

## THE PYRAMID OF CSR: AN INDIAN PROSPECTIVE

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### Abstract

Section 135 of the Indian Companies Act, 2013 made Corporate Social Responsibility (CSR) mandatory and legal obligation for a certain category of companies in India on the basis of financial performance.

CSR does not emanate directly from external demands but instead from organizationally embedded processes. These processes prompt the organization to view its relationships with stakeholders in a different perspective, which in turn influences its obligation towards them. Globally these obligations changes as per the national culture and related traits.

There are different models which tried to explain what shall be the different components and their priorities by an organization. And one of the most influential models of corporate social responsibility (CSR), is Carroll's pyramid of CSR which has both reflected, and helped in prioritizing different responsibilities. He proposed that the economic responsibility as the most important as compared to the rest three responsibilities i.e. political, ethical and philanthropic responsibilities. This paper argues that the conception of CSR as per Carroll is not a universal principle, and it changes as per different dynamics of the country. Hence the structure of the pyramid in India is different from the original model. To conclude the same the researchers in this paper explore the structure of CSR pyramid by doing an empirical analysis of the corporate houses in India. The researchers have done primary survey and analysis of 50 corporate responses in India. Based on the empirical research and conceptual arguments, we tried to present the revised CSR pyramid which proposes an alternation in Order of responsibilities in a pyramid. The modified pyramid ranked in a hierarchy from bottom to top as follows: legal, ethical, economic and philanthropic.

**Keywords:** Business ethics, Carroll, Corporate social responsibility, economic, Philanthropy, legal, ethical, Pyramid of CSR

### Introduction

Corporate social responsibility (CSR) is a form of corporate governance strategy for stakeholder management, market leadership and managing risk. Corporate social responsibility and ethical leadership go beyond merely managing the mundane tasks of the company. As a holistic concept, corporate Social responsibility is concerned with how the company ensures that all of its policies

and processes are ethically sound, morally acceptable, economically viable, socially appreciable, structurally stable and environmentally sustainable. For example, many companies employ an external auditor to review their financials and to provide advice on communicating sensitive information to the public. Likewise, legal consultants provide companies with information on ethical HR practices and customer focus groups keep the business engaged with consumer wants and needs. Corporate Social responsibility is therefore about remaining responsible not only to the profit-generating motive of the company but also to its commitment to engage in fair practices, not exploiting people or the environment for unnecessary gains.

## **1. Review of Literature:**

### **1.1 Understanding CSR:**

Corporate social responsibility, or CSR, is a corporation's obligation to its stakeholders, which are any groups/people that have a stake or interest in a company's success and products. This includes customers, employees, suppliers, investors and the communities surrounding the business. Stakeholders have varying needs to be met. Whereas a customer's greatest concern may be the safety of a company's products, an employee's need might be for a fair wage and safe working conditions. An investor may be concerned with profits and the bottom line, while the community may care about a business limiting the pollution it causes. Thus, corporate social responsibility means maximizing the good and minimizing the bad effects your company has on these stakeholders' diverse interests. (Regina Anaejionu)

Corporate social responsibility, defined by the United Nations Industrial Development Organization as the integration of social and environmental interests with business operations, is a prerequisite for companies seeking to lead in their industry or local community.

CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis (Green Paper, 2001).

Trotta et al. (2011) claim that being socially responsible is an important reputational driver that creates economic value over time. Accordingly, banks that invest in community enhancement programmes can even end up attracting more loans and deposits because of the CSR's ability to create strong brand names and an appealing sense of identity among customers. "

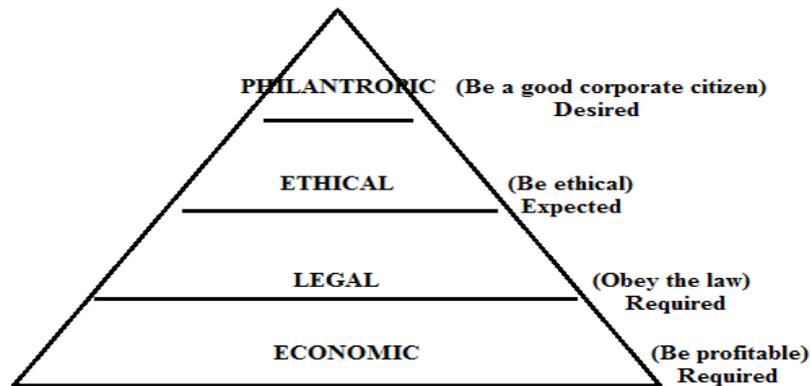
Definitions of CSR fall into two general schools of thought, those that argue that business is obligated only to maximize profits within the boundaries of the law and minimal ethical constraints (Friedman 1970; Levitt 1958), and those that have suggested a broader range of obligations toward society (Andrews 1973; Carroll 1979; Davis and Blomstrom 1975; Epstein 1987; McGuire 1963).

An important attempt to bridge the gap between economics and other expectations was offered by Archie B Carroll (1979). His efforts culminated in the following proposed definition of corporate social responsibility: The social responsibility of business encompasses the *economic*, *legal*, *ethical*, and *discretionary* expectations that society has of organizations at a given point in time.

As a helpful way of graphically depicting the components of his CSR definition and expounding upon them, he later incorporated his four-part categorization into a “Pyramid of Corporate Social Responsibility” (1991; 1993). Carroll’s Pyramid of CSR is presented in Figure 1.

**Figure: 1**

**Carroll's (1991) Pyramid of Corporate Social Responsibility**



Source: A. B. Carroll, “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders,” *Business Horizons* (July–August 1991): 39–48.

### **1,2 Carroll’s CSR Pyramid (1991)**

The concept of CSR emerged in the 1950s and gradually developed over the last five decades. But India is one of the pioneers in terms of making it an enforced legal formality under Indian Companies Act, 2013.

While promoting the CSR activities there are several models which promote different theories about the factors influencing the decisions. One of such major model is Carroll’s Pyramid of CSR proposing four different components in a pyramidal hierarchical structure which influences the decision on CSR.

On the concepts of philanthropic view it deals with how a company is able to meet all of its other responsibilities, it can begin meeting philanthropic responsibilities. Philanthropic responsibilities are responsibilities that go above and beyond what is simply required or what the company believes is right. They involve making an effort to benefit society -- for example, by donating services to community organizations, engaging in projects to aid the environment or donating money to charitable causes.

The Economic and legal responsibilities are also the two big obligations of a company. After a company has met these basic requirements, a company can concern itself with ethical responsibilities. Ethical responsibilities are responsibilities that a company puts on itself because its owners believe it's the right thing to do not because they have an obligation to do so. Ethical responsibilities could include being environmentally friendly, paying fair wages or refusing to do business with oppressive countries etc.

Being a legal entity a company's legal responsibilities are the requirements that are placed on it by the law. Next to ensuring that company is profitable, ensuring that it obeys all laws is the most important responsibility, according to the theory of corporate social responsibility. Legal

responsibilities can range from securities regulations to labor law, environmental law and even criminal law.

In general, company's first responsibility is its economic responsibility; hence a company needs to be primarily concerned with turning a profit. This is for the simple fact that if a company does not make money, it won't last, employees will lose jobs and the company won't even be able to think about taking care of its social responsibilities. Before a company thinks about being a good corporate citizen, it first needs to make sure that it can be profitable.

### **1.3 Criticisms of Carroll's (1991) Pyramid:**

Criticisms of Carroll's (1991) Pyramid Despite the plethora of CSR definitions over the last 50 years, Carroll four-part conceptualization has been the most durable and widely cited in the literature (Crane & Matten, 2004).

But like all models, there is also a criticism of Carroll's (1991) four part model.

Carroll's pyramid is created in an American context, which is criticized by several people (Matten et al. 2005: 338, Visser 2006: 36). It is not fully applicable in the context of developing country. In the article *Revisiting Carroll's CSR Pyramid, An African perspective* by Visser (2006), he uses Carroll's CSR model to explore the nature of CSR in Africa.

He found that the hierarchy of the pyramid is economic, philanthropic, legal, and ethical.

He also states that this model has been used to survey in different countries and the importance of the hierarchy of the pyramid has been found different. So Carroll's CSR pyramid may not be the best model for understanding CSR in general.

In Carroll's pyramid, the idea of philanthropic and ethical responsibilities are almost same. In developing countries, top executives cannot understand the difference between philanthropic and ethical responsibilities. They think that both are same ideas.

There is an argument among scholars for including philanthropic in the pyramid.

Hatfield (1985) state that Carroll's philanthropic domain is difficult to ascertain and evaluate.

Strong and Meyer (1992) concludes that while there is strong support for the existence of economic, legal, and ethical components of CSR, it may be appropriate for the philanthropic category to be removed from Carroll's framework.

In Carroll's pyramid, nothing is stated about environmental aspect. Protecting environment is also a firm's responsibility. Visser (2006) criticizes Carroll's model for not including the environmental aspect of CSR, which is an important part, especially in today's world, where the climate is high on the agenda.

Despite the criticism, Visser (2006) understands Carroll's model as a durable and useful model for defining and exploring CSR. The different criticisms of Carroll's CSR pyramid have been taken into account, we modified this model in the context of Indian Corporates.

### **1.4 Cross Cultural dimensions of CSR:**

Business leaders and management scholars have generally understood CSR as a response to business failures that have accompanied the astonishing growth in size, impact and power of modern corporations. That growth is characterized by the separation of ownership from control and the rise of modern management techniques. While modern management has created great

efficiencies, it has also led to a dilution of individual responsibility that is generally only visible when business gets into strife.

Business failures in Australia, such as Australia's then biggest corporate collapse of HIH in 2001, together with crises in corporate accountability, such as the machinations of James Hardie to avoid liability for asbestos compensation by former workers, have led to a greater questioning here of the nature of corporate responsibilities.

Business leaders deal with CSR issues through specialist business organisations such as the Global Reporting Initiative, the UN Global Compact and the World Business Council for Sustainable Development. In contrast, scholarship related to CSR draws from many areas, including management, ethics, psychology, sociology, finance and accounting, sustainability, public affairs and communications.

Overlaying the general trend to view CSR as a response to business failures, business views of CSR have additionally been shaped by national and cultural contexts. This can be known from manner in which the different countries tackle the issue of CSR.

### **1.5 Countries and their CSR model:**

In the *United States*, the concept of CSR as large scale societal changes such as the rise of the civil rights movement, the rise of consumerism (protection of consumers from exploitation) and growing anti-war sentiment (Vietnam).

In the *United Kingdom*, the zeal of CSR activities viewed as that would be useful to business if it could deliver business benefits.

In *Europe*, environmental considerations prevailed and the concept of sustainability may be expressed more than the concept of CSR

In *Japan*, CSR has traditionally been expressed primarily through benefits to employees and environmental reporting.

In *Australia* the approaches to CSR strategies are viewed as practiced in the UK, combined with attention to the concept of sustainability.

In *India*, leading CSR companies such as Tata Steel view extensive social investment as a core part of business strategy is an exception. As per the general psychology of the corporate persons the core concepts are more oriented towards meet the legal formalities.

## **2. Research methodology:**

### **2.1 Statement of Problem**

In this research, the researchers explores the nature of corporate social responsibility (CSR) in Indian context, using modified Carroll's (1991) CSR Pyramid which is developed by the authors as a framework for descriptive analysis. Carroll's (1991) CSR Pyramid is probably the most well-known model of CSR, with its four levels indicating the relative importance of economic, legal, ethical and philanthropic responsibilities in a pyramidal hierarchy with respectively. Hence the objectives of present study to understand the concept of CSR activities in India. The view point of Indian Corporate peoples towards different hierarchies of CSR activities and to understand the priority of activities

## 2.2 Objectives of the Research

Following are the broad objectives of the research:

- The major objectives are:
- To do an empirical analysis of in Carroll's (1991) CSR Pyramid in Indian context.
- To find out the components of CSR activities that is the most important in the context of Indian corporates
- To construct a modified Carroll's (1991) CSR Pyramid as per the analysis of primary data.

The minor objectives are

- To investigate the significance of the proposed model developed by the authors which is the modified version of Carroll's (1991) four part model.

## 2.3 Formulation of Hypothesis

**Ho:** There is no difference between economic and legal responsibilities by corporates towards CSR practices.

**H1:** There is difference between economic and legal responsibilities by corporates towards CSR practices.

## 2.4 Research Methodology

We conducted exploratory research as well as conclusive research and the research design is described. The nature of the study is basically descriptive based on quantitative information.

Theoretical part of the article significantly used secondary sources such as review of scholarly journals and reading materials, while the quantitative findings and interpretations are depending on primary data.

This study conducted is based mainly on primary data. It is collected through personal survey having the respondent answer the structured questionnaire in person.

## 2.5 Sample Selection

A sample of 50 customers is selected as respondents. The respondents are corporate people associated with CSR or allied services. All 50 respondents answered all of the questions they were provided with through the survey. Some information had also been collected from secondary sources, like- websites, books, journals etc.

## 2.6 Design Questionnaires:

To design the questionnaires, LIKET scale format is used in most of cases to get the answers of the respondents. It is a rating scale which requires the respondents to indicate a degree of agreement or disagreement with each of a series of statements about the stimulus objects. The respondents has given their answers in terms of ranking the parameters as per Likert scale as follows;

Rank 1; highly agree

Rank 2; agree

Rank 3: neither agrees nor disagrees

Rank 4: disagree

Rank 5: highly disagree

## 2.7 Data Analysis:

The process of data analysis was done by the use of Scientific Package for Social Sciences (SPSS). The aspect of data analysis is very crucial as it enabled the researcher to address the research problem, derive conclusions and eventually recommend possible policy implications and actions in a constructive manner. Data presentation was based on using both statistical techniques and graphical techniques which included among others bar charts and tables. The methods of analysis that are used in this study are: T-test is used to test the mean value of customer response which also used to test the hypothesis. Chi-square analysis for test of association. Chi-square test of independence is performed to test the existence of interrelationship among the categories of qualitative variables.

## 3. Data analysis and Findings:

ACTIVITIES	RANKED 1	RANKED 2	RANKED 3	RANKED 4	Total
ECONOMIC	5	30	10	5	50
LEGAL	40	10	0	0	50
ETHICAL	1	12	28	9	50
PHILANTHROPIC	0	0	15	35	50
Total	46	52	53	49	200

### 3.1 Chi-Square Calculator

Success! The contingency table below provides the following information: the observed cell totals, (the expected cell totals) and [the chi-square statistic for each cell].

The chi-square statistic, *p*-value and statement of significance appear beneath the table. Blue means you're dealing with dependent variables; red, independent.

		RANK1	RANK2	RANK3	RANK4	Row Totals
LEGAL	Observer Frequencies	40	10	0	0	50
	Expected frequencies	(11.50)	(13.00)	(13.25)	(12.25)	50
	Chi Square	[70.63]	[0.69]	[13.25]	[12.25]	96.82
ECONOMIC	Observer Frequencies	5	30	10	5	50
	Expected frequencies	(11.50)	(13.00)	(13.25)	(12.25)	50
	Chi Square	[3.67]	[22.23]	[0.80]	[4.29]	30.99
ETHICAL	Observer Frequencies	1	12	28	9	50
	Expected frequencies	(11.50)	(13.00)	(13.25)	(12.25)	50
	Chi Square	[9.59]	[0.08]	[16.42]	[0.86]	26.95
PHILANTHROPIC	Observer Frequencies	0	0	15	35	50
	Expected frequencies	(11.50)	(13.00)	(13.25)	(12.25)	50
	Chi Square	[11.50]	[13.00]	[0.23]	[42.25]	66.98
<b>Column Totals</b>		46	52	53	49	<b>200 (Grand Total)</b>

The chi-square statistic is 221.7425. The  $p$ -value is  $< 0.00001$ . The result is significant at  $p < .05$ . .001% that null hypothesis is not correct as it is less than 5% probability of null hypothesis.

There is a significant difference in emphasizing the factors of CSR by corporates.

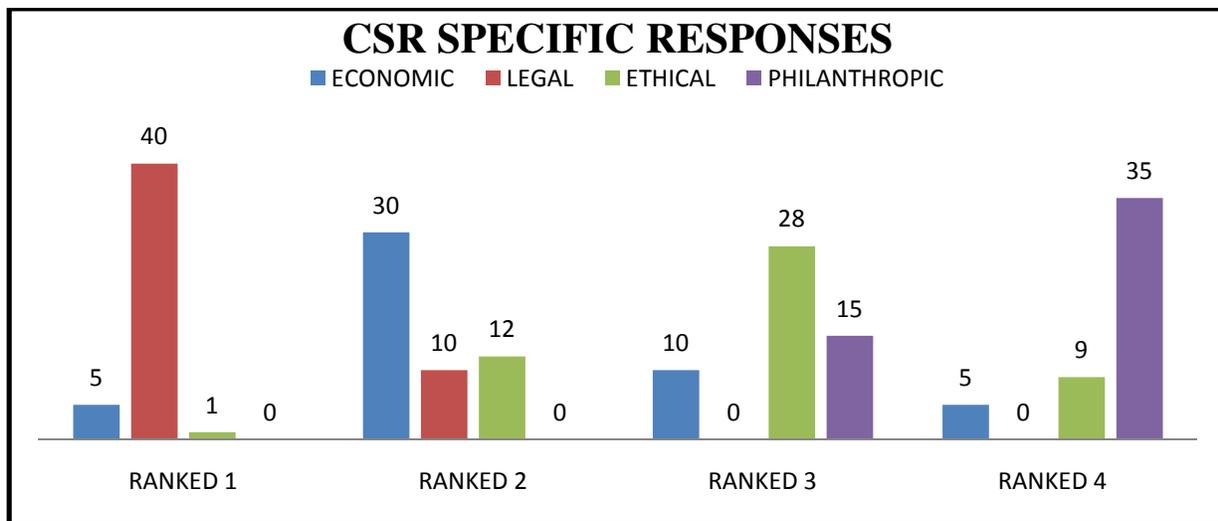
### 3.2 Findings:

We reject **H<sub>0</sub>**: There is no difference between economic and legal responsibilities by corporates towards CSR practices.

We accept, **H<sub>1</sub>**: There is difference between economic and legal responsibilities by corporates towards CSR practices.

Hence we may come an conclusion that there is a substantial difference in choosing the between the two variable i.e. between economic and legal variables deciding to go for a conduct a CSR initiative.

**Chart: 1**



Source: Author

To understand the basic differences in preferring between legal and economic components, the above figure (figure: 1) says that forty (40) out of fifty (50) positive respondents have supported that legal as number one choice. This says that, from the view point of the Indian corporates they involved in CSR activities to comply the legal norms of the government. Besides they also give most importance to the legal aspects as compared to economic stood second followed by ethical values and philanthropic as the least criteria of CSR.

The graph says 30 corporates have selected economy as the second criteria why they go for CSR activities.

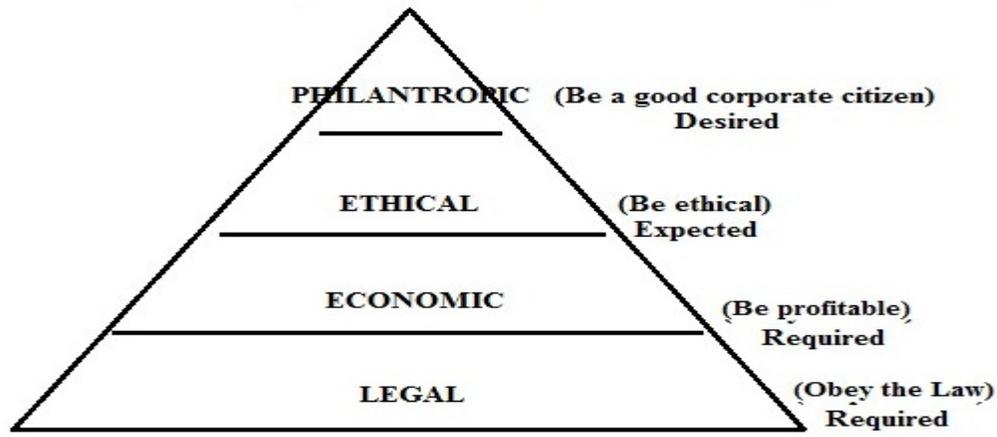
Ethical principles stood at third and is identified by 28 corporates, while philanthropic stood at least and was the choice of 35 corporates.

It indicates that the fear of legal constraints push them to go for having CSR activities, not to strengthen the economic status of the people.

As per the above conclusion the authors in this paper modified the CSR pyramid of Carroll, and the new structure is as follows.

**Figure: 2**

**Modified Carroll's Pyramid of Corporate Social Responsibility**



Source: Author

While exploration of CSR in India it is found that in contrast to the Carroll's (1991) CSR Pyramid model, the researchers in this paper proposed a modified Carroll's (1991) CSR Pyramid model. The hierarchy of CSR pyramid is legal, economic, ethical and philanthropic from bottom to top. Hence legal responsibilities replace economic responsibilities as the most important factor while choosing a CSR activity by the corporate.

#### **4. Conclusion**

From the research data analysis as well the statistical calculation derived from the testing of the Hypothesis we found that the Null hypothesis is rejected and we accepted the alternate hypothesis. This says that the legal aspect of CSR is more important than the economic aspects why the corporates follow the CSR strategy. Hence we modified the Carroll's (1991) pyramid and formulated the modified one with base as legal aspect as the prime for Indian corporates. Hence the Govt, of India has taken a right decision to come with a legal implication of CSR norms on Indian firms on specified worth, turnover or profit.

#### **5. Scope for further research:**

1. This study is focused on Corporate Social Responsibility among only 50 corporate people.
2. The collapse of big corporate houses like, Sahara and Kingfisher Air lines might have created the sense urgency for legal constraints
3. It took the view point of the corporates not the public, hence a work can be done on behalf of the common people.

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