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## **The relationship between CSR and leadership in the context of regulatory frameworks**

- Case studies of Mauritius and India -

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MSc in Business, Language and Culture -Leadership and Management Studies

Master's Thesis

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# Abstract

Through a comparative study of attitudes towards corporate social responsibility in India and Mauritius, I explore the relationship between CSR and leadership in the context of regulatory frameworks. For this purpose, I draw on Matten & Moon's distinction between explicit versus implicit CSR, and I relate this distinction to the ongoing debate over voluntary versus mandatory approaches to promoting CSR practices.

I then explore the impact of these various approaches to CSR on the ability of organizational actors to exercise leadership in the promotion and implementation of CSR practices.

On the basis of interviews with practitioners and secondary documents, I argue that mandatory CSR within a rigid regulatory framework reduces the potential and the incentives that organizational actors feel that they have to take a leading role with respect to CSR.

I propose two solutions to this problem.

First as suggested by Visser, governments should not regulate the sustainable business per se, but the issues that sustainable business is attempting to address (e.g. biodiversity loss, labor conditions, climate change, transparency).

Second I present a model that leverages the best of both the mandatory and voluntary regimes of CSR by imposing a tax that funds initiatives administered by companies.

**Key words:** leadership, mandatory/voluntary CSR, implicit/explicit CSR, compliance, wicked/tame problems, regulation.

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# 1. Introduction

*“[...] it takes leadership to explain this [CSR] because this is a new concept, it was a new concept back then, now is becoming a tax so people won't think twice about it. It's a tax, you just pay! You don't need any leadership skills to pay [...] Before the CSR tax if we saw a problem in one region, Bambous for example, where there would be no NGOs working on this specific problem, we would ourselves start something to initiate an action to resolve this problem. Now we can't do it! We have to give the money to an NGO or we have to have a project validated with the National CSR Committee which makes things almost impossible, so no... We just resolve ourselves to make contributions and follow the guidelines”*

Mrs. Sophie Desvaux de Marigny  
Head of CSR and Communication  
Medine Ltd., Mauritius

In July 2009, for the first time in the history of Mauritius, the Minister of Finance and Economic Empowerment introduced a new law stating that every company shall, in every year, set up a CSR fund equivalent to 2% of its book profits. This unique model of CSR requires the 2% tax to be directed towards activities in several key areas and social projects have to be approved by a National CSR Committee before implementation. This sets the scene for a mandatory CSR framework intensively disputed by the corporate world, media, and civil society.

With India now on its way towards adopting a similar CSR model, the debate over the legitimacy of mandatory CSR is increasing.

It is interesting noting that worldwide there are only a handful of countries who have implemented mandatory CSR regimes and by that I refer to legal frameworks who indicate the compulsory amount of CSR spending, areas of spending, and the size and nature of companies concerned. Two of the most notable cases are Indonesia with a 2% CSR tax for companies operating within the natural resources domain, and Nigeria with a proposal of 3.5% compulsory CSR spending for all corporations<sup>1</sup>. Apart

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<sup>1</sup> The 2008 Nigerian Bill mandating a spend of 3.5% of gross annual profits has not passed yet due to many problematic provision

from these, mandatory CSR reporting is encountered in countries like Sweden, Norway, the Netherlands, Denmark, France, and Australia.<sup>2</sup>

The idea of mandatory CSR faced both approval and criticism over time from the corporate world, media, civil society, and also from the leadership and CSR scholars.

On one hand, the advocates of the mandatory approach to CSR claim that several problems arise from CSR being voluntary, namely: the proliferation of voluntary standards and the differences among codes, and weak, negligible or missing monitoring and enforcement mechanisms (Gonzalez & Martinez, 2004).

On the other hand, despite these arguments, the advocates of the voluntary approach to CSR claim that companies cannot comply with the mandatory CSR in the short term. Also, the stringent regulation would stifle innovation and the cost of implementing this regulation outweighs the benefits (Doane, 2004, in Gonzalez & Martinez, 2004). Moreover, the advocates of this approach support self-regulation through codes of conduct and reject the intervention of governments in fostering CSR (Gonzalez & Martinez, 2004).

Referring to India's recent move towards mandatory CSR, Visser (2013) calls it a "giant leap backwards."

*At a time when most of the world has moved beyond defensive and philanthropic modes of CSR, toward promotional, strategic and transformative approaches, India's policy virtually guarantees that's its companies will remain stuck in an out-dated charitable mind set (Visser, 2013).*

The cases of Mauritius and India challenge and attempt to redefine the concept of CSR. Generally corporate social responsibility was referred to as the adoption of a set of voluntary policies, codes or guidelines, initiated and driven by the corporation (Broomhill, 2007) or as the European Commission previously defined it:

*A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. (COM, 2011, 681).*

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<sup>2</sup> Retrieved from [http://www.ssireview.org/blog/entry/mandatory\\_csr\\_in\\_india\\_a\\_bad\\_proposal](http://www.ssireview.org/blog/entry/mandatory_csr_in_india_a_bad_proposal)

The key point in these definitions is that CSR actions go beyond companies' legal obligations, whereas in the case of a mandatory framework CSR actions are part of the legal requirements.

In the cases of Mauritius and India, the practical implications of mandatory CSR framework are both positive and negative. As positive implications the following are most notable: considerably larger funds flowing towards CSR, multiple stakeholders joining forces to tackle social problems, and a wider array of social issues covered. As negative implications I have identified the following: higher levels of corruption, focus on quantity instead of quality, forced partnerships between corporate players and NGOs, bureaucracy, creativity and innovation constraints, and a decrease in companies' incentives to taking a leadership role in respect to CSR. Since these negative aspects create a series of problems for corporate actors in practicing CSR, I will address them in detail in this paper.

Through a comparative study of attitudes towards corporate social responsibility in India and Mauritius, I explore the relationship between CSR and leadership in the context of regulatory frameworks. For this purpose, I draw on Matten & Moon's distinction between explicit versus implicit CSR, and I relate this distinction to the ongoing debate over voluntary versus mandatory approaches to promoting CSR practices. I then explore the impact of these various approaches to CSR on the ability of organizational actors to exercise leadership in the promotion and implementation of CSR practices. On the basis of interviews with CSR practitioners and secondary documents, I argue that mandatory CSR within a rigid regulatory framework reduces the potential and the incentives that organizational actors feel that they have to take a leading role with respect to corporate social responsibility. I propose two solutions to this problem.

First as suggested by Visser, governments should not regulate the sustainable business per se, but the issues that sustainable business is attempting to address (e.g. biodiversity loss, labor conditions, climate change, transparency). Second I present a Mexican model of CSR that leverages the best of both the mandatory and voluntary regimes of CSR by imposing a tax that funds initiatives administered by companies.

### **1.1. Research questions**

The research questions that guide my thesis are the following:

1. What is the relationship between leadership dynamics and CSR practices in the context of a mandatory vs. voluntary CSR framework?
2. How do the special cases of Mauritius and India help illuminate the relationship between leadership and CSR in these contexts?

## **1.2. Thesis structure**

To answer these research questions I structure this dissertation in six chapters as follows:

Chapter 1 represents the introduction of this paper and presents an overview of my main arguments. This chapter also includes the research questions that steer this thesis, the contribution I am aiming to make to the literature of CSR and leadership, and the delimitation of my research.

Chapter 2 discusses the methodology employed to conduct this research. Thus, this chapter presents the research purpose, the underlying philosophy of science that guided and influenced the research process, the research design, and the techniques and procedures I used in order to obtain and analyze the primary and secondary data. Finally, I discuss the validity, reliability and generalizability aspects of this thesis' findings.

Chapter 3 presents the theoretical lenses used to answer the research questions. In this chapter, I discuss the challenge and importance of addressing the intersection of CSR and leadership and I define these two concepts for they are central to my thesis. Next, I place the definition of CSR in the context of the debate over the mandatory versus voluntary nature of CSR, and in the context of Matten & Moon's conceptual frameworks of implicit and explicit CSR. I present their perspective on the future of corporate social responsibility and I relate that to Visser's interesting proposal for a new model of CSR. In this chapter I also discuss why CSR is a wicked problem, how it relates to leadership and what is the nature of CSR leadership. Finally, I introduce the notion of compliance culture and I analyze the dynamics of corporate social responsibility and leadership in this particular culture.

Chapter 4 provides background information about the CSR frameworks of the two chosen countries, Mauritius and India. I underline their similarities and differences, and I draw on the particularities of each one of them. This helps me present an accurate picture of the two national contexts and set the scene for the empirical analysis in the following chapter.



Chapter 5 comprises the analysis of empirical findings performed through the lens of the theories presented in chapter 3. The analysis is organized in three major themes: (1) the role of leadership in CSR, (2) CSR requires leadership, and (3) voluntary vs. mandatory CSR.

Chapter 6 presents the conclusions of my work and provides answers to the research questions. Based on these, I also make recommendations for the Mauritian and Indian CSR regimes and I discuss future research opportunities.

### **1.3. Contribution**

The distinctive contribution of my thesis resides in that it accepts the challenge of approaching two very broad and complex fields, leadership and CSR, about which a lot is known, but only on an individual basis. As Van Velsor (2009) notably points out:

*“There is obviously already a wealth of literature on leadership, and there is a good deal of literature, both conceptual and research-based, on corporate social responsibility. But we know relatively less about the intersection of the two...”* (p. )

Furthermore, this thesis critically assesses the legitimacy of mandatory CSR and its impact on corporate actors’ leadership based on relevant insights from Mauritian and Indian CSR practitioners with long-standing CSR experience, coupled with relevant theoretical frameworks.

Last but not least, through my work I bring to light the very interesting, but less known case of Mauritius from which other countries can learn valuable lessons in terms of implementing mandatory CSR frameworks.

### **1.4. Delimitation**

When approaching broad and complex fields like CSR and leadership, a researcher can choose from a great number of topics. Anything from the debate over whether or not investing in CSR pays off to the various leadership styles and their particularities represent an interesting subject to explore. However, very little is known about the intersection of these two fields and this caught my interest. Thus, the focal point of my research is the relationship between leadership and CSR in the context of the mandatory frameworks of Mauritius and India. Specifically I am analyzing how mandatory CSR within a rigid regulatory framework reduces the incentives of corporate actors to exercise leadership in respect to CSR. Therefore, the attention is on the attitudes a mandatory CSR instills into corporate

players and on the impact of rigid regulation on engaging with CSR in a creative and innovative manner.

Since this paper represents a humble attempt to explore the complex relationship between leadership and CSR, I do not address many of the particularities of it. For instance, I have left aside the discussion on how various leadership styles relate to voluntary versus mandatory CSR, and how gender and culture influence this relationship. Moreover, I do not engage in debates over the legitimacy of CSR in general, over whether it pays off or not, or in promoting one or another form of CSR.

Choosing to study these aspects in the contexts of Mauritius and India has its particular underpinnings. On one hand, Mauritius has a mandatory CSR framework that is unique in the world in terms of strict legal requirements, guidelines and procedures. On the other hand, India began to march on the way of implementing a similar, but more flexible CSR structure and I find it very interesting to contrast the views of Indian CSR practitioners with those of their Mauritian counterparts. The more flexible Indian approach to mandatory CSR serves me well in demonstrating my argument that the opposite model encountered in Mauritius constrains corporate actors' leadership to a greater extent.

In terms of participants, this thesis regards only large corporations with long-standing CSR tradition. Thus, I do not discuss how mandatory CSR is affecting small and medium companies (SMEs). This is due to two main reasons. First, SMEs do not provide as rich data for analysis as large companies do, and second, in the case of India the regulation of CSR applies only to companies of a larger size.

In addition, although the four companies I have interviewed are very representative for the study of CSR given their long-standing tradition in this field, a larger sample could have been used. In both countries there are many other significant CSR players whose insights could have strengthened my argument even more, but given the time and travel constraints, this was not possible.

To compensate this and to provide a richer and clear image of the CSR regime, I have also interviewed representatives of governmental institutions in Mauritius. In Chapter 2 – Methodology and Chapter 4 – Case presentations, I provide more information about the participants and their position in the local CSR game.

## **2. Methodology**

This chapter presents and explains the methodological approach employed in conducting this research. Thus in the following lines I will present and explain the key methodological components such as: research purpose, the underlying philosophy of science that guided and influenced the research process, the research design, the techniques and procedures through which I have obtained and analyzed the primary and secondary data. Finally I draw on validity, reliability and generalizability aspects of my findings.

### **2.1. Research purpose**

The primary concern of this paper is to examine the relationship between CSR and leadership in the context of regulatory frameworks in Mauritius and India. Specifically I am analyzing how mandatory CSR within a rigid regulatory framework reduces the incentives of corporate actors to exercise leadership in respect to CSR. Therefore, the attention is on the attitudes a mandatory CSR instills into corporate players and on the ability these ones have in engaging with CSR in a creative and innovative manner.

This study also attempts to create awareness of the underlying implications of mandating CSR and I consider it relevant for both the corporate world and the governmental institutions with decisional power in this sense. Although it focuses on the specific contexts of Mauritius and India, this thesis contains useful insights that apply to some extent to many other national contexts.

In addition, as already mentioned in the introduction, very little is known about the intersection of corporate social responsibility and leadership while a lot has been written on these two fields separately. Therefore this thesis also aims to fill in a gap in the existing literature.

### **2.2. Research philosophy**

The research philosophy refers to the development and nature of knowledge (Saunders, Lewis & Thornhill, 2012). Thinking of a philosophy in terms of it being better or worse than others is a trap to avoid. It is rather a question of a philosophy being suitable or not to provide answers to the research questions (Saunders et al., 2012).

In this sense, the suitable research philosophy for my paper pertains to critical realism for the following reasons.

First, the advocates of critical realism argue that a reality exists out there independent of people's thoughts and impressions and it can be differentiated in three levels:

1. the empirical level – comprises the experienced events;
2. the actual level – includes all events regardless if they are experienced or not;
3. the causal level – regards the mechanisms that generate the events.

(Bhaskar 1978, in Houston, 2001).

Applied to my study of the relationship between leadership and CSR in the context of regulatory frameworks, the independent reality consists of CSR rules, regulations and guidelines that corporate actors have to comply with and which can influence and shape the practice of leadership in CSR. Moreover, the social issues that CSR is trying to address are also part of the independent reality for poverty or environmental damages for instance, have an objective nature and thus can be measured. Second, critical realism is positioned between social constructionism and positivism, meaning that while it takes into account the subjective views of a person in regard to his/her social world, it also considers how the objective reality affects those views (Houston, 2001).

Thus while I investigate the attitudes and opinions of CSR practitioners in Mauritius and India in regards to mandatory CSR I also pay attention to how the regulation of CSR shapes and affects their attitudes and opinions.

According to Houston (2001), Bhaskar states that it is very important to avoid explaining people's behavior in a deterministic way and that we should rather pay particular attention to the reasons they give for their actions. Thus, this particular epistemology does not promote hard determinism, meaning that one can never fully predict the outcome of the interaction between different mechanisms. In Houston's (2001) opinion the real world is composed by heterogeneous systems that comprise of different mechanisms. Instead of arguing that the interaction between these different mechanisms produces a predictable outcome, it is more useful to try to understand and explain the tendencies produced by them (Houston, 2001). In relation to those, Bhaskar claims that people transform and are

being transformed by their social world rather than just being “at the mercy” of certain mechanisms (Houston, 2001).

Third, the epistemology of critical realism is based on the idea that what we experience are not the things directly but their image and the sensations in relation to those things. Saunders et al. (2012) argue that there are two steps in experiencing the world. First we experience the things themselves and the sensations those things convey, and second we experience a mental process that happens after the sensations meet our senses.

Applied to my paper, critical realism helped me remain open to the different opinions of the participants while at the same time critically assessing those to ensure that I always have the larger picture into my attention. As Houston (2001) argues, critical realism takes into consideration that the perception of people can be distorted for the simple reason that one cannot possess at any time a fully accurate picture of the reality and that includes the researcher as well.

Fourth, other philosophies such as social constructionism or positivism are not suitable for my research for they take into account only half of the truth, focusing entirely on either the subjective or the objective reality.

Fifth, the social world is constantly changing and this is very much in line with the purpose of business and management research, which is to understand why certain phenomena occur in order to recommend change (Saunders et al., 2012). And for that purpose we have to look beyond what we normally see.

### **2.3. Research design**

According to Saunders et al. (2012) the research design is a general plan to follow in order to answer the research questions.

Thus in order to achieve that I decided to use as research strategy the multiple case study approach. This strategy is useful to explore a contemporary topic or phenomenon within its real-life context (Yin, 2009) and to answer questions such as *what*, *how* and *why* (Saunders et al., 2012). Thus both the phenomenon and the context are given high attention in this research strategy.

The nature of my research design is at same time exploratory, descriptive and explanatory. I attempt to explore and describe *what* is the relationship between CSR and leadership in the context of mandatory

versus voluntary CSR, and I explain *how* the cases of Mauritius and India help illuminate the relationship between leadership and CSR in these contexts. Given that these questions refer to complex issues I consider that other research strategies such as surveys or experiments could not have being appropriate.

Although I could have used a single case given the uniqueness of the Mauritian mandatory CSR regime, I decided to choose a multiple case study approach by including the Indian case of CSR as well. The purpose of this is to contrast two contexts that at first glance might appear similar, but which are different when analyzing them in detail. Thus while both countries have a mandatory CSR regime, there are important differences in terms of regulations, flexibility and approach. Moreover, using contrasting contexts is useful in attaining theoretical replication given that the reasons for different results are anticipatable (Yin, 2009, in Saunders et al., 2012).

### **2.3.1. Critique of the case study strategy**

There are several potential drawbacks of using the case study strategy in conducting research. Yin (2009) underlines three main pitfalls in this sense. Thus, in the first place the case study strategy might be considered as lacking rigor potentially due to allowing ambiguous evidence or biased views to influence the direction of the research. Secondly, case studies do not provide a strong basis for generalization. Thirdly, conducting this type of research usually requires significant amount of time and it generates massive documents. Yin (2009) suggests however that this third complaint is not necessarily right for that is more specific to the past or traditional ways of conducting research and less to our modern times.

To overcome these potential pitfalls I tried to my best ability to balance the views of various authors and interviewees in order to reduce the risk of bias and I used more than one case to increase the potential of generalizability.

### **2.4. Data type**

The data type used in this study is of qualitative nature. Qualitative data provides a deeper understanding of social phenomena than quantitative does (Silverman, 2000).

Moreover, since leadership is extremely sensitive to context and qualitative research has made a distinctive contribution to leadership studies in this sense (Bryman & Stephens, 1996) using this type

of data is both productive and appropriate for my study for I am analyzing the leadership dynamics in the context of mandatory versus voluntary CSR.

The primary data consists of five semi-structured interviews and one questionnaire with CSR practitioners. The secondary data comprises transcripts of relevant video debates, books, budget speeches, journals, articles, emails, companies' annual reports, blogs and websites.

## **2.5. Data collection**

The idea to conduct my research paper on the subject of corporate social responsibility came after a six weeks internship in the CSR Department of a major Mauritian company named Medine Ltd. Thus the starting point of my interviewing process was to collect information from my superior, the CSR and Communication Manager of Medine. Afterwards I carried out two more interviews with CSR practitioners from governmental institutions in order to gather more valuable insights into the local corporate social responsibility regime. Apart from these, I had several informal discussions with my Mauritian acquaintances and I collected secondary data from online sources in order to have a larger picture of the situation. I also used several academic papers on the topic of CSR in this country written by local authors.

After putting together the data obtained I began to search for other national contexts where CSR is mandatory in order to strengthen my argument. In this view I contacted a couple of Indian acquaintances from my professional network that put me in touch with three large corporations with longstanding CSR tradition. Given the time and travel constraints I was not able to conduct face-to-face interviews in India as well and thus I carried them out via Skype<sup>3</sup>. A number of two participants were interviewed in this manner while a third CSR practitioner was contacted via email and questions and answers were sent in a written form.

All interviews were recorded and fully transcribed by me (see Appendix D). Thus I remained faithful to the views and opinions of interviewees and I ensured that data is presented as spoken and not as remembered.

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<sup>3</sup> Chat software used for video and audio calls.

In addition to carrying out interviews with the Indian participants I collected valuable information from companies' websites, annual reports, mission statements, local academic articles, media, debates on the subject of mandatory CSR, etc.

Apart from the interviews, which were carried in a two to three weeks framework in each country, the secondary data was collected continuously throughout the thesis in accordance with my critical realist philosophy of science, which requires multiple and complex sources of evidence.

## **2.6. Participant selection**

When selecting the participants of my study I considered several criteria. First, they had to be actively and directly involved in the CSR game in order to provide me with meaningful insights about the current mandatory CSR framework. Second, they had to have vast experience in this field, preferably gained before and after the introduction of the mandatory CSR regulation in order for me to assess the main changes this particular framework brought to the practice of corporate social responsibility. Third, I sought to reach mostly individuals that occupy or have occupied leading positions in CSR for they are the first ones to experience and address the changes occurred in the CSR regulation. Fourth, the potential participants had to represent corporate actors but also governmental institutions in order to have arguments from both sides and minimize the risk of bias.

In regards to this last point, I applied this criterion only in the case of Mauritius for it was my focal case. As it concerns the case of India I have listened to a number of online debates on the subject of mandatory CSR where the Indian Minister of Corporate Affairs, Mr. Sachin Pilot, presented the arguments behind the CSR regulation and the practicalities of its implementation.

A complete list of the interviewees, their position and expertise in the CSR field can be found in chapter 4 – Case presentations, in the sub-chapters 4.1 CSR in Mauritius, and 4.2 CSR in India. See also Appendix C – Example of an email sent to selected Indian participants.

## **2.7. Interview approach**

All the interviews carried out on a face-to-face basis or via Skype are semi-structured interviews. Several key questions remained unchanged from one participant to another and these were discussed beforehand with my supervisor (see Appendix B: Sample of questions used for interviews).



However a few questions were added along the way for the interviewees brought into discussion interesting and relevant ideas that needed further explanation. Also, since I interviewed CSR practitioners from two different areas (corporate and governmental) I tailored the questions to suit their working domain and expertise.

Throughout the process I kept in mind the cross-cultural dimension of the interviewing process. According to Kvale & Brinkmann (2009) the linguistic translation is an important factor in the data accuracy. From this point of view I did not encounter issues because the interviewing language was English and in both cases, Mauritius and India, this is among the official languages of the country. Thus language barriers were reduced and participants felt at ease to express their personal opinions on the subject.

All participants accepted to be recorded and except for one of them who requested to remain anonymous, they did not express any concerns with regards to the confidentiality of their name or position.

When conducting the interviews I also had in mind several quality criteria as per Kvale and Brinkmann's (2009) recommendations. First, my questions were shorter than the answers received. Nearly all participants provided elaborated answers and brought to the table additional valuable information. Second, I tried to my best ability to follow up and clarify the meanings and ideas participants provided. This served me well in verifying my own understanding of interviewees' answers and in receiving additional details.

In terms of practical details, the length of the interviews varied from half an hour to over one hour. Those carried on a face-to-face basis were conducted in either formal - such as personal office - or informal places - such as participants' own home. In the case of the interviews carried via Skype, the interviewees were located either at their work or their home. I noticed a higher tendency to elaborate on the answers when interviewees were in their home in the case of Mauritian ones, but no difference was observed in the case of the Indian participants regardless of their location at the moment of interview.

### **2.7.1. Strengths and weaknesses of interviews**

As with any source of evidence the interviews present several strengths and weaknesses. In terms of strengths, interviews are considered to be focusing directly on the case study topic and are very insightful in the sense that they provide perceived causal inferences and explanations about the phenomenon investigated (Yin, 2009).

In terms of weaknesses, both the interviewer and the interviewee can be a source of these. On one hand the interviewer may lead the interviewee to provide biased answers by poorly articulating the questions and on the other hand, the interviewee may convey the kind of information the interviewer would like to hear, and provide inaccurate answers due to poor recall (Yin, 2009).

In order to overcome these potential problems, I tried to my best ability to formulate clear and impartial questions and I encouraged respondents to express and share their own views and experiences in connection to CSR and leadership.

### **2.8. Data analysis**

According to Kvale & Brinkmann (2009) the analysis process of interviews should be continuous and start at the very moment of conducting them and not after they are transcribed. Thus, meaning and understanding are negotiated continuously between interviewer and interviewee in order to clarify any contradiction in responses (Kvale & Brinkmann, 2009).

During the interviews that I carried out I tried to follow Kvale and Brinkmann's advice and I asked the participants additional questions that helped me clarify the meanings they provided. This has also helped me in developing further important questions to follow new and interesting ideas the interviewees expressed spontaneously.

Once the interviews were conducted I listened to the recordings several times and then I transcribed them. This resulted in over sixty pages of transcripts (see Appendix D – Interview transcripts) which were then individually analyzed further. At this point, the purpose was to deepen and enrich the meaning of the ideas the participants expressed while at the same time finding out how to connect their answers with what I wanted to know about the topic of mandatory CSR and leadership in their countries. In other words, I used the research questions as a guide throughout the process of data analysis.

The next step was to break down the text into smaller chunks and open code them in order to identify the categories or themes emerging from the data. In performing this step I tried to my best ability to remain true to the views of the participants and codes and themes were constantly compared to the original text. When organizing the codes into themes I looked for contradictions, inconsistencies and consistencies in the responses of interviewees. This step resulted in over one hundred codes that were further organized in several themes. In order to reduce the number of themes into few main ones I reflected back on my literature review section and I chose only those ones that were intersecting the theory and that had rich data supporting them. Thus I have narrowed it down to three main categories:

- 1) the role of leadership in CSR
- 2) CSR requires leadership
- 3) mandatory vs. voluntary CSR practice

For each of these categories I selected the most relevant citations which were then organized in sub-themes. Thus each theme has a number of relevant sub-themes that are presented and discussed in detail in Chapter 5 – Empirical findings and analysis.

I end this section by expressing Yin's (2009) claim that analyzing case study evidence is a particularly difficult task to complete for unlike other research strategies, the case study does not have a well defined set of techniques to analyze the data collected. Thus a rather general approach is employed guided by the research questions which indicates the researcher what to analyze and why (Yin, 2009).

## **2.9. Validity and reliability**

The concept of validity refers to the extent to which a statement reflects the truth (Kvale & Brinkmann, 2009). To ensure a higher level of validity of this paper's findings I used several methods.

First, I used multiple sources of evidence or the so-called triangulation method. Thus both primary and secondary data in the form of interviews, companies' websites, annual reports, mission statements, local academic articles, media, and debates on the subject of mandatory CSR were used.

Second, I employed the comparative method, which according to Silverman (2000) says that the researcher should use another case to test and challenge their initial hypothesis. For this purpose I discussed the case of CSR in India in contrast to the mandatory CSR in Mauritius.

Third, I have tried to find multiple explanations and interpretations to observed phenomena in order to avoid jumping to easy conclusions. For example when a corporate actor from Mauritius claimed that in a tax context we cannot talk about leadership I questioned whether this is a valid statement or not and I looked for alternative perspectives by asking other CSR practitioners their opinion on this.

Fourth, as Kvale & Brinkmann (2009) suggest, I attempted to address the issue of validity at all stages of my research from designing to interviewing, transcribing, analyzing, and reporting.

Despite my good intentions I recognize that a certain degree of bias and personal interpretation can occur and it is wise to be aware of this throughout the process.

In terms of reliability of this thesis, I wish to underline several key aspects.

First, since reliability refers to whether or not a study's findings could be reproducible by other researchers at other times (Kvale & Brinkmann, 2009), I argue that my findings are in connection with my research questions and study objectives. Thus another researcher with different objectives can derive different outcomes from the same data (Saunders et al., 2012).

Second, as it is the case of validity, the reliability aspect should be addressed throughout the entire research at different stages (Kvale & Brinkmann, 2009). For instance, at the interviewing level it may be that another researcher investigating same topic might formulate the questions or ask them differently. Consequently this can lead to other results than what I have obtained. In regards to this argument, Kvale & Brinkmann (2009) state that while ensuring reliability is desirable in order to counteract high subjectivity, too much emphasis on reliability can also counteract creativity and variability. For the reader to assess to what extent my findings are reliable I enclose a CD with the full transcripts of the interviews conducted, the completed questionnaire received from one interviewee and the analysis chart comprising the themes and codes used.

Finally, after the validity and reliability aspects have been discussed a third concern, that of generalizability, must be addressed.

The extent to which my findings can be generalizable is connected to the research strategy employed and I have addressed this aspect in an earlier section, 2.3.1. Critique of the case study strategy.

Moreover, there are just a handful of mandatory CSR cases across the globe<sup>4</sup> and each of them has its specific underpinnings and thus they represent unique cases. In this view, generalization is possible not in terms of populations or universes, but in terms of theoretical propositions (Yin, 2009). I can then argue that while leadership might play a similar role in the promotion and practice of CSR across the globe, the extent to which corporate actors are able to exercise leadership in CSR depends on how strictly the latter is regulated in different national contexts. In this line of argument, opposing the case of Mauritius, with a rigid CSR regulation, to that of India, with a more flexible approach, I manage to increase the likelihood of generalizability of my findings across other countries where mandatory CSR is present.

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<sup>4</sup> Apart from Mauritius and India, mandatory CSR is present in at least two more countries such as Nigeria and Indonesia since 2007.

### **3. Literature review**

In this thesis I argue that efforts to make CSR mandatory through rigid regulation end up constraining the ability of corporate actors to exercise leadership in the CSR arena. As I will discuss in detail, this paper takes a leadership as process perspective and, therefore, concentrates on how leaders get things done that makes them leaders in CSR.

The following five sections provide the theoretical framework of this paper.

In the first section, I discuss the challenge and importance of addressing the intersection of corporate social responsibility and leadership.

In the second section, I define CSR for it is an important concept to the thesis as it deals with the leadership and CSR nexus. I then place that definition in the context of the debate over the mandatory versus voluntary nature of CSR, and in the context of Matten & Moon's conceptual frameworks of implicit and explicit CSR. Next, I present their perspective on the future of corporate social responsibility and I relate that to Visser's interesting proposal for a new model of CSR.

In the third section, I introduce the concepts of wicked and tame problems of Webber and Rittel, and I explain why CSR is a wicked problem and why it requires leadership and not management only.

In the fourth section, I present the definition of leadership this thesis adopts and I enquire into the nature of CSR leadership. Next I explain how leadership can be practiced in CSR and for that purpose I draw on Strand's five steps guide.

In the fifth section, I introduce the compliance theory of Etzioni and I discuss how that relates to the mandatory CSR framework. Further, I show how mandating CSR can shift corporate social responsibility from the realm of leadership to that of management and I underline the danger in doing so.

Finally, in the sixth part of this literature review, I address the relationship between leadership, values and compliance. I define the concept of values and I emphasize its significance for the practice of leadership. Further, I draw on the role of leadership in promoting ethical organizations, and on the importance of going beyond mere compliance.

### **3.1. The intersection of CSR and leadership**

*“There is obviously already a wealth of literature on leadership, and there is a good deal of literature, both conceptual and research-based, on corporate social responsibility. But we know relatively less about the intersection of the two...”*(Van Velsor, 2009, p. 3).

Approaching the intersection of leadership and CSR is difficult because both CSR and leadership are broad, very complex and hard to define concepts (Strand, 2011). This is best expressed, on one hand, by Bass’s observation that “there are about as many different definitions of leadership as there are persons who have attempted to define the concept” (1990, p. 11) and, on the other hand, by Matten & Moon that simply put it “defining CSR is not easy” (2008, p. 405).

Furthermore, Schwartz & Carroll (2008) addressed the confusion between corporate social responsibility, business ethics, stakeholder management, sustainability, and corporate citizenship, suggesting that the lack of an “all-embracing definition of CSR and subsequent diversity and overlap in terminology, definitions and conceptual models hampers academic debate and ongoing research” (Gobbels, 2002, as cited in Schwartz, 2008, p. 151). Thus, “research conducted using terminology other than “leadership” and “CSR” can cause challenges in relating the relevance of the research and, moreover, some pertinent research may not be readily identified. These challenges are not, however, unique to leadership and CSR as the bringing together of any two major fields can be expected to present related challenges” (Strand, 2011).

#### **The importance of studying the intersection of CSR and leadership**

In today’s society there is a growing interest for corporate leaders who demonstrate both leadership that goes beyond preventing their corporations from front page scandals (Strand, 2011) and also a commitment to CSR through “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams & Siegel, 2001, in Strand, 2011).

Furthermore, leadership is considered to be the critical success factor for CSR within an organization for it secures the commitment of management and develops a system of incentives to reward leaders who develop and push for the adoption of sustainability practices at all levels (Szekely & Knirsch, 2005). It always takes an active individual that is both a good leader and a good manager to transform a company into a sustainable and socially responsible enterprise (Szekely & Knirsch, 2005).

Despite the crucial importance of leadership for CSR, the relationship between the two is not a hot topic among researchers as explained in the first lines of this paper. Waldman (2008) argues that the lack of attention to the nature of the relationship between CSR and leadership is unfortunate because a firm's decision to engage in social responsibility should be viewed as a strategic choice.

Contrary to this view, "decisions regarding CSR activities are made by managers and stem from their mental models regarding their sense of who they are in the world" (Basu & Palazzo, 2008, p. 124) and from "their own perceptions of what they think is important or their own moral values"(Waldman, 2008, p. 118).

At same time, expecting CEOs and other top-level managers to address multiple objectives, and not solely focusing on profit maximization, is simply asking for trouble (Waldman & Siegel, 2008). According to Waldman and Siegel (2008) CSR should not be at the expense of profits, and the truly socially responsible leader should address only those CSR-related issues when such actions simultaneously enhance profitability.

Dealing with such issues is not always an easy thing to do when the financial resources of the company are involved. This is very well emphasized by Milton Friedman's (1980) approach of the four ways of spending money: 1) your own money on yourself, 2) your own money on someone else, 3) someone else's money on yourself, 4) someone else's money on still another person (see Appendix A). The later involves paying for someone else's lunch out of an expense account and is characterized by little incentive either to economize or to try to obtain the best value in exchange for the money spent. However if you also have lunch with the other person, then a strong incentive to get the best value is observed (Friedman, 1980).

CSR goes in the fourth case, involving the use of firm's resources to advance societal interests. Friedman (1980) points out that "only human kindness, not the much stronger and more dependable spur of self-interest, assures that they will spend the money in the way most beneficial to the recipients"(p. 117). Can it, therefore, be said that CSR depends solely on managers' good hearts? Does recognizing the strategic importance of CSR for companies change the way this is approached by managers?



If we assume that CSR and profit making correspond to substantive rationality<sup>5</sup> and respectively to formal rationality<sup>6</sup> of Weber, we might have a problem reconciling the two. “The antagonism between formal and substantive rationality may thus be interpreted as a tension between conflicting values: between calculability, efficiency and impersonality on the one hand and fraternity, equality and caritas on the other” (Brubaker, 1984, p. 41). Weber claims that the modern society is characterized by a strong formal rationality where everything can translate into material benefits and where the moral values are left aside. This extreme focus on material benefits, as opposed to the ethical one, is unprecedented: “never, in pre-modern times, had social and economic life been regulated by mechanism so relentlessly indifferent to substantive ends and values: never before had means and procedures become so completely autonomous, so thoroughly divorced from ends” (Brubaker, 1984, p. 44).

With these broad considerations in mind about the challenge and importance of approaching the intersection of leadership and CSR, I now take a step further and define the two concepts for a better understanding of their relationship’s dynamics.

### **3.2. What is CSR?**

The concept of CSR varies in terms of its underlying meanings and the issues to which it is addressed across the world (Matten & Moon, 2008). It is, therefore, a difficult concept to pin down (Moon, 2004, in Broomhill, 2007) as I already mentioned above. The overlap with a series of other concepts such as corporate citizenship, sustainable business, environmental responsibility, the triple bottom line, social and environmental accountability, business ethics and corporate accountability, and its high dependence on context makes CSR a contested concept (Broomhill, 2007).

There are three main schools of thought and practice of CSR, namely: the neoliberal, neo-Keynesian, and the radical political economy (Broomhill, 2007). Each of these schools has its own way of defining CSR. For instance, the neoliberals see it as the adoption of a set of voluntary policies, codes or guidelines, initiated and driven by the corporation (Broomhill, 2007).

The neo-Keynesian perspective is somewhat similar to the neoliberal one, CSR being defined as an approach adopted on a voluntary basis, without external regulation by either stakeholders or the state

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<sup>5</sup> Type of rationality that refers to the value of ends or results. It exists as a manifestation of individuals’ inherent capacity for value-rational action (Karlberg, 1980).

<sup>6</sup> Type of rationality that refers to the calculability of means and procedures (Brubaker, 1984).

(Broomhill, 2007). In comparison with the previous school of thought, the neo-Keynesians introduce the stakeholders and the state in their definition, thus recognizing the active roles these could play in the CSR game (Broomhill, 2007).

The third school, radical political economy, is far more critical around CSR than the first two are. The activists of this school openly reject the voluntary approach to CSR and advocate an alternative strategy described as “corporate accountability” (Broomhill, 2007). Corporate accountability means *holding corporations accountable and responsible for the social and environmental impacts of their decisions and practices. This includes the impacts, both direct and indirect, on human rights, labour rights, the broader community and the environment* (Australian Government, Parliamentary Joint Committee on Corporations and Financial Services, 2006, as cited in Broomhill, 2007, p. 9).

Although this latest school brings a new and different perspective on CSR, the literature is dominated by the view that corporate social responsibility is voluntarily adopted and implemented. The existing research on CSR does not say much about mandatory corporate social responsibility and even fewer papers approach the mandatory-voluntary CSR antagonism. A great deal of CSR literature simply takes it for granted that corporate social responsibility strategies of any kind will be voluntary (Broomhill, 2007).

Since my interest lies particularly in mandatory CSR and its impact on corporate actors’ leadership I now move closer to this concept and I discuss its particularities in comparison to the much-debated voluntary CSR.

### **3.3. Explicit and implicit CSR vs. voluntary and mandatory CSR**

Before moving on to discuss how mandatory CSR relates to leadership it is important to explain two of the conceptual frameworks employed by this paper, namely: explicit/implicit CSR and voluntary/mandatory CSR.

As I will explain further in this section, explicit CSR translates into voluntary adoption and implementation of corporate social responsibility. Therefore, I can argue that explicit and voluntary CSR is one and the same thing and I will use them as synonyms across the paper.

Implicit CSR, on the other hand, although contains elements of a mandatory nature, it cannot be referred to as mandatory CSR. This is due to its dual nature: customary and mandatory. The customary aspects refer to customs or traditions rather than to written law or contracts (The Free Dictionary,

2013), therefore, referring to implicit CSR, as mandatory CSR would not be entirely correct. Consequently I will maintain this distinction throughout my work.

Having clarified these aspects I present further the advantages of using the implicit/explicit CSR conceptual framework of Matten & Moon (2008).

### **3.3.1. Explicit and implicit CSR**

Matten and Moon (2008) use the terms ‘explicit CSR’ to describe the practice of corporate social responsibility of those companies that use the language of CSR in communicating their policies and practices to their stakeholders, and “implicit CSR” when companies practice CSR without referring to those practices overtly or explicitly in their communication with stakeholders. Thus, the authors differentiate the two forms of CSR based on the language corporations use to address their relations to society, and on the intent.

Dividing global CSR in two categories, explicit and implicit, has several benefits. First, it helps clarify what CSR consists of and what are its specific institutional underpinnings. Second, it helps understand the national context in which organizations operate, what are the local corporate social responsibility requirements and how this can influence the CSR agenda (Matten & Moon, 2008).

In addition, for the cases of India and Mauritius, using this conceptual framework helps me differentiate between the forms of CSR existing in the two countries, and also position Mauritian and Indian CSR in relation to CSR in rest of the world. Due to its focus on the national business systems it also provides a clear picture of the social/economic context of CSR in the chosen countries, and it helps explain why there are differences in CSR across the world.

Explicit CSR, according to Matten & Moon (2008), refers to corporate policies that assume and articulate responsibility for some societal interests. The character of these policies is voluntary and consists of programs and strategies by organizations that combine social and business value and address issues perceived as being part of the social responsibility of the company (Matten & Moon, 2008). Furthermore, explicit CSR may be responsive to stakeholder pressure, it may involve partnerships with governmental and non-governmental organizations, and it may even involve alliances with other corporations (Matten & Moon, 2008).

*Explicit CSR rests on corporate discretion, rather than reflecting either governmental authority or broader formal or informal institutions* (Matten & Moon, 2008, p. 409).

In contrast, implicit CSR consists of values, norms, and rules that result in mandatory and customary requirements for corporations to address stakeholder issues and that define proper obligations of corporate actors in collective rather than individual terms (Matten & Moon, 2008).

The authors observed that regardless of the form of CSR (explicit or implicit) the practices are similar, but the intent is different: voluntary and deliberate in the case of explicit CSR, and as a reaction to company's institutional environment in the case of implicit CSR (Matten & Moon, 2008).

Angus-Leppan, Metcalf & Benn (2010) analyzed the implications of the explicit and implicit CSR framework for the leadership styles in a major Australian banking institution. Their findings indicate that explicit CSR is linked to an autocratic leadership style and implicit CSR is more closely aligned with emergent and authentic styles (Angus-Leppan, Metcalf & Benn, 2010). One of the key points of their conclusions is that it is very difficult to categorize a complex concept such as CSR according to specific frameworks because the two types of CSR do not exist in pure forms and elements of both overlap within organizations. This later idea is also recognized by Matten and Moon (2008) as a limitation of their framework. In the following lines, I draw on this aspect in more detail.

#### **3.3.1.1. Limitations of the explicit/implicit CSR framework**

National business systems vary in terms of political, financial, labor, and cultural elements. Thus, the authors distinguish between the U.S. and the European national business systems and claim that explicit CSR is specific to the U.S. and implicit CSR to Europe.

However Matten & Moon (2008) underline that, in practice, the two forms are not completely separated from each other and they do not exist in pure forms. Elements of implicit CSR are found in the U.S. in legal requirements for worker's rights, the role of trade unions, environmental legislation, etc. (Matten & Moon, 2008). Similarly, cases of philanthropy and industrial paternalism (specific to explicit CSR) are found in Europe's CSR throughout time (Matten & Moon, 2008).

In addition, even when referring solely to Europe there is a variance across countries. One example is represented by U.K, which had prolonged and stronger manifestations of explicit CSR alongside implicit elements (Matten & Moon, 2008).

Another limitation of the proposed model is that it places greater emphasis on how companies respond to their institutional environment and less attention is given to the active and even political role of corporations in shaping it (Matten & Moon, 2008). The nature and balance of explicit and implicit CSR results from both the institutional features of national business systems and from the roles of companies in shaping these (Matten & Moon, 2008).

Having made these clarifications I explore further which of the two forms of corporate social responsibility is more desirable and which direction the world is going to in this regard.

### **3.3.2. Mandatory vs. voluntary CSR**

As explained at the beginning of this section, explicit CSR is of a voluntary nature and I will use the terms explicit and voluntary CSR as synonyms across my paper while I will maintain the distinction between implicit CSR and mandatory CSR.

The ‘voluntary versus mandatory approach to CSR’ represents one of the core issues in the debate about improving corporate accountability (Gonzalez & Martinez, 2004). The two opponents of this debate are the advocates of the ‘**society case**’ versus ‘**business case**’ (Gonzalez & Martinez, 2004).

On one hand, the advocates of the ‘**society case**’ claim that several problems arise from the voluntary approach to CSR (Gonzalez & Martinez, 2004). The main three issues are as follows: the proliferation of standards and the differences among codes, the weak monitoring mechanisms or even the complete lack of those, and the weak or negligible enforcement mechanisms (Gonzalez & Martinez, 2004).

**Proliferation of standards and the differences among codes** refers to codes not being equally demanding even though they cover a variety of problems. Without a common global framework and given the limitations of voluntary standards, Leighton et al. (2002) argue that the government intervention is more appropriate (Gonzalez & Martinez, 2004).

**Weak or complete lack of monitoring mechanisms** refers to the conflict of interests in having companies tracking their own CSR outcomes given the lack of external monitoring mechanism (Gonzalez & Martinez, 2004). As Gleckman & Krut (1994, p. 8) put it *potential polluters cannot make “laws” and order “sanctions” that are against self-interest* (Richter, 2001, in Gonzalez & Martinez, 2004).

**Weak or negligible enforcement mechanisms** relate to most standards not containing penalties for misconduct or being too vague in this regard (Gonzalez & Martinez, 2004). Furthermore, the authors suggest that most standards do not allow the general public to be informed about the true CSR results.

Although several issues remain to be addressed, Gonzalez & Martinez (2004) conclude that there is a strong case in favor of mandatory CSR.

On the other hand, despite these arguments, the ‘**business case**’ advocates claim that companies cannot comply with the mandatory CSR in the short term. In addition, the stringent regulation would stifle innovation and the cost of implementing this regulation outweighs the benefits (Doane, 2004, in Gonzalez & Martinez, 2004).

The business community claims that *regulating CSR is either undesirable or dangerous* (Broomhill, 2007, p. 17) and mandating CSR reporting would render it meaningless (Fox, 2006, in Broomhill, 2007). In the same view, the Australian Parliamentary Joint Committee on Corporations and Financial Services argues that regulating director’s duties and the sustainability reporting is not appropriate. Furthermore, the committee expects corporations to increasingly engage in CSR activities in order to obviate any future moves towards a mandatory approach (Australian Government, 2006, in Broomhill, 2007).

Generally, the proponents of the voluntary approach, also labeled the ‘business case’ for CSR, argue that corporate social responsibility can benefit companies (Gonzalez & Martinez, 2004). The authors state that the basis for this argument is the empirical evidence about the positive influence of SEE (social/environmental/ethical) performance on the financial performance.

In addition, the advocates of this approach support self-regulation through codes of conduct and reject the intervention of governments in fostering CSR (Gonzalez & Martinez, 2004).

Referring to India’s recent move towards mandatory CSR, Visser (2013) talks about a ‘giant leap backwards.’ He argues that

*At a time when most of the world has moved beyond defensive and philanthropic modes of CSR, toward promotional, strategic and transformative approaches, India’s policy virtually guarantees that its companies will remain stuck in an out-dated charitable mind set* (Visser, 2013).

He proposes a more balanced option and suggests that governments should not regulate the sustainable business per se, but the issues that sustainable business is attempting to address (e.g. biodiversity loss, labor conditions, climate change, transparency). Regulating CSR directly, it is rather likely to create bureaucracy, stifle innovation and invite corruption (Visser, 2013).

In line with Visser's (2013) view, the UN Global Compact underlines the role that voluntary initiatives play in CSR. These are believed to be a powerful complement to effective regulation rather than its substitute (Latham & Watkins LLP, 2009). As the regulation is often silent as to how it should be implemented, voluntary initiatives can help filling the regulatory silence (Latham & Watkins LLP, 2009). Furthermore, *voluntary initiatives have the unique potential to become corporate drivers* (Latham & Watkins LLP, 2009, p. 1) and can lead companies to go beyond standards or rules and achieve more than the law requires (Latham & Watkins LLP, 2009). Voluntary initiatives can advance the 21st century corporate sustainability agenda via three main ways:

1. **instilling a culture of corporate leadership and innovation in the pursuit of responsible behavior.** The ways to achieve this are: encouraging business to take the lead in promoting corporate responsibility and helping bridge the regulatory gaps by shaping corporate drivers embedding universal principles of ethical globalization in markets and economies, fostering competition among organizations to be better corporate citizens, providing a forum for cross-spectrum stakeholder collaboration, (Latham & Watkins LLP, 2009)
2. **moving corporate responsibility from concept to fact** by facilitating the emergence of stakeholder consensus, demonstrating how business can implement sustainable corporate practices, providing flexibility to develop well-tailored responsible practices, limiting the risks and costs of corporate responsibility, helping to identify material opportunities and drive long-term business success, and by leading to the development of more robust practices (Latham & Watkins LLP, 2009).
3. **giving voice to the people's concerns**, thus securing a positive place for business in society. This can be done through helping companies build brand equity, allowing companies to foster relationships with local communities and providing a forum for companies to inspire their employees (Latham & Watkins LLP, 2009).

As these authors demonstrate there is no consensus on whether CSR should be mandatory or voluntary and advocates of both side present bold arguments to support their position. However, as I will present further, there is a global move towards voluntary CSR as more and more companies recognize the strategic value of engaging with corporate social responsibility.

### **3.4. The future evolution of CSR**

Matten & Moon (2008) argue that explicit (voluntary) CSR is specific to USA and implicit CSR is characteristic to Europe. However, they note that explicit CSR has become a phenomenon that is spreading globally as a new management idea. In Europe this has been made possible through a series of changes occurred in the cultural, political, financial and labor systems (Matten & Moon, 2008).

The cultural systems, for instance, have been affected by the increased awareness of the impact of European multinational corporations on the developing world and the growing societal expectations in terms of health, safety, environment, and human rights (Matten & Moon, 2008).

In regard to the financial system, it is worth mentioning the increasingly use of stock markets as a source of capital for the European companies. Access to capital became a key driver of CSR in Europe given that social and environmental performances of companies became important criteria for investment (Williams & Conley, 2005, in Matten & Moon, 2008).

Turning to labor systems, the drivers for an explicit CSR have their roots in the deregulation of labor markets and the weakening position of trade unions and industry associations (Matten & Moon, 2008).

These changes affected the national business systems and that is how explicit CSR gained momentum in this side of the world, as well. Moreover, the institutional forces explaining the movement towards this latest concept are considered global phenomena and, therefore, it is expected to witness the rise of explicit CSR in more countries with implicit CSR tradition (Matten & Moon, 2008). To support this, the authors refer to other national business systems where there is clear evidence of a shift towards explicit CSR. Countries like Japan and Taiwan, although having a long tradition of implicit corporate social responsibility, are gradually embracing the voluntary (explicit) form of this concept (Matten & Moon, 2008).

A notably interesting point for my paper is the remark on India's shift from one form of CSR to another. It appears that the companies with long implicit CSR tradition, manifested mainly through



philanthropy, are the ones that lead the way in explicit CSR (Matten & Moon, 2008). Implicit CSR in this country, similar to Japan and Taiwan, has a long history and the adoption of more explicit forms of this concept started back in 1960s with the growth of nonfamily companies and continued with the recent economic liberalization and privatization, corroborated with new societal expectations of businesses (Matten & Moon, 2008). I will discuss the interesting case of India in another section of this paper later on.

In the global South, characterized by weak institutions, poor governance and delegation of responsibility towards private actors (mainly businesses), there is also growing evidence of a rise of voluntary CSR (Visser et al., 2005; Birch & Moon, 2007; Puppim de Oliveira & Vargas, 2005; in Matten & Moon, 2008).

#### **3.4.1. Towards an explicit CSR 2.0 world**

Until present CSR has failed *to address the very issues it claims to be most concerned about* (Visser, 2010, p. 242). Although it has had many positive impacts on communities and environment so far, when assessing the success or failure of CSR one must look at the total impacts of business on society and the planet, which until date do not show a satisfactory picture (Visser, 2010). Visser (2010) argues that responsible for the current situation are the incremental, peripheral and uneconomic “curses” of CSR. Firstly, the incremental approach to CSR fails on speed and scale when it comes to addressing social, environmental and ethical challenges (Visser, 2010). Secondly, companies see CSR as being peripheral. A high importance is continuously given to short-term gains whereas CSR is in every way a long-term goal (Visser, 2010). Thirdly, the uneconomic “curse” refers to the much-debated question of whether or not it pays off doing good (Visser, 2010).

To endorse Visser’s point of view that these three “curses” are responsible for the failure of CSR I consider important presenting in more depth the way this concept has been approached until present.

When reviewing the relevant literature I came across three main perspectives on CSR: *1) undesirable given the profit imperative of the firm (e.g. Friedman); 2) a possible panacea for taming the negative externalities of business enterprise (e.g. Porter and Kramer); or 3) an ideological tool designed to cloak (or “greenwash”) an otherwise uncaring corporation in the garb of ethicality and environmental friendliness* (Fleming et al., 2013, p. 340).

The first way of looking at CSR is centered on the idea that corporate social responsibility is an impediment to the effective running of the business and is rather a government' or non-profit bodies' task (Fleming et al., 2013). The main advocate of this theory is Milton Friedman who states that *the manager is an agent of the individuals who own the corporate institution, and his primary responsibility is to them* (Friedman, 1970, p.33, as cited in Fleming et al., 2013, p. 341). He also talks about an “enlightened self-interest” as being most appropriate, particularly in a threatening climate of criticism and litigation (Fleming et al., 2013).

Given the rising concern for the impact of CSR on profits, a large number of researchers in the US tradition attempted to demonstrate how and why CSR can increase the profits, claiming that the two can coexist at times (Fleming et al., 2013).

The second way of approaching CSR is in line with the idea expressed above, namely that *social good and economic viability do not have to contradict with each other, and can be aligned within market economies if the right processes (and corporate cultures) are fostered* (Porter and Kramer, 2011, in Fleming et al., 2013, p. 342). Same authors suggest that *the purpose of the corporation must be redefined as creating shared value, not just profit per se* (Fleming et al., 2013, p. 342). However, Fleming et al. argue that although the idea of “shared value” is great in itself, some skepticism about how this works in practice is “healthy.”

The third perspective on CSR as *an ideological tool designed to cloak (or “green wash”) an otherwise uncaring corporation in the garb of ethicality and environmental friendliness* (Fleming et al., 2013, p. 340), is currently gaining increasing interest from researchers (Fleming et al., 2013, p. 342). Fleming et al. (2013) argue that *CSR practice is somehow complicit with an unsustainable capitalist system* (p. 342). The authors suggest that, in this case, CSR functions as a “smokescreen that buys time” and prevents governments from intervening. While large corporations have pursued CSR initiatives for many years, the outcome of these initiatives is not substantial (Fleming et al., 2013). Moreover, they claim that the common denominators of all CSR efforts remain corruption, crime, cutting corners and suppressing the interests of the less powerful ones.

With these facts in mind, I can only agree with Visser's (2010) argument that CSR, in the form we've seen it until present, represents *an outdated, outmoded artifact that was once useful, but the time for*

which has past (Visser, 2010, p. 243). He proposes therefore a new model, CSR 2.0, which is based on five principles:

1. **Creativity** – this draws on the natural ability of businesses to innovate and be creative. In the new CSR model, this ability is used to solve the social and environmental problems of the world through products and services that serve higher purposes.
2. **Scalability** - refers to the possibility of extending the great outcomes of a responsible and sustainable project to a larger dimension in order to solve global issues.
3. **Responsiveness** - underlines the importance of companies to go further than just responding to social or environmental problems when they occur. Anticipating those problems and asking questions about whether they are part of the problem or the solution is a requirement of the new model of CSR (Visser, 2010).
4. **Glocality** - refers to the idea that local problems require an understanding of local contexts and the application of tailored solutions instead of universal ones.
5. **Circularity** - states that resources consumption and waste disposal should be approached more responsibly and more emphasis should be on products that don't just become waste after use, but transform into food and nutrients or raw materials for new products (Visser, 2010).

### **3.5. CSR – a wicked problem that requires leadership**

As explained in an earlier section, CSR is a difficult concept to pin down due to the overlap with a series of other concepts such as corporate citizenship, sustainable business, environmental responsibility, the triple bottom line, social and environmental accountability, business ethics and corporate accountability, and its high dependence on context (Broomhill, 2007). The broad range of issues CSR helps addressing makes things even more difficult. Aspects such as poverty alleviation, for example, represent themselves challenging tasks to deal with. As Webber & Rittel (1973) explain poverty is what they call a wicked problem because of the difficulty of eradicating it. When one is trying to find solutions and ask questions about poverty alleviation it is likely that he/she will end up in a myriad of paths leading in many directions. Is the lack of education and occupational skills the cause of poverty? If this were the case then the next task would be to identify where in the educational system the real issue lies and make improvements. But what exactly means improving the educational system? (Webber & Rittel, 1973) A series of additional questions follow up and the problem unfolds

continuously revealing more questions than answers (Webber & Rittel, 1973). This helps articulate that CSR is itself a wicked problem and not a tame one.

Tame problems are those problems that, although complex in nature, can be solved “through the application of established techniques and processes” (Grint, 2005, p.9). Because tame problems are likely to have occurred in the past as well, the degree of uncertainty is limited and, therefore, management can solve them by engaging the requisite process or standard procedures (Grint, 2010).

In contrast, a wicked problem is characterized by a high level of uncertainty rooted in the following aspects:

- **wicked problems cannot hold a definitive formulation** – the information required to better understand the issue at hand is dependable upon a person’s idea for solving it and the problem understanding and solving happen concomitantly (Rittel & Webber, 1973). The deeper one goes into searching for a solution the more questions arise and, therefore, resolving a wicked problem means having answers to a great deal of such questions (Rittel & Webber, 1973).

- **wicked problems have no stopping rule** – as Rittel & Webber (1973) put it, wicked problems are unlike a chess or mathematical problem where the problem-solver knew exactly when he reached the solution. These problems can be approached in many ways and there is always a better solution to them. Exhausting all possible options is time, money and patience consuming and usually the problem solver stops when a good enough, not the best solution, is reached (Rittel & Webber, 1973).

- **wicked problems have good-or-bad solutions instead of true-or-false ones.** Other parties cannot objectively assess the solution reached. Usually this is assessed as “satisfying”, “good enough”, “good” or “bad”, “better or worse” (Rittel & Webber, 1973)

- **there is no immediate and ultimate test of a wicked problem’s solution** – the outcome of implementing a certain solution cannot be fully assessed until “the waves of repercussions have completely run out” (Rittel & Webber, 1973, p. 163) and even then it is not possible to fully calculate the continuous impact this has on people;

- **trial and error approaches do not work with wicked problems because every attempt matters** - once implemented, the solution cannot be undone for the simple reason that, by the time one realizes the approach was not correct, it has already affected the lives of people (Rittel & Webber, 1973) ;

- **wicked problems have uncountable number of solutions and there is no such thing as prescriptions on what should be included or not in solving the problem**
- **every wicked problem is essentially unique** – although there are similarities between this type of problems, sometimes the particularities are of a great importance. Therefore, not knowing too early what solution to apply represents the art of dealing with such problems (Rittel & Webber, 1973)
- **a wicked problem can be, in fact, a symptom of another problem** – for instance the crimes happening on streets might be, in fact, the result of moral decay, permissiveness, deficient opportunity, wealth, poverty, etc. Thus one should reach to the core of problems as marginal improvement does not necessary mean overall improvement (Rittel & Webber, 1973);
- **the way one chooses to explain a wicked problem determines the nature of the problem's resolution.**

Given their characteristics, wicked problems have to be addressed by leadership and cannot be solved by management only (Grint, 2010). As mentioned above, management is used in situations with a low level of uncertainty and is essentially concerned with executing routines, control and maintaining organizational stability (Grint, 2005). In contrast leadership relates to direction setting, novelty, change, movement and persuasion (Grint, 2005). The nature of wicked problems is such that needs continuous asking of questions and that is characteristic to leadership (Grint, 2010).

Moreover, CSR requires the use of non-coercive influence and “soft power” which again are specific to leadership (Strand, 2013b). As Grint (2010) put it “you cannot force people to follow you in addressing a wicked problem because the nature of the problem demands that followers want to help” (p. 20). Cooperation represents a better approach to solving wicked problems related to CSR (Strand, 2013b).

In the same view, companies are encouraged to engage in partnerships with nongovernmental and governmental organizations to address social and environmental problems that require specific competences, which companies do not possess (Strand, 2013b).

The next section presents in greater detail what leadership stands for and how exactly it is used to address wicked problems like CSR.

### 3.6. What is leadership and how it helps address CSR

As mentioned in the first section of this literature review, “there are about as many different definitions of leadership as there are persons who have attempted to define the concept” (Bass, 1990, p. 11). In this line Grint (2005) identified four areas of disagreement in finding a universal definition, namely:

1. leadership as position – where leaders operate that makes them leaders?
2. leadership as person – who leaders are that makes them leaders?
3. leadership as result – what leaders achieve that makes them leaders?
4. leadership as process – how leaders get things done that makes them leaders?

However it is beyond the scope of this paper to discuss in detail all the above areas of disagreement. I choose to investigate leadership as process and I look at “how leaders get things done that makes them leaders” (Grint, 2005, p. 18). Looking at leadership from a process perspective is also motivated by Ciulla’s (2006) observation that there is some sort of resemblance between all leadership definitions. In most cases leadership is seen as “some kind of process, act or influence that in some way gets people to do something” (Ciulla, 2006, in Maak & Pless, 2006, p. 21).

In regard to CSR, focusing on the “how” question helps me explain better how leadership tackles corporate social responsibility issues and how certain companies become leaders in this field. The way corporations define leadership helps us understand how they work or fail, who is to reward or to punish (Grint, 2010).

My argument that mandatory CSR within a rigid regulatory framework reduces the potential and the incentives organizational actors have for taking a leading role in CSR is built on two similar observations identified in the literature. The first observation pertains to Burns (2003) who argued that:

*The key distinctive role of leadership at the outset is that leaders take the initiative. They address their creative insights to potential followers, seize their attention, spark further interaction. The first act is decisive because it breaks up a static situation and establishes a relationship. It is, in every sense, a creative act. (p. 172)*

The online Business Dictionary defines *creative* as a term used to describe originality or something that has not been previously considered or thought of, and *creativity* as a “mental characteristic that

allows a person to think outside of the box, which results in innovative or different approaches to a particular task.”

Burns’ (2003) observation is in line with Grint’s (2010) argument that wicked problems like CSR need leadership. Given that this kind of problems can be approached in many ways and there is always a better solution to them (Webber & Rittel, 1973), creativity can be an important factor in addressing wicked problems.

The second observation belongs to Guthey and Jackson (2011) who claim that:

*Charismatic leadership, servant leadership, quiet leadership, all of these approaches involve in some way or another the notion of taking initiative, inspiring commitment, mobilizing action, promoting legitimacy, or exerting influence. (p. 165)*

As the authors state “it would be foolish to argue that there are no constraints placed on leadership initiative, prerogatives and behaviors”(p.166). Regulations, laws, and procedures are among these constraints (Guthey & Jackson, 2011).

Both observations can be also traced in Strand’s (2011) guide in practicing leadership in CSR as presented below. He draws on the importance of asking questions - which in my opinion is equivalent to taking the initiative- on engaging with uncertainty, seizing the attention of key stakeholders and on creating further interaction by bringing those in the problem’s solution.

### **3.6.1 Five steps of practicing leadership in CSR**

The first step of practicing leadership in CSR, asking questions, requires caring enough (Strand, 2013b) and is a vital step in tackling the uncertainty that surrounds corporate social responsibility.

Asking questions on a continuous basis helps bridging the gap between organizations and stakeholders by becoming aware of the impact and potential impact corporations have on the outside world (Strand, 2011). As corporations expand more and more the physical distance between them and their stakeholders increases as well (Strand, 2013b). With the increasing distance comes a decreasing awareness for how companies impact the latter. Moreover, from unawareness may result actions with negative impacts or business opportunities might be missed (Strand, 2013b).

Strand (2013b) argues that companies often devote a great amount of time and efforts to “manufacture demand” for their products when, in fact, they should ask questions in order to identify the “real demand.” This is based on the idea that CSR issues might actually represent business opportunities that companies can take advantage of (Strand, 2013b).

The second step in practicing leadership in corporate social responsibility is raising awareness of the CSR issues with key stakeholders (Strand, 2013b). Once questions are asked and issues are identified leadership takes the role of the “change agent.” This step implies recognizing that sometimes the dimension and complex nature of wicked problems require multiple parties to join forces in solving them. Communicating the CSR issue to different parties is what helps raising awareness. Thus, communication becomes the most important tool of leadership in addressing CSR (Strand, 2013b).

Furthermore, the efficiency of communication depends greatly on the way CSR issues are framed (Strand, 2013b). Through “framing” leaders make sense of a certain situation and influence the way others react to it. In other words, leadership plays a dual role in sense-making: first, it helps extract appropriate cues and second, provides a crucial cue that acts as a reference point for others (Pye, 2005). Presenting a CSR issue as being too wicked or not important enough makes people avoid getting involved in finding solutions for it. Therefore, leadership must find the appropriate way in between these two extremes to appeal the interest of key parties (Strand, 2013b). As Strand (2013b) put it appropriately framing of CSR issues helps raising awareness with others and that represents a central step in practicing leadership in corporate social responsibility.

The third step in practicing leadership in CSR is to develop potential responses to CSR issues. As mentioned earlier the nature of wicked problems is such that there is no true or false solution to them, but rather good or bad, good enough, satisfying, better or worse. (Webber & Rittel, 1973). The task of leadership in this case is to engage with uncertainty and develop possible answers (Strand, 2013b). As Strand (2013b) points it out engaging with uncertainty requires humility to recognize that one does not possess all possible answers to a CSR problem.

Cooperation with key stakeholders, as mentioned in the previous step, remains paramount to ensuring that problems are looked at from many possible angles and many pertinent solutions are developed (Strand, 2013b).



Once a CSR issue is broken down to smaller bits it is the job of management to deal with it and colleagues across the organization can be involved in tackling these (Strand, 2013b).

The next step would be to appropriately implement the responses identified in the previous step. At this stage cooperation with the key stakeholders remains imperative because companies do not possess all required competences to tackle CSR problems (Strand, 2013b). Non-governmental and governmental organizations have specific capabilities and know-how, therefore, it is very important to join forces with them in solving wicked problems.

The role of leadership at this step is determining the appropriate mix of hard and soft power for the mobilization of support inside corporations. Hard power comprises both inducements and threats, while soft power relies on the ability to obtain certain outcomes by shaping the preferences of others without using threats or payment (Strand, 2013b). While soft power is earned through an effective framing of the CSR issues at hand, hard power is connected with management positions. The higher one's position in the hierarchy the greater the level of hard power (Strand, 2013b). However when managers need to persuade workers outside their direct line of reporting, soft power is used (Strand, 2013b).

The fifth and last step of practicing leadership in CSR is actually a continuous process of engaging with the CSR issue. Social and environmental problems evolve over time and the previous steps have to be repeated on a continuous basis (Strand, 2013b).

Considering these five steps in practicing leadership in CSR I enquire further whether this approach is different than practicing leadership in general and what is the nature of CSR leadership

### **3.6.2. The nature of CSR leadership**

An interesting question in relation to practicing leadership in CSR is raised by Visser (2011) who enquires into the nature of leadership required by CSR. In other words, is it CSR leadership simply "good leadership" (Strand, 2011)?

The type of leadership that CSR requires shares common elements with the Contingency/Interactionist school of leadership (Visser, 2011). The major theoretical presupposition of this school is that the

appropriate type of leadership depends on the environmental situation involved (Korman, 1973). In other words, the focus is on the interaction between the leader and his framing context (Visser, 2011).

Therefore, CSR leadership is a mix of individual leadership characteristics applied within a specific context (Visser, 2011). It is in fact the context itself that calls for particular types of leadership as the author states:

*“(...) CSR leadership is not a separate school of leadership, but rather a particular blend of individual leadership characteristics applied within a definitive context. Put another way, the context – comprising the sustainability challenges facing the world and our aspirations for a better future – calls for particular types of leadership”*(Visser, 2011, p. 2).

In addition to the common points with the Contingency/Interactionist school, CSR leadership focuses also on the actions of leaders in tackling corporate social responsibility issues. In this case

*A CSR leader is someone who inspires and supports action towards a better world.* (p. 2)

The leadership model that Visser (2011) proposes is based on three basic elements: context, characteristics and actions, as depicted in Figure 1.



**Figure 1: A basic Model of CSR leadership. Source: Visser (2011)**

**Context** - more and more businesses recognize the high importance of the sustainability setting and 93% of CEOs globally consider sustainability closely related to company's success in the future. By addressing issues like education, climate change, resource scarcity and health, companies strengthen their brand, trust and reputation (Accenture & UN Global Compact CEO Survey, 2010, in Visser, 2011).

According to Visser, the key **characteristics** of CSR leadership are systemic and interdisciplinary understanding, emotional intelligence and caring attitude, value orientation that shapes culture, compelling vision for making a difference, inclusive style that engenders trust, innovative approach, long term perspective.

These seven characteristics are among the most important ones in distinguishing the leadership approach employed by leaders in addressing CSR issues (Visser, 2011). CSR leadership results from the interaction between the individual leaders' characteristics and the social, environmental and economic context of the organization, and can only be seen and judged by the **actions** that leaders take (Visser, 2011). The actions have to be bold due to the scale and urgency of the CSR challenges.

Visser (2011) states that CSR leadership has to be bold and collaborative. Collaborative leadership means "leaders acting together at all levels of organization and society" (Visser, 2011, p. 9). The importance of collaboration is well articulated by Heenan & Bennis (1999):

*The shrewd leaders of the future are those who recognize the significance of creating alliances with others whose fates are correlated with their own* (Heenan & Bennis, 1999, as cited in Jackson & Parry, 2008, p. 86).s

Applied to the case of CSR this translates in collaboration with key stakeholders (community, nongovernmental and governmental organizations) and plays an important role in ensuring that problems are looked at from many possible angles and many pertinent solutions are developed (Strand, 2013b). When people are actively involved in problem solving and action planning they show a greater commitment in implementing the proposed solutions (Rada, 1999, in Kellerman & Webster, 2001).

But what happens when people are not involved in the problem solving or action planning and they have to comply with rules they do not necessarily agree with? I will address this question further through the lens of compliance.

### **3.7. CSR and the compliance culture**

*The problem with regulation is not regulation itself, but believing that regulation defines excellence* (Abbate, 2010).

According to Etzioni people can be persuaded to do things for at least three types of reasons: for love, fear or money (Etzioni, 1961, in Clegg, 1990). Each of these reasons relates further to a different type

of compliance and determines a specific involvement. Before presenting how these concepts relate to each other, I will first explain what compliance refers to.

The term of compliance describes a “relationship consisting of the power employed by superiors to control subordinates and the orientation of the subordinates to this power” (Etzioni, 1975, p. xv). It comprises, therefore, two dimensions: (1) structural, and (2) motivational. The structural dimension refers to the types and distribution of power in organizations, and the motivational one refers to the different commitments of actors to organizations.

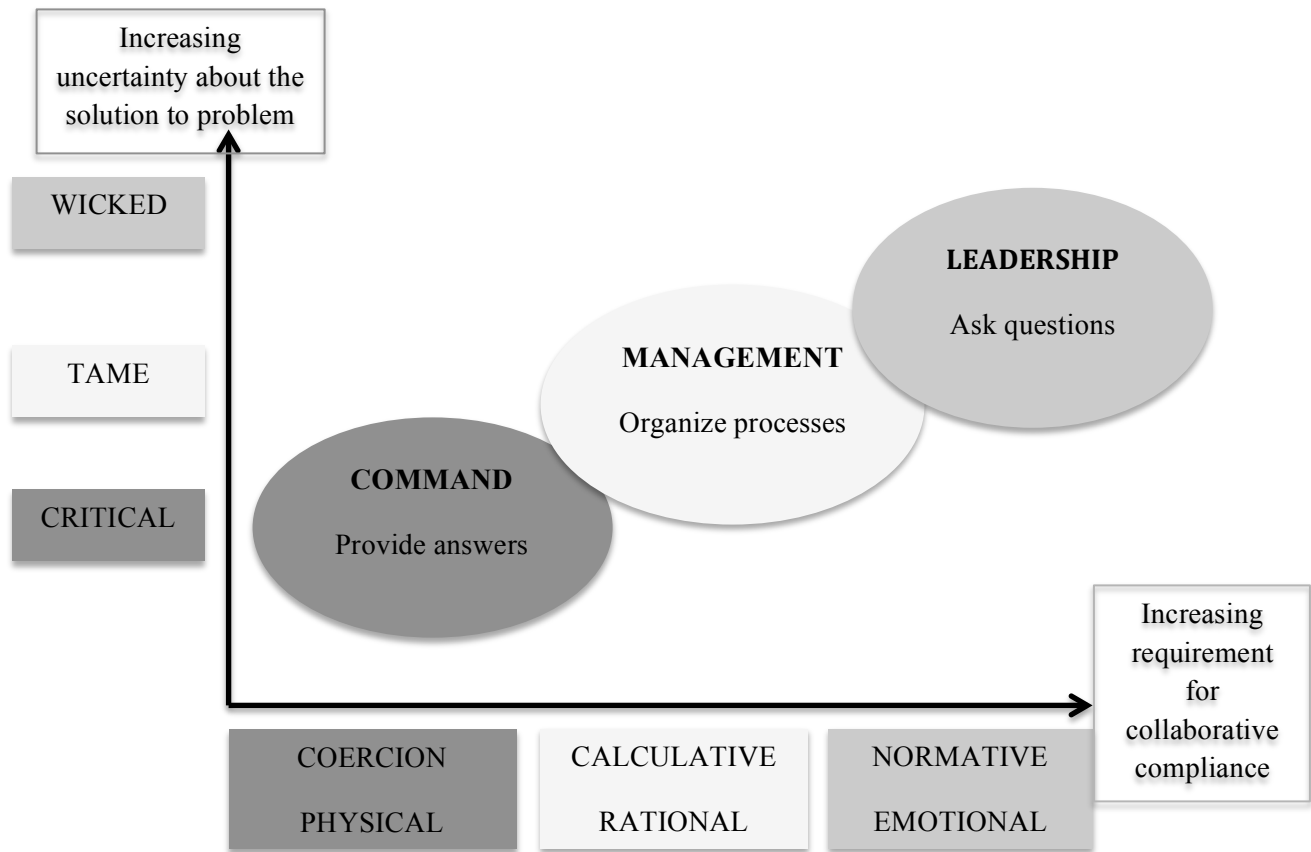
Thus, love is associated with normative compliance, fear with coercive compliance and money with remunerative compliance (Clegg, 1990). Each of these types of compliance relates further to different types of involvement from people’s side (Clegg, 1990). Moral involvement is associated with normative compliance, alienative involvement with coercive compliance and the calculative involvement with remunerative (Clegg, 1990). Table 1 summarizes these classifications.

Reasons for which employees get things done in organizations	Type of involvement	Type of compliance
love	moral	normative
fear	alienative	coercive
money	calculative	remunerative

**Table 1. Correlations between different types of involvement, compliance, and the reasons for which employees get things done in organizations.**

Coercive compliance is characteristic to ‘total’ institutions like prisons or armies; remunerative compliance is characteristic to ‘rational’ institutions like companies and normative compliance to organizations that share common values like clubs or professional societies for instance (Grint, 2010). Referring back to the typology of problems presented in the section 3.5 CSR – a wicked problem that requires leadership, each of the two types of problems mentioned there relates to a different kind of compliance. Thus, tame problems are associated with calculative compliance while wicked ones are related to normative compliance (Grint, 2010).

Furthermore, given that tame problems are associated with management and wicked problems with leadership results that management relates to calculative compliance and leadership to normative compliance (Grint, 2010). Figure 2 depicts this classification.



**Figure 2. : Typology of problems, power and authority. Source: Grint (2010)**

Applying these frameworks to the case of mandatory CSR and given that this type of CSR is based on regulations, strict guidelines, procedures to follow, and legal sanctions, I argue that making it mandatory perhaps moves CSR from the realm of leadership (asking questions) to the realm of management (organize processes). However, addressing CSR through management lenses is in contradiction with what previous scholars (Grint, 2010; Strand, 2013b) argued about wicked problems like CSR requiring leadership above all.

What matter more than the mere contradiction between different theories are the practical implications for companies when engaging with CSR. If CSR is not addressed through the lens of leadership is very probable that many questions surrounding a wicked problem like CSR will go unasked. And how else if not through asking questions can wicked problems be tackled? Given the characteristics of wicked problems, I agree with Grint (2010) that they have to be addressed by leadership and cannot be solved by management. Management is used in situations with a low level of uncertainty and is essentially concerned with executing routines, control and maintaining organizational stability (Grint, 2005).

In contrast, leadership relates to direction setting, novelty, change, movement and persuasion (Grint, 2005). The nature of wicked problems is such that needs continuous asking of questions and that is characteristic to leadership (Grint, 2010).

Moreover, the normative compliance - associated with leadership - generates a higher level of commitment than calculative compliance – associated with management (Etzioni, 1964). If the subjects on whom a specific type of power is exercised perceive it as legitimate, they tend to comply better and on a deeper level than in the opposite case (Etzioni, 1964). In other words, when the rules are in conformity with the values of subjects they apply to, compliance is more effective (Etzioni, 1964).

People may respond to power and follow rules to avoid the loss of different material (e.g. money) or symbolic (e.g. prestige) means (Etzioni, 1964). However, as the author suggests, the exercise of power has a major limitation: it keeps the conforming subject alienated. The extent of conformity may be in accordance with what power dictates, but individuals in this situation are unlikely to volunteer information, show initiative or cooperate beyond what they are explicitly obliged to (Etzioni, 1964).

Moreover, when the exercise of power weakens, people tend to subscribe to other norms than those imposed previously. The threat of punishment, regardless of how severe, may temporarily deter people from engaging in unethical actions, but on a long term it has proven ineffective in promoting ethical behavior (Moohr, 2007, in Lager, 2010). For instance, while the regulation of corporations' behavior is likely to affect the organization's methods of production or acquisition, it is unlikely that it will influence greatly the business' or leaders' ethics overall (Lager, 2010).

In addition, new regulations and laws can cause more unethical behavior given that new rules simply create new evasions and “drive offenders underground” (Vaughan, 1983, as cited in Lager, 2010, p.

218). By transforming ethical problems into legal ones, compliance becomes the only measure of correct social behavior and this has alarming results at times (Vaughn, 1990, in Lager, 2010).

There are three states of a compliance culture within organizations (Jenkinson, 1996):

1. **non-compliance** – when a company breaches frequently the compliance rules and the need to comply is not recognized
2. **negative or anti-compliance** – when a company obeys only minimal rules and compliance itself is seen as a threat, something that gets in the way. In this case, the risk of breaches is high and the “compliance adds no value to operation” (Jenkinson, 1993, p. 42). Such culture is seen as negative although the firm may follow regulations.
3. **positive or pro-compliance** – compliance is seen as good business and everyone understand its purpose. In this case breaches are low and compliance adds value to company’s operations (Jenkinson, 1996).

Applying this framework to mandatory CSR I argue that companies in the second category are very likely to give away 2% of profits for CSR, but the essence of this concept is lost and both companies and communities will suffer. Seeing CSR as something coming from outside the organization or better said, imposed from outside, will most probably generate a negative attitude towards it and corporate actors might try to find ways of disguising their CSR expenditure in a way to best suit their business interests.

Moreover, CSR in a mandatory form is similar to the ‘top-down’ compliance approach where a large, central department (government in this case) dictates the rules (Jenkinson, 1996) and subordinates (companies) must follow. The disadvantage of this approach is that it creates a distance between the two parties involved in the process and this results in a negative compliance culture (Jenkinson, 1996) as explained above.

A different way of approaching compliance is the ‘bottom-up’ approach, which works opposite the first one. This, however, has its own drawbacks that translate into a lack of objectivity in monitoring (Jenkinson, 1996).

### **3.8. Leadership, values and compliance**

Values are central to leadership philosophy and usually they are summarized in a vision designed by leaders who then enroll followers to devote their energies to that vision (Fairholm, 1998). Leaders risk not being able to lead if they fail to articulate and continuously enforce these values.

The term values here denote general beliefs about the way people should behave or end states that they should achieve (Fairholm, 1998). Values are also seen as beliefs people hold about what is good, beautiful, or true about the world (Fairholm, 1998).

Unlike other leadership models, the values-based one is not concerned with leaders' personality traits, behavior or with critical contingencies, but with what leaders think about or value (Fairholm, 1998). In this case "the true essence of leadership is not in procedures", but "in setting and teaching values to followers" (p. 61). The followers, in turn, become capable and willing to internalize the values in their day-to-day work. Thus, they are able to lead themselves and develop a type of loyalty toward the organization that cannot be achieved in any other way (Fairholm, 1998).

In this leadership model leaders introduce values and a culture that support innovation, service, quality and caring for all stakeholders (Peters & Waterman, 1982, in Fairholm, 1998). Furthermore, values-based leadership creates a culture based on a shared vision of the future through collaboration (McDermott, 1987, in Fairholm, 1998).

The literature is abundant in studies showing the crucial role that leadership plays in ensuring ethical organizational behavior (Carlson & Perrewé, 1995, in Lager, 2010). Leaders who integrate and promote ethics in their organizations and who are aware of their possible impact on influencing followers' behavior in this sense are very likely to ensure an ethical organizational culture (Lager, 2010). This assumption is based on the idea that "leaders are perhaps best positioned to influence an organization's culture, and act as role models for subordinates about appropriate organizational behaviours" (Grojean et al., 2004; Dickson et al., 2001, as cited in Lager, 2010, p. 219).

Moreover, statistics shows that if a company's management sets the right example and keeps promises this has a great impact on several ethical-related outcomes (Ethics Resource Center, 2006).

Scholars argue that values-oriented or integrity-based programmes are more effective than the usual compliance-based ethics systems. Shifting the focus from compliance to maintaining a culture where



ethical issues are openly discussed, ethical behavior is rewarded and organization's values are thoroughly incorporated by leaders in the business' strategic decisions is crucial (Weaver & Trevino, 1999, in Lager, 2010). Furthermore, a values-oriented approach contributes to a better commitment of followers and this translates in higher motivation, performance and a great effect on morale (Lager, 2010). Leadership models that fail to understand the importance of values fail to understand, in fact, the true function of leadership (Fairholm, 1998).

Lager (2010) argues that corporations' leaders can be compliant and unethical at same time. This is possible through appointing law experts to find gaps in legislation and finding ways of avoiding ethics while still ensuring compliance. In addition, leaders that strive to achieve mere compliance are unlikely to lead an ethical organization and may miss out on great business opportunities (Lager, 2010). Understanding that regulations and laws represent a poor instrument in assessing ethics represents a key first step for an ethical leader (Lager, 2010).

Moreover, the problem with regulation is not regulation itself, but believing that regulation defines excellence (Abbate, 2010). When leaders believe that rules must be followed only due to external pressure, they actually substitute compliance with quality and strategic thinking with meeting external regulations (Abbate, 2010). The danger in focusing solely on compliance translates in repeating steps that ensure nothing else but conformity; progress and excellence are thus abandoned for the sake of strictly following procedures (Abbate, 2010). When progress and what counts as improvement are defined from outside the organization, efforts to create genuine performance fade away. It takes, therefore, extraordinary leaders to avoid getting stuck in a compliance culture (Abbate, 2010).

### **3.9. Summary**

In this chapter, I have defined the two central concepts of this thesis - leadership and CSR – and I have explored their nature from different perspectives. Furthermore, I have analyzed them in connection with other key concepts such as tame/wicked problems, management, values, and compliance.

The highlights of my literature review revolve around several key ideas. First, CSR is difficult to define due to its overlap with other similar concepts and due to the complex issues it is trying to address, such as poverty, education, environmental issues, health, etc. This makes CSR a wicked problem that requires leadership and cannot be addressed through management only.

Second, there is no consensus among researchers and practitioners on whether CSR should be voluntary or mandatory, and pertinent arguments are found on both sides of the debate.

Third, leadership is inherently a creative process and values are at the core of it. Furthermore, CSR leadership is highly dependent on the context and it is mainly concerned with the actions leaders take in tackling corporate social responsibility issues.

Fourth, regulation can constrain leadership and getting stuck in a compliance culture leads to conformity and repetitiveness. Consequently progress and excellence are abandoned in favor of merely following procedures.

These theoretical observations will be employed in Chapter 5 – Empirical findings and analysis, where I will discuss them in relation with the empirical findings from the case of mandatory CSR in Mauritius and India. But before that, I will provide in the upcoming chapter a short background presentation of the two cases.

## **4. Case presentations**

This thesis explores the case of CSR in Mauritius and India. The two countries have similar mandatory CSR frameworks. My primary focus is on the case of mandatory CSR in Mauritius for the simple reason that it has been implemented for nearly five years now and it offers richer data to analyze. In contrast, the Bill that mandates CSR in India will take full effect in April 2014. However, Indian corporations that fall under the Bill's requirements already started taking steps towards accommodating a mandatory CSR framework and I consider interesting analyzing their attitudes and opinions about it. Moreover, the case of India is used as a comparison term for the one of Mauritius.

In the following lines, I will provide background information about the two countries and their CSR frameworks for the purpose of creating a clearer picture of the local situation.

### **4.1. CSR in Mauritius**

Voluntary CSR initiatives of large corporations have a long tradition in Mauritius and are based on the belief that “pursuing economic interests needs to be balanced with social and environmental responsibility” (MEF, 2011, p.2). These usually took the form of philanthropic activities organized ad-hoc and without being strategically related to business operations (MEF, 2011). The main drivers of these CSR efforts have been ethical considerations, employee motivation and company reputation (MEF, 2011). With a double focus, internal and external, CSR touched upon activities for employee's benefits on one hand, and upon the community at large on the other hand (MEF, 2011).

#### **The legal context of the new CSR framework**

With the rapid economic development of the island came societal changes that translated in substantial progress in human development (MEF, 2011). Unfortunately this had also unwanted consequences for a part of the population who did not benefit from the positive changes in the society (MEF, 2011). About 7000 families live in absolute poverty with a monthly income of less than Rs5000, approx. \$162/month (MEF, 2011).

In the light of these facts, in 2009, for the first time in the history of Mauritius, the Minister of Finance and Economic Empowerment introduced a law stating that every company will set up yearly a CSR

fund equivalent to 2% of its book profit derived during the preceding year (see Appendices E and F for a detailed legal background).

### **What companies have to say about it?**

Companies in Mauritius, represented by Mauritius Employers' Federation – MEF, argue that *the Government's approach to CSR differs from the generally accepted voluntary definition of CSR* (MEF, 2011, p. 4). They claim that corporate social responsibility cannot be governed by legislation and it is, in fact, precisely about going beyond regulations (MEF, 2011).

### **Interviews with local participants**

To get a better picture of the new CSR game I have interviewed three Mauritian CSR practitioners that occupy strategic positions in the local corporate social responsibility arena. In this view, I have reached the Head of Corporate Social Responsibility and Communication of Medine Ltd., a major local company with over one hundred years of activity and a longstanding CSR tradition. Apart from the position she occupies in this company, Sophie Desvaux de Marigny also leads the Medine Horizons Foundation created in November 2006 with the purpose of developing and supporting initiatives of NGOs and associations in favor of poverty alleviation in Medine's catchment area (i.e. along the West coast of Mauritius).

The second interview was conducted with Hootesh Ramburn, former Executive Director of the National Empowerment Foundation (NEF), Mauritius. He was involved in various social projects developed by NEF and participated in the creation of the CSR guidelines of the mandatory CSR framework.

The third strategic participant, which asked to remain anonymous, is a CSR Officer at National Empowerment Foundation (NEF), Mauritius, and is responsible for analyzing and approving the projects submitted by the NGOs through the private sector. With several years of on-the-ground work experience this last interviewee brought to the table valuable insights. Throughout this paper I will refer to this participant as a NEF Representative in order to maintain confidentiality. For further background information on the organizations interviewed see Appendix G.

## 4.2. CSR in India

Home of the largest concentration of poverty in the world and of 4% of the world's billionaires (Forbes India Magazine, March' 2012), India is currently switching for the first time in its history to a mandatory CSR framework.

Prior to this new framework, India was characterized by a longstanding voluntary CSR tradition specific mainly to large companies and materialized in the form of philanthropy (Mukherjee & Chaturvedi, 2013). Large companies, such as Tata and Birla for instance, have been involved in charity actions for many decades.

### The legal context of the new CSR framework

The bill mandating CSR started taking shape in 1993 as an attempt to align the Indian businesses to the best global practices (Mukherjee & Chaturvedi, 2013). In its initial phases the bill required medium and large companies to divert 2% of the profit averaged over the past three years towards CSR expenditures (Mukherjee & Chaturvedi, 2013). This lacked clarity on what specifically represented CSR expenditures and no other enforcement mechanism was set in place except for mandatory reporting (Mukherjee & Chaturvedi, 2013). The business community voiced out its position towards mandating CSR and the bill suffered several changes over the years to accommodate and reconcile that (Mukherjee & Chaturvedi, 2013). In 2013 the Bill was passed and it will take full effect starting with April 2014.

In comparison with the Mauritian CSR framework, which specifies ten areas of CSR spending, the Indian one announces to be much more flexible and proposes a list of sixteen such areas and a seventeen one which can basically be anything *the Board of the company may consider to be appropriate in light of the declared CSR Policy of the company* (Companies Act, No.18, 2013). See Appendix F and Appendix H for comparison.

### What companies have to say about it?

The majority of the private sector representatives protested and advocated philanthropy against mandatory CSR (Mukherjee & Chaturvedi, 2013). Moreover, the Confederation of Indian Industry stated that *the law should not specify any amount to be spent on CSR activities and it should be left to the decision of the board* (Mukherjee & Chaturvedi, 2013, p. 2).

Not only companies have criticized the adoption of mandatory CSR. The academic milieu has also voiced out its perspective on this issue. Mukherjee & Chaturvedi (2013) for instance argue that mandatory CSR may *dampen the spirits of the corporations* (p. 4) and create inefficiencies in the market, thus affecting the economy in the long run. Moreover they claim that the larger the activity of a company the greater the damage to the society it operates in. Thus it makes more sense to focus on the turnover of a corporation rather than on its profits (Mukherjee & Chaturvedi, 2013). A bank does not hamper the environment as much as a cement or mining company does. In this case, the “one size fits all” approach is not desirable by companies and will hardly be accepted (Mukherjee & Chaturvedi, 2013).

### **Interviews with local participants**

The CSR players interviewed in India represent two of the largest corporations in this country, namely: Aditya Birla Group and Tata Group (see Appendix I for background information on each of these companies). In addition a questionnaire was sent to the consulting company Ernts & Young. The three organizations have been involved in charity and philanthropic actions for many decades.

Pragnya Ram is Group Executive President - Corporate Communications and CSR at Aditya Birla Group and has 30 years of experience in the CSR field gained through work with corporations and NGOs. She is also a member in the Steering Committee of Aditya Birla’s CSR Centre for Excellence, an initiative of Aditya Birla Group and the Indian Chambers of Commerce & Industry (FICCI) to provide awareness, support and an enabling environment for companies to pursue their CSR objectives.

The second interviewee, Manjula Sriram, is Project Leader at Tata Strategic Management Group, a consulting company part of the Tata Group. She has over six years of industry experience and has led multiple consulting engagements in the social sector.

The third participant that provided me with valuable insights (via email) is Sridhar Iyer, National Director for CSR at Ernst & Young, India. He has several years of experience within the corporate social responsibility domain.

## 5. Empirical findings and analysis

In this chapter I analyze the empirical findings through the lens of the theories reviewed in the previous chapter. On the basis of primary and secondary data gathered from interviews with CSR practitioners and respectively from companies' reports and governments' budget speeches I argue that mandatory CSR within a rigid regulatory framework reduces the potential and incentives of organizational actors to take a leading role with respect to CSR. The empirical findings that help me build this argument are organized in three main themes: (1) CSR requires leadership, (2) the role of leadership in practicing CSR, and (3) voluntary vs. mandatory CSR practice. I will discuss these themes in detail below by presenting also the underlying sub-themes.

### 5.1. The role of leadership in CSR

Although the interviewees do not always use the term “leadership” explicitly, they recognize some sort of influence and initiative coming from either top management, colleagues or CSR partners (e.g. NGOs) that inspire action and mobilize resources towards achieving CSR goals. The way leadership achieves this is by: building partnerships with key CSR players, promoting values and crafting compelling visions to make a difference, initiating actions, and by helping followers and partners make sense of CSR.

#### 5.1.1. Building partnerships with key stakeholders

Being a process of influence (Ciulla, 2006, in Maak & Pless, 2006) and initiative taking (Guthey & Jackson, 2011; Burns, 2003), leadership plays an important role in creating partnerships and in maintaining and enhancing collaboration. In this sense, CSR leadership has to be bold and collaborative, and by ‘collaborative leadership’ the author means “leaders acting together at all levels of organization and society” (Visser, 2011, p. 9). As discussed earlier in the literature review chapter, creating alliances with various stakeholders is an ability pertaining to the sharp leaders of the future (Heenan & Bennis, 1999, in Jackson & Parry, 2008).

The NEF Representative from Mauritius, supports these arguments and adds:

*As CSR manager you should be able to create a sort of network among the NGOs working in the same field instead of for example financing ten small projects in an area you can network*

*with the NGOs and do something which will really impact on the community. (NEF Representative, 2012)*

In the same line, cross-sector collaboration in regards to practicing CSR is crucial (Visser, 2011; Strand, 2013b; Hennan & Bennis, 1999). This is due to the dimension and complex nature of CSR issues that require stakeholders to look at problems from multiple angles and contribute with different types of resources.

In the case of Mauritius for instance, the triangular partnership between government, corporate actors and civil society provides three main resources for CSR to happen: legal framework, financial resources, and respectively know-how.

*(...) we are now calling for a triangular partnership between the social sector, the private sector and government.(...) So private sector has the money, the government is here to put all the mechanism and facilitator, put the rules and the regulations, the CSR guidelines and all this, and then the civil society has the resources to implement programs towards poverty alleviation and all this. (NEF Representative, 2012)*

A similar mechanism will apply to India from April 2014, although as far as the law's draft shows companies in India will not be as constrained as the Mauritian counterparts to work closely with NGOs. Instead, as the interviewees stated, direct close collaboration with the community has played an essential role in practicing CSR in India until present and it will continue the same way in the future.

When it comes to practicing mandatory CSR, the triangular CSR partnership in Mauritius encounters several constraints that ultimately lead corporate players to argue that the relation with the NGOs, a key stakeholder in CSR, is mainly about "just giving money" (Sophie Desvaux de Marigny, 2012). Asked what she would change in the way her company approaches CSR in the absence of a CSR tax, Sophie Desvaux de Marigny argued:

*There's a lot of opportunities in helping NGOs become more self-sufficient (...) We should work more on social entrepreneurship, [on] setting up projects that bring money (...) Also there are so many other things that should be done and that for now cannot be done because the CSR tax doesn't allow it. Some NGOs, some centers need construction of buildings for them to operate,*



*but this is not allowed anymore by the CSR tax. So it is a problem. There would be a lot more done if there was not a tax on our part. (Sophie Desvaux de Marigny, 2012)*

The majority of the CSR practitioners interviewed underlined a very interesting aspect related to collaboration with the communities in tackling CSR issues successfully. Thus the social projects must be done with the communities, not to the communities. What this suggests is that the people have to feel they own the changes brought to their lives, otherwise it is very likely that they will not take advantage of it fully or they will even work against it.

Hootesh Ramburn, former Executive Director of the National Empowerment Foundation, Mauritius, remarks:

*(...) when you don't have the participation of the people they don't feel part of it, they don't own it. You know, in India people build toilets in community areas and each one contributes to run that toilet. Here [in Mauritius] government builds the toilet and then it will stay dirty because nobody feels they own it. That makes the difference and that philosophy has not yet gone into the minds of both, companies and government.*

As Hootesh suggests, the Indian counterparts seem to understand better the importance of close collaboration with the community. This is the case of one of India's largest corporations, Birla Group, who also demonstrates that for CSR to work it has to be integrated in the company's DNA. Within this organization, CSR is run as a "parallel institution" or as an "institution within the corporation" (Pragnya Ram, 2013). The advantage of approaching corporate social responsibility in this manner is well underlined by Pragnya Ram, Group Executive President - Corporate Communications and CSR at Birla Group.

*I have six CSR heads reporting to me, and below these six CSR heads we have 250 professionally qualified CSR guys and ladies working with us. And with them is a 3000 strong team of people from the villages. Like we do a lot of projects (...) so we have to go to the nook and cranny of the villages. It's not possible for our teams to go, so what we do is we appoint (...) a block level person [from the village] and then we pay him and we tell him that you have to collect all people and whatever support you need, we give you.*

Asked about how the community responds to their CSR efforts, Pragnya Ram stated:

*Oh, there are very happy! They get everything and they feel that they are been cared for, so when we go to the villages, and Mrs. Birla [the chairperson of Birla Group] and I go to the villages every year, we visit about twenty villages. You know in India it's a custom to touch the feet of whomever you revere or so, your parents, Gods, so on. So everyone comes and they start touching Mrs Rajashree's, Mrs Birla's, feet and they tell her that for us you are God, you know, because their whole life has changed!*

The role of leadership in this case is to involve the people and make them feel they are part of the game.

### **5.1.1.Promoting values and crafting compelling visions**

Another role that leadership fulfills in respect to CSR is the promotion of values and the crafting of visions that make a difference. As Fairholm (1998) argues, values are central to leadership philosophy and usually they are summarized in a vision designed by leaders who then enroll followers to devote their energies to that vision. When followers truly embrace the values and vision of the organization they become able to lead themselves and share the responsibility for action (Fairholm, 1998). This is in line with Strand's observation that "anybody can practice leadership" (Strand, 2013, p. 14) regardless of their hierarchical position.

**Values** - In regard to CSR leadership, the majority of interviewees emphasized the ability to influence or challenge the status quo at any level of organization or society, given a person possesses the right values. As the NEF Representative from Mauritius, states:

*(...) it's all about the values of a person. Any person can be [leader], if you have good values you can be a good leader. It starts at home, it starts with the family, it starts at school, anywhere in society. So how can you be good leaders if you do not have values? You are not integrated, it's all about your engagement, your commitment, it comes from within. (NEF Representative, 2012)*

Hootesh Ramburn, former Executive Director of National Empowerment Foundation (NEF) Mauritius, adds to this:

*A leader is a leader everywhere, in every situation: whether is at home, at work, in society, in school, whether is in his family (...) a leader should be kind of generous person, has strong values to be able not to use his own position or power, you know, to impose things on people, but to allow people to express themselves. (Hootesh Ramburn, 2012)*

An interesting point here is that the respondents did not consider “leaders” those individuals with different values than theirs, regardless of the high positions those individuals occupy in the organization or society.

*If they [the CSR responsible] themselves are corrupted people, if they themselves don't have any idea of the social engagement in civil society, they have to empower civil society, but they are doing it to have a high salary at the end of the month. This is not leadership to me. (NEF Representative, 2012).*

**Vision** - Interviewees from the two Indian companies, Birla and Tata, emphasized the importance of the company's vision in regards to CSR. Thus in their view, an articulated vision is what actually drives CSR efforts. Is important that the company's leaders continuously reinforce this vision and that employees at all levels understand and embrace it as well.

*(...) our vision says that we must make a qualitative difference to the lives of the underprivileged in proximity to our plants (...) (Pragniya Ram, 2013)*

In Visser's (2011) view, a compelling vision for making a difference is among the key characteristics of CSR leadership. The CSR practitioners interviewed supported Visser's argument and placed a great emphasis on the role of leaders in addressing CSR through a compelling vision that starts at the top and reaches the lower levels of organizations.

*(...) you require a leader who can actually propagate this vision across the organization so that every employee thinks like that. Unless the leader truly believes that he needs to do business responsibly and he should not just go after profits, the employees of the organization will not really believe it. So that is the importance of leadership, to reinforce this fact again and again, to propagate it down to the organization to the lowest level of your employees and in every communication that you have with your employees no matter what, the social responsibility should be a part of that. (Manjula Sriram, 2013).*

The continuous reinforcement of the business' social vision by leaders is in line with Strand's (2013b) argument that communication is one of the most important tools leadership can use in addressing CSR. Moreover this is also in accordance with the fifth step of practicing leadership in CSR that is precisely about engaging with corporate social responsibility on an ongoing basis.

Furthermore, given that CSR is in every way a long-term goal (Visser, 2010), the importance of a bold social vision reinforced continuously cannot be overstated. In fact, one of the key characteristic of CSR leadership is having a long-term perspective.

*We look at it [CSR] as a long-term goal. We look at it as part of our business vision to care for the communities in which we operate. (...) Because you [as company] are able to change the entire landscape of a village, and you are able to, you know, change the face of the village. So suddenly from a dependency they [villagers] become independent, from poverty they become self-sustaining and they feel greatly advantaged, they also feel motivated to move ahead. So for us it will always remain a long-term goal. (Pragnya Ram, 2013)*

Moreover, corporate social responsibility efforts and social vision should be “driven from the top because when it is driven from the top then everyone falls in line” (Pragnya Ram, 2013).

### **5.1.3. Sense-making**

Through “framing”, leaders make sense of a certain situation and influence the way others react to it. In other words, leadership plays a dual role in sense-making: first, it helps extract appropriate cues and second, provides a crucial cue that acts as a reference point for others (Pye, 2005). Strand (2013b) argues that communication is the most important tool of leadership in addressing CSR.

Sophie Desvaux de Marigny from Medine, Mauritius, argues that it takes leadership “to bring forward a new topic such as CSR in a company that was not used to do CSR” (Sophie Desvaux de Marigny, 2012). In this case, a leader must, himself, possess a deep knowledge of corporate citizenship and then inspire others to follow him in achieving CSR goals.

*I think it takes a deep knowledge of what it is to be a good corporate citizen, of (...) small initiatives, quick wins that you can start and to take on colleagues and the overall management of a company, to explain to people that giving money, making donations to NGOs, starting projects to benefit the society, projects that are not directly linked to making profits, can actually*

*help making profits in the long term. So it takes leadership to explain this because this [CSR] is a new concept, it was a new concept back then, now is becoming a tax so people won't think twice about it. (Sophie Desvaux de Marigny, 2012)*

Thus leadership helps address corporate social responsibility by introducing it to the organization and by trying to make others see the benefit of engaging in CSR on a long-term basis. A leader in this sense inspires the followers to believe in a concept they are not familiar with.

However, when CSR comes in the form of a tax that needs to be paid the role of leadership is diminished and it becomes a matter of management and compliance instead.

*[CSR] It's a tax, you just pay. You don't need any leadership skills to pay. (Sophie Desvaux de Marigny, 2012)*

#### **5.1.4. Initiating action**

One of the central arguments encountered in the literature is that leadership is about taking the initiative (Burns, 2003; Guthey & Jackson, 2011). This act is crucial because “it breaks up a static situation” (Burns, 2003, p. 172) and produces changes. As Burns (2003) concludes, leadership is “in every sense, a creative act”. (p. 172)

In the Mauritian CSR scheme, corporate leadership is constrained and therefore companies cannot engage in CSR when appropriate. During the interview, Sophie Desvaux de Marigny emphasizes the impossibility of initiating action towards solving social problems identified in the community in which her company operates. Furthermore she explains and underlines the complex process they have to go through in the current mandatory CSR.

*Before the CSR tax if we saw a problem in one region, Bambous for example, were there would be no NGOs working on this specific problem we would ourselves start something to initiate an action to resolve this problem. Now we can't do it. We have to give the money to an NGO or we have to have a project validated with the National CSR Committee which makes things almost impossible so no, we just resolve ourselves to make contributions and follow the guidelines. (Sophie Desvaux de Marigny, 2012)*

Hootesh Ramburn, former Executive Director of the National Empowerment Foundation, Mauritius, supports Sophie's claim and argues that although initially the CSR regulation was not meant to

constrain companies in exercising leadership in CSR, the way it has been implemented restricts corporate actors' freedom of action.

*(...) the way I see the CSR Committee deciding whether to approve or not approve a project, and even to the extent of saying: you don't initiate any project before we approve, if you start it then you submit it and we won't approve it, you know it's kind of... These things are not meaningful because if you have seen a social problem, you know it's a genuine problem and it falls within the guidelines which have been defined, broad guidelines, why not? (...) You know these kinds of things which to that extent, is true that they, the companies, had feared. (Hootesh Ramburn, 2012)*

Grint's (2010) argument that wicked problems like CSR require leadership is in contrast with the current situation in Mauritius.

#### **5.1.5. Summary**

Through leadership CSR practitioners ask questions and make sense of corporate social responsibility. Once they've achieved that they introduce the concept of CSR to potential followers and through a compelling vision they inspire and bring others on board to tackle social issues together. By achieving all these, leadership is considered a creative process without which things would not move forward.

Anyone can assume a leadership role in respect to CSR given he or she possesses the right values such as: integrity, generosity, good knowledge of CSR, concern for developing the people's potential, etc.

When corporate social responsibility is strictly regulated, as it is the case of Mauritius, the corporate actors are discouraged to engage in solving social issues and they perceive CSR merely as a tax to pay instead. Thus judgment based on values and leadership skills become unnecessary.

#### **5.2. CSR requires leadership**

Given their characteristics, wicked problems like CSR have to be addressed by leadership and cannot be solved by management only (Grint, 2010). As mentioned in the literature review, management is used in situations with a low level of uncertainty and is essentially concerned with executing routines and control (Grint, 2005), thus ensuring compliance. In contrast leadership relates to creativity (Burns, 2003), sense-making, asking questions, novelty, and change (Grint, 2005). The nature of wicked

problems is such that needs asking questions continuously and that is characteristic to leadership (Grint, 2010).

To exemplify the kind of leadership CSR requires, Hootesh Ramburn mentioned the case of a Mauritian company that represents an excellent example of an innovative and creative approach to CSR. He explains that this particular company seized the problems of its country and transformed them into business opportunities.

*I will take the case of one of the companies in Mauritius, I think is a good benchmark. What he [the company's CEO] did was to say well, the sugar factories (...) have reached the end of the cycle and they can no longer produce only sugar, so he started producing some special sugars so he can get a higher value for that. And then he found out that well, that's not enough. He said the country needs other things. We are having problems of energy, we are net importers of energy, we buy a lot of fuel abroad. We have a lot of sugar cane so he says: well, we can use some of the by-products of the sugar cane like ethanol to run our cars here. At the same time we have large fields of plantations; we could put windmills here. So he had a whole project which is going to make his company have a future, but at the same time fitting it. He is a firm believer of all ecological projects; he supports NGOs that have carried out such projects. He funded all these different dialogues around the country. (Hootesh Ramburn, 2012)*

This quote underlines that those leaders that have a long-term perspective on their business are visionary leaders that ask questions about what should and can be done for the business to survive and grow. They seize business opportunities in a country's needs and manage to integrate a social vision into the business vision.

In response to my question about the nature of leadership for CSR, Sophie Desvaux de Marigny – CSR Manager at Medine Ltd., Mauritius, replied:

*(...) leadership would mean that you have first the freedom to be creative, to find solutions and to share this creativity, these ideas with others and create a momentum that many foundations for instance or many NGOs would take on this destination trip together and is the ability to set*

*the example as well and share good practices for them to lead. But I am not sure the term of leadership is the correct one in a tax context.(2012)*

Sophie is, in my opinion, another example of a visionary CSR leader. She claims that CSR is not about merely distributing funds towards NGOs. Asked what she would change in engaging with corporate social responsibility in the event of the tax being abrogated, Sophie stated that although her company would not devote less money than what is currently required, there would be major changes in the way they use the funds.

*I think we would use it in a different way that would allow more creativity and more flexibility in imagining answers (...) to social problems. It would not be about just giving money to NGOs. There are projects we can start as a company, there are initiatives that are not just about giving money, but about what can be done (...) I think it will be much more creative and much more fruitful than what we are forced to do now with the tax that is just killing every creativity and every flexibility that as a private sector we have and which we don't find in the government (...)*

It is worth mentioning here that Medine Ltd. is over one hundred years old and was involved in philanthropic initiatives since its beginnings or as Sophie Desvaux de Marigny expresses it: “from before putting a name on it”. The concept of CSR was introduced in the company in 2006, thus several years before the CSR tax, through the creation of Medine Horizons Foundation. Furthermore, Medine has subscribed to the UN Global Compact initiative in 2007<sup>7</sup> and ever since has integrated high standards in its business strategy, day-to-day operations and organizational culture. These are indicators of the strong commitment and involvement of the company into CSR on a voluntary basis.

The fact that organizations like Medine, with longstanding CSR tradition and considered leaders in these efforts, can no longer freely engage in solving social problems represents one of the major drawbacks of the current CSR framework.

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<sup>7</sup> UN Global Compact, *An inspirational guide to implementing the United Nations Global Compact Africa*, January 2008. [http://www.unglobalcompact.org/docs/news\\_events/8.1/inspirational\\_guide\\_africa.pdf](http://www.unglobalcompact.org/docs/news_events/8.1/inspirational_guide_africa.pdf)



### 5.2.1 Beyond funds and regulations

Regulation does not define excellence (Abbate, 2010) and it's often silent as to how it should be implemented (Lathan & Watkins LLP, 2009). The same applies to financial resources. The availability of large amounts of funds for CSR does not guarantee an effective use of those. Thus what seems to be missing from this equation is leadership practiced at all levels of society and business.

As the NEF Representative from Mauritius states:

*(...) You cannot change things with money only! So if we look at CSR from its financial resources that it brings into civil society it also bring a lot of problem, a lot of problems. (2012)*

Hootesh Ramburn, former executive director of NEF Mauritius, suggested that despite the large amount of money made available through the CSR tax system, many of the social projects were not successfully implemented due to lack of skilled and experienced implementers on the ground.

*I would say that what is very important is that you get not only money, not only policies, but you get good implementers on the ground (...) Many of the social workers is people that, because out there they don't get any job, they go into social work whereas we need trained professionals to do that. (Hootesh Ramburn, 2012)*

In the same view, the NEF Representative feared that the amount of money collected through the current CSR scheme (MUR 800 million = aprox. 26 million dollars/year) is too large to be managed by the civil society who might not have the capacity to properly administrate such funds.

*(...) is a huge amount of money, 800 million Rupees! Is a lot! And my question, you know, is that if civil society has the capacity to manage this huge amount of money. (NEF Representative, 2012)*

Moreover, a great attention is on the physical funds that flow into corporate social responsibility in the detriment of other valuable assets the corporate sector could bring into CSR. In this view, Sophie Desvaux de Marigny argued that a rigid regulation does a disservice to CSR because the private sector possesses two important assets, creativity and flexibility, that cannot be found in the government and that can benefit CSR.

*(...) the tax (...) is just killing every creativity and every flexibility that as a private sector we have and which we don't find in the government. (Sophie Desvaux de Marigny, 2012)*

In same line of thought with Sophie comes the argument of Vikram Singh Mehta , the Chairman of Brookings India, who states that:

*(...) financial philanthropy is not the only way of contributing to social responsibility. Businesses have all sorts of other attributes that they can bring to the table for the larger purpose of social development. They have technology, they have management skills, they have a distribution network, they have IT, they have research and development issues, all of these are assets that the government should have tapped. These are assets that the companies can bring and these can be brought together for the enhancement, for the development of our society. Money and charity is not the only instrument for doing corporate social responsibility. So to mandate, to mandate a 2% CSR on the basis of the money that is being set aside is the wrong way of approaching this whole concept of CSR. (Vikram Singh Mehta, 2013)*

Thus the mandatory CSR scheme appears to fail in leveraging the best of the business sector's capabilities and experience although these can prove very valuable for CSR.

Furthermore, seeing CSR as merely a tax to be paid has a negative effect on the outcomes of CSR on both long and short-term.

### **5.2.2 Summary**

In a mandatory CSR regime such as the one analyzed in Mauritius the emphasis is on compliance with regulations and not on the quality of the CSR efforts and their outcomes. Consequently corporate actors lose their incentives and ability to engage creatively in CSR and this causes corporate social responsibility to move from the realm of leadership to the realm of management since the later is concerned with control and compliance. This however is contrary to the nature of a wicked problem like CSR, which undoubtedly requires leadership.

### **5.3. Voluntary vs. mandatory CSR practice**

As shown in the literature review section there is an ongoing debate on whether CSR should be voluntary or mandatory and advocates of both sides bring valuable arguments to the table. On one hand those supporting a mandatory CSR framework argued that the voluntary standards and codes are

not equally demanding and the monitoring and enforcing mechanisms are weak, lack completely or are negligible (Gonzales & Martinez, 2004). On the other hand, those supporting a voluntary CSR argued that the stringent regulation of CSR is likely to create bureaucracy, invite corruption and stifle innovation (Visser, 2013; Doane, 2004, in Gonzalez & Martinez, 2004).

Before presenting what the interviewees in India and Mauritius had to say in regard to this debate, I will introduce the incentives companies in both countries have for engaging in CSR when it is mandatory versus when it is voluntary. This is in order to assess whether there's a decrease/increase of incentives in the case of mandatory CSR and if this affects companies' willingness to assume a leadership role in respect to corporate social responsibility.

### **5.3.1. Incentives for engaging in CSR**

All interviewees underlined the close relationship between a company and the social and physical environment in which it operates. Thus companies that look after the community and the natural surroundings are the one that ensure a future for themselves. The opposite also applies. A business cannot succeed on a long term if its surroundings are continuously deteriorating. It is therefore paramount that corporations understand this dependency and use it in their advantage. As Pragniya Ram from Aditya Birla Group India, believes companies must be proactive in respect to CSR rather than reactive to regulations and engage in CSR for the sake of it.

*(...) instead of this push factor CSR should have had the pull factor. (Pragniya Ram, 2013)*

In her opinion the benefits for being proactive and engaging in meaningful CSR efforts are numerous.

*You see in the first place, when a corporation engages in the community, looks after its health, looks after its education and all, then you're building very healthy communities and if you have plants and all, then most of your talents (...) will come from within the communities. So if you build healthy community, you know, a progressive community, then you're automatically getting a progressive workforce, a healthy workforce. But even beyond that what happens is that the company gains a lot of reputation that it's a caring company, it's a good corporate citizen and that kind of builds the company's brand. So when you have a very powerful brand then you're*

*able to attract the best talent, you're able to retain talent and I think these are some very good advantages. (Pragniya Ram, 2013)*

When the community feels a sense of belongingness and feels it is being cared for then a substantial amount of goodwill is directed towards the corporate actor and as Pragniya Ram argues the community will always be willing to go the extra mile when support is required from its side.

The same opinion is shared by Hootesh Ramburn, former Executive Director of NEF Mauritius, and Sophie Desvaux de Marigny, Head of CSR at Medine Ltd. Mauritius, who state that a company's good practices in relation to its environment help strengthen its brand and image while at the same time generating goodwill and creating a strong labor force for itself.

*(...) we really wanted to ensure that as Medine does new projects, creates new industries, new residential or industrial areas, and is growing in the west, brings new wealth as well to the region. We wanted to make sure that the society, the community living around these developments would benefit from it and would be ready to act as economic actors like service staff to new residences (...) or become contractors, that they would have the skills, that they would find jobs. So we really wanted, yes, to develop the whole region and make sure that everyone will benefit from it (...) That's still what we are trying to do, but now is more complicated when you have to follow guidelines and respond to tax.*

This quote shows that Medine Ltd. understood the strategic role the community plays in achieving the business' goals or even in the mere existence of a business in a certain area of the country. A CSR vision integrated in the business strategy seems to be the driver of corporate social responsibility efforts in Tata's approach as well. Manjula Sriram, Project Leader at TATA Strategic Management Group, stated:

*So he [the founder of Tata] realized that if he wants to be successful and his business has to be successful then the employees have to be happy and therefore the villages or the community in which they stay, he needs to provide all these facilities [electricity, drinking water, health care] to them. (...) The others [reasons to engage in CSR] is, you know, goodwill among the community that it generates when you do CSR, your consumers know that you are a very community oriented organization so they prefer to buy your products and the third is, of course,*

*his very nature, he himself believed in giving back to the community and not just, you know, creating profits and boarding them just for the company.*

All the above benefits that corporate players derive from CSR are discussed in the context of a voluntary CSR framework. In contrast, the dynamics of the relation between CSR efforts and benefits change in the case of a mandatory CSR.

When asked about the incentives that companies have in engaging in CSR in the current tax regime, Sophie Desvaux de Marigny answered:

*Well, you know, if it's a tax everyone pays it so there is no interest in paying, as everyone does.*  
(Sophie Desvaux de Marigny, 2012)

She suggested that when CSR becomes mandatory and is strictly regulated companies are discouraged from viewing corporate social responsibility as an opportunity for making a difference in both the society and in their business and they start perceiving CSR merely as a tax to be paid instead.

A very interesting idea related to this discussion can be noticed in Manjula Sriram's statement in response to what incentives companies will have for engaging in CSR beyond what is required by law.

*They will not have any! If they were spending more than 2% they will bring it down most probably.* (Manjula Sriram, 2013)

This is contrary to Latham & Watkins LLP (2009) who argued that voluntary initiatives could lead companies to go beyond standards or rules and achieve more than the law requires.

Sophie from Medine Ltd. Mauritius also mentioned during the interview that her company used to invest a higher amount in CSR than what is currently required by the tax regime, but that they have reduced it once the tax framework was introduced.

One possible explanation for this phenomenon is that before the introduction of the CSR tax regime the corporate sector did not have a benchmark against which to compare their corporate social responsibility efforts. Thus the amount allocated in this sense varied according to the economic conditions and the profits companies were registering every year. When the government set the threshold lower than what several private actors were willing to invest, it is possible that the later considered any effort over that threshold unnecessary.

While companies can still build qualified workforce through empowering the communities, the amount of goodwill the private actors will derive from the society might be lower in a mandatory CSR regime than in a voluntary one. This is due, in my opinion, to the belief that the good acts the corporations are now undertaking might be seen by the society as a legal obligation they are responding to and not as an independent initiative.

Furthermore, in regards to brand and image enhancement I consider that this will continue to be a benefit companies will derive from CSR efforts, but it might be that any failure to comply with the CSR regulation will be more severely punished by the society than it was the case before. Generally a higher attention is given to illegal deeds than to the lack of involvement in charity or philanthropy.

In conclusion the mandatory CSR is based more on a “push factor” than on a “pull factor” as Pragniya Ram from Aditya Birla Group India mentioned.

With these clarifications in mind about how the dynamics of the relationship between CSR efforts and benefits change according to the nature of CSR (voluntary/mandatory) I will now return to the debate over the mandatory vs. voluntary CSR and I will present how the interviewees from both India and Mauritius view this aspect.

The Mauritian participants supported several arguments on both sides of the debate. While they recognized the value of the CSR tax and argued that theoretically is a good initiative, they claimed that when it comes to practice, the CSR tax is characterized by lack of freedom, creativity and innovation constraints, lack of flexibility, mistrust, bureaucracy and corruption.

In the case of India, given that the regulation is not yet in place, the interviewees were uncertain about how mandatory CSR will work in practice and they expressed some concern about the future of innovation in this field as well. In addition, they also recognized the value of a CSR tax given the scale of social problems and the need for a collective effort in solving them.

### **5.3.1. Legitimate in theory**

Prior to this tax, in both countries CSR was practiced mainly in the form of philanthropy and charity by large companies that saw themselves compelled to help and empower the communities in which they operated in order for their business to survive and grow.

*So given the nature of the country [India] and the requirements of the people, anywhere you go and set up an industry the people who are going to work in your factory they'll not have all these facilities like power, access to drinking water, proper health care. (Manjula Sriram, 2013)*

However the majority of companies did not engage in CSR for their financial resources alone were not sufficient to address severe problems such as poverty, education, or environmental issues. (Hootesh Ramburn, 2012). In this context the CSR tax in both countries of study appears to be a good initiative that was meant to create a synergetic effect by bringing together different stakeholders with strategic resources.

*(...) to create a kind of the scale that is needed to address some of the issues, social problems, it [CSR] required some significant funds. (...) Instead of having a large number of small companies (...) each one not being able to contribute meaningfully to CSR on their own, it was better to pool their resources together and with that funds, significant funds, address some of the social issues that required scale. (Hootesh Ramburn, 2012)*

Sophie Desvaux de Marigny, head of CSR at Medine Ltd, Mauritius, stated that the CSR tax also makes companies more aware of their impact on the community where they operate and therefore makes them more responsible.

*I think the CSR tax of 2% on the profits of companies is a good idea because companies in Mauritius were not used to thinking about their impact on the community and the society, and it brought on the national scene the idea that the company is an actor of social equilibrium of a country and should be thinking about (...) its impact and how to support social integration and growth for everyone. Before the CSR tax there was only 4-5 companies who had foundations and worked in an organized way to support NGOs and since the CSR tax they are now about 20 foundations, but all companies are doing their share. (Sophie Desvaux de Marigny, 2012)*

In the Indian context, the participants expressed their position towards a mandatory CSR framework maintaining a note of uncertainty.

*(...) maybe is a good thing they made it compulsory. Everyone will have to spend, so maybe we will eradicate poverty faster than if the government were to do it on its own. So maybe it's a good thing. (Dr. Ram, 2013)*

### 5.3.2. Faulty in practice

When it comes to practice, the CSR tax regime is characterized by lack of freedom, creativity and innovation constrains, lack of flexibility, mistrust, bureaucracy and corruption. This applies especially to the case of Mauritius. Consequently the corporate actors claim that their ability to exercise leadership in CSR is constrained and there is not much they can do to lead.

Hootesh Ramburn participated in the creation of the CSR guidelines in Mauritius, but during the interview he expressed the concern about whether those responsible for approving social projects on the basis of those guidelines actually understood them.

*(...) when it came to practice, to implement, to approve projects of companies (...) they took some public servants from the Ministry of Finance and a few people who addressed the issue in a very bureaucratic way. So before approving, before examining the project, so many of the companies just gave up and said, "well, it was too bureaucratic and sometimes we just don't care, we won't have the program approved". (Hootesh Ramburn, 2012)*

The guidelines were initially meant to provide direction for companies with respect to which problem areas to target and in what manner, but they gradually became used in a very restrictive way and this caused companies to loose their incentives for initiating action when social problems were noticed.

*In a way, as the program was devised it was not meant to take away the leadership from the companies themselves, their own initiatives to carry out CSR programs. But the way it has evolved, the way it has been implemented to some extent, it's really in a way hampering, blocking the freedom of action. (Hootesh Ramburn, 2012)*

Furthermore Hootesh argued that

*(...) guidelines are guidelines, you use guidelines to guide you, but if you make the guidelines become very rigid, you can't see beyond the guidelines. That's the whole point of it! I must say there were not enough people who had experience of social issues to assist in that CSR organization, you know? That was a mistake because they just put people who could only control things. (Hootesh Ramburn, 2012)*



As the NEF Representative points out, the private sector is “squeezed between the government and the NGOs” and “is more in the box of followers than in the one of leaders” (NEF Representative, 2012).

This is contrary to the period prior to the tax introduction when the private sector used to have a great amount of freedom in engaging in social issues.

*The problem is, you know, because the private sector, many of them were engaged in CSR activities before this regulations, so they were used to a certain...they were free to choose their program, their projects, to whom and with whom to work and all this, and now they can no longer do it. (NEF Representative, 2012)*

Although she recognizes the value of the CSR tax, Manjula Sriram expresses her concerns about whether organizations will be able or not to approach CSR in a creative and innovative manner in the new framework.

*So my sense is in a way that this [CSR tax] is good, because a lot of companies were not doing it so now they will have to, so there will be larger money that will be flowing into the community, but it also in a way discourages companies from the coming up with innovative ideas of undertaking CSR. (Manjula Sriram, 2013)*

Manjula mentioned an innovative water purifier device designed by the Tata Company as part of its past CSR efforts and then she expressed once again her concern about the future of innovation in the new CSR scheme.

*(...) my sense is that such innovation might be killed when you are saying: no, this much money has to be spent on these areas, so that might be a drawback (...) (Manjula Sriram, 2013)*

Bearing in mind that an innovative approach is one of the key characteristics of CSR leadership (Visser, 2011) I can then argue that when CSR is mandatory and is strictly normative approaching it in an innovative manner is simply not possible. Instead, repetitiveness and standardization are promoted.

### **5.3.3. CSR and compliance**

Jenkinson's (1996) argued that when organizations are in a negative or anti-compliance state of compliance, they perceive CSR in a negative light or as “something that gets in the way”. In this case the risk of breaches is high and complying with the rules adds no value to business' operations

(Jenkinson, 1993). Such culture is seen as negative although the firm might act according to the regulations.

Applying this framework to mandatory CSR I argue that companies in this state of compliance are very likely to give away 2% of profits for CSR, but the essence of this concept is lost and both companies and communities will suffer.

*(...) CSR has got a definition, it's the engagement, for me, of the private sector in social work. They have got a social responsibility in society, but in Mauritius this definition is not the same, when it's mandatory, you know, is like giving money (...) It loses the values, yeah. (NEF Representative, 2012)*

Seeing CSR as something imposed from outside the organization will most probably generate a negative attitude towards it and corporate actors might try to find ways of disguising their CSR expenditure in a way that best suits their business interests.

*I know a case where a CSR Manager was convinced that this project should not be approved or be funded, but a director of that NGO was also a director in that company and he said that we have to finance this NGO. (NEF Representative, 2012)*

As mentioned in the literature review, when leaders believe that rules must be followed only due to external pressure, they actually substitute compliance with quality and strategic thinking with meeting external regulations (Abbate, 2010). The danger in focusing solely on compliance translates in repeating steps that ensure nothing else but conformity; progress and excellence are thus abandoned for the sake of strictly following procedures (Abbate, 2010). When progress and what counts as improvement are defined from outside the organization, efforts to create genuine performance fade away.

Since regulation is often silent as to how it should be implemented, voluntary initiatives can help filling the regulatory silence (Lathan & Watkins LLP, 2009). However I question the likelihood of voluntary initiatives in the case of CSR in Mauritius. As Sophie mentioned the process is so complex and bureaucratic that voluntary initiatives are paralyzed; companies are giving up before even trying to make a social change.

#### **5.3.4. Summary**

Companies have a wide range of benefits from engaging in CSR. The most noteworthy ones are: building a qualified future workforce, consolidation of reputation and image, obtaining society's goodwill, license to operate, a sustainable environment and a future for their business.

An interesting idea here is that although in a mandatory CSR regime companies still benefit more or less from all these advantages, they are not willing to engage in CSR more than the law requires although prior to the tax they exceeded the 2% limit. This in my opinion is due to the belief that there is no perceived additional value in doing so anymore. The 2% threshold gives corporations a sense of how much is recognized by government and society as CSR efforts.

In regards to the debate over the mandatory vs. voluntary nature of CSR the majority of interviewees supported arguments of both sides and concluded that while the CSR tax is a good initiative in theory, is faulty in practice. By reducing the ability of corporate actors to innovate and be creative in regards to CSR, the CSR tax paves the way for conformity, standardization and repetitiveness.

## 6. Conclusions

This chapter provides a summary of my work. I start by restating the purpose of my research and the importance of the chosen topic and I continue by reiterating the research questions that guided this paper. Next I provide a synthesis of the empirical findings in connection to the research questions and I show how my arguments converge to answer these. I then move on to making recommendations for the Mauritian and Indian CSR regimes and I end this chapter by indicating areas of future research.

### 6.1. Research purpose and importance of topic

This study aimed to explore the relationship between CSR and leadership in the context of regulatory frameworks in Mauritius and India and has identified the role of leadership in practicing CSR, the attitudes that regulatory frameworks instill into CSR leaders, the changes occurred in the way CSR is viewed and practiced in the context of regulatory frameworks, and the drawbacks of a rigid regulation of CSR. This thesis also sought to investigate the impact of mandatory CSR framework on the ability of corporate players to exercise leadership in respect to CSR.

The theoretical literature concerning CSR and leadership has addressed these two concepts separately throughout time and very less attention has been given to their intersection. Therefore, this study attempts to fill in a gap in the existing literature by approaching their nexus.

### 6.2. Research questions and synthesis of empirical findings

The first research question that steered my thesis is:

**What is the relationship between leadership dynamics and CSR practices in the context of a voluntary versus mandatory CSR framework?**

To answer this question I have explored this relationship in the two contexts separately. Thus, in a voluntary framework corporate leadership plays a crucial role in the promotion and practice of CSR. This argument is supported by both the literature review and the empirical findings of this paper. Being essentially a creative process and having values at its core, leadership breaks up static situations and initiates action in the CSR arena. Then, through compelling visions leadership inspires key stakeholders to come on board and build partnerships to tackle CSR issues.

In contrast, in a mandatory CSR framework, especially within rigid regulation, the role of corporate leadership in CSR is to ensure compliance and control and this is more in line with what management is concerned with. Consequently this causes corporate social responsibility to move from the realm of leadership to the realm of management and this, however, is contrary to the nature of a wicked problem like CSR, which undoubtedly requires leadership. As I have shown, the long-term view and complex nature of corporate social responsibility cannot be coupled with mere control and compliance pertaining to management, but rather with asking questions, direction setting, novelty, change, innovation, and creativity and these are characteristics of leadership.

The second question that guided this research is:

***How do the special cases of Mauritius and India help illuminate the relationship between leadership and CSR in these contexts?***

The cases of Mauritius and India show that although we can argue that both countries have a mandatory CSR regime, the differences found in the regulations portray two unique models. On one hand, the case of Mauritius is an example of a mandatory CSR with complex and thorough rules that strictly indicate the areas of CSR investment, the guidelines according to which the CSR projects are approved or rejected, the sanctions companies are subject to, and the complex CSR reporting procedures. On the other hand, the case of India is an example of a more flexible approach to mandatory CSR. Only general guidelines are delineated leaving the freedom of choice in the hands of corporate actors.

There are three main observations that the cases of Mauritius and India helped me make in regards to the nexus of leadership and CSR in the context of mandatory and voluntary CSR regimes.

First, as I have discussed in response to the first research question, the role of leadership in CSR depends on the nature of the later. Thus in a rigid mandatory CSR regime, such as the one analyzed in Mauritius, the emphasis is on compliance with regulations and not on the quality of the CSR efforts and their results. Consequently corporate actors loose their incentives and ability to engage in CSR in a creative and innovative manner. Over 60% of interviewees recognized the constraints corporate actors encounter in the mandatory CSR scheme. The more strictly regulated CSR is the greater the constraints are. In the case of Mauritius for instance, the rigid guidelines and the bureaucratic process determine

corporations to avoid engaging in solving social issues directly. They are rather encouraged to donate the funds to NGOs who will then address those social problems, thus transferring them the leadership role and assuming a followership one. When this occurs, the creative and innovative drives that corporations possess are put to no use.

Furthermore, by putting more emphasis on compliance than on engaging meaningfully in CSR and on aligning it with the business strategy, the CSR tax paves the way for conformity, repetitiveness and standardization in the detriment of progress and excellence.

In the case of India, given that the CSR regulation announced to be more flexible than the one in Mauritius, interviewees could not clearly indicate whether a mandatory framework would negatively impact CSR leadership. Their uncertain perspective on this matter is also due to this CSR framework not being fully implemented yet. It would be of interest thus to analyze the Indian case at a later point in time and contrast it with the current case of Mauritius.

The second observation is that CSR can steer and influence the practice of leadership maybe to the same extent that leadership can steer and influence the practice of CSR. The scarce literature on the relationship between these two concepts has traditionally looked at it from the lens of leadership. In this view, previous work has inquired into how top management can introduce CSR in organizations and how it can derive the greatest results from it whether the purpose was mainly image and brand enhancement or a genuine understanding of the strategic importance of CSR for the business. This study shows that, in the context of mandatory CSR, especially within a rigid regulation, leadership in turn is steered and influenced by corporate social responsibility. This point here relates to my first observation that the role of leadership in CSR depends on the nature of the later.

The third observation is that values and the successful practice of CSR are tightly related. This certainly reinforces a previous point I made about the crucial role leadership plays in CSR, given that leadership is the driver of values promotion in society and organizations. All participants in this study put values at the core of the CSR practice. Most of them argued that, without values, the practice of CSR is merely a way to increase one's personal wealth in the detriment of the poor for whom the CSR funds are actually designated.

Moreover, when corporate social responsibility is strictly regulated, as it is the case of Mauritius, the corporate actors are discouraged to assume a leadership role and to engage in solving social issues and they perceive CSR merely as a tax to pay instead. In this context judgment based on values and leadership skills becomes unnecessary.

In conclusion, I argue that there is more leadership in voluntary/explicit CSR than it is in mandatory and implicit CSR and that is due to mandatory CSR not being the subject of debate and concern for there are no alternatives but to comply with the regulation in the manner it specifies. However in this later case it is probable that many questions surrounding a wicked problem like CSR will go unasked. Ironically, in a context where CSR is not mandatory or normative it might be easier to practice CSR because leadership can be practiced and creativity and innovation are encouraged.

### **6.3.Theoretical implications**

My findings support the arguments of Strand (2013b) and Grint (2010) who state that CSR is a wicked problem that requires leadership and that management alone cannot tackle CSR. The interviewees in Mauritius and India clearly pointed out that only with control and compliance, which correspond to the practice of management, CSR does not provide meaningful results. This fact contradicts the advocates of mandatory CSR who consider that regulating CSR is more effective in achieving results than a voluntary approach is. This is also in line with Abbate's (2010) argument that regulation does not ensure excellence.

The outcome of my endeavor also shows that while leadership influences and steers the practice of CSR, it may be that in turn CSR also influences and steers the practice of leadership. This is particularly true in the case of mandatory CSR framework where the specific and rigid legal requirements of conducting CSR shape the practice of leadership.

Based on these findings I conclude that Visser's proposal for a CSR 2.0 is not applicable in the case of Mauritius. In his opinion, this new model of CSR should be based on five principles: creativity, scalability, responsiveness, glocality, and circularity. As I showed above, the mandatory CSR framework of this country does not encourage creativity and responsiveness but compliance and conformity. Thus is not likely that a CSR 2.0 model can be implemented in this case.

In contrast, it might be that this model can be applied in the Indian context since the local regulation of CSR allows companies more freedom than what their Mauritian counterparts are allowed. Thus nearly

all five principles of a CSR 2.0 model could be implemented here. Although some reservations concerning the incentives and ability of companies to innovate were expressed by one of the Indian interviewees, I consider the Indian environment more suitable for CSR 2.0 than the Mauritian one.

#### **6.4. Recommendations**

In this section, I provide two practical recommendations for the Mauritian and Indian mandatory CSR regimes. These recommendations are based on the observation that it is more likely for the tax initiative to have better results if companies are given ownerships of the CSR funds and if they are given room for creativity and innovation in using them. I would also like to clarify here that I do not mean to take a stance against regulations. I am rather suggesting other ways to do it and for that purpose I will present below the case of Mexico.

Thus, the first recommendation is based on the Mexican model of CSR, which leverages the best of both mandatory and voluntary regimes by imposing a tax that funds projects entirely administered by companies. Created in 1990 as a temporary flooding relief program, the Chihuahua<sup>8</sup> Business Community Foundation Civil Association (FECHAC) is a model of shared social responsibility and collaboration between the business community, the government, and NGOs<sup>9</sup>. (see Appendix E for a brief background presentation).

What makes the Mexican CSR model more successful than the Mauritian one and to some extent than what the Indian mandatory CSR is promising to achieve, is summarized in the following lines.

First, the initiative of creating a CSR fund came from the business community and not from the side of government and this ensures a deeper involvement and commitment of corporate actors to tackle corporate social responsibility issues. For this reason the Mexican model represents a great example of corporate CSR leadership.

Second, although, in both Mauritian and Mexican cases, the private sector distributes the funds towards NGOs in order for the later to implement social projects, in the Mexican case the role of the private sector is greater than simply giving away funds. The companies support the NGOs by using

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<sup>8</sup> Mexican state with nearly 3,5 million inhabitants and located at the border with the U.S.A. Source: [http://en.wikipedia.org/wiki/Chihuahua\\_\(state\)](http://en.wikipedia.org/wiki/Chihuahua_(state))

<sup>9</sup> Fundacion del Empresariado Chihuahuense (FECHAC). (2014). 2013 Informe de actividades. Retrieved from <http://www.fechac.org/pdf/informes/informe2013.pdf>



their business know-how in management and project evaluation thus putting their valuable capabilities to use. Furthermore, without a National CSR Committee to decide whether a project gets approved or not, as it is the case in Mauritius, the Mexican CSR model is more flexible for it avoids bureaucracy and unnecessary complexity.

Third, allowing companies full ownership of the CSR funds avoids the rise of corruption and other practices alike.

Fourth, by having the freedom to practice leadership in CSR, FECHAC asked questions and realized that financial resources are not sufficient to tackle complex social problems such as poverty, for example. Thus, they tried to reach to the core of problems and engaged in educational programs and the promotion of people's wellbeing and self-realization (Rangel Padilla, 2002). Moving beyond the mere distribution of material means is in line with the argument of the Mauritian and Indian interviewees who stated that things could not be changed with money and charity only.

The second recommendation is based on a different approach to CSR than by creating a CSR fund as in the three cases previously mentioned. As Visser suggests, governments should not regulate the sustainable business per se, but the issues that sustainable business is attempting to address (e.g. biodiversity loss, labor conditions, climate change, transparency). Thus instead of requiring companies to spend a set amount of profits on CSR activities, the governments should consolidate the legal requirements in the above mentioned areas and reinforce the monitoring mechanisms to ensure compliance. This is a more proactive approach that contributes to avoiding problems rather than finding ways to solve them. In this sense it might be the case for governments to engage in legal reforms in regards to, for example, biodiversity loss, labor conditions, climate change, and transparency.

#### **6.4. Future research**

This research paper represents a humble attempt to studying the complex relationship between leadership and CSR and adds on to the very few existing papers on this topic. The future research endeavors can follow several interesting venues.

First, this paper has analyzed the relationship between leadership and CSR in the context of mandatory CSR in Mauritius and India mainly from the perspective of corporate actors. Thus, it might be interesting to approach this nexus from a different angle and extend the analysis to the NGOs level, as well. The CSR tax has led to the proliferation of NGOs in the case of Mauritius and they are now more involved than ever in leading the CSR game. It would be interesting to investigate the new CSR leadership dynamics at their level, as well.

Second, another idea worth of consideration can be to extend the discussion to other national contexts where CSR is mandatory. Indonesia, for example, might represent a good case since the CSR regulation was introduced in this country in 2007 and corporations have acquired extensive knowledge and experience in approaching mandatory CSR. This could help understand the relationship between leadership and CSR at a deeper level.

Third, another interesting venue worth exploring regards the way CSR can steer and influence the practice of leadership. The dominant way of looking at the nexus of leadership and CSR is usually from a leadership perspective and not the other way around. However, as I have shown in this study, in a mandatory CSR framework, it is possible to have leadership shaped by CSR, specifically by the legal constraints such a framework implies.

Fourth, given the time limitations I have not touched upon how different leadership styles are related to the practice of mandatory CSR. One might use this study and that of Angus-Leppan et al. (2010) about leadership styles and implicit/explicit CSR and inquire further into the types of leadership that work best with mandatory corporate social responsibility.

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# Appendices

## Appendix A – Executive Summary

This thesis aims to explore the relationship between CSR and leadership in the context of regulatory frameworks in Mauritius and India. For this purpose, I draw on Matten & Moon's distinction between explicit versus implicit CSR, and I relate this distinction to the ongoing debate over voluntary versus mandatory approaches to promoting CSR practices. Through a comparative study of attitudes towards corporate social responsibility, I investigate the impact of both regimes on the ability of organizational actors to exercise leadership in respect to CSR.

Based on interviews with practitioners and secondary documents, I argue that mandatory CSR within a rigid regulatory framework reduces both the incentives and the potential of organizational actors to take a leading role in the CSR game.

Drawing on Webber and Rittel's typology of problems corroborated with Grint's correlations between different types of problems and power/authority, I argue that making CSR mandatory moves it from the realm of leadership (asking questions) to the realm of management (organize processes). However, addressing CSR through the management lenses is in contradiction with the argument of previous scholars that wicked problems as CSR essentially require leadership.

The outcome of my endeavor also shows that while leadership influences and steers the practice of CSR, it may be that in turn CSR also influences and steers the practice of leadership. This is particularly true in the case of mandatory CSR framework where the specific and rigid legal requirements of conducting CSR shape the practice of leadership.

Thus, my findings show that it is more likely for the CSR tax initiative to have better results if companies are given ownerships of the CSR funds and if they are given room for creativity and innovation in using them. By making this observation I do not intend to take a stance against



regulations, but rather to suggest other ways to do it. In this view I depict the Mexican case of CSR, which represents a great example of corporate CSR leadership. This model leverages the best of both mandatory and voluntary CSR regimes by imposing a tax administered directly by companies. Furthermore, I support Visser's proposal that governments should regulate the issues that sustainable business is attempting to address (e.g. biodiversity loss, labor conditions, climate change, transparency) and not the sustainable business per se.

## Appendix B - Sample of guiding questions used for interviews

1. For how long you and your company have been involved in CSR efforts?
2. What is your opinion about the 2% CSR tax?
3. What national/international drivers are behind the adoption of a CSR tax in your country?
4. How did your company approach CSR in the past?
5. How does your company approach CSR currently?
6. Is there any social project that you, as a company/foundation, would like to start, but can't do so because of the CSR guidelines? If yes, could you give an example?
7. Is the current mandatory CSR allowing you to be creative/innovative in finding solutions to social problems?
8. What incentives do you think companies have for engaging with CSR beyond legal requirements?
9. From your point of view, which type of CSR, voluntary or mandatory, generates better results on the long term? Explain your choice.
10. How do you think CSR and leadership are related?
11. Does CSR require leadership? Why yes/why not?
12. Does CSR require a specific type of leadership?
13. How would you define leadership?
14. What makes a good CSR leader?
15. How would you define CSR?
16. What do companies/governments/NGOs gain from CSR?
17. Is there any other information you consider important adding to this discussion?

## Appendix C – Example of email sent to the Indian participants

Dear Sir/Madam,

My name is Mihaela Cinciulescu and I am a master student in Business, Language and Culture, specialization Leadership and Management Studies, at Copenhagen Business School, Denmark.

I am writing my thesis on the relationship between leadership and corporate social responsibility (for further details please see attached the thesis' outline). I am particularly interested in analyzing how the efforts to institutionalize CSR by making it legally mandatory end up constraining the ability of corporate actors to exercise leadership in the CSR arena. For this purpose I have chosen to interview companies from India and Mauritius. These two countries have in common is particularly a mandatory CSR framework.

In this view I would like to talk to you about how your company perceives the new CSR law, what changes it brought in the way you approach CSR now and what is your opinion about mandatory CSR in comparison to the voluntary one. Ideally the discussion would be a 1-hour interview (on Skype or phone), but if your time doesn't allow it then I could send you several questions by email to be answered in written.

I look forward to hearing from you as soon as possible and I am very enthusiastic about discussing these matters with you, given the CSR tradition of your company.

Thank you.

Yours sincerely,

Mihaela Cinciulescu

## Appendix D – Interview transcripts

See the enclosed CD.

## Appendix E – The new legal framework of CSR in Mauritius (a)

### **Extract from Finance Bill**

#### **Sub-Part AD – Corporate Social Responsibility**

##### **50K. Interpretation**

In this Sub-Part –

“book profit” means the profit computed in accordance with International Financial Reporting Standards, after income tax and –

(a) as reduced by profit on disposal or revaluation of fixed assets, where any such profit or revaluation is credited to profit and loss account; and

(b) as increased by loss on disposal or revaluation of fixed assets, where any such loss or revaluation is debited to profit and loss account; “company” has the same meaning as in section 2 but does not include –

(a) a company holding a Category 1 Global Business Licence under the Financial services Act;

(b) a bank holding a banking licence under the Banking Act, in respect of its income derived from its banking transactions with –

(i) non-residents; or

(ii) corporations holding a Global Business Licence under the Financial Services Act;

(c) an IRS Company referred to in the Investment Promotion (Real Estate Development Scheme) Regulations 2007; and

(d) a non-resident société, a trust or a trustee of a unit trust scheme; “CSR” means Corporate Social Responsibility.

##### **50L. CSR Fund**

(1) Every company shall, in every year, set up a CSR Fund equivalent to 2 per cent of its book profit derived during the preceding year to –

(a) implement an approved programme by the company;

(b) implement an approved programme under the National Empowerment Foundation; or

(c) finance an approved NGO.

(2) A programme under subsection (1)(a) or (b) or an NGO under subsection (1)(c) shall be deemed to be an approved programme or an approved NGO, as the case may be, where it falls within the guidelines issued, with the approval of the Minister, by a committee set up under subsection (3).

(3) The committee referred to in subsection (2) shall be appointed by the Minister and shall consist of a Chairperson and not more than 6 other members comprising of representatives from the public sector,

private sector and civil society.

(4) Where, in respect of a year, the amount paid out of the CSR Fund under subsection (1) is less than the amount provided under the Fund, the difference shall be remitted to the Director- General at the time the company submits its return of income under section 116.

(e) in section 76 –

(i) in the heading, by adding, after the words “double taxation”, the words “and for the exchange of information”;

(ii) in subsection (1)(a), by deleting the word “and” appearing at the end and replacing it by the word “or”;

(iii) in subsection (3), by adding, after paragraph (f), the following new paragraph, the word “and” at the end of paragraph (e) being deleted and the full stop at the end of paragraph (f) being deleted and replaced by the words “; and” – (g) for exchange of information in respect of any person not resident in Mauritius.

(f) by inserting, after section 76, the following new section – 76A. Arrangements for assistance in the recovery of foreign tax The Minister may enter into arrangements with the Government of a foreign country for the purposes of providing assistance in the collection and recovery of foreign tax in the same manner as is provided under Part XI. (g) in section 91, by deleting the words “1 July” and replacing them by the words “1 January”; (h) in section 106, by repealing subsection (1) and replacing it by the following subsection –

(1) Every individual who, in a CPS quarter, derives gross income falling under this Sub-Part –

(a) which exceeds the CPS threshold, whether or not he has a chargeable income for that CPS quarter; or

(b) which does not exceed the CPS threshold but he has a chargeable income for that quarter,

## **CSR Fund**

(36) The amount of profit that a company is required to transfer to the CSR Fund under section 50L out of its book profit derived in the year forming the basis for the year of assessment ending on 30 June 2010 shall be calculated by applying the following formula –

$$2/100 * b/12 * n$$

Where –

**b** is the book profit derived by the company in the year forming the basis for the year of assessment ending on 30 June 2010;

**n** is the number of months starting on 1 July 2009 to the end of the accounting year of the company forming the basis for the year of assessment ending on 31 December 2010.

## Appendix F – The new legal framework of CSR in Mauritius (b)

### **Extract from the Mauritian Budget Speech on CSR**

253. Third, NGOs have a key role to play in our efforts to protect the population and improve our society. I, therefore, welcome the offers from the private sector to spend some of their profits on Corporate Social Responsibility (CSR) schemes. However, the response and implementation have been uneven. I am, therefore, requiring all profitable firms to either spend 2 percent of their profits on CSR activities approved by Government or to transfer these funds to Government to be used in the fight against poverty. The CSR programme or the direct payment to Government could provide some of the resources to underpin the efforts of the Ministry of Social Security to build up a strong NGO community through the development of the four pillars I talked about earlier.

254. Some of the projects that the CSR programmes could undertake by supporting NGOs include:

- Literacy
- Social housing
- Life skills training
- Micro enterprises
- Support to improve academic performance and reduce dropouts
- Aids prevention and support
- Assistance to women and children in need or abused
- Assisting the handicapped
- Alcohol and substance abuse prevention and rehabilitation
- Promoting Arts and Crafts

## Appendix G – Background information about the Mauritian organizations interviewed

### 1. Medine Ltd.

Founded in 1911, Medine is listed on the Stock Exchange of Mauritius with a market capitalisation of Rs 10 billion (Euro 244 million)<sup>10</sup>. Acknowledged as a major player in the socio-economic development of Mauritius, Medine has taken an active role in shaping the western landscape of the island. Its current domains of activity are: agriculture, leisure and real estate.

In November 2006 this company created Medine Horizons Foundation with the purpose of developing and supporting initiatives of NGOs and associations in favor of poverty alleviation in Medine's catchment area (i.e. along the West coast of Mauritius). The initiatives supported by the foundation aim at improving the living conditions of the community and cover a broad range of areas such as: education and training, health, human rights, sports and leisure.

As one of the leaders in the CSR arena in Mauritius, Medine has developed its own social projects for the community based on crucial needs identified in the areas of operation. Among these social projects are: a Craft Incubator that supports local artisans in the production and sale of quality craft, a microcredit scheme - the Medine Entrepreneur Scheme - in partnership with the Mauritius Commercial Bank to provide small entrepreneurs with financial loans at a very low interest rate.

Medine Ltd. adhered to the UN Global Compact<sup>11</sup> initiative in 2007 and ever since has integrated high standards in its business strategy, day-to-day operations and organizational culture.

### 2. National Empowerment Foundation (NEF) Mauritius

NEF is a public and non-profit company that was created in July 2008 with the purpose of leading and implementing a series of national programmes such as:

- the Empowerment Programme
- the Program for the Eradication of Absolute Poverty
- the Trust Fund for the Social Integration of Vulnerable Group
- the Decentralized Cooperation Programme

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<sup>10</sup> Retrieved from <http://www.medine.com>

<sup>11</sup> A strategic policy initiative for businesses around the world that are committed to aligning their operations and strategies with **ten universally accepted principles** in the areas of human rights, labour, environment and anti-corruption.



- National Committee Corporate Social Responsibility
- and the representative body of the NEF Rodrigues<sup>12</sup>.

Through these programmes created in the context of economic reform in the country NEF aims to:

- combat poverty and social exclusion
- reduce the unemployment rate among
- develop the employability of the unemployed and vocational training, while at the same time providing answers to the lack of skilled labor faced by firms
- encourage entrepreneurship and support companies or sectors of activity in difficulty or whose economic and commercial potential is underexploited.<sup>13</sup>

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<sup>12</sup> Retrieved from <http://nef.mu/historique.php>.

<sup>13</sup> Retrieved from <http://nef.mu/missions.php>

## Appendix H – The new legal framework of CSR in India

### **Extract from The Companies Act, 2013, No. 18 of 2013<sup>14</sup> – Proposed areas under which companies should undertake CSR as per schedule VII of the Companies Act 2013**

- i. Poverty alleviation
- ii. Food security
- iii. Education
- iv. Gender equality, women's empowerment & safety
- v. Infant and maternal healthcare
- vi. Public health and sanitation
- vii. Environment and Sustainable Development
- viii. Skills, employment, livelihoods and scholarships
- ix. Social entrepreneurship
- x. Welfare of the old, homeless, destitute and persons with disability
- xi. Social inclusion/ diversity
- xii. Rural development
- xiii. Disaster Management Activities including those related to amelioration/ mitigation
- xiv. Sports and games
- xv. Arts, fine arts, heritage and culture
- xvi. Contribution to Prime Minister's National Relief Fund or any other fund set up by Central or State Governments for socio-economic development and relief, funds for welfare of SC/ STs, other backward classes, minorities and women (Comment/ observation of IICA: Rules could limit such contributions to 5-10% of the total CSR spend of the company)
- xvii. ***Other matters which the Board of the company may consider to be appropriate in light of the declared CSR Policy of the company***

### **Additional legal background information**

In 2011 the Central Government of India issued a new Bill where the concept of corporate social responsibility was introduced explicitly and which demanded all companies with profits of 50 million Rupees (\$816,000) over the last three years to spend 2% for CSR.

Furthermore, the Bill required a CSR Committee to be constituted in each company with the following attributes:

- formulate and recommend to the Board a CSR Policy which shall indicate the activities to be undertaken by the company;
- recommend the amount of expenditure to be incurred on the activities referred to in first clause

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<sup>14</sup> Retrieved from <http://indiacode.nic.in/acts-in-pdf/182013.pdf>.

- monitor the CSR Policy of the company ( Indian Minister of Corporate Affairs, Bill No. 121 of 2011).

The Board in turn shall approve the CSR Policy proposed by the CSR Committee, disclose it on the company's website and ensure that the activities included in this policy are actually undertaken by the company (Indian Minister of Corporate Affairs, Bill No. 121 of 2011). The Board shall also ensure the expenditure of the 2% and in case it fails to spent it to report the reasons that prevented the company from doing so (Indian Minister of Corporate Affairs, Bill No. 121 of 2011).

## Appendix I – Background information about the organizations interviewed in India

### **1. Aditya Birla Group**

The company that Pragnya Ram represents is a US \$40 billion corporation present in the League of Fortune 500 and ranked number four in the global “Top Companies for Leaders”. The Group has a CSR tradition of over one hundred years rooted in its founder’s, Shri G.D. Birla, support for Gandhi’s freedom struggle.

The Group spends approximately US \$21 million per year for social projects including the running of 18 hospitals and 42 schools. The focus areas of CSR expenditure are healthcare, education, sustainable livelihood, infrastructure and espousing social causes<sup>15</sup>.

### **2. Tata Strategic Management Group**

Tata Strategic Management Group (TSMG) is a consulting company part of the Tata Group. TSMG is the largest Indian-owned management-consulting firm and has more than twenty years of management consulting experience on India entry strategy, rural markets and other India insights.<sup>16</sup>

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<sup>15</sup> Retrieved from <http://www.adityabirla.com/about-us/overview>.

<sup>16</sup> Retrieved from <http://www.tsmg.com>.

## Appendix J – The Mexican model of CSR

The FECHAC initiative started as a temporary flooding relief program in 1990 and gradually evolved into a permanent cross-sector collaboration based on several principles such as welfare, wellbeing, and generosity. The evolution into a cross-sector partnership was based on FECHAC's understanding that it simply cannot achieve alone the results it aimed for.

The collaboration was meant to act as a supplement to government's efforts to promote social development and not as its substitute. Thus, 77% of projects' funding came from the public sector and only 33% from FECHAC (Rangel Padilla, 2002).

FECHAC's main income source is represented by the 10% of the Payroll Tax<sup>17</sup> companies pay. Under a governmental decree, over 30,000 companies contribute to this fund. Apart from this, the organization receives donations from wealthy stakeholders (Serrano, Hernandez & Romero, 2005).

Since its beginnings FECHAC proved to be very successful in tackling social problems and in developing the Chihuahuan community. This success inspired other Mexican states and also reached international borders being supported by organizations such as The World Bank. The areas of investment are microbusiness training and guidance, personal loans, senior citizens welfare and development, education, civil society development, infrastructure, etc.

Many of FECHAC's initiatives gradually became independent both in terms of financial resources but also in terms of leadership (Serrano, Hernandez & Romero, 2005).

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<sup>17</sup> A federal tax for companies ranging from 1% to 3% across the Mexican states. In the state of Chihuahua it amounted to 2.6% when the business community requested the 10% increase of this rate. (Serrano, L., Hernandez, N., & Romero, C., *Fundación del Empresariado Chihuahuense (FECHAC)*, Social Enterprise Knowledge Network, February 2005.)