DOI: 10.7763/IPEDR. 2014. V79. 14

# Who Decides On What to Spend in CSR? Moving from Compulsion to Consensus

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**Abstract.** With CSR spending becoming mandatory in some prominent economies, quantum of spend is increasingly becoming a non issue. Instead spending right has acquired prominence. Ever since policy makers mulled the idea of making CSR spending compulsory, there appears to be rush and panic in the business world to spend on CSR activities that gives them the best return on their social investment. The debate is on for decades now, as to who should decide on what to spend and how much? For long in the name of CSR activities businesses have been spending on initiatives that were either a part of owner's choice or were easy to identify and implement, mostly avoiding the views of stakeholders inside as well as outside. This paper attempts to address broadly the issue of stakeholder confidence and preference in a CSR initiative. The paper suggests a model of engagement of stakeholders both within and outside of a business for the roll out of a CSR initiative.

**Keywords:** Corporate Social Responsibility, Stakeholder Theory of Firm

## 1. Introduction

Corporate Social Responsibility (CSR) classically described as the concept that business has an obligation to society that extends beyond its narrow obligation to its owners or shareholders Bowen (1953), has generally been promoted as voluntary (McGuire, 1963; European Commission, 2001; Commission of the European Communities, 2006). The dominant argument is that the desire of organisations to maintain legitimacy is sufficient to promote CSR (Tuzzolino and Armandi, 1981; Powell and DiMaggio, 1991; Elsbach, 1994). Some writers contend that CSR is akin to promotion of fundamental human rights e.g. right to property, dignity of labour and good livelihood, and thus ethically necessary, morally obligatory and within the sphere of compulsory regulation (Utting, 2005; Wettstien, 2009). Compulsory regulation refers to legislative enactments or judicial judgements prescribing roles and sanctions. The advocacy for compulsory regulation is seen as a sure way to promote transparency and accountability and also regain the trust of the public (Muller, 2010; Shaxson, 2009; Pritchard, 2003). This is because evidence has shown that when companies and government are left unchecked they do become oppressive and irresponsible [Enron, the recent BP spillage crisis] Pritchard (2003). Compulsory regulation also has the benefits of certainty, enforceability Gatto (2002), fair play and stakeholder empowerment (DBIS, 2009). In stakeholder engagement, compulsory regulation will define duties, provide for the rights of parties, and create order and predictability in procedure Gatto (2002). Compulsory regulation is usually universal (covering the entirety of the identified population). This universality and enforcement feature is what ensures the right of aggrieved parties to seek remedy and deters deviance.

At the same time scholars contend that compulsory regulation has its limitations. These include high cost Glaser and Gyourko (2002), difficulty of access to justice and procedural requirements. There is also lack of court precedents to rely on because few CSR cases have been conclusively decided in courts of law. Another limitation is the reactive nature of regulation. Laws are generally unable to anticipate some situations. They are written, or in the case of court judgements reached in retrospect or reactive instead of proactive (Ward 2000, 2002; Gatto 2002; Pritchard, 2003). There are also drafting complexities arising from tokenism and inelegant attempts to pacify lobbyists Arnstein (1969). However, despite these seeming limitations, there appears to be more support for compulsory regulation for its potential to create trust and fairness in business relations (Muller, 2010; Shaxson, 2009; Pritchard, 2003).The question, however, is can it work for Corporate Social Responsibility? The term corporate social responsibility (CSR) first appeared within the context of business studies in the mid 1960s. Subsequently, the notion of responsibility, traditionally attached to individuals, started to be widely applied to companies (Epstein 1989; French 1984; Soares 2003).

Moreover, it became clear that the CSR paradigm is not only the final result of a process, but also a process itself that must be considered in all decision making, as well as evaluated and measured Jones (1980). Today, CSR is focused on a stakeholder model, which has become widely accepted among contemporary business organisations. Nevertheless, it is extremely dynamic, in that stakeholders change as the company's context of reference changes (Dunfee, 1991; Hasnas, 1998). This new perspective stresses the importance of inter-stakeholder relationships, which involve a complex web of relationships rather than just a series of dyadic connections between stakeholders and the corporation. Crucial questions still are who the relevant stakeholders are and what influence they have on CSR spending avenues and investment decisions. Although the stakeholder concept can be approached from many sides (Phillips et al. 2003), itsconnection with management decision-making is an important underlying principle (Jones & Wicks 1999). From this perspective, effective management of the firm's relationships with societal actors is a primary concern. According to Carrol & Bucholtz (cited in Keijzers 2003: 108), stakeholder management centres around three equally important questions: 'What stakeholders need to be dealt with? What form should the relationship with a stakeholder take? And how should stakeholder management be linked to internal processes?' It is proposed that firms can manage their relationships with societal actors in two (rather extreme) ways: an 'inside–out' and an 'outside–in' perspective. Firms that operate from a particular perspective will define their responsibilities towards society differently. However, these two positions are extremes of a theoretical continuum. In practice, firms might adopt various positions in between and shift from one perspective to the other.

## 2. The Review of Literature

Wood (1991) suggests that the public responsibility of business is divided into areas of social involvement directly related to their business activities and competencies, with secondary areas of involvement relating to its primary activities. For example, an auto maker might reasonably be expected to deal with vehicle safety and the environment but not low-income housing or adult illiteracy. Carroll (1979, 1991) suggests corporate responsibility has different layers: economic, legal, ethical and discretionary categories of business performance and those business leaders must decide the layer at which they choose to operate. Stakeholders, acting either formally or informally, individually, or collectively, are a key element in the firm's external environment that can positively or negatively affect the organisation Murray and Vogel (1997) Underpinning the difficulties of managing the relationship between a business and its stakeholders are issues such as: divergent and often conflicting expectations between stakeholders (Bowmann-Larsen and Wiggen, 2004; Brammer and Pavelin, 2004; Castka et al., 2004; Deresky, 2000; Fairbrass, 2006; Greenfield, 2004; Murray and Vogel, 1997); contextual complexities (CSR Risk Mapping Initiative, 2004; Daniels and Radebaugh, 2001) that are further complicated by varying interpretations arising out of different geographical regions and cultures (Castka et al., 2004; Deresky, 2000; Epstein and Roy, 2001; Fairbrass, 2008; Maignan et al., 2002; Maignan and Ferrell, 2003; Woodward et al., 2001); the challenge of identifying what might be considered to be 'best practice' with regard to CSR stakeholder dialogue strategy and then communicating this to stakeholders Weiss (1998). When attempting to manage these challenges, CSR stakeholder dialogue can be seen as a key vehicle for the ''exchange'' of CSR offerings between the firm and its stakeholders Murray and Vogel (1997). This exchange is one in which the firm offers something of value (typically a social benefit or public service) to an important constituency and, in turn, anticipates receiving the approval and support of key individuals and/or socio-political groups in its environment (Fairbrass, 2006, 2008; O'Riordan and Fairbrass, 2006). The discussion immediately above indicates why it may be appropriate for managers to look to the firms' constituencies and stakeholders when approaching strategic CSR-planning activities Murray and Vogel (1997), and how stakeholder dialogue plays a vital part in the development of CSR and other operational business strategies. Previous analytical frameworks Having outlied in brief some of the basic issues arising from the terms and concepts used in this paper, we now turn to exploring in more detail some of the key contributions to the literature on CSR and stakeholder dialogue.

Of particular merit in this literature is the suggestion that five dimensions of corporate strategy may be particularly critical to the success of the firm and useful in relating CSR policies, programmes, and process to 'value creation'. Those dimensions include 'centrality', 'specificity', 'reactivity', 'voluntarism', and 'visibility' Burke and Lodgsdon (1996). However, whilst this approach is comprehensive, the relationships between the elements could be better developed and the practices portrayed in more specific detail. In addition, we find Hofstede's (1997) and Trompenaar and Hampden-Turner's (2004) work on culture to be relevant to the discussion about CSR and stakeholder dialogue practices, particularly when examining the behaviour of large multi-national businesses, such as pharmaceutical companies. Ideas about 'people' and 'events', and theories about 'values', 'strategy alternatives', and 'response models' we also find to be significant in this context. Similarly, notions about 'communication' within CSR, as well as ideas about 'control indicators' (Welford, 2004, 2005) and 'managing goodwill, image and reputation', and the 'process of how to execute stakeholder analysis' Weiss (1998) are also valuable. However, taking the body of literature as a whole we contend that it provides a fragmented patchwork of ideas and concepts. None of the approaches is sufficient in its own right in providing a comprehensive framework O'Riordan and Fairbrass (2006).

## 3. The Analysis from the Business Trends in CSR

A look at top 35 companies of India reveals that only 6 or 15% of the companies spend more than 2% of their profits (% of PAT) which is quite surprising given the fact that companies have long been claiming on its social investment programs and their commitment to meeting the social objectives. Whereas the companies bill 2013 mandates 2% compulsory contribution from the profits after tax, which amounts to close to 8,000 crores alone from the top 500 companies. Yet it is ironical that most spending companies predominantly spend on two social activities education and health while ignoring most other social investment opportunities, therefore leading to imbalanced social priorities. At the same time to accomplish its CSR mission only 11 out of top 100 companies have their own foundations to carry out their CSR activities.

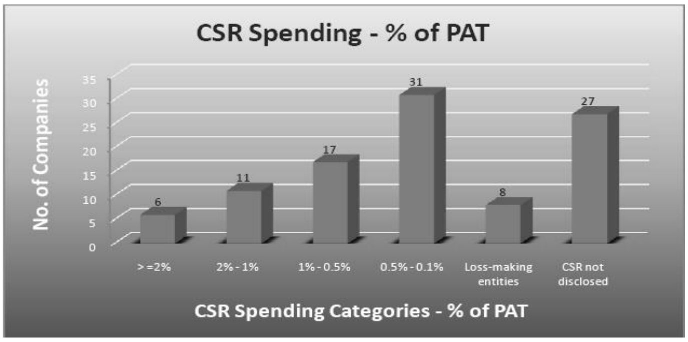


Fig 1: CSR Spending of Top 35 Companies

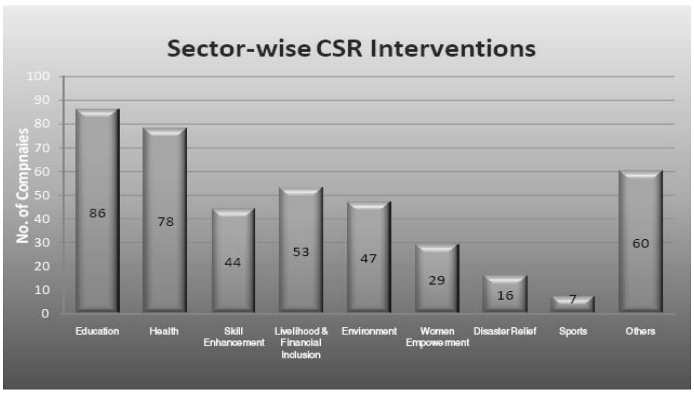


Table 1: Sector Specific CSR Spending by 35 Top Indian Companies

## 4. Conclusion

It may thus be concluded that the future of organizations largely depends on the kind of social investment choices they make and the partners involved in the decision making process of such investments. Stakeholder theory (Freeman, 1984) suggests the idea that investing time and other resources in addressing stakeholders' interests is a justifiable managerial activity. Therefore for managers and firms seeking to serve the social mandate must adopt a multi stakeholder participation in its social investment plans and processes.

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