CORPORATE SOCIAL RESPONSIBILITY

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Introduction

Corporate Social Responsibility (or CSR as we will call it throughout this book) is a concept which has become dominant in business reporting. Every corporation has a policy concerning CSR and produces a report annually detailing its activity. And of course each of us claims to be able to recognise corporate activity which is socially responsible and activity which is not socially responsible. There are two interesting pints about this: firstly we do not necessarily agree with each other about what is socially responsible; and although we claim to recognise what it is or is not when we are asked to define it then we find this impossibly difficult. Thus the number of different definitions is huge and is this chapter we will look at some of these.

Definitions of CSR

The broadest definition of corporate social responsibility is concerned with what is – or should be – the relationship between global corporations, governments of countries and individual citizens. More locally the definition is concerned with the relationship between a corporation and the local society in which it resides or operates. Another definition is concerned with the relationship between a corporation and its stakeholders.

For us all of these definitions are pertinent and each represents a dimension of the issue. A parallel debate is taking place in the arena of ethics – should corporations be controlled through increased regulation or has the ethical base of citizenship been lost and needs replacing before socially responsible behaviour will ensue? However this debate is represented it seems that it is concerned with some sort of social contract between corporations and society.

This social contract implies some form of altruistic behaviour – the converse of selfishness – whereas self-interest connotes selfishness. Self-interest is central to the Utilitarian perspective championed by such people as Bentham, Locke and J.S. Mill. The latter, for example, is generally considered to have advocated as morally right the pursuit of the greatest happiness for the greatest numbe although the Utilitarian philosophy is actually much more based on selfishness than this – something to which we will return later. Similarly Adam Smith's free-market economics, is predicated on competing self-interest.

These influential ideas put interest of the individual above interest of the collective. The central tenet of social responsibility however is the social contract between all the stakeholders to society, which is an essential requirement of civil society. This is alternatively described as citizenship but for either term it is important to remember that the social responsibility needs to extend beyond present members of society. Social responsibility also requires a responsibility towards the future and towards future members of society. Subsumed within this is of course a responsibility towards the environment – which we will also return to later – because of implications for other members of society both now and in the future.

There is however no agreed definition of CSR so this raises the question as to what exactly can be considered to be corporate social responsibility. According to the EU Commission [(2002) 347 final: 5],"...CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

Corporations are part of society

A growing number of writers however have recognised that the activities of an organisation impact upon the external environment and have suggested that one of the roles of accounting should be to report upon the impact of an organisation in this respect. Such a suggestion first arose in the 1970s and a concern with a wider view of company performance is taken by some writers who evince concern with the social performance of a business, as a member of society at large.

Indeed the desirability of considering the social performance of a business has not always however been accepted and has been the subject of extensive debate. Thus Hetherington (1973: 37) states "There is no reason to think that shareholders are willing to tolerate an amount of corporate non-profit activity which appreciably reduces either dividends or the market performance of the stock."

Conversely, writing at a similar time, Dahl (1972: 18) states"...every large corporation should be thought of as a social enterprise; that is an entity whose existence and decisions can be justified insofar as they serve public or social purposes."Similarly Carroll (1979), one of the early CSR theorists states that: "business encompasses the economic, legal, ethical and discretionary expectations that society has of organization at a given point in time”. More recently this was echoed by Balabanis, Phillips and Lyall (1998), who declared that: “in the modern commercial area, companies and their managers are subjected to well publicised pressure to play an increasingly active role in [the welfare of] society.”

Profit is all that matters

Some writers have taken the view that a corporation should not be concerned with social responsibility and you are certain to come across the statement from Milton Friedman, made in 1970: “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”.

Equally some people are more cynical in their view of corporate activity. So Drucker (1984) had the opinion that: “business turns a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth”.

CSR is conditional

While Robertson and Nicholson (1996) thought that: “a certain amount of rhetoric may be inevitable in the area of social responsibility. Managers may even believe that making statements about social responsibility insulates the firm from the necessity of taking socially responsible action.”

Moir (2001) is more ambivalent: “whether or not business should undertake CSR, and the forms that responsibility should take, depends upon the economic perspective of the firm that is adopted”. So we can see that CSR is a contested topic and it is by no means certain that everybody thinks that it is important or relevant to modern business.

Effects of organisational activity

It is apparent of course that any actions which an organisation undertakes will have an effect not just upon itself but also upon the external environment within which that organisation resides. In considering the effect of the organisation upon its external environment it must be recognised that this environment includes both the business environment in which the firm is operating, the local societal environment in which the organisation is located and the wider global environment. This effect of the organisation can take many forms, such as:

• The utilisation of natural resources as a part of its production processes

• The effects of competition between itself and other organisations in the same market

• The enrichment of a local community through the creation of employment opportunities

• Transformation of the landscape due to raw material extraction or waste product storage

• The distribution of wealth created within the firm to the owners of that firm (via dividends) and the workers of that firm (through wages) and the effect of this upon the welfare of individuals

• And more recently the greatest concern has been with climate change and the way in which the emission of greenhouse gases are exacerbating this.

It can be seen therefore from these examples that an organisation can have a very significant effect upon its external environment and can actually change that environment through its activities. It can also be seen that these different effects can in some circumstances be viewed as beneficial and in other circumstances be viewed as detrimental to the environment. Indeed the same actions can be viewed as beneficial by some people and detrimental by others.

“We are now, more than ever, aware of the potentially negative impact of business on the environment, whatever the nature or size of the business. There can only be positive results from developing sustainability – from benefiting your own bottom line to benefiting tomorrow’s industry to benefiting the environment in which we all live.”
– Tony Blair, UK Prime Minister, May 2000

The principles of CSR

Because of the uncertainty surrounding the nature of CSR activity it is difficult to define CSR and to be certain about any such activity. It is therefore imperative to be able to identify such activity and we take the view that there are three basic principles which together comprise all CSR activity. These are:

- **Sustainability;**
- **Accountability;**
- **Transparency.**

<u>Sustainability</u>

This is concerned with the effect which action taken in the present has upon the options available in the future. If resources are utilised in the present then they are no longer available for use in the future, and this is of particular concern if the resources are finite in quantity.

Thus raw materials of an extractive nature, such as coal, iron or oil, are finite in quantity and once used are not available for future use. At some point in the future therefore alternatives will be needed to fulfil the functions currently provided by these resources. This may be at some point in the relatively distant future but of more immediate concern is the fact that as resources become depleted then the cost of acquiring the remaining resources tends to increase, and hence the operational costs of organisations tend to increase.

Sustainability therefore implies that society must use no more of a resource than can be regenerated.This can be defined in terms of the carrying capacity of the ecosystem (Hawken 1993) and described with input – output models of resource consumption. Thus the paper industry for example has a policy of replanting trees to replace those harvested and this has the effect of retaining costs in the present rather than temporally externalising them.

Viewing an organisation as part of a wider social and economic system implies that these effects must be taken into account, not just for the measurement of costs and value created in the present but also for the future of the business itself. Measures of sustainability would consider the rate at which resources are consumed by the organisation in relation to the rate at which resources can be regenerated. Unsustainable operations can be accommodated for either by developing sustainable operations or by planning for a future lacking in resources currently required. In practice organisations mostly tend to aim towards less unsustainability by increasing efficiency in the way in which resources are utilised. An example would be an energy efficiency programme.

Accountability

This is concerned with an organisation recognising that its actions affect the external environment, and therefore assuming responsibility for the effects of its actions. This concept therefore implies a quantification of the effects of actions taken, both internal to the organisation and externally. More specifically the concept implies a reporting of those quantifications to all parties affected by those actions.This implies a reporting to external stakeholders of the effects of actions taken by the organisation and how they are affecting those stakeholders.

This concept therefore implies a recognition that the organisation is part of a wider societal network and has responsibilities to all of that network rather than just to the owners of the organisation. Alongside this acceptance of responsibility therefore must be a recognition that those external stakeholders have the power to affect the way in which those actions of the organisation are taken and a role in deciding whether or not such actions can be justified, and if so at what cost to the organisation and to other stakeholders.

Accountability therefore necessitates the development of appropriate measures of environmental performance and the reporting of the actions of the firm. This necessitates costs on the part of the organisation in developing, recording and reporting such performance and to be of value the benefits must exceed the costs. Benefits must be determined by the usefulness of the measures selected to the decision-making process and by the way in which they facilitate resource allocation, both within the organisation and between it and other stakeholders. Such reporting needs to be based upon the following characteristics:

• Understandability to all parties concerned;

• Relevance to the users of the information provided;

• Reliability in terms of accuracy of measurement, representation of impact and freedom from bias;

• Comparability, which implies consistency, both over time and between different Organisations.

Inevitably however such reporting will involve qualitative facts and judgements as well as quantifications. This qualitativeness will inhibit comparability over time and will tend to mean that such impacts are assessed differently by different users of the information, reflecting their individual values and priorities.

A lack of precise understanding of effects, coupled with the necessarily judgmental nature of relative impacts, means that few standard measures exist. This in itself restricts the inter-organisation comparison of such information. Although this limitation is problematic for the development of environmental accounting it is in fact useful to the managers of organisations as this limitation of comparability alleviates the need to demonstrate good performance as anything other than a semiotic.

Transparency

Transparency, as a principle, means that the external impact of the actions of the organisation can benascertained from that organisation's reporting and pertinent facts are not disguised within that reporting.Thus all the effects of the actions of the organisation, including external impacts, should be apparent to all from using the information provided by the organisation's reporting mechanisms. Transparency is of particular importance to external users of such information as these users lack the background details and knowledge available to internal users of such information. Transparency therefore can be seen to follow from the other two principles and equally can be seen to be a part of the process of recognition of responsibility on the part of the organisation for the external effects of its actions and equally part of the process of transferring power to external stakeholders.

Conclusion

There is a sound business case for social responsibility

– Department of Trade & Industry (DTI)

As we can see, CSR is a broad subject which leads to a variety of opinions and can be considered in a number of different ways. In the rest of the book we will look at these aspects in more detail and at the actual implementation of CSR in a business.