

Understanding the Impact of Internal and External Corporate Social Responsibility

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ABSTRACT:-*The term Corporate Social Responsibility has been gaining a lot of attention recently. Businesses today have higher expectations from the stakeholders than ever before. This concept has also attracted a lot of attention from academia. We begin with explaining the concept of Corporate Social Responsibility. Kotler, Lee (2005) define corporate social responsibility as, "corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources."*

INTRODUCTION

Corporate social responsibility can be conceived as adopting a holistic view towards the environment in which a business operates. Rather than considering only the business as a system, it is considered as part of a larger system with the awareness that the business needs to co-exist with the larger system and cannot benefit in the longer run if it causes harm to the larger system. This view of business as part of a larger system will also not change the profit motive to philanthropy. Here a supply chain view of the business is adopted where the entire global chain is considered. It would therefore mean that the positive and negative impact of the businesses activities in the entire global supply chain in terms of resources (natural and manmade) should be considered.

As such Corporate Social Responsibility is not a paradigm shift away from capitalism; it is rather an effort to broaden the scope of capitalism into a more holistic approach.

Corporate Social responsibility has gained a lot of attention in the recent past. There are many reasons for it:

1. Empowered consumers: Consumers today are more aware and demanding than they were ever before. Their ever rising expectations from the businesses mean that they consider all actions of the business before making a purchase decision. This has forced businesses to adopt measures that are considered socially responsible by its larger customer base.

2. Communication boom: The advent of technology based communication tools like mobile telephony, internet etc have shattered all communication barriers across the globe. Communication flow among the consumers in different parts of the world has tremendously increased and this transfer happens almost in real time thanks to

technology. As a result any act of companies gets amplified positively or negatively within minutes of the news.

3. Depletion of global resources: This has been happening at an alarming rate. Resources like water, land, forests, and animal and plant species are being depleted at a pace where the earth is not able to replenish them. This gap between the use and replenishment has heightened awareness among all citizens of the planet. Not only has the pressure from consumers increased, but also as part of the globe, the businesses have also understood their part in conserving resources.

4. Competition: Competition is tougher and meaner than ever before. Businesses are operating at highest augmentation levels. Corporate Social Responsibility has also been used as an augmentation tool for various products and services. As a result businesses that do not pay attention to it will not be able to withstand competition in the longer run.

2. INTERNAL AND EXTERNAL CORPORATE SOCIAL RESPONSIBILITY

We use this as a framework to understand the integration of Corporate Social Responsibility within the fabric of the business. Internal corporate social responsibility would mean acts of social responsibility where the company's normal operations bring in the element of stakeholder concern. External on the other hand would mean donating a percentage of profits towards stakeholder concerns in areas where the company is not directly involved in terms of operations.

Some characteristics of internal and external Corporate Social Responsibility have been discussed Table 2.1.

Table 2.1: Characteristics of Internal and External Corporate Social Responsibility

Internal Corporate Social Responsibility	External Corporate Social Responsibility
<ol style="list-style-type: none"> 1. Considers business as part of the eco-system including the society, environment and the entire globe. 2. Follows socially responsible behavior in its entire supply chain. 3. Considers Corporate Social Responsibility as a part of its business model. 4. Abandons a prospectively profitable proposition in case it is detrimental to the society at large. 	<ol style="list-style-type: none"> 1. Dedicates a part of its revenues to philanthropic endeavors. 2. Considers Corporate Social Responsibility separate from the business model.

Before we attempt to explain what these characteristics, it is important to clarify that a Company could employ both internal and external Corporate Social Responsibility simultaneously. We wish to emphasize that an internal orientation is more sustainable and involved than external orientation.

Characteristics of internal and external Corporate Social Responsibility:

INTERNAL CORPORATE SOCIAL RESPONSIBILITY:

1. Considers business as part of the eco-system including the society, environment and the entire globe: This requires a very long term orientation. A company by law is defined to have perpetual existence. This means that a company is expected to continue for eternity for the sake of argument. This means that for a company to exist

the earth must also exist. So, whatever effort the company makes to restore the planet and life within it, is actually an effort to ensure the company's own perpetual existence.

2. Follows socially responsible behavior in its entire supply chain: Company's source their supplies from various vendors and also use a number of logistics partners to deliver products and services to its customers. This means that the entire supply chain needs to be cohesive to the society's interest. Companies need to ensure that the entire supply chain is socially responsible. MakeITfair (2008), held an international roundtable based on research reports dealing with Corporate Social Responsibility issues in the space of consumer electronics.

3. Considers Corporate Social Responsibility as a part of its business model: This would mean that a company practices Corporate Social Responsibility as a strategic variable and intertwines social responsibility into its business model. Investopedia.com defines business model as "The plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions of the business, as well as the revenues it generates and the expenses it incurs."

4. Abandons a prospectively profitable proposition in case it is detrimental to the society at large: This would call for immense commitment towards Corporate Social Responsibility. Here the existing business or a profitable endeavor could be abandoned on account of being detrimental to society. This might go to the extent of McDonald's deserting of its high calorie burgers or Coca Cola's abandonment of coke in its current form being high on sugar and calories. One important point to be noted is that this measure is not necessarily anti-capitalist. In the long run with consumer awareness and understanding of issues being heightened and the speed of communication, no business could survive an act that is detrimental to the society. Higher the company scores on all the four characteristics, the greater would be its internal Corporate Social Responsibility.

EXTERNAL CORPORATE SOCIAL RESPONSIBILITY:

1. Considers Corporate Social Responsibility separate from the business model: Coca Cola is the world's largest beverage company. It registered a net income of \$2,055,000,000 in the year 2009 claims Yahoo finance (n.d, www.finance.yahoo.com). Most of the sales are contributed by sweetened beverages including coke, fanta, Sprite etc. According to Murray, Pizzorno (n.d, Health Effects of Drinking Soda, 2010), in their article for Encyclopedia of Natural Medicine explain, "The

allergenicity of penicillin in the general population is thought to be at least ten percent. Nearly 25 percent of these individuals will display hives, angioedema, or anaphylaxis upon ingestion of penicillin. Hives and anaphylactic symptoms have been traced to penicillin in milk, soft drinks, and frozen dinners... Many general dietary factors have been suggested as a cause of osteoporosis, including: low calcium-high phosphorus intake, high-protein diet, high-acid-ash diet, high salt intake, and trace mineral deficiencies. It appears that increased soft drink consumption is a major factor that contributes to osteoporosis. A deficiency of vitamin K leads to impaired mineralization of bone. Boron deficiency may contribute greatly to osteoporosis as well as to menopausal symptoms.....

Soft drinks have long been suspected of leading to lower calcium levels and higher phosphate levels in the blood. When phosphate levels are high and calcium levels are low, calcium is pulled out of the bones. The phosphate content of soft drinks is very high, and they contain virtually no calcium."

This explains that soda based soft drinks are unhealthy. However, Coca cola instead of considering the societal good is hard selling its products, due to the financial repercussions. It is instead indulging in environmental awareness campaigns like recycling of the coke pet bottle etc.

2. Dedicates a part of its revenues to philanthropic endeavors: Here, the company spares a part of its profits towards philanthropic endeavors. Instead of integrating Corporate Social Responsibility into the operations, the company uses a peripheral approach to Corporate Social Responsibility.

3. TATA GROUPS LEGACY OF DOING GOOD

Tata Group had the Corporate Social Responsibility integrated into its corporate fabric long before the terms sustainability and Corporate Social Responsibility became fashionable (n.d, Our commitment, 2010). It has a number of Corporate Social Responsibility initiatives including:

1. The Tata Council for Community initiative (TCCI) in collaboration with United Nations Development Program (India) created the Tata Index for Sustainable Human Development that accounts for community work of Tata. This includes endeavors in health, women-children welfare, rural development etc to name a few. Under its gamut it covers rural outback of Gujarat, Kerala, and Andhra Pradesh among many others.

2. Environmental concerns. Tata adheres to Global

Reporting Initiative, advocated by United Nations. The group tries to ensure the safety of flora and fauna in all aspects of its operations. TCCI Chairman, Kishor Chaukar claims "Environment is a focus within our overall corporate social responsibility matrix."

3. Tata trusts: These include institutions that support an array of socially relevant aspects. Some of them include Sir Dorabji Tata and allied trusts, Sir Ratan Tata Trust, JN Tata Endowment. These trusts support causes like provision of higher education for bright Indian students, scientific endeavors among many others.

4. There are a number of institutions run by the company including Indian Institute of Science, JRD Tata Ecotechnology Centre, Tata Institute of Fundamental Research, Tata institute of Social Sciences, Tata memorial Center, Tata Medical Center to promote learning. Also, supported are causes like Sports, arts by National Centre of Performing Arts, Marg etc.

5. Code of honour which is a review of Corporate Social Responsibility initiatives of Tata.

6. Tata Jagriti Yatra: That is an annual train journey that attempts to awaken the spirit of social and economic entrepreneurship in Young Indian Adults.

7. Tata also has incorporated Corporate Social Responsibility into its business model by coming out with products like Nano, created with the aim of serving a population that couldn't afford to buy a car or Swatch, the water purifier to serve communities that cannot access clean drinking water. According to a Nielson survey, Tata group was ranked at number two following Reliance India Limited on Corporate Social Responsibility. (www.economictimes.com, 2010). Tata is a good example of a consistent internal and external Corporate Social Responsibility. The company has knitted Corporate Social Responsibility into its operational fabric since its inception and has proved that internal nCorporate Social Responsibility is sustainable and results in long term benefits. The importance that Internal Corporate Social Responsibility has gained in businesses today can be scaled by examining the case of British Petroleum.

4. CONCLUSION

Having examined various companies and their Corporate Social Responsibility initiatives, it is clear that Corporate Social Responsibility is no longer a fancy term. Corporate entities are seriously pursuing Corporate Social Responsibility endeavors and trying their best to appear as socially responsible. Companies have adopted standards issued by UN, Global Rating Index, ISO etc to ensure their devotion to Corporate Social Responsibility

adherence.

This means that consumers are also a part of branding. The more consumers collaborate; fuelled by the communication and technology revolution, the greater will Corporate Social Responsibility initiatives be evaluated and scrutinized by them. In order to stay competitive it is imperative for the business organizations to practice Corporate Social Responsibility in ways that is considered appropriate by various stakeholders.

Organizations respond by using either External Corporate Social Responsibility or Internal Corporate Social Responsibility. It could be said that companies paying attention to only external Corporate Social Responsibility and ignoring to choose internal Corporate Social Responsibility, do not score well on the public radar and vice versa. This is not to discount external Corporate Social Responsibility efforts but to emphasize that in order to be recognized a truly socially responsible organization, internal Corporate Social Responsibility is crucial.

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