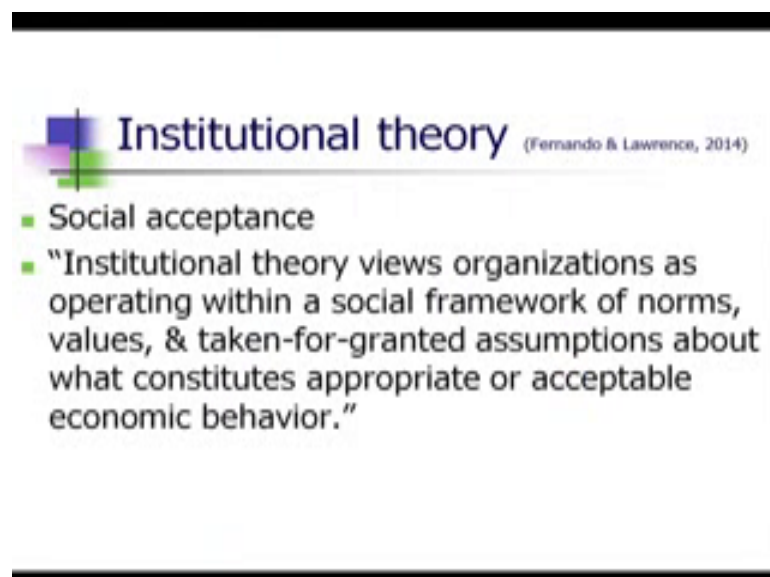


Perspectives of stakeholder theory (Contd.) (Fernando & Lawrence, 2014)

- Managerial perspective: " an organization is expected to be accountable to its economically powerful stakeholders." The more powerful or critical the stakeholder, the more accountable the organization is to her or him.
- Challenge: Deciding the priority list

Now, the managerial perspective of stakeholders theory states, that an organization is expected to be accountable to it is economically powerful stakeholders. So, the people with the voice should be heard first. The challenges how do you decide the priority list? How do you decide who is more important? Who is voice should be heard more? Who is voice should be heard less? How would you decide who is more important? Who is less important? How much weight you need to give to which stakeholder? Excuse me.

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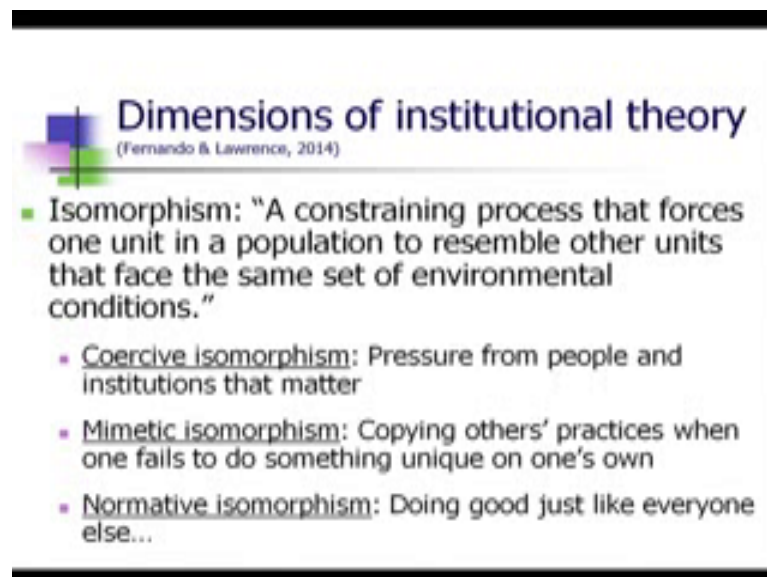


Institutional theory (Fernando & Lawrence, 2014)

- Social acceptance
- "Institutional theory views organizations as operating within a social framework of norms, values, & taken-for-granted assumptions about what constitutes appropriate or acceptable economic behavior."

The next theory that we will talk about is the institutional theory, which talks about the social acceptance of the organization. Institutional theory views organizations as operating within a social framework of norms values and taken for granted assumptions about what constitutes appropriate or acceptable economic behaviour. So, this theory says that, we are operating and we are touch briefly upon this theory in the first lecture in the previous lecture sorry. So, it says that organizations exist within a social framework of norms and values and some assumptions that are taken for granted about, what constitutes appropriate behaviour appropriate or acceptable economic behaviour meaning, how much money we should earn? How much we should give that to the society? Etcetera.

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Dimensions of institutional theory
(Fernando & Lawrence, 2014)

- **Isomorphism:** "A constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions."
 - **Coercive isomorphism:** Pressure from people and institutions that matter
 - **Mimetic isomorphism:** Copying others' practices when one fails to do something unique on one's own
 - **Normative isomorphism:** Doing good just like everyone else...

The dimensions of institutional theory are one is isomorphism. There are 2 dimensions isomorphism and coupling, we talk about coupling in a minute. Isomorphism is a constraining process that forces one unit in a population to resemble other unit is that face the same set of environmental conditions. Which means in isomorphism is a process that that shows all that forces people to act in socially response applied to the to the issue of corporate social responsibility or acceptable social performance of the organization. So, isomorphism is a process that forces organizations to behave the way the other organizations within the same industry or environment are behaving. So, because they are within the same environmental conditions they are expected to behave in the same way ok.

Now, 3 types of isomorphism exist. One is coercive isomorphism. So, pressure from people or and institutions that matter people demand something, people say do not do this. The community says if you do this, we will take further action. That is coercive isomorphism which means, if you do not confirm to what is going on there could be serious consequences. Now again, I have heard of organizations, I have read about organizations in areas I will not name the geopolitical region, and that may not be correct in this public forum. So, I have heard of geopolitical regions in which it is considered absolutely appropriate to give money to the organizations to the organized crime unit is operating within the social milieu of organization.

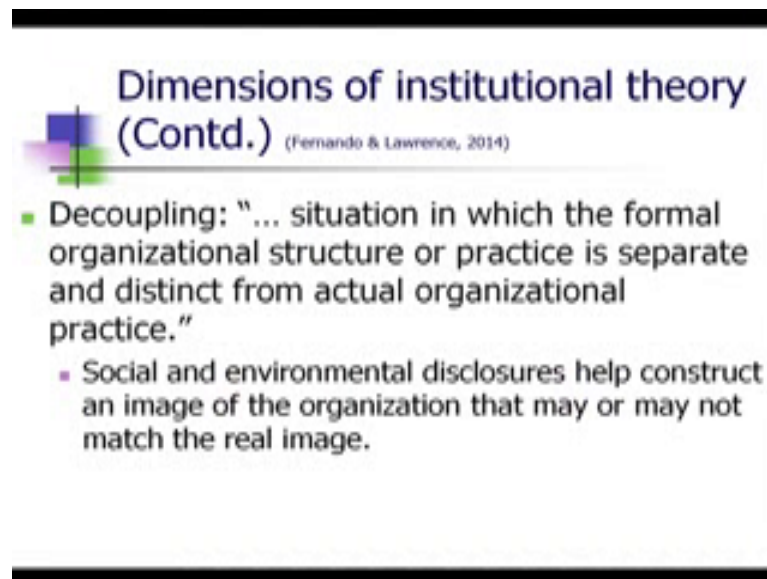
So, it is considered absolutely to find of the efforts of these people. Why because if you do not give him the money they asked for if they will want to ignore them a kidnap high official, they may killed and etcetera. So, I have heard and I have read reports about this that is you know very brutal cohesive isomorphism. Because one organization say come to their pressure everybody else should otherwise, there could be serious consequences including, but not limited to murder of people in the organization, or that is that is real pressure. The other name type of isomorphism is mimetic isomorphism which is copying others practices when one fails to do something unique on ones own.

So, we see what other organizations are doing, who is doing what, instead of coming up with our own way of giving back to the society, we say you know, we will just copy what somebody else. You doing say within our industry one organization is doing this So, let us also do this, for the community in general. So, for example, say it is sugar factory. So, all sugar factory is in the region are making cardboard boxes out of there waste material and then selling their product and those semi card board boxes. Or they are setting up schools, or they are providing you know sugar at low prices to people who are in the community, I am just giving you some (Refer Time: 24:13) examples here. So, I mean you know. So, all of these or maybe a pharmaceutical company decides to set up a hospital or free clinic. For the disadvantaged people within it is factory premises and by one company does it. So, other companies also follow suit and they start doing the same thing.

So, that is mimetic isomorphism one is going it is easy for us to copy the model. So, let us also go ahead and do it. The third type of isomorphism is normative isomorphism, doing good just like everyone else. So, the other the doing good not because they are

under any kind of pressure or they are doing something to copy someone we also feel this same way about giving back to the community this is one very good way of giving back to the community we are feeling the same thing for the community. So, let us also do whatever others are doing because, we also feel that it is important to feed back to the community ok, because everybody else is doing it.

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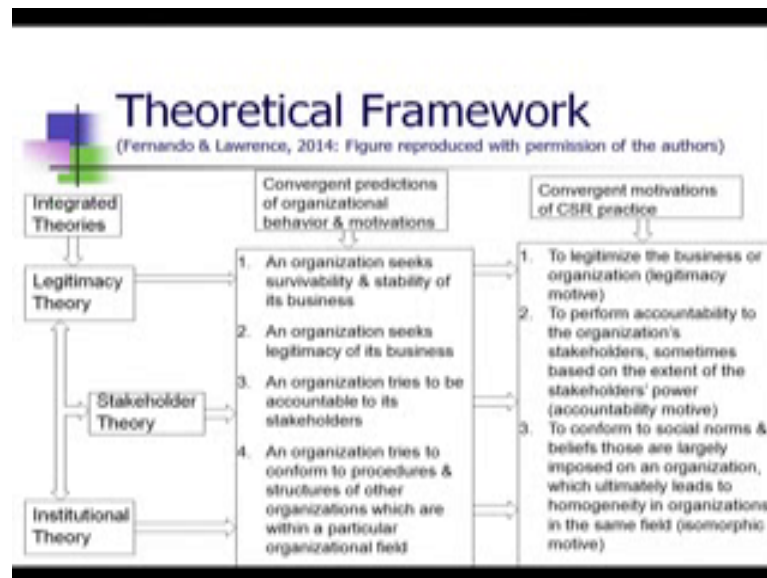
Dimensions of institutional theory (Contd.) (Fernando & Lawrence, 2014)

- Decoupling: "... situation in which the formal organizational structure or practice is separate and distinct from actual organizational practice."
 - Social and environmental disclosures help construct an image of the organization that may or may not match the real image.

Now the other dimension of institution theory is decoupling. Decoupling is a situation in which the formal organizations organizational structure or practice is separate and distinct from actual government, actual organizational practice.

So, social environmental disclosures help construct an image of the organization that may or may not match the real image. So, we disclose the information in such a way that the there is public a specific public impression is created in the minds of the community, and they feel that we are doing good. We may or may not be doing good, that is decoupling, that is another dimension of institutional theory. So, we create a public image that they are very good we are doing good whatever is happening inside is not disclosed to the community ok.

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Now this is the very nice figure that proposed by Fernando and Lawrence. This figure has been reproduced with written permission of Professor Lawrence, I have an email from him to this effect.

Now, I will the very little time is left for quickly explained this. The integrated theories legitimacy theory and institutional theory then gives rise to the stakeholder theory and they affect these convergent predictions of organizational behaviour and motivations which is an organization seeks survivability and stability of it is business, an organization seeks legitimacy of it is business. So, these are they needs or these are the things that are proposed by legitimacy theory. Then organization tries to be accountable to it is stakeholders that is what is proposed by the stakeholder theory. Institutional theory says an organization tries to confirm to procedures and structures of other organizations which are within a particular organizational field.

So, these are the predictions of or they these theories say that this kind of behaviour and these kinds of motivations are desirable. And then these then motivations and behaviours result in the CSR practices. So, legitimacy theory then translates into legitimizing the business or organization, to perform accountability to the organization stakeholders. So, stakeholder theory then becomes this stakeholder theory the motivations the behaviours that are predicted by the stakeholders theory, then translate into the performance of

accountability to the organizations stakeholders. Sometimes based on the extent of the stakeholders power accountability motive.

And then the institutional theory says, that there is conformance of procedures and structures of other organizations. And that in turn translates into conformity to norms the social norms and believes, those are largely imposed on an organization which ultimately leads to homo generating organizations in the same field. So, similar that is the isomorphic motive similar organization there giving back to the society in the same way. Pharmaceutical companies have the clinics, electricity companies give free give free electricity to say the essential services. So, something like that. Transport companies give free tickets to the LW or the, the lesser to the severely disadvantaged groups. So, that kind of thing, organization and one industry are doing good for the society in a similar manner and that is the isomorphic motive.

Now, that is all we have time for in this lecture. We will continue with touching up on different theories as we progress in the course, but I just wanted to give you a birds eye view of the main governing or the primary theories in the discourse of corporate social responsibility through this lecture.

Thank you very much for listening.