

CHAPTER-7 CSR AND CORPORATE GOVERNANCE

Corporate Social Responsibility (CSR) refers to a company's responsibility towards society, environment, employees, customers, and other stakeholders. It means conducting business ethically while contributing to sustainable development and social welfare.

BENEFITS OF CSR

- 1. Builds Corporate Image and Reputation**-CSR demonstrates concern for society and stakeholder welfare, creating trust and goodwill.
- 2. Employee Attraction and Retention**-Employees prefer working for socially responsible organizations. CSR activities increase employee pride, motivation, and loyalty and reduce turnover, recruitment and training costs
- 3. Cost Savings and Operational Efficiency**-Sustainable practices reduce wastage, improve efficiency, and strengthen relationships with regulators.
- 4. Revenue Growth and Market Share**-Positive brand image and socially responsible products attract customers and increase sales.
- 5. Reduction of Business Risks**-Responsible business practices help avoid legal, environmental, and reputational risks.
- 6. Positive impact in the community**- Business takes resources from society. Through CSR, it obtains a 'licence to operate' in the community and is in the business' long-term self interest.

ARGUMENTS AGAINST CSR

- 1. Diversion from profit maximization**-Money spent on CSR reduces the profits available to shareholders and diverts attention of managers from that the primary objective of business which is profit earning.
- 2. Lack of expertise**-Business firms do not possess the domain expertise to address social issues such as poverty, education, healthcare, and unemployment.
- 3. Responsibility of Government**-Social welfare and economic development are primarily the responsibility of the government and not businesses.

TRUSTEESHIP MODEL OF CORPORATE SOCIAL RESPONSIBILITY

Trusteeship Model of Corporate Social Responsibility is based on the socio-economic philosophy of **Mahatma Gandhi**. According to this model, **wealthy individuals or businesses are not absolute owners of their wealth; they are trustees who hold and use their wealth for the welfare of society**, especially the poor and underprivileged.

KEY FEATURES OF THE TRUSTEESHIP MODEL

- 1. Wealth belongs to society, not just to its legal owners.** While businesses /people may earn wealth through their efforts, but morally they hold it in trust for society. So, the

surplus wealth should be used for the benefit of the community and rather than for their personal purposes/ self-satisfaction alone.

2. **Business exists not only for profit but also for social good.** Business enterprises should operate with fairness, honesty, and should benefit every section of society/different stakeholders, not just shareholders. The model is rooted in **Sarvodaya**, meaning *welfare of all*. Wealth should be used for social betterment- to improve the lives of workers, consumers, and the community.
3. **Moral responsibility is more important than legal compulsion.** Trusteeship is based on ethics and self-discipline and requires voluntary sharing and social sensitivity. Social justice should come through moral transformation, not through force. Gandhiji opposed forcible confiscation of wealth by the state. Businessmen are expected to voluntarily act in the interest of society.
4. **Radical social change would come through 'change of heart'.** Gandhi believed that social inequalities could be reduced not through class struggle/revolution/ conflict/ but through a moral awakening among the wealthy. This theory does not advocate a classless society rather it aimed at reforming the capitalist system from within by seeking root-level change in attitudes, values and conscience. Real social transformation begins inside human beings when greed is replaced by service, selfishness by responsibility, and exploitation by compassion.
5. **Production as per Social Needs-** The kind of goods to be produced by the businesses should be guided by society's requirements and not dictated by businessmen's greed. Goods harmful to society should not be produced merely for profit.
6. **Fixed Minimum–Maximum Income Gap-**The model suggests that the State should prescribe both a **minimum wage** to ensure a decent standard of living for workers and also a **maximum limit on income** that any individual can earn. The difference between the two should be reasonable and gradually reduced so that economic inequality decreases.
7. **Limited Role of the State-** Trusteeship should function voluntarily, but where voluntary efforts fail or when the wealthy fail to act as trustees and misuse their wealth, the State may exercise minimum regulation to ensure that wealth is used for social welfare and equitable distribution.

CRITICISM OF THE MODEL

- Considered **utopian** and idealistic
- Lacks clear guidelines on:
 - ✓ How much wealth should be shared
 - ✓ How trusteeship should be enforced

Relevance Today

- Influenced Indian CSR thinking and serves as a **valuable guiding framework for CSR policies**.
- Guides ethical business practices
- Promotes **distributive justice**
- Aligns with modern stakeholder theory and sustainable development