1 Understanding corporate responsibility

The struggle to define the boundaries of corporate responsibility for social and environmental matters has deep roots in the history of business. From the beginning of the Industrial Revolution,[1] those within and outside the business world have battled over the very notion and extent of corporate responsibility. Over this time, four different 'models' have emerged, all of which can be found in India today (see Table 1).

Ethical model

The origins of the first ethical model of corporate responsibility lie in the pioneering efforts of 19th century corporate philanthropists such as the Cadbury brothers in England[2] and the Tata family in India.[3] The pressure on Indian industrialists to demonstrate their commitment to social progress increased during the Independence movement, when Gandhi developed the notion of 'trusteeship', whereby

[1] Industry rapidly developed in Britain in the late 18th and 19th centuries with the introduction of machinery. It was characterized by use of steam power, growth of factories, and mass production of manufactured goods.

[2] John and Benjamin, the Cadbury Brothers of Birmingham, pioneered the development of chocolate around 1847. Detailed history available at <www.cadburyschweppes.com/company_information/company_history/200_year_history.html> last accessed on 13 December 2001.

[3] The Tata Group is India's largest industrial and technological conglomerate with vast holdings in iron and steel, power utilities, and textiles. Founded by Jamshedji Nusserwanji Tata in 1868, the Group built the first steel mill in India in 1911 at Jamshedpur, India's first planned industrial city. See web site at <www.tata.com> last accessed on 14 December 2001.

the owners of property would voluntarily manage their wealth on behalf of the people.

> *'I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no make-shift, certainly no camouflage. I am confident that it will survive all other theories.'*
>
> Gandhi (1939), cited in Bose (1947)

Gandhi's influence prompted various Indian companies to play active roles in nation building and promoting socio-economic development during the 20th century. The history of Indian corporate philanthropy has encompassed cash or kind donations, community investment in trusts, and provision of essential services such as schools, infirmaries, etc. Many firms, particularly 'family-run businesses', continue to support such philanthropic initiatives.

Statist model

A second model of corporate responsibility emerged in India after Independence in 1947, when India adopted the socialist and mixed economy framework, with a large public sector and state-owned companies. The boundaries between the state and society were clearly defined for the state enterprises. Elements of corporate responsibility, especially those relating to community and worker relationships, were enshrined in labour law and management principles. This state-sponsored corporate philosophy still operates in the numerous public sector companies that have survived the wave of privatization of the early 1990s.

Table 1 The four models of corporate responsibility

Model	Focus	Champions
Ethical	Voluntary commitment by companies to public welfare	M K Gandhi
Statist	State ownership and legal requirements determine corporate responsibilities	Jawaharlal Nehru
Liberal	Corporate responsibilities limited to private owners (shareholders)	Milton Friedman
Stakeholder	Companies respond to the needs of stakeholders – customers, employees, communities, etc.	R Edward Freeman

Liberal model

Indeed, the worldwide trend towards privatization and deregulation can be said to be underpinned by a third model of corporate responsibility—that companies are solely responsible to their owners. This approach was encapsulated by the American economist Milton Friedman,[4] who in 1958, challenged the very notion of corporate responsibility for anything other than the economic bottom line.

> *'If anything is certain to destroy our free society, to undermine its very foundation, it would be a widespread acceptance by management of social responsibilities in some sense other than to make as much money as possible. This is a fundamentally subversive doctrine.'*
>
> Friedman (1958)

Many in the corporate world and elsewhere would agree with this concept, arguing that it is sufficient for business to obey the law and generate wealth, which through taxation and private charitable choices can be directed to social ends.

Stakeholder model

Yet, the rise of globalization has also brought with it a growing consensus that with increasing economic rights, business also has a growing range of social obligations. Citizen campaigns against irresponsible corporate behaviour along with consumer action and increasing shareholder pressure have given rise to the stakeholder model of corporate responsibility. This view is often associated with R Edward Freeman,[5] whose seminal analysis of the stakeholder approach to strategic management in 1984 brought

[4] Recipient of the 1976 Nobel Prize for Economic Sciences, Milton Friedman is widely regarded as the leader of the Chicago school of monetary economics, which stresses the importance of the quantity of money as an instrument of government policy and a determinant of business cycles and inflation. Friedman has also written extensively on public policy, with emphasis on the preservation and extension of individual freedom. Further details are available at <www-hoover.stanford.edu/bios/friedman.html> last accessed on 13 December 2001.

[5] Pioneer of the stakeholder and 'business ethics' concept in the context of corporate responsibilities, Freeman developed a framework for identifying and managing the critical relationships of the modern corporation. His conceptual crystallization of stakeholder analysis has become a staple of both academic writing and business decision-making models. Freeman's contribution to education at the intersection of business and society is also extensive. He has won numerous teaching awards and is well known for his innovative approach to pedagogy. Further details are available at <www.darden.edu/ faculty/Freeman.htm>.

stakeholding into the mainstream of management literature (Freeman 1984). According to Freeman, 'a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives.'

However, it was not until the 1990s that the idea of the stakeholder corporation gained prominence in business practice. The essence of the stakeholder model was captured by David Wheeler and Maria Sillanpää (formerly with The Body Shop) as follows.

> '*The long term value of a company rests primarily on: the knowledge, abilities and commitment of its employees; and its relationships with investors, customers and other stakeholders. Loyal relationships are increasingly dependent upon how a company is perceived to create 'added value' beyond the commercial transaction. Added value embraces issues like quality, service, care for people and the natural environment and integrity. It is our belief that the future of the development of loyal, inclusive stakeholder relationships will become one of the most important determinants of commerical viability and business successes.*'
>
> Wheeler and Sillanpää (1997)

The experience of the past decade has served to reinforce this viewpoint. With companies facing increasing scrutiny in the global economy, the corporate responsibility agenda now encompasses a wide range of issues including provision of quality, safe products at fair prices, ethical business practices, fair employment policies, and environmental protection. Companies are increasingly expected to perform according to a 'triple bottom line'[6] of economic, social, and environmental performance. In addition, increasing focus is being placed on the growth of corporate power and the need for greater accountability and transparency to society, for example through reportage and stakeholder dialogue.

Indeed, there is a growing consensus throughout the world that companies need to go beyond their

[6] At its narrowest, the term 'triple bottom line' is used as a framework for measuring and reporting corporate performance against economic, social, and environmental parameters. At its broadest, it captures the whole set of values, issues, and processes that companies must address to minimize any harm resulting from their activities and to create economic, social, and environmental value. It is signified as three lines representing society, economy, and environment.

traditional 'economic' roles; the following analysis from the Centre for Development and Enterprise in South Africa demonstrates this aptly.

> '*It is in the interests of the corporation and the business sector as a whole to become more self-conscious social actors. Both the individual firm and the voluntary business association need to think hard and strategically about their role in society, and their relationships with government and others. To do anything else is counterproductive.*'
>
> Bernstein and Berger (2000)

This call for greater corporate responsibility to a wider range of stakeholders is also highly relevant in the Indian context. Many companies in India are facing new pressures, not simply to comply with legislation, but also to meet the requirements of international and national business partners, for example, through codes of conduct related to labour and environmental standards in their operations as well as their supply chains (see Box 1).

Evidently, each of the four models of corporate responsibility described above are prevalent to some extent in most countries, including India. What is noticeable today is the dynamic nature of the corporate responsibility agenda and the need to help clarify both the concepts and the implications for corporate practice. In addition, one of the weaknesses of the current situation is the tendency for the agenda to be set at a global level, largely by institutions located in the industrialized world, with little understanding of the diversity of approaches and track record in other parts of the world. For example, a 20-country public opinion survey on corporate social responsibility carried out by the Toronto-based Environics International in July 2001 concluded that India ranks last in terms of the level of social responsibility demanded from companies (Environics International 2001).

In order to gain a better understanding of the actual perceptions of key players in the corporate responsibility debate in India, TERI-Europe conducted a snapshot poll in August–September 2001. The poll focused on four dimensions of corporate responsibility, namely worker health and safety, community relations, environmental sustainability, and accountability to stakeholders. The key findings of the poll are described in the following section and will be used to guide more in-depth work by TERI-Europe and its partners to better understand attitudes and practices and develop targeted training workshops for stakeholder groups. ⌘

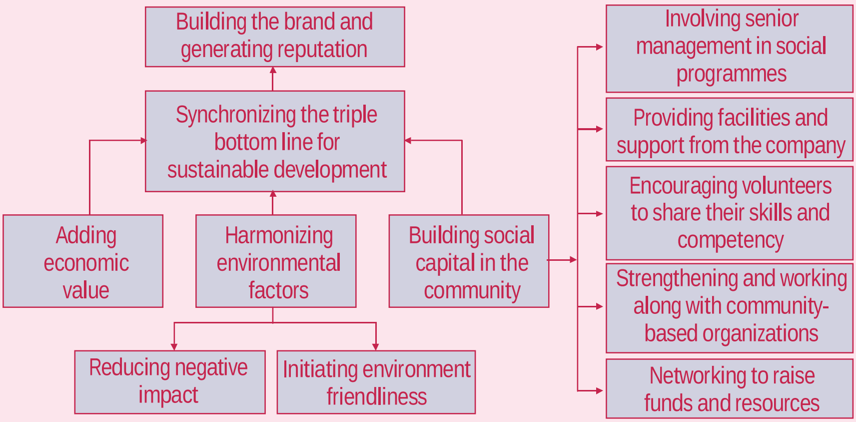
Box 1

Implementation of the triple bottom line concept at Tata Council for Community Initiatives

The TCCI (Tata Council for Community Initiatives) is an initiative of the Tata Group to add value to the businesses of the Tata Group of companies by incorporating sustainable development and the triple bottom line approach in group activities.

> *'We recognise that sustainable business development includes environmental and social considerations as part of development cost and is part of long-term business survival and growth. Environmental and social considerations have a strategic position in outcomes and purpose of the business – as bottom lines. The adoption of the triple bottom line concept is an explicit integration of human development considerations in business processes. In Tata companies we encourage the management to make a declaration of policy, strategy and budgets for environment and community development, and run activities as part of a non-negotiable minimum programme aimed at generating the reputation for the Tata Brand.'* TCCI 2001

Research suggests that community investment, such as that made by the Tata Group, has been shown to greatly increase employee loyalty as well as assist in the professional and personal development of employees, further stimulating creativity and innovation. Ultimately, this augurs well for the company.



Strategy at Tata Council for Community Initiatives