
INTERNATIONAL JOURNAL OF ADVANCED LEGAL RESEARCH

ROLE OF CSR IN THE SOCIAL AND ETHICAL PERFORMANCE OF FIRMS- Naivedhya Kumar¹**ABSTRACT**

The goal of this study is to experimentally investigate the connections among a broad range of corporate social responsibility (CSR) efforts, a wide range of customer trust indicators, and business image in an emerging country. Additionally, it examines how customer trust influences how CSR and business image are related to one another. Two of Pakistan's most well-known hotel chains are the focus of this investigation. A total of 300 hotel guests were given close-ended, self-administered questionnaires. A partial least square-structural equation modeling (PLS-SEM) model was used to examine the research data. The findings showed that while charitable CSR had little effect on the corporate image, economic, legal, and ethical CSR had a considerable impact. However, it was discovered that while ethical CSR did not have a substantial association with customer trust, legal, charitable, and economic CSRs did. The association between economic and legal CSR and corporate image was totally mediated by customer trust, whereas the relationship between ethical and charitable CSR was only somewhat mediated. Comparing the relationship between CSR characteristics and company image to customer trust in an emerging economy, particularly during times of crisis, distinguishes this study from past CSR studies. Firms work to increase their performance and solidify their place in the competitive, ever-changing business world of today. This enhancement, however, is not simple to implement. In other words, the strength and interdependence of the environmental influences make it difficult for businesses to take the necessary action to improve performance. This essay's goal is to review the research on the relationships between CSR, transformational leadership, and business performance. Corporate social responsibility (CSR) is a management concept that outlines how an

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organization contributes to the social and environmental well-being of communities and society. CSR is essential to how consumers and other potential customers view brands. Additionally, it might aid in luring in investors and workers who place a high value on a business's CSR objectives.

INTRODUCTION

CSR is founded on a concept of give and take. Improved sales and profitability, reduce operating costs, excellent productivity, and quality, a more efficient human resource base, enhanced brand image and reputation, increased customer loyalty, and improved decision-making and risk management processes are just a few of the competitive advantages that a properly implemented CSR concept can provide.

Companies, firms, and organizations take resources from our society through raw materials, human resources, etc. As a result, businesses are responsible for giving back to the community to contribute to the economy's overall development. It is no longer just about making more money and staying competitive in the global market; it is also about how to compete with sustainable growth through CSR activities. Environmental, social, and economic sustainability are three pillars of corporate sustainability.²

The environmental and social pillars are at the heart of corporate social responsibility, which extends beyond legal obligations in these areas. Any business must be able to maintain its financial viability.³ Firms' long-term success and sustainability are linked to the well-being and prosperity of the societies in which they operate, just as societies' long-term success and sustainability are related to the success of their economic activities.

As a result, businesses and governments should work together to ensure that economies grow in all directions. Apart from meeting the needs of customers and the general public, companies also have the essential role of connecting the market's economic, social, and environmental demands. CSR activities are defined as activities that balance economic, social, and ecological objectives.⁴ Many businesses believe such activities can give them a

² Halal ,W. E, Corporate community:A theory of the firm uniting profitability &responsibility,strategy &leadership.(vol 28. No 2. , 2000), pp10-16

³ Burke Lee and Jeanne M. Logsdon ,Corporate Social Responsibility Pays Off [Long Range Planning , Volume 29, Issue 4, (August), 1996] pp. 437-596

⁴ Wood, D.J. , Towards improving corporate social performance (Business Horizons, Vol. 34 No. 4, World Business Council for Sustainable Development 1991) pp. 66-73

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competitive advantage; for some, they may become their core competency. CSR activities or projects typically address important societal issues like health and safety, environmental preservation, human rights, business ethics, etc.



Source- Pic from Irata International (CSR)

CSR IN INDIA

CSR in India is governed by the Companies Act of 2013 and the Companies (Corporate Social Responsibility Policy) Rule of 2014. The government has outlined certain activities that firms must follow to guarantee that they contribute to society's betterment. The parameters for CSR efforts were established in Schedule VII of the Companies Act of 2013⁵. Schedule VII of the Companies Act of 2013 contains a variety of acts. Certain operations were prescribed by law for corporations. Businesses have a social responsibility. Corporate social responsibility does not apply to actions not included in

⁵Schedule 7 of companies act, 2013 : Activities which may me included by companies in their corporate social responsibility policies. Corporate Law Reporter. (n.d.). Retrieved August 13, 2022, from http://corporatelawreporter.com/companies_act/schedule-7-of-companies-act-2013-activities-which-may-me-included-by-companies-in-their-corporate-social-responsibility-policies/

Schedule VII of India's Companies Act, 2013, and hence cannot be used to justify CSR. And the company has to follow sec 135 also.

- Companies are obligated to carry out the following activities under their Corporate Social Responsibility requirements, as defined in Schedule VII of the Companies Act, 2013:-

1. Working to eradicate global hunger and extreme poverty.
2. Education promotion may be accomplished in various ways (including through free teaching of people with low incomes, disseminating information about government policies, distributing free books, bags, and so on, and other similar actions).
3. Another activity that firms may do to achieve their CSR goals is to promote gender equality and women's empowerment.
4. Businesses may help reduce infant mortality and improve maternal health by developing health awareness programs, decreasing malnutrition among pregnant women, and providing parenting classes.
5. Fighting viruses and other illnesses through vaccination and immunization programs, promoting awareness and teaching about disease prevention, providing medical help to the destitute, educating about AIDS, and so on.
6. Attempts to create a more ecologically stable future.
7. Benefiting military members, assisting war victims, supporting sports, and so on are only a few examples of the kind of social programs that the government may sponsor.
8. Job Training for Higher-Paying Positions
9. Improving slums for the greater welfare of society
10. Disaster management is another area that businesses might consider, which includes rehabilitation initiatives, relief management, and disaster reconstruction.
11. Contributing to research and development initiatives in science, engineering, medicine, and technology funded by the state or national government.
12. Any more CSR-related measures that the government may impose.

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INDIAN CORPORATE-LEGAL PROVISIONS ON CSR

(A) Applicability of Indian Corporate-Legal provisions on CSR

CSR regulations in India apply to all firms in the nation. Whether the corporation is publicly listed, privately held, government-owned, a public-private partnership, or headquartered abroad makes no difference. An Indian corporation must comply with CSR requirements if it fits any of the following criteria⁶:

- The company's net value is at least Rs 500 crore.
- Sales of at least Rs 1 trillion every year
- Net profit of at least five crore rupees.

If a company satisfies even one of these criteria, it must form a Corporate Social Responsibility Committee to oversee all CSR operations. This committee will have at least three directors, including one independent member.

Any foreign firm must have at least two members on the committee, one of whom must be an Indian citizen; however, private enterprises are exempt from having an independent director on staff.

(B) Role of the 'CSR' Committee in the Company

- The development of the company's CSR policies specifies which of the several actions mentioned in Schedule VII of the Companies Act 2013 are to be executed as part of those policies.
- Suggesting such steps to the company's board of directors and regularly evaluating the company's CSR policy to guarantee compliance with applicable requirements.
- Manage the CSR budget and give recommendations on how it should be used.

⁶ IndiaFilings. (2020, March 14). Corporate Social Responsibility. IndiaFilings. Retrieved August 14, 2022, from <https://www.indiafilings.com/learn/corporate-social-responsibility-companies-act/>

- Publish an annual report documenting the company's CSR initiatives and the yearly financial information. CSR policy requires a minimum of 2% of average⁷ net earnings produced in the three prior fiscal years.
- Post an annual overview of the company's CSR policy and actions on its website.

Case examples of companies using the concept of CSR

- Toms constantly distributes a part of their net revenues to organizations that promote people's physical and emotional well-being. It has also been aggressively promoting educational possibilities and carrying out donations to benefit the underprivileged after the recent COVID-19 outbreak.
- Google's business practices have included efforts to protect the environment. It is dedicated to halting global warming and other forms of environmental degradation by switching to renewable energy sources, and at present, those sources power the bulk of its operations.
- Starbucks is committed to lifting the social bar and enhancing people's lives. It has gotten coffee nearly 100% responsibly cultivated by building a global network of producers. It has also taken steps toward a more diverse workforce by recruiting many immigrants, engaging in community service, and encouraging women's empowerment.
- Lego has contributed to corporate social responsibility by reducing waste and superfluous packaging and utilizing non-polluting energy sources, staff volunteer actions, and food contributions.
- In 2019, Walmart donated over \$1 billion to various charity projects worldwide.

Benefits and Costs of CSR

CSR refers to voluntary corporate endeavors or actions that benefit society and are concerned with the welfare of stakeholder groups other than investors, such as charitable

⁷ ClearTax. (n.d.). Corporate Social Responsibility under Section 135 of Companies Act 2013. ClearTax. Retrieved August 17, 2022, from <https://cleartax.in/s/corporate-social-responsibility#:~:text=The%20CSR%20Committee%20shall%20formulate,be%20undertaken%20by%20the%20company>.

organizations, consumers, clients, suppliers, etc. CSR operations are concerned with employee welfare and safety and satisfying customer needs by safeguarding future generations via diverse initiatives of sustainable innovation. Aside from the altruistic goals of a few firms to engage in CSR, there are various factors driving organizations' willingness to engage in socially responsible endeavors, which are as follows;

- 1) The company's philanthropic goals are to do good for society⁸ and fulfill its obligation as a decent global citizen.
- 2) Firms that engage in CSR initiatives may do so to prevent unfavorable publicity since this will insulate them from the harsh measures of pressure organizations.
- 3) Firms may profit from the viewpoints of staff recruiting, high motivation, and retention.
- 4) By participating in CSR initiatives, businesses enhance consumer pleasure and loyalty as their goodwill grows.
- 5) Firms focusing on societal and environmental problems ultimately benefit by lowering manufacturing costs.
- 6) Firms' CSR initiatives assist them in mitigating the impact of enforced legal and regulatory limits.

CSR expenditures and gains result from participating in CSR initiatives. The following are some of the costs connected with CSR activities:

1. Opportunity expenses- Opportunity costs are incurred due to monetary and product gifts.
2. When employees volunteer their time for philanthropic causes, their productivity suffers.
3. While employees volunteer for charitable work, Businesses pay extra employees to make up for lost time and productivity, which is another expense of CSR.
4. The cost of green initiatives linked with corporate environmental activities.

⁸ Organizational benefits of Corporate Social Responsibility. GCU. (n.d.). Retrieved August 17, 2022, from <https://www.gcu.edu/blog/business-management/organizational-benefits-corporate-social-responsibility>

5. Negative consequences (if any) on consumers and staff from different CSR initiatives, such as specific aggressive solicitations requesting customers to make charitable contributions, may incur a cost of goodwill.

CURRENT PERSPECTIVE OF CSR

Stakeholder proposition⁹: It broadens the conversation to include suppliers, workers, consumers, and others, transforming them into accurate participants in the corporation's connection with its owners.

The caring proposition goes beyond the language of rights and responsibilities to focus on a compassionate proposal that acknowledges stakeholders' requirements and is aimed at mutual support and unrivaled human performance.

Historical Overview

Early literature on CSR referred to it mainly as Social Responsibility (SR) rather than CSR. The corporation's significance and domination in the business sector had yet to be recognized. However, (1953) made a seminal addition to the subject of CSR when he stated that CSR refers to "the responsibility of businesspeople to pursue those policies, make those judgments, or follow those courses of action which are beneficial in terms of the aims and values of our society." This historic endeavor also earned him the moniker "Father of CSR."

DIMENSIONS OF CSR

CSR aims to make company activity and organizational culture more sustainable in three key areas.

1) Economic considerations

- Economic elements include the economic impact of the company's activities. These challenges have long been disregarded or overlooked in corporate social responsibility.

⁹ Meletli, C. (2020, December 18). A perspective on corporate social responsibility. Mobilizing Expert. Retrieved August 17, 2022, from <https://mexpert.se/a-perspective-on-corporate-social-responsibility/>

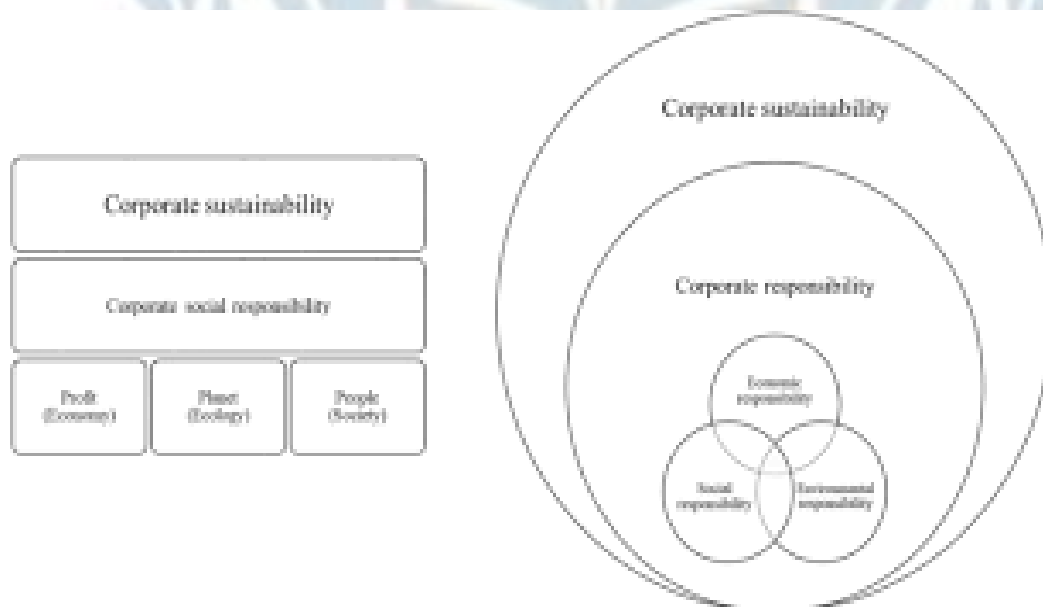
The economic issue was supposed to be controlled appropriately since it was viewed as a notion solely with the profit motivation of the corporations and hence underrepresented in the corporate responsibility agenda.

Social aspects

The social component comprises workers, consumers, the firm's community, and other stakeholders. The social part is all about making the proper decisions and acting in the best interests of the society.

2 Environmental aspects

- The environmental problem has been critical to organizations for three decades, longer than the other two. Ecological issues are ever-changing and dynamic.
- Environmental impact: It refers to the detrimental influence of corporate operations on the surrounding environment.
- Measuring environmental impact: using various appropriate approaches for the specific ecological performance.
- Environmental management: A robust management system must be implemented for effective environmental performance.



Source- Pic from Science Alert (Review on CSR issue based on value chain model)

CSR AND ORGANIZATION STAKEHOLDERS

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- The notion of stakeholder aids in identifying certain groups or individuals that organizations should consider when evaluating the impact of their business activities (Carroll, 1991). Stakeholders are the people who are most essential to the company. The challenge of classifying the significance of distinct stakeholder claims remains unanswered.
- Stakeholder legitimacy - the degree to which a group has a valid reason to make its claim.
- Power – the degree to which a group is structured and has an advantage over others.

The difficulty of "stakeholder" management is to ensure that the firm's significant stakeholders meet their objectives while simultaneously satisfying additional stakeholders. Ethical perspectives are gaining popularity today, and their relationship with stakeholder groups is becoming increasingly crucial.

Three major ethical approaches are –

Immoral management,

Amoral management,

Moral management.

STRATEGIC CSR AND COMPETITIVE ADVANTAGE

When a company's CSR activities boost its competitiveness¹⁰, the CSR activity becomes strategic. CSR actions may be helpful for the corporation when targeted in a competitive context. A strategic CSR initiative has the potential to influence production parameters and compete in a given industry. Burke (1996), on the other hand, introduced the concept of "strategic CSR," outlining five criteria of strategic CSR: centrality, visibility, specificity, proactivity, and volunteerism.

CENTRALITY

¹⁰ Take online courses. earn college credit. Research Schools, Degrees & Careers. Study.com | Take Online Courses. Earn College Credit. Research Schools, Degrees & Careers. (n.d.). Retrieved August 17, 2022, from <https://study.com/academy/lesson/competitive-advantage-corporate-social-responsibility.html>.

The closeness of match between a CSR policy or program and the firm's goal and objectives is measured by centrality. In most definitions of strategy as goals or objectives, centrality is a significant problem. It gives the organization guidance and feedback by indicating if the provided activities or decisions are aligned with the firm's purpose, goals, and objectives.

SPECIFICITY

Specificity refers to a corporation's ability to absorb or internalize the benefits of a CSR program rather than just offering common goods that others may enjoy in the industry, community, or society at large.

VISIBILITY

A visible and recognized strategic CSR program among internal and external stakeholders creates the framework for the benefits of increased legitimacy and business reputation.

PROACTIVITY

This dimension shows a firm's capacity to comprehend CSR (Corporate Social Responsibility) activities or policies and foresee the stakeholders' expectations' central dynamics. Even without a crisis, brilliant CSR efforts must be planned and implemented.

The notion of volunteerism is vital to the effectiveness of strategic CSR. The firm's CSR activities should be a discretionary decision-making process.

VOLUNTEERISM

The notion of volunteerism is vital to the effectiveness of strategic CSR. The firm's CSR activities shall be a discretionary power or decision-making process.

CONCLUSION

According to the findings of this study, the term "Corporate Social Responsibility" (CSR) describes a business model in which corporations actively contribute to the common good while pursuing their self-interests (i.e., maintaining their own social, economic, and environmental sustainability) through their daily operations concern for the environment. One of the most significant changes in recent years has been the increase in firms' commitment to socially responsible practices, which has been recognized as so crucial by

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Indians that they have legislated the implementation of socially accountable measures. Companies are obligated by law to engage in Corporate Social Responsibility programs. Corporate social responsibility is seen as a legal necessity in India to include in their company strategy, which would benefit them and help boost the country's prosperity. These CSR regulations define management's obligations to satisfy its Corporate Social Responsibility (CSR) commitments and comply with the legal requirements of conducting these CSR initiatives. Companies today recognize CSR's importance because of the numerous legal safeguards in place for them. Government changes to the law have made life simpler for businesses with fewer resources while also opening up many new opportunities to urge companies to act in ways that benefit society—the significance of CSR in promoting the country's long-term economic prosperity and social stability.

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