



# Corporate Social Responsibility: The Role of Ethical Leadership

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**ABSTRACT:** Corporate social responsibility (CSR) is a term for a business organisation's responsibility to customers, society and the environment. The motto of CSR is “Bahumukhi Vikaso Gantavyah”— Working to bring a change towards success, not only for one’s self but also for the community. The core of CSR activity is “doing good to do well” and “society at large should be served.” As business depends on society for its existence and sustenance, it has definite responsibility towards society. Adopting a robust and coherent CSR strategy is pivotal for a business organisation. It includes humanitarian, community welfare or social works a business organisation performs. Jeb Hensarling states, “I do not know how we will ever have the moral authority to deal with social welfare, if we can’t deal with corporate welfare.” In this context, it would be desirable to demonstrate excellent ethics, care for the environment and commitment to social welfare. A management team with effective and ethical leadership is required for the successful implementation of CSR activities of a business organisation. Leadership is not a position but rather a choice to strive for the accomplishment of the objectives of CSR. It is the capacity to translate vision into reality. The present study makes an attempt to conceptualise and interpret CSR, analyse CSR policy steps and highlight the role of ethical leadership to meet the current and future requirements of society. The study also intends to recommend measures on the basis of the findings of the study.

**KEYWORDS:** CSR, Ethical Leadership, Business Organisation, Society, Environment.

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## I. INTRODUCTION

CSR is an integral part of modern business organisations for the implementation of their programmes and policies as well as for good governance. In the increasingly uncertain business environment and changed public expectations, business organisations are placing more emphasis on corporate social responsibility. CSR’s objective is to satisfy society’s valuable needs. Centrality, specificity, proactivity, voluntarism and visibility<sup>1</sup> are the five main dimensions of strategic CSR. It is an obligation of the decision-makers of business organisations to take actions that protect and improve the conditions of society as well as their interests.<sup>2</sup> To improve and enhance the quality of service of business concern; to prevent a business from avoiding abuse by employees; to avoid violation of norms; to protect the rights of workers and to prevent leadership from any possible legal issues, corporate government must be ethical. The purpose of corporate social responsibility is to serve society as well as secure the fiscal interests of its shareholders and stakeholders. CSR has become an important topic for researchers and academicians. The present study intends to highlight the role of ethical leadership in corporate governance and CSR activities in a modern business landscape that is entirely digital. The study also makes a modest attempt to throw light that a long-term comprehensive approach is required to ensure CSR funds are utilised properly and that the impact and effectiveness of CSR activities depend upon effective and ethical leadership to a large extent. The vision and mission, commitment, strategy and style of functioning of effective and ethical leadership influence the successful execution and implementation of CSR activities of a business organisation to a considerable extent. CSR entails the service of society to improve relationships among stakeholders and a commitment to act in a responsible, fair and ethical way. Positive relationships can be expected from CSR<sup>3</sup> and it is a centre-piece of the company’s strategy.<sup>4</sup>

## **II. LITERATURE REVIEW**

Many scholars and academicians have made attempts to discuss and interpret CSR, ethics and ethical leadership. Bowen (1953) laid stress to make those decisions that are desirable and beneficial in terms of the objectives and values of our society. Selekmen (1959) explored the evolution of the moral responsibility of corporations as per the labour expectations of the time<sup>5</sup>. Welton (1967) acknowledged the relevance of the relationship between business and society. Seth (1975) took a clear stand and held that corporate behaviour should be coherent with social norms, values and expectations. Carroll (1979), professing a unified definition of CSR, stated that “social responsibility encompasses the economic, legal, ethical and discretionary expectations of the society. Thomas M. Jones (1980) emphasised that CSR should be seen as a decision-making process that would influence corporate behaviour. Lee (2002) talked about the relationship of business organisations with employees, suppliers, customers and the community. S. Arjoon (2005)<sup>6</sup>, Allen (2007) reinforced the notion of creating value through strategic CSR and generating value through CSR. Diptayan Bhattacharya (2010) has studied the relationship between CSR and financial performance. Racelis (2010), Morrison and Mujtaba (2010), L. Krawczyk (2010), Bledgett (2012). Low and Ang (2013) and many others have devoted their studies to the issue of ethics, managerial ethics and moral values, the application of ethics to business situations and so on. From the above studies, it becomes apparent that ethics is an important factor in promoting good corporate governance implementation through CSR activities. With regard to literature about leadership Thomas Carlyle has propounded “great man theory” which describes the qualities of leadership but Mc Gregor (2003), replaced the great man theory. Many other theories such as Contingency Theory proposed by Green Leaf (1977); Style and Behavioural Theory presented by Yuki (1989); Transactional Theory of Avolio and Bass, (1977), Process Leadership Theory by Yammarino, Transformational Theory presented by Mc Gregor Bums (1913) etc., are worth mentioning. Vroom and Jago (2007) and Jung (2013) has defined leadership as the capacity to influence others and the ability for goal attainment. Focussing on ethical leadership, Dinibuten (2020), observes that ethical leadership involves reasonable, fair and considerable action.

Although many scholarly works have been devoted to the discussion, analysis and interpretation of good corporate governance, CSR and ethics, yet the present scholar is of the view that CSR and ethical leadership are evolving topics. The present study is different and unique from other studies referred to above in the sense that the present scholar intends to emphasize that the tripartite concept of corporate governance, CSR and ethics are essential elements in a competitive business environment. Further, a good governance must be ethical in order to prevent an organisation from taking actions which are detrimental to other stakeholders; to improve the performance of the company and the quality of business relationships; and to avoid violation of worker’s rights and legal issues. This study intends to explore how CSR activities can help good governance by addressing the latest expectations of society combining effective ethical leadership in the contemporary digital age.

## **III. OBJECTIVES OF THE STUDY**

The main objectives of the present study are as follows: -

1. One of the most important objectives of the present study is to suggest ways and means to satisfy the valuable needs of society in changing public expectations through CSR activities.
2. An important objective of the present study is to specify that adopting a robust and coherent CSR strategy is needed for good corporate governance that portrays a responsible and caring brand identity.
3. The objectives are to improve business ethics, motivate ethical leadership and customer behaviour.
4. The purpose of this study is to make it clear that “निष्ठा, धृतिः, सत्यम् (Dedication, steadfastness and truth) are the guiding luminary of business ethics and that ethical leadership is pivotal for the implementation of CSR activities of a business operation.
5. Lastly, the present study is intended to suggest measures and encourage further research in the field of environmental, philanthropic, ethical and economic corporate responsibility based on the findings of this study.

## **IV. RESEARCH PROBLEMS**

There are some research problems that are identified as follows: -

- ❖ Violation of ethical norms, moral values and regulations on the part of the business organisation.
- ❖ CSR spending is not seen as a mandatory obligation but rather an enforced obligation by business organisations.
- ❖ Corruption and malpractices in the CSR sectors at various stages and levels.
- ❖ The relationship between businesses and consumers tends to be vulnerable to ethical issues.
- ❖ Belief that a manager’s most important obligation is to the management and business ethics is limited to obeying the law.

## **V. METHODOLOGY**

The present study is based on normative theory, not empirical and the research methodology adopted is that of interpretation, description, analysis, construction and prediction. Books on corporate governance, CSR, ethics and ethical leadership have been consulted. Besides, secondary sources such as articles and journals on the topic are also the foundation of this study. The information collection system is online.

### **CONCEPTUALISING CSR**

The concept of CSR is the most important factor in achieving a high level of development goals in any business organisation. The purpose of corporate social responsibility is to serve society as well as secure the fiscal interests of its shareholders and stakeholders.

Definitions of CSR range from highly conceptual to practical statements. Bowen, who is called, “The father of corporate social responsibility” interprets CSR as “the obligation of the businessman to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of objectives and values of our society.”<sup>7</sup> European Commission COM defines CSR as “a gesture by businesses over and above legal conditions freely espoused because businesses deem it to be in their long-term interest.”<sup>8</sup>

In changing global script, the issue is not whether companies will engage in socially responsible activities but how to achieve the maximum social benefit from a given quantum of resources. Economic, legal, ethical and discretionary are the main types of social responsibility.<sup>9</sup> CSR is important in business in the sense that it builds a strong brand image, boosts sales and increases customer response and loyalty. The ‘Triadic Bottom Line: People, Planet and Profit’<sup>10</sup> is the essence of CSR. Emphasizing the importance of CSR, Peter Drucker states, “A healthy business and a sick society are hardly compatible.”<sup>11</sup>

India has created an effective and reliable CSR framework by enacting laws and rules. In India, the activities carried out by business organisations towards fulfilling the objective of CSR policy have been listed in the Companies Act, 2013 which aims at poverty elimination and welfare measures. It mainly includes: - the eradication of poverty, women empowerment, child care, health facility, environmental protection, employment generation, a donation to the PM National Relief Fund, public and Olympic sports, war widows and their dependents. Besides, art and culture, rural development projects, slum area development etc are also listed. In this context, the enactment of Companies (CSR Policy) Amendment Rules, 2021 has made a remarkable shift from discretionary to mandatory. The previous “comply or explain” has been changed to “comply or pay fine.”

### **CSR POLICY STEPS**

A business organisation must be ethical in order to realise citizens’ obligations, prevent the organisation from taking actions that are detrimental to other stakeholders, improve the performance of the organization and the qualities of a business relationship. Business decisions should contain ethical components, i.e., ethical implications should be taken into account before acting. For developing effective corporate governance and CSR policies, business organisations should first define the organisation’s values and responsibilities; set clear goals and objectives; implement, monitor and regularly report and communicate to stakeholders; and then evaluate and revise its efforts.

### **THE ROLE OF ETHICAL LEADERSHIP**

Ethical and dynamic leadership is the panacea for the ills of any business organisation and to advance its CSR agenda for the cause of society at large. Ethical Leadership is a wheel on which any business rides on. The leadership must be visionary, skilled, communicative, inspirational, talented and, above all, ethical with a high level of integrity. Describing the qualities of leadership Kautilya in his classic work “*ARTHASHASTRA*” observes, “*Tatvagayah Sarvbhutanam Yogagayah Sarvkarmnam Upayagyo Manushyanam Narah Rajarshi Uchayate*” (only those individuals deserve the position of leadership who are aware of KARMA and proficient in achieving just goal without compromising on integrity). In this context, it would be desirable to demonstrate excellent ethics, care for the environment and commitment to social welfare.

To examine the role of ethics and ethical leadership in corporate governance and CSR activities are also the subject matter of the present study. A true ethical leader will always lead by his own example. If the leader is honest, sincere and committed to the task assigned to him, the vibes created percolate down the hierarchy cleansing the system that he controls. Domain knowledge, commitment, integrity and winning altitude shall be the arsenal of future leaders to be victorious on the corporate battlefield. In today’s volatile, uncertain complex and ambiguous world, there is an urgent need to produce leaders of tomorrow who shall find sustainable solutions to the problems encountered by businesses, governments and citizens in years to come. Leaders need to navigate the immense opportunity created by digital technologies in their respective functional areas. Leaders should be value driven, embrace diversity, be tech and data savvy, communicate effectively, and have the ability to respond skilfully to the rapidly changing global landscape. The oxford dictionary defines leadership as, “the action of leading a group of people or an organisation.” It is the accomplishment of a goal through the direction of human assistance. They

must reimagine businesses for a world that is entirely digital. They should enable automation, A.I. and machine learning for the purpose of digital transformation which involves strategy, experience and engineering.

Leadership is not a position but rather a choice to strive for the accomplishment of the visions and goals of e-governance. It is pivotal in strengthening coordination, collaboration and integration in the planning and implementation of CSR activities. A good management team with strong and ethical leadership is required for the implementation of a business organisation's CSR initiatives. A robust leadership demonstrated effectively communicating the goals, values and expectations of e-governance initiatives to meet the current and future requirements of society. To advance the agenda of business organisation a new style of leadership is required to reach the highest level of services to the citizens. Good governance and leadership are sine quo non to a viable development-oriented society. The leadership of any society may be measured by good governance initiatives demonstrated to meet the changing landscape. Leadership is the wheel on which any democratic society rides.

The concept of leadership has changed significantly due to innovations in ICT. To meet the challenges of cyber security, ethical leaders are required to evolve the twin objectives of 'using technology' with sensitivity and 'ensuring the safety and security of shareholders. PM Modi observes, "In such times, the four pillars of infrastructure, investment, innovation and inclusion will drive our efforts to boost good governance across sectors..."

Effective leadership through good governance is the panacea to solve the problems of society and fostering the people's prosperity. E-government with ethical and strong leadership facilitates speed, efficiency, transparency and convenience in an efficient and cost-effective manner.

In fine, leadership means inspiration and illumination - guiding others through personal examples and charisma. It is a talent for transformation; the ability to bring out the best in others for the greater good of all. Leaders with a mission, purpose and a great team need to often step aside and watch others take the lead. The great and ethical leaders often work behind the scenes and develop others and leave space for others. It translates vision into reality. Here the words of Raj Bowen are worth mentioning, "The best leaders are now going to be ones who recognise their capability gaps and learning the new skills of standing up and asking for help from those far below them in the pecking order."<sup>12</sup> Leaders decides ways and means the organisation achieves its ends, creates the sources of available information and skills, set example and acts as a conveyor of rewards and punishment. Effective leadership is the key to effective governance. Governance, in turn, provides direction and strategy to leadership.

## **EVALUATION AND FINDINGS**

CSR is the idea that management/organisations should not only pursue profits but also contribute to the cause and well-being of society. It has become an important component of sustainability or responsible organisation. The focus is also on the role of effective, vibrant and ethical leadership in an ever-changing business environment. However, some critics argue that in a free market economy, the pursuit of profit will ensure maximum social benefit; that CSR is not necessary as it is not the role of businesses to address social or environmental issues; that CSR is a form of greenwashing- distract from negative practices; that CSR activities does not address systematic issues; that it is an exercise in futility as it opposes fiduciary duty of business organisations; that leadership should not impose moral values in the conduct of business organisations; that leaders should avoid and ignore ethical considerations.

Moreover, the present era is an era of creative differentiation adding moral values and making inventions. The term CSR has become increasingly popular. Adopting a robust, coherent and ethical CSR strategy is pivotal for business organisations in a rapidly technologically evolving era. The below mentioned recommendations are made to achieve the purpose of CSR and to develop ethical models to ensure the interests and welfare of the society: -

1. There is a need for stronger planning, risk management and long-term comprehensive strategy so that CSR funds can be utilised efficiently and effectively with sustainable impact.
2. CSR spending should be embraced by business organisations as an opportunity to serve the society, not as an enforced obligation or burden.
3. To ensure that the impact of CSR is deeply felt, it is imperative to adopt an elaborate and comprehensive approach to yield productive results.
4. Proper and adequate measures and appropriate actions are required to make effectiveness and implications of the law so that some business organisations or intermediaries cannot misuse or misappropriate CSR funds for personal gains.
5. When the world is changing so fast and is under different kind of influences, good or bad, leaders of the business organisation prepare themselves to face unfolded events and circumstances and trace out effective solutions faced by their business organisations.
6. In today's volatile, uncertain, complex and ambiguous world, there is an urgent need to produce leaders of tomorrow who shall find sustainable solutions to the problems encountered by business, government and citizens in years to come.

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