Principles of CSR

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The principles of CSR

- Accountability
- Transparency
- Sustainability

Introduction

In the last chapter we outlined the three main principles upon which CSR is based. As we explained, this gives a basis for the measurement and evaluation of performance while also giving flexibility for an organisation to consider its own socially and environmentally significant factors and plan accordingly without being compared favourably or unfavourable with organisations with different priorities. In this chapter therefore we are going to look at these principles in more detail.

The prominence of CSR

It is quite noticeable how much more prominent corporate social responsibility (CSR) has become – not just in the academic world and in the business world but also is everyday life. We can highlight a lot of factors which have led to this interest – such things as:

• Poor business behaviour towards customers

• Treating employees unfairly

• Ignoring the environment and the consequences of organisational action.

Since then other things have also featured prominently in popular consciousness. One of these which has become more pronounced is the issue of climate change and this has affected concern about CSR through a concern with the emission of greenhouse gases and particularly carbon dioxide. Nowadays it is quite common for people to know and discuss the size of their carbon footprint whereas even three years ago people in general did not even know what a carbon footprint was.

Another thing which has become prominent is a concern with the supply chain of a business; in other words with what is happening in other companies which that company does business with – their suppliers and the suppliers of their suppliers. In particular people are concerned with the exploitation of people in developing countries, especially the question of child labour but also such things as sweat shops.

So no longer is it acceptable for a company to say that the conditions under which their suppliers operate is outside of their control and so they are not responsible. Customers have said that this is not acceptable and have called companies to account. And there have recently been a number of high profile retail companies which have held their hands up to say mea culpa and taken very public steps to change this.

Interestingly the popularity of companies increases after they have admitted problems and taken steps to correct these problems. In doing this they are thereby showing both that honesty is the best practice and also that customers are reasonable. The evidence suggests that individual customers are understanding and that they do not expect perfection but do expect honesty and transparency. Moreover they also expect companies to make efforts to change their behaviour and to try to solve their CSR problems.

Changing emphasis in companies

Companies themselves have also changed. No longer are they concerned with greenwashing – the pretence of socially responsible behaviour through artful reporting. Now companies are taking CSR much more seriously not just because they understand that it is a key to business success and can give them a strategic advantage, but also because people in those organisations care about social responsibility.
So it would be reasonable to claim that the growing importance of CSR is being driven by individuals who care – but those individual are not just customers, they are also employees, managers, owners and investors of a company. So companies are partly reacting to external pressures and partly leading the development of responsible behaviour and reporting. So accountability – one of the central principles of CSR – is

much more recognised and is being responded to by increasing transparency – another of the principles of CSR.

Sustainability

The third principle of CSR is that of sustainability and this is a term which has suddenly become so common as to be ubiquitous for business and for society. Every organisation mentions sustainability and most claim to have developed sustainable practices. A lot of this is just rhetoric from people who, we would claim, do not want to face the difficult issues involved in addressing sustainability. There is a danger therefore that sustainability has taken over from CSR itself as a target for greenwashing.Nevertheless although the relationship between organisations and society has been subject to much debate, often of a critical nature, evidence continues to mount that the best companies make a positive impact upon their environment.

Furthermore the evidence continues to mount that such socially responsible behaviour is good for business, not just in ethical terms but also in financial terms – in other words that corporate social responsibility is good for business as well as all its stakeholders. Thus ethical behaviour and a concern for people and for the environment have been shown to have a positive correlation with corporate performance. Indeed evidence continues to mount concerning the benefit to business from socially responsible behaviour and, in the main, this benefit is no longer questioned by business managers. The nature of corporate social responsibility is therefore a topical one for business and academics.

Recognising CSR

Most people initially think that they know what CSR is and how to behave responsibly – and everyone claims to be able to recognise socially responsible or irresponsible behaviour without necessarily being able to define it. So there is general agreement that CSR is about a company's concern for such things as community involvement, socially responsible products and processes, concern for the environment and socially responsible employee relations (Ortiz-Martinez & Crowther 2006).

Issues of socially responsible behaviour are not of course new and examples can be found from throughout the world and at least from the earliest days of the Industrial Revolution and the concomitant founding of large business entities (Crowther 2002) and the divorce between ownership and management – or the divorcing of risk from rewards (Crowther 2004). According to the European Commission CSR is about undertaking voluntary activity which demonstrates a concern for stakeholders.

But it is here that a firm runs into problems – how to balance up the conflicting needs and expectations of various stakeholder groups while still being concerned with shareholders; how to practice sustainability; how to report this activity to those interested; how to decide if one activity more socially responsible that another. The situation is complex and conflicting. In this book therefore the contributors are concerned with different aspects of CSR, both with theorising and with implementing CSR in practice.

Environmental issues and their effects and implications

When an organisation undertakes an activity which impacts upon the external environment then this affects that environment in ways which are not reflected in the traditional accounting of that organisation.The environment can be affected either positively, through for example a landscaping project, or negatively,through for example the creation of heaps of waste from a mining operation.

These actions of an organisation impose costs and benefits upon the external environment. These costs and benefits are imposed by the organisation without consultation, and in reality form part of the operational activities of the organisation. These actions are however excluded from traditional accounting of the firm, and by implication from its area of responsibility. Thus we can say that such costs and benefits have been externalised. The concept of externality therefore is concerned with the way in which these costs and benefits are externalised from the organisation and imposed upon others.

Such externalised costs and benefits have traditionally been considered to be not the concern of the organisation, and its managers, and hence have been excluded from its accounting. It must be recognised however that the quantification of the effect of such externalisation, particularly from an accounting viewpoint, is problematical and not easy to measure, and this is perhaps one reason for the exclusion of such effects from the organisation's accounting. It is probably fair to state however that more costs have been externalised by organisation than benefits.

Hence a typical organisation has gained from such externalisation and the reported value creation of such an organisation has been overstated by this failure to account for all costs and benefits. This is achieved by restricting the accounting evaluation of the organisation to the internal effects. Indeed one way in which an organisation can report, through its accounting, the creation of value is by an externalisation of costs, which are thereby excluded from the accounting of the organisation's activities.

Externalising costs

As far as the externalisation of costs in concerned it is important to recognise that these can be externalised both spatially and temporally.

Spatial externalisation

Spatial externalisation describes the way in which costs can be transferred to other entities in the current time period. Examples of such spatial externalisation include:

• Environmental degradation though such things as polluted – and therefore dead – rivers or through increased traffic imposes costs upon the local community through reduced quality of life;

• Causing pollution imposes costs upon society at large;

• Waste disposal problems impose costs upon whoever is tasked with such disposal;

• Removing staff from shops imposes costs upon customers who must queue for service;

• Just in time manufacturing imposes costs upon suppliers by transferring stockholding costs to them.

In an increasingly global market then one favourite way of externalising costs is through transfer of those costs to a third world country. This can be effected by a transfer of operational activities, or at least those with environmental impacts, to such a country where the regulatory regime is less exacting. In this respect it should be noted that the arguments regarding reducing labour costs are generally used for such a transfer of operational activities but at the same time less exacting regulatory regimes also exist.

Temporal externalisation

The temporal externalisation of costs describes the way in which costs are transferred from the current time period into another – the future. This thereby enables reported value creation, through accounting, to be recorded in the present. Examples of temporal externalisation include:

• Deferring investment to a future time period and so increasing reported value in the present;

• Failing to provide for asset disposal costs in capital investment appraisal and leaving such costs for future owners to incur;

• Failure to dispose of waste material as it originates and leaving this as a problem for the future;

• Causing pollution which must then be cleaned up in the future;

• Depletion of finite natural resources or failure to provide renewable sources of raw material will cause problem for the future viability of the organisation;

• Lack of research and development and product development will also cause problems for the future viability of the organisation;

• Eliminating staff training may save costs in the present at the expense of future Competitiveness.

It can be seen that such actions have the effect of deferring the dealing with problems into the future but not of alleviating the need to deal with such problems. In this respect it must be recognised that it is not always apparent in the present that such costs are being temporally externalised, as they may not be recognised as a problem at the present time. For example, the widespread use of asbestos in the 1930s to 1960s was considered to be beneficial at the time and was only later found to be problematic.

This temporal externalisation of costs, through causing the clean up problems and costs to be deferred to a later time period, was therefore incurred unintentionally. Equally such costs may at the present time be in course of being transferred into the future through actions taken in the present which will have unanticipated consequences in the future. Nevertheless it is reasonable to suggest that such actions may be taken in the present for cost minimisation purposes with little regard for possible future costs.

For example, if we consider the nuclear power generation industry it is now generally accepted that if the full costs of generating power by this means, which would include the costs of disposing of nuclear waste and the costs of decommissioning nuclear generators at the end of their working life, had been taken into account then the idea of power generation by this means would never have been put into operation.

Nevertheless nuclear power is again being considered in a lot of countries as the only realistic solution to global warming. Nuclear power stations emit minimal amounts of greenhouse gases and so are attractive for that reason. Of course their future costs are We can see therefore that if we take externalities into account that the decisions made and actions taken by firms may be very different. We can equally see that the recognition of the effect upon these externalities of actions taken by an organisation can have significant impact upon the activities of the organisation and that the way in which an organisation chooses to internalise or externalise its costs can have a significant impact upon its operational performance.

The Social Contract

It is impossible that such governments as have hitherto existed in the world, could have
commenced by any other means than a total violation of every principle sacred and
Moral. - The Rights of Man (Paine 1792)

In 1762 Jean-Jacques Rousseau produced his book on the Social Contract which was designed to explain –
and therefore legitimate – the relationship between and individual and society and its government. In it he argued that individuals voluntary gave up certain rights in order for the government of the state to be able to manage for the greater good of all citizens. This is of course a sharp contrast to the angry rhetoric of Tom Paine, shown above. Nevertheless the idea of the Social Contract has been generally accepted.

More recently the Social Contract has gained a new prominence as it has been used to explain the relationship between a company and society. In this view the company (or other organisation) has obligations towards other parts of society in return for its place in society.
This can be depicted thus:

The Social Contract

This in turn led to the development of Stakeholder Theory, which we will consider in the next chapter.

Conclusions

As we have seen. CSR has gained in prominence in recent years. It has also changed in nature as different issues have become more prominent. We have considered these changes and looked in particular at environmental issues and the way in which the effects and associated costs can be externalised away from the company itself. This is of particular significance when we consider stakeholders in the next chapter.