Corporate social responsibility

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Corporate Social Responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance,[1] is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure their adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest into corporate decision-making, and the honoring of a triple bottom line: People, Planet, Profit.

The practice of CSR is subject to much debate and criticism. Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits. Critics argue that CSR distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; others argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

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Development

Business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment.

In the increasingly conscience-focused marketplaces of the 21st century, the demand for more ethical business processes and actions (known as ethicism) is increasing. Simultaneously, pressure is applied on industry to improve business ethics through new public initiatives and laws (e.g. higher UK road tax for higher-emission
Business ethics can be both a normative and a descriptive discipline. As a corporate practice and a career specialization, the field is primarily normative. In academia, descriptive approaches are also taken. The range and quantity of business ethical issues reflects the degree to which business is perceived to be at odds with non-economic social values. Historically, interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporate websites lay emphasis on commitment to promoting non-economic social values under a variety of headings (e.g. ethics codes, social responsibility charters). In some cases, corporations have re-branded their core values in the light of business ethical considerations (e.g. BP's "beyond petroleum" environmental tilt).

The term CSR came in to common use in the early 1970s although it was seldom abbreviated. The term stakeholder, meaning those impacted by an organization's activities, was used to describe corporate owners beyond shareholders as a result of an influential book by R Freeman in 1984. [2]

Whilst there is no recognized standard for CSR, public sector organizations (the United Nations for example) adhere to the Triple Bottom Line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation.

### Approaches

Some commentators have identified a difference between the Continental European and the Anglo-Saxon approaches to CSR.[3] And even within Europe the discussion about CSR is very heterogeneous.[4]

An approach for CSR that is becoming more widely accepted is community-based development projects, such as the Shell Foundation's involvement in the Flower Valley, South Africa. Here they have set up an Early Learning Centre to help educate the community's children, as well as develop new skills for the adults. Marks and Spencer is also active in this community through the building of a trade network with the community - guaranteeing regular fair trade purchases. Often alternative approaches to this is the establishment of education facilities for adults, as well as HIV/AIDS education programmes. The majority of these CSR projects are established in Africa. A more common approach of CSR is through the giving of aid to local organizations and impoverished communities in developing countries. Some organizations do not like this approach as it does not help build on the skills of the local people, whereas community-based development generally leads to more sustainable development.

### Social accounting, auditing, and reporting

Taking responsibility for its impact on society means in the first instance that a company accounts for its actions. Social accounting, a concept describing the communication of social and environmental effects of a company's economic actions to particular interest groups within society and to society at large, is thus an important element of CSR.[5]

A number of reporting guidelines or standards have been developed to serve as frameworks for social accounting, auditing and reporting:

- AccountAbility's AA1000 standard, based on John Elkington's triple bottom line (3BL) reporting
- Accounting for Sustainability's Connected Reporting Framework.
- Global Reporting Initiative's Sustainability Reporting Guidelines
- GoodCorporation's Standard developed in association with the Institute of Business Ethics
- Green Globe Certification / Standard
- Social Accountability International's SA8000 standard
- The ISO 14000 environmental management standard
- The United Nations Global Compact promotes companies reporting in the format of a Communication on Progress (COP). A COP report describes the company's implementation of the Compact's ten universal principles.
- The United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) provides voluntary technical guidance on eco-efficiency indicators,
corporate responsibility reporting and corporate governance disclosure.

- Verite's Monitoring Guidelines

The FTSE Group publishes the FTSE4Good Index, an evaluation of CSR performance of companies.

In some nations legal requirements for social accounting, auditing and reporting exist (e.g. in the French bilan social), though agreement on meaningful measurements of social and environmental performance is difficult. Many companies now produce externally audited annual reports that cover Sustainable Development and CSR issues ("Triple Bottom Line Reports"), but the reports vary widely in format, style, and evaluation methodology (even within the same industry). Critics dismiss these reports as lip service, citing examples such as Enron's yearly "Corporate Responsibility Annual Report" and tobacco corporations' social reports.

**Potential business benefits**

The scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, and are difficult to quantify, though there is a large body of literature exhorting business to adopt measures beyond financial ones (e.g., Deming's Fourteen Points, balanced scorecards). Orlitzky, Schmidt, and Rynes[6] found a correlation between social/environmental performance and financial performance. However, businesses may not be looking at short-run financial returns when developing their CSR strategy.

The definition of CSR used within an organization can vary from the strict "stakeholder impacts" definition used by many CSR advocates and will often include charitable efforts and volunteering. CSR may be based within the human resources, business development or public relations departments of an organisation,[7] or may be given a separate unit reporting to the CEO or in some cases directly to the board. Some companies may implement CSR-type values without a clearly defined team or programme.

The business case for CSR within a company will likely rest on one or more of these arguments:

**Human resources**

A CSR programme can be an aid to recruitment and retention,[8] particularly within the competitive graduate student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help to improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering.

**Risk management**

Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents. These events can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks.[9]

**Brand differentiation**

In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers. CSR can play a role in building customer loyalty based on distinctive ethical values.[10] Several major brands, such as The Co-operative Group, The Body Shop and American Apparel[11] are built on ethical values. Business service organizations can benefit too from building a reputation for integrity and best practice.

**License to operate**

Corporations are keen to avoid interference in their business through taxation or regulations. By taking substantive voluntary steps, they can persuade governments and the wider public that they are taking issues such as health and safety, diversity or the environment good corporate citizens with respect to labour standards.
and impacts on the environment.

Criticisms and concerns

Critics of CSR as well as proponents debate a number of concerns related to it. These include CSR's relationship to the fundamental purpose and nature of business and questionable motives for engaging in CSR, including concerns about insincerity and hypocrisy.

CSR and the nature of business

Corporations exist to provide products and/or services that produce profits for their shareholders.[12] Milton Friedman and others take this a step further, arguing that a corporation's purpose is to maximize returns to its shareholders, and that since (in their view), only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as incongruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is incongruent with capitalism and are in favor of neoliberalism argue that improvements in health, longevity and/or infant mortality have been created by economic growth attributed to free enterprise.[13]

Critics of this argument perceive neoliberalism as opposed to the well-being of society and a hindrance to human freedom. They claim that the type of capitalism practiced in many developing countries is a form of economic and cultural imperialism, noting that these countries usually have fewer labor protections, and thus their citizens are at a higher risk of exploitation by multinational corporations.[14]

A wide variety of individuals and organizations operate in between these poles. For example, the REALleadership Alliance asserts that the business of leadership (be it corporate or otherwise) is to change the world for the better.[15] Many religious and cultural traditions hold that the economy exists to serve human beings, so all economic entities have an obligation to society (e.g., cf. Economic Justice for All). Moreover, as discussed above, many CSR proponents point out that CSR can significantly improve long-term corporate profitability because it reduces risks and inefficiencies while offering a host of potential benefits such as enhanced brand reputation and employee engagement.

CSR and questionable motives

Some critics believe that CSR programs are undertaken by companies such as British American Tobacco (BAT),[16] the petroleum giant BP (well-known for its high-profile advertising campaigns on environmental aspects of its operations), and McDonald's (see below) to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government. They suggest that corporations which exist solely to maximize profits are unable to advance the interests of society as a whole.[17]

Another concern is when companies claim to promote CSR and be committed to Sustainable Development whilst simultaneously engaging in harmful business practices. For example, since the 1970s, the McDonald's Corporation's association with Ronald McDonald House has been viewed as CSR and relationship marketing. More recently, as CSR has become mainstream, the company has beefed up its CSR programs related to its labor, environmental and other practices.[18] All the same, in McDonald's Restaurants v Morris & Steel, Lord Justices Pill, May and Keane ruled that it was fair comment to say that McDonald's employees worldwide 'do badly in terms of pay and conditions'[19] and true that 'if one eats enough McDonald's food, one's diet may well become high in fat etc., with the very real risk of heart disease.'[20]

Shell has a much-publicised CSR policy and was a pioneer in triple bottom line reporting, but this did not prevent the 2004 scandal concerning its misreporting of oil reserves, which seriously damaged its reputation and led to charges of hypocrisy. Since then, the Shell Foundation has become involved in many projects across the world, including a partnership with Marks and Spencer (UK) in three flower and fruit growing communities across Africa.
Critics concerned with corporate hypocrisy and insincerity generally suggest that better governmental and international regulation and enforcement, rather than voluntary measures, are necessary to ensure that companies behave in a socially responsible manner.

Motivations

Corporations are motivated to adopt CSR practices by several different factors.[21]

Ethical consumerism

The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand (Grace and Cohen 2005, 147). Industrialization in many developing countries is booming as a result of technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

Globalization and market forces

As corporations pursue growth through globalization, they have encountered new challenges that impose limits to their growth and potential profits. Government regulations, tariffs, environmental restrictions and varying standards of what constitutes labour exploitation are problems that can cost organizations millions of dollars. Some view ethical issues as simply a costly hindrance. Some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions to provide a subconscious level of advertising. (Fry, Keim, Meiners 1986, 105) Global competition places particular pressure on multinational corporations to examine not only their own labour practices, but those of their entire supply chain, from a CSR perspective.

Social awareness and education

The role among corporate stakeholders to work collectively to pressure corporations is changing. Shareholders and investors themselves, through socially responsible investing are exerting pressure on corporations to behave responsibly. Non-governmental organizations are also taking an increasing role, leveraging the power of the media and the Internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community in holding businesses responsible for their actions is growing (Roux 2007).

Ethics training

The rise of ethics training inside corporations, some of it required by government regulation, is another driver credited with changing the behaviour and culture of corporations. The aim of such training is to help employees make ethical decisions when the answers are unclear. Tullberg believes that humans are built with the capacity to cheat and manipulate, a view taken from (Trivers 1971, 1985), hence the need for learning normative values and rules in human behaviour (Tullberg 1996). The most direct benefit is reducing the likelihood of "dirty hands" (Grace and Cohen 2005), fines and damaged reputations for breaching laws or moral norms. Organizations also see secondary benefit in increasing employee loyalty and pride in the organization. Caterpillar and Best Buy are examples of organizations that have taken such steps (Thilmany 2007).

Increasingly, companies are becoming interested in processes that can add visibility to their CSR policies and activities. One method that is gaining increasing popularity is the use of well-grounded training programs, where CSR is a major issue, and business simulations can play a part in this.

Laws and regulation

Another driver of CSR is the role of independent mediators, particularly the government, in ensuring that corporations are prevented from harming the broader social good, including people and the environment. CSR

http://en.wikipedia.org/wiki/Corporate_social_responsibility
critics such as Robert Reich argue that governments should set the agenda for social responsibility by the way
of laws and regulation that will allow a business to conduct themselves responsibly.

The issues surrounding government regulation pose several problems. Regulation in itself is unable to cover
every aspect in detail of a corporation's operations. This leads to burdensome legal processes bogged down in
interpretations of the law and debatable grey areas (Sacconi 2004). General Electric is an example of a
corporation that has failed to clean up the Hudson River after contaminating it with organic pollutants. The
company continues to argue via the legal process on assignment of liability, while the cleanup remains
stagnant. (Sullivan & Schiafo 2005). The second issue is the financial burden that regulation can place on a
nation's economy. This view shared by Bulkeley, who cites the Australian federal government's actions to avoid
compliance with the Kyoto Protocol in 1997, on the concerns of economic loss and national interest. The
Australian government took the position that signing the Kyoto Pact would have caused more significant
economic losses for Australia than for any other OECD nation (Bulkeley 2001, pg 436). Critics of CSR also
point out that organisations pay taxes to government to ensure that society and the environment are not
adversely affected by business activities.

Denmark made a law on CSR. 16 December 2008, the Danish parliament adopted a bill making it mandatory
for the largest Danish companies, investors and state owned companies to include information on corporate
social responsibility (CSR) in their annual financial reports. The reporting requirements became effective on 1
January 2009[22].

The information shall include:

- information on the companies’ policies for CSR or socially responsible investments (SRI)
- information on how such policies are implemented in practice and
- information on what results have been obtained so far and managements expectations for the future with
  regard to CSR/SRI.

CSR/SRI is still voluntary in Denmark, but if a company has no policy on this they must state information to
that effect explicitly in their annual financial report.

More on the Danish law on CSRgov.dk

**Crises and their consequences**

Often it takes a crisis to precipitate attention to CSR. One of the most active stands against environmental
management is the CERES Principles that resulted after the Exxon Valdez incident in Alaska in 1989 (Grace
and Cohen 2006). Other examples include the lead poisoning paint used by toy giant Mattel, which required a
recall of millions of toys globally and caused the company to initiate new risk management and quality control
processes. In another example, Magellan Metals in the West Australian town of Esperance was responsible for
lead contamination killing thousands of birds in the area. The company had to cease business immediately and
work with independent regulatory bodies to execute a cleanup.

**Stakeholder priorities**

Increasingly, corporations are motivated to become more socially responsible because their most important
stakeholders expect them to understand and address the social and community issues that are relevant to them.
Understanding what causes are important to employees is usually the first priority because of the many
interrelated business benefits that can be derived from increased employee engagement (i.e. more loyalty,
 improved recruitment, increased retention, higher productivity, and so on). Key external stakeholders include
customers, consumers, investors (particularly institutional investors, regulators, academics, and the media).

**See also**

- Accountability
- Beneficiation
- Business in the Community

http://en.wikipedia.org/wiki/Corporate_social_responsibility
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External links

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This page was last modified on 3 July 2009 at 19:41.