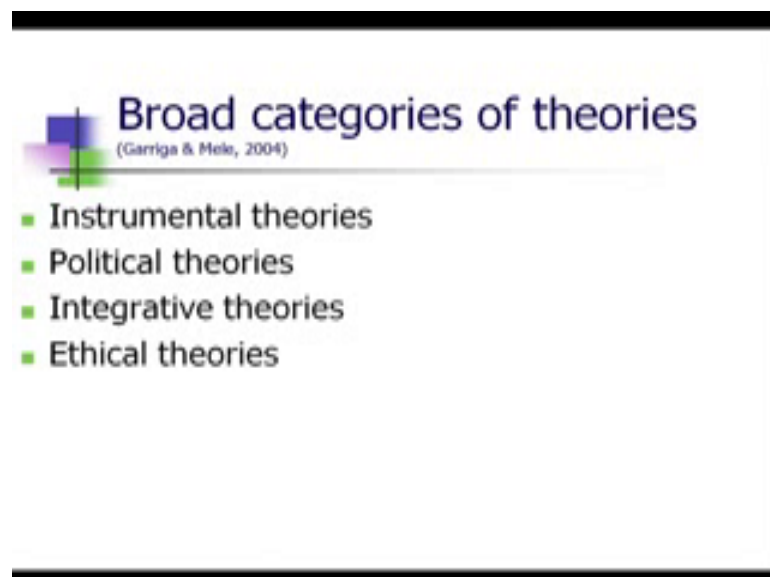


Corporate Social Responsibility
Prof. Aradhna Malik
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Lecture - 05
Theories of CSR (Contd.)

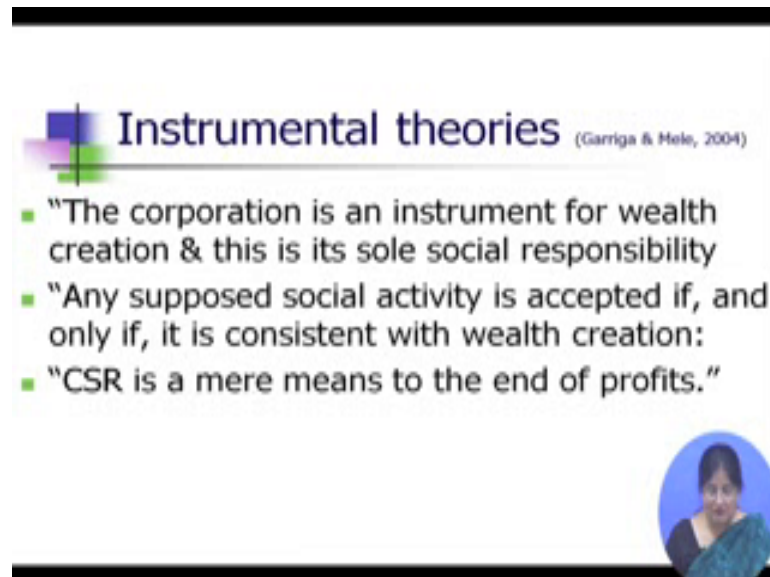
Welcome back to the MOOC course titled corporate social responsibility. My name is aradhna malik, and I am helping you with this course. And this lecture and the next lecturer we will be a continuation of the theories of CSR. Now we have discussed several theories we have discussed them you know, in bit is and pieces now what we will do is, I will help you understand how these theories can be categorized or how they have been categorized. There is a paper by Garriga and Mele, I hope I am pronouncing the name right, and this paper is corporate social responsibility theories, mapping the territory and this it is has been published in the journal of business ethics, volume 53 number 1 or 2, 1 and 2. And, so this is august 2004, and this discussion is based on this paper. What they have done is they have taken the entire gamut of theories on corporate social responsibility and summarized these theories into or categorized these theories into 4 different categories. And that is what we will be discussing in this lecture and the next lecture.

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So, let me share that with you. So, they say that the entire gamut of theories pertaining to corporate social responsibility can be divided into 4 or sorry it can be categorized into 4 categories. These are instrumental theories, political theories, integrative theories and ethical theories. So, I have shared each of these with you in great detailed.

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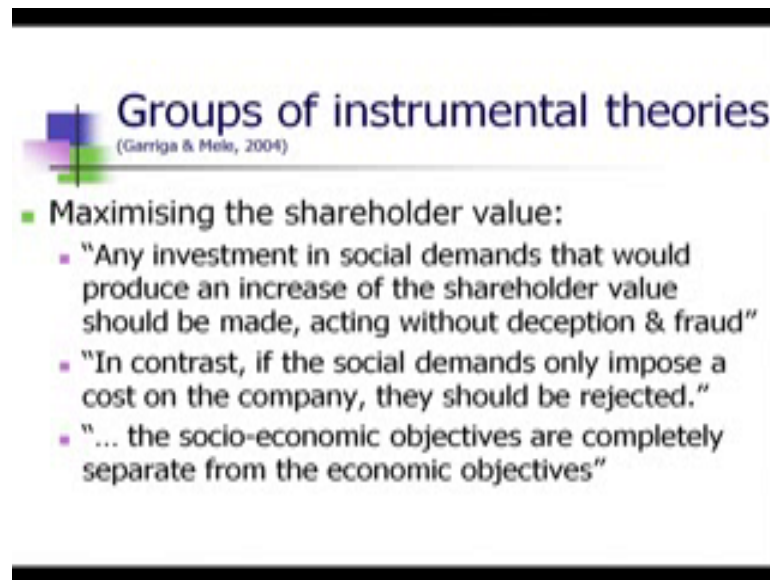
Instrumental theories (Garriga & Melé, 2004)

- "The corporation is an instrument for wealth creation & this is its sole social responsibility
- "Any supposed social activity is accepted if, and only if, it is consistent with wealth creation:
- "CSR is a mere means to the end of profits."

Now instrumental theories, what are instrumental theories? Instrumental theories assumed that the corporation is an instrument for wealth creation. And this is it is sole social responsibility the ultimate goal of any corporation is to make money and it is sole social responsibility is to contribute to the economic wealth of the society that it is functions in. Any suppose it social activity is accepted if and only if it is consistent with wealth creation, and CSR is a mere means to the end of it is profits.

So, that is what this theory says that whatever social activity happens it is only happens for the wealth creation. So, only for the creation of wealth does the social activity happen, if it does not contribute to the wealth then it is not going to be in integrated with the with the corporations basic responsibilities or basic operations.

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Groups of instrumental theories
(Garriga & Melé, 2004)

- Maximising the shareholder value:
 - "Any investment in social demands that would produce an increase of the shareholder value should be made, acting without deception & fraud"
 - "In contrast, if the social demands only impose a cost on the company, they should be rejected."
 - "... the socio-economic objectives are completely separate from the economic objectives"

Now some groups of instrumental theories. The first group talks about maximizing the shareholder value. So, group of theories within instrumental theories talks about maximizing the shareholder value. And in this these theories that talk about maximizing the shareholder value, talk about any investment, and they say that any investment in social demands that would produce an increase of the shareholder value should be made, acting without deception and fraud.

Honestly, if we can honestly generate money, if we can honestly generate profits we should go for it, without deceiving anyone without engaging in any type of fraud. In contrast if the social demands only impose a cost on the company they should be rejected. So, if the social demands the society has certain demand if they add costs to the company they should be avoided. These theories also say that the social economic objectives are completely separate from the economic objectives. So, these objectives are not really a part of the regular of the economic of the financial objectives of the company, they are a separate issue, all together ok.

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Groups of instrumental theories (Contd.) (Garriga & Mele, 2004)

- Strategies for achieving competitive advantage:
 - "... focussed on how to allocate resources in order to achieve long-term social objectives & create a competitive advantage"
 - Approaches:
 - "Social investments in competitive contexts"
 - Natural resource-based view of the firm & its dynamic capabilities
 - Strategies for the bottom of the economic pyramid"

The second group of theories in instrumental theories talk about strategies for achieving competitive advantage.

How can social activities add to the comparative advantage of an organization? Now these theory say that these theories are focused on, how to they talk about they are focused on, how to allocate resources in order to achieve long term social objectives and create a source competitive advantage. The approaches that these theories use are social investments in comparative context, natural resource based view of the firm and it is dynamic capabilities strategies for the bottom of the economic pyramid. Which means how can organizations achieve comparative advantage with, you know with through their social activities.

And these strategies are then focused on or these theories talk about how the activities of the organization can be focused on, how to allocate resources in order to achieve long term social objectives. And create a social at create a comparative advantage for the organization. The approaches in these theories can further be divided into 3 broad categories. And those are, some of these theories talk about making social investments in comparative context. Some others talk about natural resource based view of the firm and it is dynamic capabilities and yet others talk about strategies for the bottom of the economic pyramid.

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Approaches to strategies for achieving competitive advantage (Contd.)
(Garriga & Mele, 2004)

- **Social investments in a competitive context: Philanthropic investments are perceived as having better social value than any other investment** (Porter & Kramer, 2002, in Garriga & Mele, 2004)
- **"When philanthropic activities are closer to a company's mission, they create greater wealth than other kinds of donations."** (Burke & Lodgson, 1996, in Garriga & Mele, 2004)
- **"... philanthropic investments by members of cluster, either individually or collectively, can have a powerful effect on the cluster competitiveness & the performance of all its constituents' companies."** (Porter & Kramer, 2002, in Garriga & Mele, 2004)

Let us see what each of these are. Approaches to strategies for achieving comparative advantage. So, how do you, you know the social investments in a comparative context could be philanthropic when we talk about social investments. So, these are these theories are talking about philanthropic investments that are perceived as having better social value than any other investment. They say that, if you invest in philanthropy that we will add to the perceived social or higher perceived social value of the organization. When philanthropic activities are closer to a company's mission they create greater wealth than any other kinds of donations. It is not about donations, but whatever you are doing if whatever you are doing through your social activities is in line with your with the vision of your organization, that we will give you a better goodwill you know, or that will generate a better goodwill than any donations that you may make to help the society.

So, you say this is what we are doing and this is what we helping you with, at once told you about an example of a pharmaceutical company setting up a free dispensary. So, that is you know these toward related, software company setting up say computer training workshops for students in schools, in or not in a place where people do not have enough to it, but maybe offering free workshops in schools where children have already have access to computers or can have access to computer. So, it is just along the lines of what they are doing and maybe what people can also needs. So, something like that would be in line or would be synchronous with the mission of the organization and that would generate a lot of goodwill. Much more goodwill than any other activities then

philanthropic investments by members of a cluster either individually or collectively can have a powerful effect on the cluster competitiveness and the performance of all its constituent companies. For example, if all the pharmaceutical companies got together and said let us pull in our resources and we can do this together.

So, different companies are manufacturing different kinds of medicines and, so if they all pull in their efforts in and say, one pharmaceutical company specializes in the research and development on medicines for cancer for example. Or palliative care or child health or you know, different kinds of diseases. So, they say we will all give distributry medicines in this particular area or we will set up dispensaries to help people with these things. So, that is it adds to the competitive advantage of the entire cluster of companies, and that intern will give them a or you know that will add to the goodwill generated by this cluster of organizations, and that intern will help the cluster of companies get a competitive advantage. People will say yes everybody makes medicines, but this group of organizations does this positive thing, this group does this for the benefit of the society, and that generates a lot of goodwill. And this is what these theories talk about they say, when you do these things or they provide different examples of all of these things.

Now, I will give you I will show you which theories talk about these things at the very end and you can dig more and get more references. We do not have enough time to delve into each of these theories, but I can just give you brief of you follow these theories ok.

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Approaches to strategies for achieving competitive advantage (Contd.)
(Garriga & Mele, 2004)

- **Natural resource based view of the firm (RBV) & dynamic capabilities:**
 - **RBV:**
 - "... the ability of a firm to perform better than its competitors depends on the unique interplay of human, organizational, & physical resources over time."
 - Resources for competitive advantage "... should be valuable, rare, and inimitable, and the organization must be organized to deploy these resources effectively"

Then the third group within strategies for approaching for achieving comparative advantage is the natural. So, the second one is natural resource based view of the firm RBV and dynamic capabilities. The resource based view save the ability of a firm to perform better than it is competitors depends on the unique interplay of human organizational and physical resources overtime.

Now, which of these resources? So, how do we use these resources in random with each other. That is what helps the firm you know that is that is what determines whether the firm is performing better than it is competitors or not. And how are these resources interacting with each other, how are they functioning overtime. Now how do we decide which of these resources we need to pay more attention to? So, the resources for competitive advantage should be valuable, rare and inimitable. Inimitable means they cannot be copied or there is very less chance of them being copied. And the organization must be organized to deploy these resources effectively. So, these resources should be they should be valuable, they should be rare they, should people should not be able to copy them and the organization should be ready. And willing in able to use these resources to the best of it is ability and at that time they will add to the strategic comparative advantage of the organization. These theories this group of theories says that if we look after or resources, if we use our resources wisely we can or at to especially to the benefit of the society.

Now, we are talking about CSR, we are not talking about corporate strategy, but these theories say that, if we use the resources wisely we can generate goodwill. We can do you know, we can do good for the society and we can also benefit as a profit making organizations just by paying attention to the resources we have. Getting the maximum out of the resources that we have choosing our resources wisely and using those resources wisely we will help us get a competitive advantage, ok.

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Natural resource-based view of the firm & dynamic capabilities approach (Contd.) (Garriga & Mele, 2004)

- 'Dynamic capabilities' approach:
 - "drivers behind the creation, evolution, & recombination of the resources into new sources of competitive advantage"
 - "organizational & strategic routines by which managers acquire resources, modify them, integrate them, & recombine them to generate new value-creating strategies"

Dynamic capabilities approach within this says, dynamic capabilities are the drivers behind the creation evolution and recombination of resources into new sources of comparative advantage. And organizational and strategic routines these are, what are these drivers these drivers are the organizational and strategic routines by which manages acquire resources, modify them, integrate them and recombine them to generate new value creating strategy.

So, it is not only getting the resources. It is identifying resources that can help you getting them together getting the maximum benefit out of them together, combining them you know help putting them together generating something new that is ongoing. So, there is a sustainable element also to these resources. It is not only getting resources and using them it is having a sustainable cycle of the use of resources that can help you get a competitive advantage, through your social activities. And that is what these theories talk about, ok.

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Natural resource-based view of the firm & dynamic capabilities approach (Contd.) (Garriga & Mele, 2004)

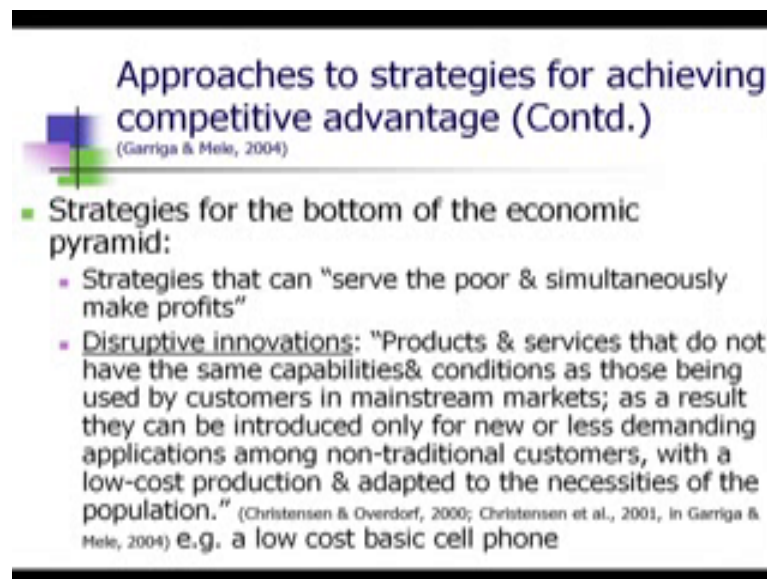
- Social & ethical capabilities include,
 - "process of moral decision making
 - process of perception, deliberation & responsiveness or capacity of adaptation
 - development of proper relationships with the primary stakeholders: employees, customers, suppliers, & communities"
- Hart (1995): Strategic capabilities model:
 - Interconnected capabilities: "pollution prevention, product stewardship, sustainable development"
 - Critical resources: "Continuous improvement, stakeholder integration, & shared vision"

The social and ethical capabilities dynamic you know within the dynamic capabilities the social and ethical capabilities include, a process of moral decision making decision making. Making decisions that are right and good for the stakeholders for the concerned stakeholders. The process of perception deliberation and responsiveness or capacity of adaptation you should know, what you are dealing with? So, you should be able to perceived, you should be able to think about it, perception, deliberation and responsiveness or capacity of adaptation. The third here is the next type of capabilities include development of proper relationships with the primary stakeholders which include employees customer, suppliers and communities. And hart has proposed a strategic capabilities model in 1995, through with you know it is discussed that there are the interconnected capabilities are pollution prevention, products stewardship, sustainable development and the critical resources are continuous improvement, stakeholder integration and shared vision.

So, when we talk about interconnected capabilities we are talking about preventing damage to the environment, preventing pollution, product stewardship, championing our products, serving the product not only developing the product and using it when we talk about stewardship. We are talking about serving the product using it for the betterment of society or channeling it to for the betterment of society sustainable development. Continuous improvement then, which are the critical resources, these are continuous improvement. Through this is the when we talking about processes we are talking about

a cycle of continuous improvement. We are talking about integration of stakeholders getting them together getting them to interact with each other getting them to form, and teams and at least finding out the you know, assessing the interplay of stakeholders and getting the maximum benefit out of that interplay. And a sheared vision and this is the strategic capabilities model that has been proposed by. Hart strategic capabilities model, thank you.

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Approaches to strategies for achieving competitive advantage (Contd.)
(Garriga & Mele, 2004)

- Strategies for the bottom of the economic pyramid:
 - Strategies that can "serve the poor & simultaneously make profits"
 - **Disruptive innovations:** "Products & services that do not have the same capabilities & conditions as those being used by customers in mainstream markets; as a result they can be introduced only for new or less demanding applications among non-traditional customers, with a low-cost production & adapted to the necessities of the population." (Christensen & Overdorf, 2000; Christensen et al., 2001, in Garriga & Mele, 2004) e.g. a low cost basic cell phone

The next is the strategies for the bottom of the economic pyramid. That is another approach to strategies for achieving comparative advantage. These are strategies that can serve the poor and simultaneously make profits. Now we are talking about something very, very interesting it is not only making profits and giving the extra to the, to the lesser advantaged populations or putting the extra in for the welfare of the society, it is serving the poor and simultaneously making profit. So, we have disruptive innovations. Disruptive innovations are products and services that do not have the same capabilities and conditions as those being used by customers in mainstream markets as a result, they can be introduced only for new or less demanding applications among nontraditional customers. With a low cost production and adapted to the necessities of the population for example, a low cost basic cell phone I am sorry I can get one to show you here, but a very basic you know, the cell phone with buttons on it and I will not tell you I am not I do not think it is appropriate for me to mention the name of the company that manufactures a bit you or probably no.

I am not talking about a smart phone. I am talking about a basic cell phone that you can use to make calls in emergencies, that you can use for SMSs that you can use even to download music from the internet. Now this is a basic cell phone that does not have any those smart screen capabilities, but this is a cell phone that you will find that every rikshawala, every liberal we will probably carry, you know. And this is become more of an emergency device I remember that time when the cell phones used to be a luxury for us, that is no longer the case. Basic low cost cell phone is something that people carry, then western it they know it is very useful the people who come to help us our helpers in the house you know, the cleaning crew. They come and they know that they can get people with cell phones get more business, than people who do not have any way of or who cannot be contacted.

So, you have somebody helping you in the house with your cleaning you let the person know that please do not come on such and such date, please come early, the person concerned has a way of getting in touch with you letting you know whether they can come late or early the person the cleaning lady in my place, calls me and let us me know if she is going to get late. And because she is so committed to coming on time, I will you know I am quite happy with her. So, I am just telling you that that was not the case how would you send messages, but all she has to do it she just gives me a missed call. She does not even spend up any I call her back and say what is going on I am going to be 15 minutes late, great fantastic. So, you know, so that these things are catering to the population that is really struggling to make ends meet. Now because she is committed because she is sincere, I will recommend her to 10 another people who need help with their cleaning.

So, their business grow so they know it is a worth file investment and this is disruptive innovation. She does not need a smart phone. She just needs a basic device that she can use to contact people, who she works for and that is that is such a nice thing. And this then helps companies these kinds of innovations help companies get comparative advantage, why because these things are easily available people who do not need fancy devices. We just invest in these basic technologies and they will in turn take away a part of the market share. They will start eating into the market share of higher priced technology. So, that is why they are called disruptive innovations, you do not need a fancy yes technology is great, but maybe you do not need such evolved technology for

everybody. So, give if these as long as these basic cell phones are available, the market share of the smart phone industries going to be eaten in to buy people who can only afford invest in these very basic services.

So, you know so that is again these are strategies for the bottom of the economic pyramid cause related.

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Groups of instrumental theories (Contd.) (Garriga & Melé, 2004)

- Cause related marketing :
 - "... the process of formulating & implementing marketing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in revenue-providing exchanges that satisfy organizational & individual objectives." (Varadarajan & Menon, 1988, in Garriga & Melé, 2004)
 - Goal: "... to enhance company revenues & sales or customer relationship by building the brand through the acquisition of, & association with the ethical dimension or social responsibility dimension"
 - "... seeks product differentiation by creating socially responsible attributes that affect company reputation."

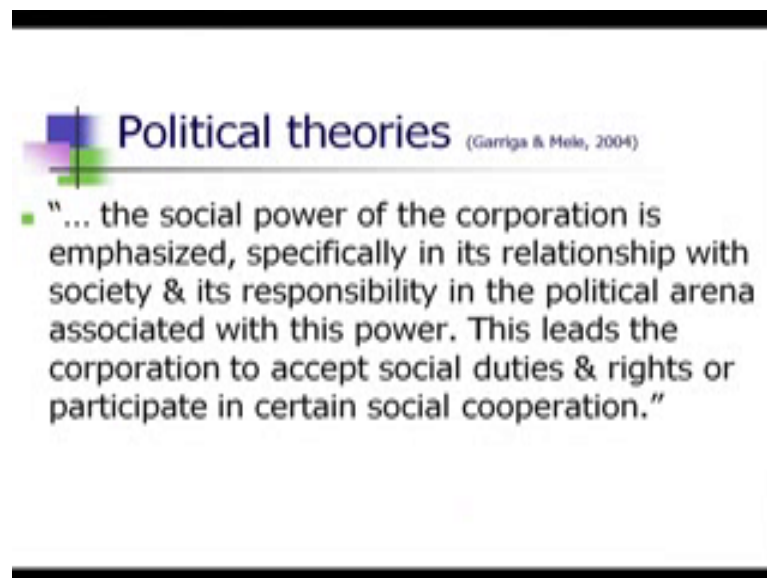
Now, group the fourth group here is the, cause related marketing. Cause related marketing seeks product differentiation by creating socially responsible attributes that affect company reputation. You add to the socially responsible attributes and your company gets an advantage the what is cause related marketing? Is the process of formulating and implementing marketing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cost when customers engage in revenue providing exchanges that satisfy organizational and individual objectives. For example, music concert. For example, you have these programs on television ah.

So, various programs and which occasionally there cause celebrities and these celebrities we will say, if I win this price I will take this money and contribute my winnings to such and such NGO. I will take my winnings and give back to the society in such and such manner. So, these kinds of things are you know this is cause related marketing particular company sponsors that show. And then they have these marketing strategies, and that

helps them get a comparative advantage, we are not only giving a denotation we are sponsoring this music, concerned we are sponsoring this program this procedures generated from this program, will go towards this specific social cause the goal of cause. Related marketing is to enhance company revenues and sales or customer relationship by building the brand through the acquisition and association with the ethical dimension or social responsibility dimension.

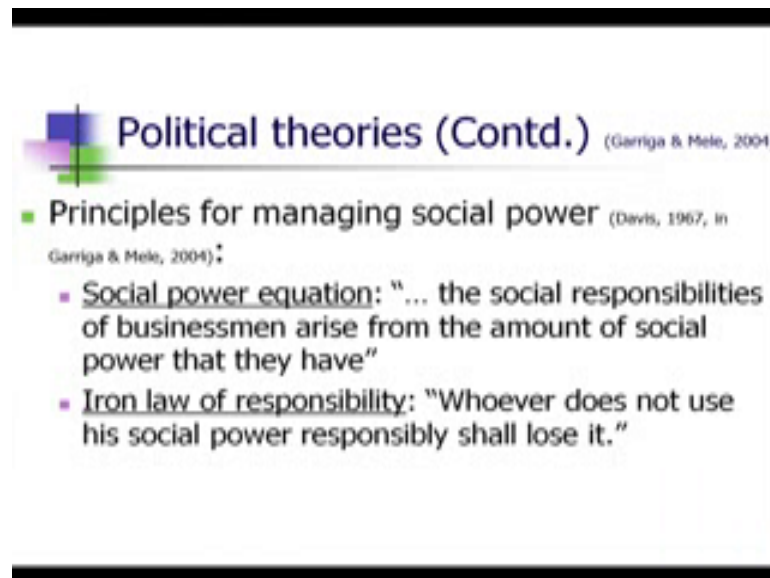
So, you say we are doing this for the good of the community and that is how we will be known. This is one company that contributes that gives back to the society in this particular manner, ok.

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Political theories, the next group of theories that we will talk about that Garriga and Mele have proposed, is the political theories. Political theories then they, they talk about the social power of the corporation and they say that the social power of the corporation is emphasized specifically in its relationship with society and its responsibility in the political arena associated with this power. This leads the corporation to accept social duties and rights or participate in certain social cooperation.

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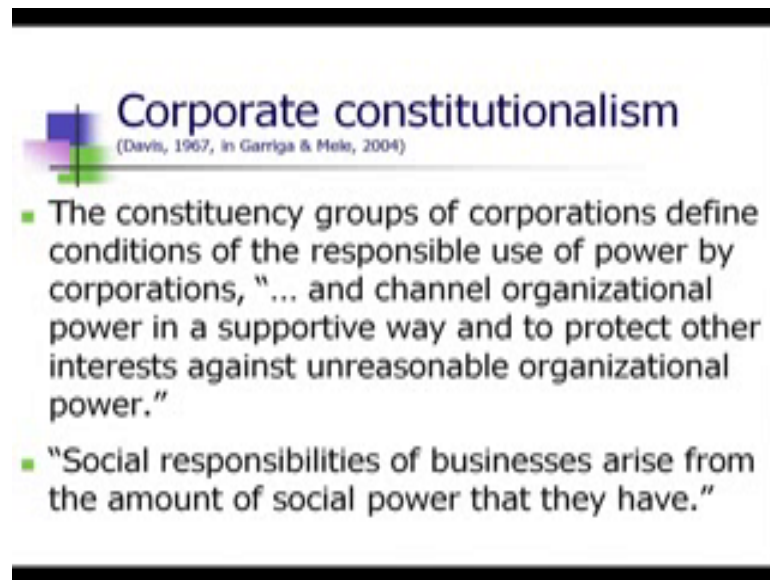
Political theories (Contd.) (Garriga & Mele, 2004)

- **Principles for managing social power** (Davis, 1967, in Garriga & Mele, 2004):
 - **Social power equation:** "... the social responsibilities of businessmen arise from the amount of social power that they have"
 - **Iron law of responsibility:** "Whoever does not use his social power responsibly shall lose it."

Now, what happens in these theories there is you know the principles for managing social power, or there are 2 principles. We there is the social power equation with says, the social responsibilities of business man arise from the amount of social power that they have.

So, the more social power they have the more their responsibility towards the society, that is the social power equation. And the second principle here is the iron law of responsibility this was proposed by Davis in 1967 both of these were proposed by Davis in 1967. And the iron law of responsibility we discussed this earlier also, this is whoever does not use his social power or whoever does not use his social power responsibly shall lose it in a democratic society. If you have power you do not use it you know, for the welfare of the people or you do not use it responsibly you will tend to lose it that is the iron law of responsibility. And these are the principles for managing social power. So, we up all we are talking about, political theories. Now in these political theories the corporate constitutionalism.

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Corporate constitutionalism
(Davis, 1967, in Garriga & Melé, 2004)

- The constituency groups of corporations define conditions of the responsible use of power by corporations, "... and channel organizational power in a supportive way and to protect other interests against unreasonable organizational power."
- "Social responsibilities of businesses arise from the amount of social power that they have."

Then talks about the constituency groups of corporations or this corporate constitutionalism is another aspect of the political theories. And this proposals that the constituency groups of corporations define conditions of the responsible use of power by corporations. And channel organizational power in a supportive way and to protect other interests against unreasonable organizational power. This is that social responsibilities of business arise from the amount of social power that they have. You have power you have to be responsible. Groups of political theories there are 2 broad categories, the first one is integrative social contract theory.

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Groups of political theories
(Garriga & Melé, 2004)

- Integrative social contract theory
- Corporate citizenship

Now and the second one is corporate citizenship. What is integrative social contract theory?

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Integrative social contract theory
(Garriga & Mele, 2004)

- Donaldson & Dunfee (1994, 1999):
 - Assumption of a social contract between the society and business
 - "Social responsibilities come from consent"
 - **Macrosocial contract:** "provides rules for any social contracting. These rules are called the 'hyper-norms'; they ought to take precedence over other contracts."
 - **Microsocial contract:**
 - "... show explicit or implicit agreements that are binding within an identified community, industry, companies or economic systems."
 - "generate 'authentic norms'."
 - "... based on the attitudes & behaviors of the members of the norm-generating community and, in order to be legitimate, have to accord with the hyper-norms."

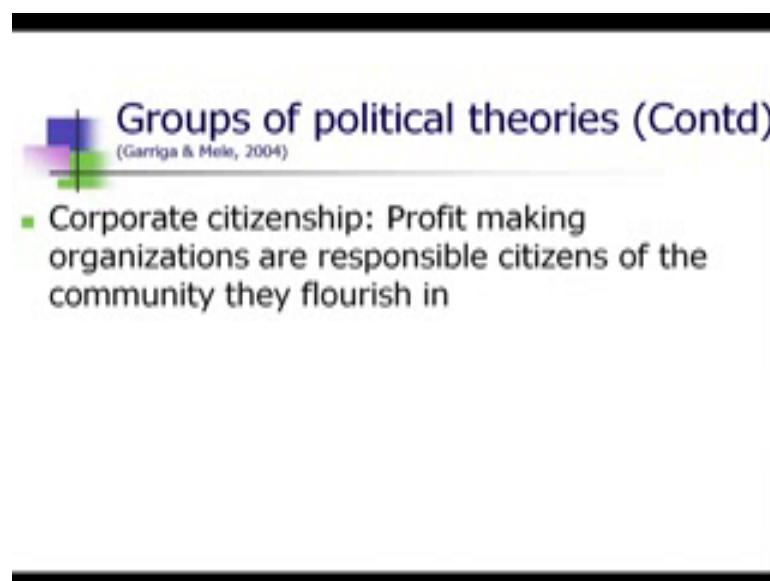
Donaldson and Dunfee proposed this, and they said that this is the assumption of a social contract between the society and the business. According to the integrative social contract theory there is a social contract between the society and the business. Social responsibilities come from consent the community has to consent to you having a social responsibility. There are 2 broad types of social contracts, one is the macro social contract which provides rules for any social contracting. These rules are called the hyper norms they ought to take precedence over other contracts. So, every bodies found by these rules, a they take precedence they you know, everybody irrespective of the contacts they are in we will follow these rules and by way of by virtue of these rules you have a particular power.

So, this is the micro social contract. So, that is the macro social contact. The micro social contract is this shows explicit or implicit agreements that are binding within identified community industry comp companies or economic systems. They generate authentic norms and these are based on the attitudes and behaviors of the members of the non generating community, and in order to be legitimate they have to be in accordance will be hyper norms. So, these are more context based, the micro social norms are the norms that are given to us by the society. The social contract is dependent on the micro social

the social contract in micro social norms is dependent on the context you are coming from. The community decides and that you need to do a certain thing, but community says that your organization needs to do something specific for the benefit of this particular community. When we talk about macro social gets everybody needs help with their health needs, everybody needs help with their education, needs everybody wants to be treated fairly.

So, these are. So, you have a responsibility to the society to do something for the welfare of people in basic areas. Now when we talk about specific areas for example, in say in areas where, so I am sorry, I am running out of examples here. So, I will not mention that anyway. So, you know very specific issues, say for the protection of the girl child again that is the macro social contract, but specific communities have specific needs and you say within this community this is what I will go towards.

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Then next the group of, where the second group of cop political theories includes corporate citizenship. Corporate citizenship includes the profit or corporate citizenship is the principle that says that profit making organizations are responsible citizens of the community defloration. They have to act like citizens they have to act like independent citizens that are going to be contributing to the society they flourishing.

We will have a detailed discussion on corporate citizenship in the next lectures, but I just wanted to briefly tell you what corporate citizenship is. So, that is all we have time for in

this lecture, we will continue with some more discussion about the categories proposed by garriga garriga and mele in the next class.

Thank you very much for listening.