

# Measuring Impact of Corporate Social Responsibility Practices - A Theoretical Framework

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## ABSTRACT

In today's competitive business world, the notion of Corporate Social Responsibility (CSR) has now become a new opportunity for organizations. A positive concern for society usually strengthens the image of organization and supports its sustainable growth. Human resource management (HRM) is concern about employees and CSR is concern about its internal and external stakeholders. Employees fall in both areas. So, the impact of CSR activities on HRM has been found. This paper explains the four dimensional model of CSR. Literature review of existing studies in this area also finds the impact of CSR on employees' outcomes.

**Keywords:** Corporate social responsibility, Human resource management, Employees' outcomes.

## 1. INTRODUCTION

Corporate Social Responsibility (CSR) is one of the burning issues now days. Numbers of researcher worked on various aspects of CSR. But still they don't agree upon a single definition of Corporate Social Responsibility. CSR shows its development in late 1960's and early 1970's (Lee, 2011). According to Cannon (1992), CSR is an alliance between business, government and society. He argues that the main function of any business is to serve society first, considering many other aspects like creating healthy environment, following government standards, educate employees etc. There are two factors which motivate an organization to adopt CSR practices i.e. internal and external factors (Branco and Rodrigues, 2009). Internal factors talk about people, manpower, workforce, employees who work for the organization and external factors include reputation, goodwill, corporate image etc. Wood (1991) argues that "the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities". Researchers have found that not only business and society are interrelated, but there are other groups also which directly or indirectly influence a business. Basically, Social responsibility of a business is toward its workplace, marketplace, environment, community, ethics, human rights (Moir, 2001). CSR is one of the determinants of business profitability (Porter and Kramer, 2002, 2006). Earlier it was considered as a cost to the company but now seen as a strategic investment which would definitely give some returns to the firm (McWilliams *et al.*, 2006). There are two causes behind opting CSR practice i.e. normative case and business case (Smith and Langford, 2011). As per normative case, an organization should adopt CSR

because it is the right thing to do (Bhattacharya and Sen, 2004) while the latter one explains that business can get economic benefits by using CSR (Carroll and Shabana, 2010). An overlapping is found between both the cases because CSR is a right thing to do and a right way of doing business (Bhattacharya and Sen, 2004).

There are many other related concepts with CSR like socially responsible investment, business ethics, corporate philanthropy, corporate accountability, corporate citizenship, stake holding, community involvement, corporate responsibility, sustainability, triple-bottom line, and corporate social performance (Silberhorn and Warren, 2007). Researchers believe that responsibility of any corporations should be extended from its economic zone to non-economic zone. Carroll (1991) proposed a four dimensional model of CSR which includes economic, legal, ethical and philanthropic component.

### 1.1 Carroll's Model of CSR

Carroll (1979) proposed a model of CSR consists of four dimensions i.e. economic, legal, ethical and philanthropic. Economic dimension of CSR explains about an organization's profitability and its competitiveness. Legal CSR defines legal compliance i.e. labor laws regarding health and safety, abolition of child labor, bonded labor, forced labor etc. Ethical CSR explains organizational norms, policies, principles that are not mandatory in legislation. Philanthropic CSR includes those practices which are for the beneficial of society like charity, society cleanliness, opening orphanage houses etc (Carroll, 1991). According to Carroll (2001) first three components are mandatory for a business enterprise but the last one is desirable or optional as it is not bound by any force. This particular dimension doesn't lie within the sphere of CSR activities. CSR has two more constructs as per Carroll's model i.e. Social Responsibility and environmental responsibility.

### 1.2 Economic CSR

Business is defined a source of earning profit to increase its shareholder wealth. Novak (1996) found seven economic responsibilities of any business i.e. generate new wealth, satisfying consumers with real value goods and services, promote innovation, earn a fair return for investors, create new jobs, upward mobility in economic conditions, and diversification of economic interest of citizens. According to Friedman (1996) "Social Responsibility of a business is to increase profits". He argues that the one and only responsibility of a business is to increase its shareholder's wealth without being involved in unethical practices like fraud. Moreover, he put in plain words that resolving social issues is responsibility of government or social agencies, not of a business enterprise. An organization is responsible towards only its Shareholders and it is the only entity who can claim on business (Friedman, 1996).

### 1.3 Legal CSR

If society is allowing a business to fulfill its profit motive, at the same time it is the responsibility of business to pursue all legal expectations. Legal CSR includes all those aspects which fall under legal framework. An organization which follows all the codes of conduct and legal obligations is accepted by society easily. It should serve the society considering all legal aspects and acts as like a law abiding citizen. Law is defined as the society terms and conditions to operate in the market. All the shareholders as well as

stakeholders should be treated transparently and fairly (Carroll, 1991). Looking upon the limitation of Law, it only clarifies what should not to be done instead of what should be done otherwise. So it may be assumed as a reactive approach rather than a proactive approach (Lantos, 2001).

#### 1.4 Ethical CSR

Ethical CSR is beyond the scope of legal CSR. This is about all those practices, policies, principles, procedures which are either accepted (positive duties) or rejected (negative duties) by the society. It elucidates fair practices, moral duties, welfare of public, right procedure etc as these are not cited in Law (Carroll, 2001). Before 1960s' ethical issues were not considered by any business. But after that number of unfair practices were taken place at an exceptional scale, like selling of unsafe products, harming natural environment, bribery etc but in 1970s' value of business ethics has been realized and Economic CSR would not remain a single concern area (Lantos, 2001). Now both economic as well as non-economic activities become rationale of business. Non-economic activities focused on welfare of stakeholders i.e. employees, consumers, suppliers, competitors, shareholders, government etc (Carroll, 1979). In the second half of 20<sup>th</sup> century it is found that both society and business have reciprocal responsibilities towards each other. As society expects from business, in return business also expects the same from society. This is termed as 'Social Contract Theory'.

#### 1.5 Philanthropic CSR

This is the fourth face of Carroll model of CSR. It includes all those activities which are adopted for corporate image building (Lantos, 2001). There is no financial motive behind it. 'Giving back' to society is main aim of Philanthropic CSR (Carroll, 1979). It has no proper boundary. It actually depends on the capabilities of business (Lantos, 2001). Philanthropic CSR is practiced to make this planet a good place to live by resolving social problems. Helping less fortunate people is a noble cause (Lantos, 2001). Issues like poverty, crime, providing funds to educational institutes, chronic unemployment, environmental issues, quality of life, drugs and alcohol problems encompasses philanthropic CSR (Brenkert, 1996). Some thought that profits would fall by adopting these practices but on the contrary, it will raise the reputation of organization because profit is not a single measure of performance (Novak, 1996). Furthermore, Lantos (2001) argues that philanthropic CSR is a cost to company because competitor is not going to bear this cost while some consider it as a publicity stunt.

## 2. Corporate Social Responsibility and Human Resource Management

In current global scenario, numbers of organization are emerging at a very fast pace. They have made competition very stiff and intense. The only master key for the effective and efficient functioning of any organization is 'people' (Owusu, 1999). The rapid expansion of service sector has realized the 'value of human being'. Prior to that, they were treated as just an expense for the organization. In 1980, main focus of any business is on enhancing competitiveness. Later in 1990, focus shift on innovating new product, and technologies. But in year 2000, the whole scenario gets changed. Now they are emphasizing on value creation by enhancing employee as well as organization motivation level (Owusu, 1999).

Moreover, there are some people-oriented organizations, which maintain equilibrium between employees-consumers and sustain a healthy relationship with both. After realizing the value of manpower, policies are set for the betterment of employees. Today they are considered as an asset for the business. With the development of the economies, value of human rights has also been acknowledged.

### 1.3 Impact of CSR on employees' outcomes

According to Jones (1980) Employee oriented CSR Practices is defined as "Practices which create material and/or immaterial value for employees on top of what is already prescribed by law and/or union contract and/or what is generally arranged for in the market." Literature review provides three perspectives regarding employee oriented CSR practices i.e. Stakeholder view on CSR, Human Resource Management Perspective and the Institutionalism Perspective (Jong, 2011). Stakeholder view explains that employees are the most salient stakeholders among all stakeholders and they should be given due attention whether their requirements and interest go beyond legal boundaries (Jong, 2011). Secondly, CSR practices are closely related with human resource management policies. As employees are the most important asset of an organization, so developing a sense of faith and trust between employer and employee enhance the performance of the firm (Jong, 2011). A fair and candid distribution of profit between stakeholders enhances their satisfaction level which consecutively increases their participation level in organizational activities (Brammer *et al.*, 2007). A balanced integration of CSR practices and HRM practices will result in organizational commitment of employees (Jong, 2011). Thirdly, institutionalism perspective refers those practices which constitute norms as authoritative guidelines for social behavior. But now, not only economic aspect but also societal aspect is determined by human behavior (Oliver, 1997).

There is no hard and fast rule which clarify that which dimension of CSR should be incorporated in employee oriented CSR practices. It varies from one part of world to other. In developing and developed countries work life balance, flexible working hours etc. are focused whereas in less developed countries pay, working conditions are concern areas (Crane *et al.*, 2008). Value creation for both employer and employee is an indication of successful employee oriented CSR practices (Jones, 1980). Moreover, value creation is dependent on commitment which in turn leads to high productivity, low absenteeism and low turnover (Mandl and Dorr, 2007). Employee oriented CSR practices will improve organization goodwill and make it an attractive employer which is quite helpful in easy hiring of skilled manpower (Mandl and Dorr, 2007).

Adoption of core values, ethics by all stakeholders of the company ensures successful ethical program. Better CSR practices will lead to immense commitment. To get a best result of socially responsible program one thing which can't be ignored is proper communication of organization values and ethics to its stakeholders especially employees. If employees are not aware about the organization values and ethics, then CSR would just become a window-dressing activity for the organization (Collier and Esteban, 2007). Employee Commitment is affected by CSR (Turker, 2008). If CSR includes employee oriented practices then current as well as prospective employees get attracted toward that organization

(Greening and Turban, 2000). If an organization is doing something beyond an employer expectation, this would definitely induce a sense of moral obligation to counter benefits to organization.

Further, studies conducted on motivation and corporate social responsibility has implied that CSR can be used as a tool for motivation (Heslin and Ochoa, 2008). Motivation is related to many HRM practices like employee training and development, recruitment and selection, job sharing, flexibility, loyalty, retention (Meyer *et al.*, 2004). As per self-determination theory, motivation is influenced by two types of incentives i.e. external and internal rewards (Skudiene and Auruskeviciene, 2012). External rewards are those rewards which are related with monetary values like salary, fringe benefits, bonus, and incentives. Internal rewards are those rewards which give an employee a sense of joy like job satisfaction, receiving appreciation, goal accomplishment, self-confidence, being involved in decision making (Ryan and Deci, 2000). A motivated person gets emotionally attached with the organization and relates his personal life with organization (Skudiene and Auruskeviciene, 2012). So, it will lead a company to long term success.

It is found that majority of students prefer to go for that organization which is engaged in CSR practices (Heslin and Ochoa, 2008). Because they proposed that CSR act a motivator for selecting that particular organization (Heslin and Ochoa, 2008). There are some employees who can compromise with their salary if that organization is involved in social practices. According to Heslin and Ochoa (2008) “When employees see the positive impact of their work on society, they put more effort and demonstrate more persistence toward their job which leads to a better performance and productivity”. Empirical research has found that CSR is having a positive relation with self-image, team work, retention, trust, employee morale, employee motivation, commitment, need of belongingness, job satisfaction etc. On the basis of above literature, following hypothesis is formulated:

*Proposition:* Adoption of CSR practices is positively related to employees’ outcomes.

## 4 Conclusion

An organization can't survive in isolation (Smith and Langford, 2011). It has to take some steps for the betterment of society as well as individual. CSR is a balancing concept i.e. it has to counter balance all its components Economic, Legal, Ethical and Philanthropic to satisfy all its stakeholders (Lantos, 2001). Goals which are beneficial for both the stakeholders and organization should be set in CSR agenda. In classical approach, public evaluates a business by final product only but in this dynamic economic arena a company is not only judged by its product but also from the working conditions of it (Stancu, *et al.* 2011). Moreover, if employees are satisfied with CSR practices then it will raise the productivity of the firm which in turn is beneficial for both employer and employee. The best corporate social responsibility programs are based on a two-way relationship between employee and employer. A company involved in corporate social responsibility practices bears a good brand image in public and also has a direct influence on the employees.

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