

CORPORATE SOCIAL RESPONSIBILITY

Introduction

Corporate Social Responsibility (CSR) is an expression used to describe what some see as a company's obligation to be sensitive to the needs of all of the stakeholders in its business operations.

Another definition for CSR is about how companies manage the business processes to produce an overall positive impact on society.

Corporate Social Responsibility (CSR), sometimes called responsible business practice or corporate responsibility, has no single definition but essentially covers how your business can make a positive contribution to your local area.

The terms corporate responsibility and corporate social responsibility are used as identical terms within this website. "Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. Social Responsibility is a guiding principle for every decision made and in every area of a business."

A company's stakeholders are all those who are influenced by, or can influence, a company's decisions and actions. These can include (but are not limited to): employees, customers, suppliers, community organizations, subsidiaries and affiliates, joint venture partners, local neighborhoods, investors, and shareholders (or a sole owner).

Critical review of concepts

Some critics of CSR, such as the economist Milton Friedman, argue that a corporation's principal purpose is to maximize returns to its shareholders, whilst

obeying the laws of the countries within which it works. Others argue that the only reason corporations put in place social projects is utilitarian; that they see a commercial benefit in raising their reputation with the public or with government. Proponents of CSR, however, would suggest a number of reasons why self-interested corporations, solely seeking to maximise profits are unable to advance the interests of society as a whole.

Key challenges to the idea of CSR include: - the rule of corporate law that a corporation's directors are prohibited from any activity that would reduce profits - other mechanisms established to manage the principal-agent problem, such as accounting oversight, stock options, performance evaluations, deferred compensation and other mechanisms to increase accountability to shareholders.

Because of this, it has become clear that a CSR activity generally can only be effective at achieving social or environmental outcomes to the extent that it maximizes profits: hence the CSR slogan - "doing well by doing good". Note that this requires that the resources applied to CSR activities must have a higher return than those resources could obtain if applied. This means that the possible scope of CSR activities is drastically narrowed. And corporations, with their constant incentive to maximize profits, often have identified all areas where profits could be increased, including those that have positive external social and environmental outcomes. The scope for CSR is thus narrowed to situations in which: 1. resources are available for investment 2. The CSR activity will yield higher profits than any other potential investment or activity 3. The corporation has been remiss in identifying this profit opportunity

A conflict can arise when a corporation espouses CSR and its commitment to Sustainable Development on the one hand, whilst damaging revelations about its business practices emerge on the other. For example the McDonald's Corporation has been criticised by CSR campaigners for unethical business practices, and was

the subject of a decision by Justice Roger Bell in the McLibel case (which upheld some of these claims, regarding mistreatment of workers, misleading advertising, and unnecessary cruelty to animals). Similarly Shell has a much publicised CSR policy and was a pioneer in triple bottom line reporting, but was involved in 2004 in a scandal over the misreporting of its oil reserves which seriously damaged its reputation and led to charges of hypocrisy.

Universities and business schools, many of them with keen advocates of CSR amongst their teaching staffs, have themselves come in for criticism concerning their dealings with corporations (note the different stances taken by ESADE and Wheeling Jesuit University with regard to Aramark).

Link CSR to business environment developments today

Critics of the role of business in society argue that:

- Corporations care little for the welfare of workers, and given the opportunity will move production to sweatshops in less well regulated countries.
- Unchecked, companies will squander scarce resources.
- Companies do not pay the full costs of their impact. For example the costs of cleaning pollution often fall on society in general. As a result profits of corporations are enhanced at the expense of social or ecological welfare.
- Regulation is the best way to ensure that companies remain socially responsible.

Illustration of Key points with relevant contemporary examples

Today's heightened interest in the proper role of businesses in society has been promoted by increased sensitivity to environmental and ethical issues. Issues like environmental damage, improper treatment of workers, and faulty production leading to customers inconvenience or danger, are highlighted in the media. In some countries Government regulation regarding environmental and social issues has increased, and standards and laws are also often set at a supranational level (e.g. by the European Union). Some investors and investment fund managers have begun to take account of a corporation's CSR policy in making investment decisions. Some consumers have become increasingly sensitive to the CSR performance of the companies from which they buy their goods and services. These trends have contributed to the pressure on companies to operate in an economically, socially and environmentally sustainable way.

It is important to distinguish CSR from charitable donations and "good works" (i.e. philanthropy, e.g. Habitat for Humanity or Ronald McDonald House). Corporations have often, in the past, spent money on community projects, the endowment of scholarships, and the establishment of Foundations. They have also often encouraged their employees to volunteer to take part in community work thereby create goodwill in the community which will directly enhance the reputation of the company and strengthen its brand. CSR goes beyond charity and requires that a responsible company will take into full account the impact on all stakeholders and on the environment when making decisions. This requires them to balance the needs of all stakeholders with their need to make a profit and reward their shareholders adequately.

In Conclusion the concept of CSR was widely quoted by the World Business Council for Sustainable Development states that "Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to

economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". (CSR: Meeting Changing Expectations, 1999). This holistic approach to business regards organisations as (for example) being full partners in their communities, rather than seeing them more narrowly as being primarily in business to make profits and serve the needs of their shareholders

References:

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