

Corporate Social Responsibility (CSR)

Starting point

Why do businesses exist? What is the purpose of a business, or, in the bigger picture, any economic system?

The derivation of the word company? Two Latin words, *cum* and *panis*, which mean breaking bread together.¹

How does this origin translate in today's business environment? What are or should be the goals of the modern corporation? Opinions differ and cover a wide spectrum:

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.

Milton Friedman, 1962²

I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so that they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society, a phrase which sounds trite but is fundamental.

Dave Packard³

Co-founder of Hewlett Packard Company in 1939

Corporate Social Responsibility (CSR) represents an attempt to address these questions.

What is CSR?

The entirety of CSR can be discerned from the three words contained within its title phrase: 'corporate,' 'social,' and 'responsibility.' Therefore, in broad terms, CSR covers the responsibilities corporations (or other for-profit organizations) have to the societies within which they are based and operate.

More specifically, CSR involves a business identifying its stakeholder groups and incorporating their needs and values within the strategic and day-to-day decision-making process.

¹ Michael Arndt, 'An Ode to 'The Money-Spinner,'' *BusinessWeek*, March 24, 2003, pp22-23; review of 'The Company: A Short History of a Revolutionary Idea,' by John Micklethwait & Adrian Wooldridge, Modern Library, 2003.

² Milton Friedman, *Capitalism and Freedom*, Chicago: University of Chicago Press, 1962.

³ Charles Handy, 'What's a Business For?' *Harvard Business Review*, December 2002, p54.

Therefore, a business' 'society' within which it operates, which defines the number of stakeholders to which the organization has a 'responsibility,' may be broad or narrow depending on the industry in which the firm operates and its perspective.

Other definitions of CSR:

The notion of companies looking beyond profits to their role in society is generally termed corporate social responsibility (CSR). ...It refers to a company linking itself with ethical values, transparency, employee relations, compliance with legal requirements and overall respect for the communities in which they operate. It goes beyond the occasional community service action, however, as CSR is a corporate philosophy that drives strategic decision-making, partner selection, hiring practices and, ultimately, brand development.⁴

South China Morning Post, 2002

The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.⁵

Archie B. Carroll, 1979

CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment.⁶

The Institute of Directors, UK, 2002

CSR is a means of analyzing the inter-dependent relationships that exist between businesses and economic systems, and the communities within which they are based. CSR is a means of discussing the extent of any obligations a business has to its immediate society; a way of proposing policy ideas on how those obligations can be met; as well as a tool by which the benefits to a business for meeting those obligations can be identified.

What business areas does CSR cover?

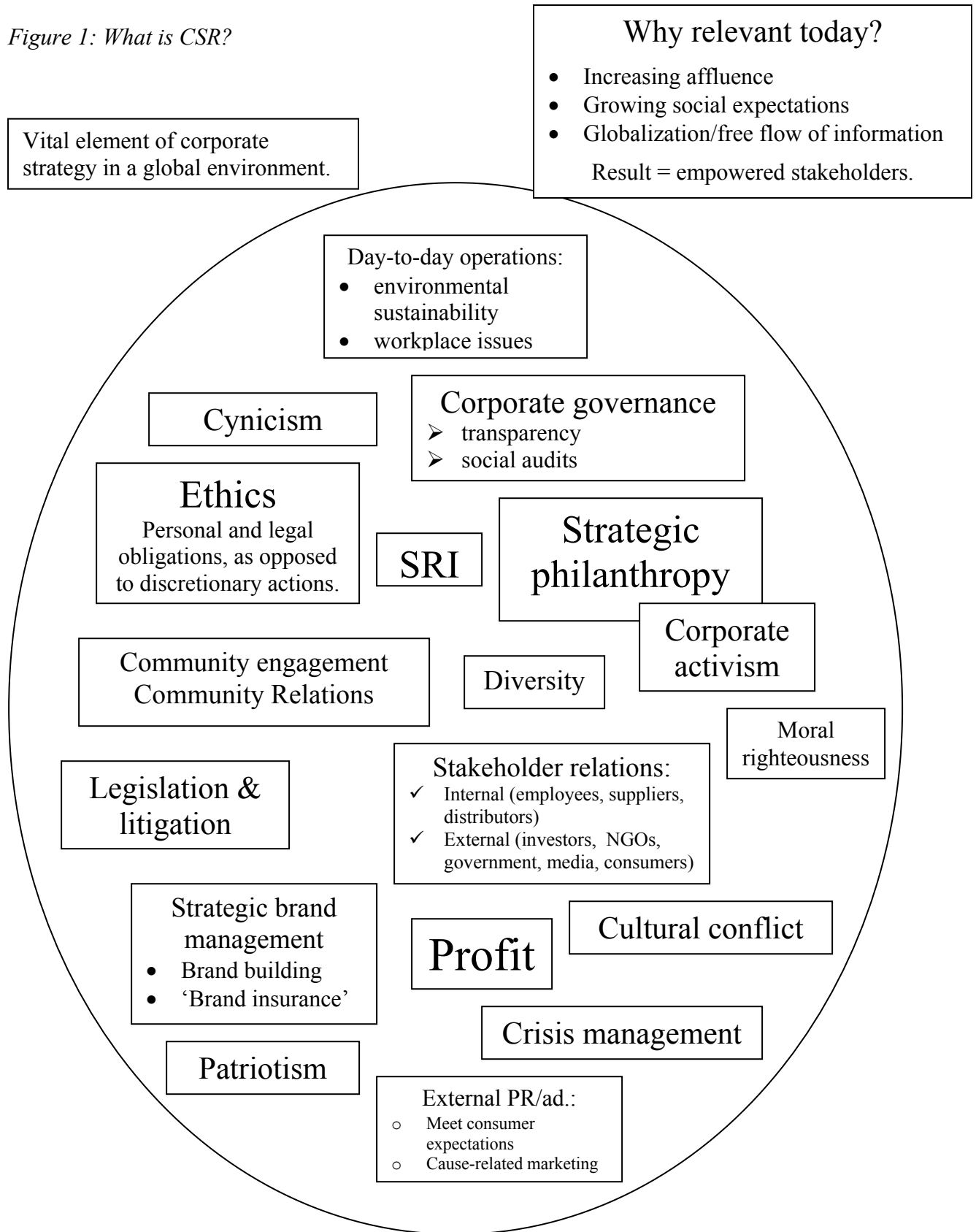
CSR covers all aspects of an organization's operations and can be divided into the subsections identified in Figure 1. Example issues from these subsections are given in more detail in the 'Example Issues' section:

⁴ Michael McComb, 'Profit to be found in companies that care,' *South China Morning Post*, April 14, 2002, p. 5.

⁵ Archie B. Carroll, 'A Three-Dimensional Conceptual Model of Corporate Performance,' *Academy of Management Review*, 1979, Vol. 4, No. 4, p. 500.

⁶ Ruth Lea, 'Corporate Social Responsibility: IoD Member Opinion Survey,' The Institute of Directors, UK, November, 2002, p10.

Figure 1: What is CSR?



CSR vocabulary

CSR is also referred to as:

- ‘corporate’ or ‘business responsibility’
- ‘corporate’ or ‘business citizenship’
- ‘community relations’
- ‘social responsibility.’

Closely related concepts that are all contained with the total CSR perspective are:

- social and environmental auditing
- stakeholder theory
- business ethics
- environmental sustainability
- strategic philanthropy (cause-related marketing)
- corporate governance

Consistent definitions, labels and vocabulary have yet to be solidly established in the field.

What CSR is not

It is important to stress that the study of CSR focuses largely on the margins of a business’ discretionary actions and obligations. This is rather than any legal or regulatory obligations individuals and corporations face in the day-to-day management of operations within any specific industry. To break these rules and regulations is to break the law. Such infractions are simply actions that are illegal. Of course, adhering to the law is an important component of an ethical organization’s ethos, but it is not the primary concern of CSR, which primarily deals with decisions incorporating discretionary actions. CSR is a business strategy and, therefore, represents actions that need to be positively selected, or avoided. CSR advocates believe there is strategic advantage to a company that makes these choices.

It is also important that CSR focuses on areas of immediate relevance to an organization’s sphere of operations. CSR is not about pursuing the CEO’s pet interest and ‘saving the whales.’ CSR should be distinguished from concepts such as ‘strategic philosophy’ and ‘cause-related marketing,’ which are valid business strategies and form an element of an organization’s CSR policy, but are not a central component of CSR. CSR is a much more holistic approach to business, which is designed to enhance corporate success because of its relevance, rather than represent something unconnected to an organization’s core business.

The origins of CSR

CSR as an issue has been around since commerce began:

The history of CSR is almost as long as that of companies. Concerns about the excesses of the East India Company were commonly expressed in the seventeenth century. There has been a tradition of benevolent capitalism in the UK for over 150 years. Quakers, such as Barclays and Cadbury, as well as socialists, such as Engels and Morris, experimented with socially responsible and values-based forms of business. And Victorian philanthropy could be said to be responsible for considerable portions of the urban landscape of older town centres today.⁷

In terms of activism aimed at companies perceived as acting against the general interest:

The first large-scale consumer boycott? England in the 1790s over slave-harvested sugar. (It succeeded in forcing the importer to switch to free-labor sources.)...In 1612, English jurist Edward Coke complained that corporations “cannot commit treason, nor be outlawed or excommunicated, for they have no souls.”⁸

Arguments underpinning CSR

Arguments offered in favor of CSR can be broadly split into two camps—moral and economic.

1. A moral argument for CSR

While recognizing that profits are necessary for any business entity to exist, all groups in society should strive to add value and make life better. Businesses rely on the society within which they operate and could not exist or prosper in isolation. They need the infrastructure that society provides, its source of employees, not to mention its consumer base. CSR is recognition of that inter-dependence and a means of delivering on that obligation, to the mutual benefit of businesses and the societies within which they are based:

CSR broadly represents the relationship between a company and the wider community within which the company operates. It is recognition on the part of the business that ‘for profit’ entities do not exist in a vacuum, and that a large part of any success they enjoy is as much due to the context in which they operate as factors internal to the company alone.

Charles Handy makes a convincing and logical argument for the purpose of a business laying beyond the goals of maximizing profit and satisfying shareholders above all other stakeholders in an organization:

⁷ Adrian Henriques, ‘Ten things you always wanted to know about CSR (but were afraid to ask); Part One: A brief history of corporate social responsibility (CSR),’ *Ethical Corporation Magazine*, May 26, 2003, <http://www.ethicalcorp.com/content.asp?ContentID=594>

⁸ Michael Arndt, ‘An Ode to ‘The Money-Spinner,’’ *BusinessWeek*, March 24, 2003, pp22-23; review of ‘The Company: A Short History of a Revolutionary Idea,’ by John Micklethwait & Adrian Wooldridge, Modern Library, 2003.

The purpose of a business...is not to make a profit, full stop. It is to make a profit so that the business can do something more or better. That “something” becomes the real justification for the business...It is a moral issue. To mistake the means for the end is to be turned in on oneself, which Saint Augustine called one of the greatest sins...It is salutary to ask about any organization, “If it did not exist, would we invent it?” “Only if it could do something better or more useful than anyone else” would have to be the answer, and profit would be the means to that larger end.⁹

Advocates of CSR believe that, in general, the goal of any economic system should be to further the general social welfare. In advanced economies, the purpose of business should extend beyond the maximization of efficiency and profit. Increasingly, society expects businesses to have an obligation to the society in which they are located, to the people they employ, and their customers, beyond their traditional bottom-line and narrow shareholder concerns.

At a minimum, businesses operating in a community benefit from the infrastructure of that community (tangible, practical elements such as the roads, other transport infrastructure, the police, firefighters, etc) as well as more intangible benefits, such as a safe or clean environment. But, in most cases, businesses also draw their most important resource, its employees, largely from the local community. Any business will be more successful if it employs a well-educated workforce that can attend good hospitals if they become sick, and who have grown up in a positive environment. This is not to mention consumers, also often members of the local community, without whom no business could survive.

CSR advocates point out that no organization exists in isolation. They believe that businesses, without exception, have an obligation to contribute as well as draw from the community, on which they rely so heavily.

2. An economic argument for CSR

An economic argument in favor of CSR can also be made. It is an argument of economic self-interest—that there are very real economic benefits to businesses pursuing a CSR strategy—and is designed to persuade those business managers who are not persuaded by the moral case.

Proponents of this argument believe that CSR represents an holistic approach to business. Therefore, an effective CSR policy will infuse all aspects of operations. They believe the actions corporations take today to incorporate CSR throughout the organization represent a real point of differentiation and competitive market advantage on which future success can hinge:

CSR is an argument of economic self-interest for a business. In today’s brand-driven markets, CSR is a means of matching corporate operations with stakeholder values and demands, at a time when these parameters can change rapidly. One example is a company’s customers: CSR adds value because it allows companies to better reflect the values of this important constituent base that the company aims to serve.

⁹ Charles Handy, ‘What’s a Business For?’ *Harvard Business Review*, Vol. 80, No. 12, December 2002, pp. 49-55.

CSR covers all aspects of a business' day-to-day operations. Everything an organization does in some way interacts with one or more of its stakeholder groups, and companies today need to build a watertight brand with respect to all stakeholders. Whether as an employer, producer, buyer, supplier, or investment, the attractiveness and success of a company today is directly linked to the strength of its brand.

CSR affects all aspects of all operations within a corporation because of the need to consider the needs of all constituent groups. Each area builds on all the others to create a composite of the corporation (its brand) in the eyes of all stakeholder groups.

Example CSR issues

Examples of issues within the economic sphere that contain a CSR component range from 'corporate governance' to 'patriotism,' from the issue of 'fair trade' to 'diversity in the workplace.' All contain, in some form or another, issues connected to the perception of the company, and therefore its brand, in the eyes of one or more of its stakeholder groups:

- *Corporate governance*

Transparency is the key to encouraging trust in the managers selected to run a company on behalf of the shareholders. It is also vital to maintaining confidence within other stakeholder groups and the general public. The issues of accurate financial statements, executive compensation, and independent oversight, have become particularly sensitive and important for companies to get right.

- *Patriotism*

An issue such as 'patriotism' is by definition subjective, but has risen in importance in the U.S. following the September 11, 2001 terrorist attacks. A good example of an issue that falls into this category is the trend today of companies attempting to avoid paying corporation tax, some even going to the lengths of incorporating off-shore (particularly Bermuda), even though company headquarters and the majority of workers are based in the U.S:

According to a recent Harvard University study, U.S. companies avoided paying tax on nearly \$300 billion in income in 1998. ... In 1940, companies and individuals each paid about half the federal income tax collected; now the companies pay 13.7% and individuals 86.3%.¹⁰

- *Fair trade*

¹⁰ Nanette Byrnes & Louis Lavelle, 'Special Report: The Corporate Tax Game—How blue-chip companies are paying less and less of the nation's tax bill,' *BusinessWeek*, March 31, 2003, pp79-87.

Companies in particular industries have felt pressured to pay a ‘fair’ price for the goods they purchase, over and above the market-driven price, directly to the producer. This is particularly the case in many food industries, where world market prices may well have decreased over time, while costs have either remained the same or increased:

Today, with suppliers at small farmer cooperatives in Peru, Mexico, and Sumatra, Green Mountain pays Fair Trade prices for coffee beans -- not the market price of 24 to 50 cents per pound, but a minimum of \$1.26 per pound for conventional coffee and \$1.41 for organically grown. In 2002, these Fair Trade purchases represented 8 percent of sales. Green Mountain also has a “farm direct” program that cuts out middlemen to deliver higher prices to farmers. Roughly a quarter of its coffee purchases are farm direct.¹¹

- *Diversity*

The 2000 Census data has revealed that the ethnic make-up of the U.S. is changing rapidly. Organizations need to adapt their traditional structures and mind-sets, which prevent companies from marketing products effectively to significant segments within the market:

Latinos are now the largest minority in the U.S., making up 13 percent of the overall U.S. population—a 58 percent increase from 1990. As black, Asian, and Pacific Islander populations also experience strong growth rates, whites are steadily heading toward minority status. Already in California, New Mexico, Hawaii and the District of Columbia, the majority of residents are nonwhite. That’s also true in 48 of the nation’s 100 largest cities.¹²

Literally, CSR (the extent to which an organization’s decisions reflect the values and needs of consumers and other stakeholders) can creep into every decision that a company makes. One sub-area of the issue of ‘diversity’ involves the equal treatment of men and women. There are plenty of examples of both good and bad practice:

- ❖ Bad – The US Masters, women, and the Ku Klux Klan.

In response to Augusta National Golf Club’s failure to invite women to become members of the club, the National Council of Women’s Organizations (NCWO) launched a campaign aimed at corporations supporting the 2003 U.S. Masters golf tournament and demanding they withdraw their support, with some success. As the club dug-in its heels, the situation got worse with the Ku Klux Klan announcing it would protest at the Masters tournament in support of the Golf Club’s right to exclude female members. A PR nightmare!! Whatever the merits of the case, the Club could have avoided a lot of negative press coverage by adopting a more enlightened stance on this issue at an early stage.

- ❖ Good – Annika Sörenstam, Bank of America, and The Colonial Golf Tournament.

¹¹ Peter Asmus, ‘100 Best Corporate Citizens of 2003,’ *Business Ethics Magazine*, Spring 2003, pp6-10.

¹² Elizabeth Wasserman, ‘A Race for Profits,’ *mbajungle.com*, March/April 2003, pp40-41.

The Bank of America, in its first year as the title sponsor of the PGA Tour event The Colonial (May 22-25, 2003) at Fort Worth Texas, invited Annika Sörenstam, the best player on the LPGA Tour to compete. No female player had played in a PGA Tour event since 1945. The move significantly raised the level of interest in the golf tournament nationwide and stood in stark contrast to the controversy that had surrounded the U.S. Masters the month before.

Many would call the Bank of America's move 'opportunistic,' whilst highlighting Augusta National's right, as a private club, to associate with whom it wants. From the corporate perspective, however, it would have been noted that the Bank of America was widely praised for its progressive approach and received acres of positive press coverage as a result, while Augusta National was widely denounced for its dogmatic stance and extremely conservative approach that does not reflect the feelings of the majority of U.S. citizens.

CSR & corporate brands

Brands today are one of the key focal points of corporate success. Companies try to establish popular brands in consumer minds because it increases leverage, which is directly reflected in sales and revenue. All aspects of a company's operations today feed into helping build the corporate brand. Crucial is how a brand is perceived by all stakeholders.

Three benefits in particular indicate the positive value for a company in striving to remain in tune with the community within which it is based by implementing a strong CSR policy:

- **Positive marketing/brand-building – BP**
BP, with a \$200 million re-branding exercise, has effectively re-positioned itself as the most environmentally sound and socially responsible of the extraction companies. The company stands in stark contrast today with Exxon Mobil that faces on-going NGO (Non-Governmental Organization) attacks, consumer boycotts, and activist-led litigation because of its decision to fight the environmental movement, and its failure to recognize the wider importance of CSR as a corporate strategy.
- **Brand insurance – NIKE**
NIKE has emerged as one of the most progressive global corporations in terms of CSR because it has learned from its past mistakes and attacks by NGOs. As one of the first corporations to have a Vice-President for Corporate Responsibility and to publish an annual CSR Report, the company has done a lot to mitigate public opinion, establish its brand as representative of a much more committed corporate citizen, and 'insure' itself against any repeat of the consumer boycotts it faced in the mid-1990s.
- **Crisis management – Johnson & Johnson**
Johnson & Johnson's transparent handling of the crisis facing its Tylenol brand in 1982 is widely heralded as the model case in the area of crisis management. J&J went far and above what had previously been expected of corporations in such situations, instigating a \$100 million re-call of 31 million bottles of the drug following a suspected poisoning/product tampering incident. In acting in the way it did, J&J saved the Tylenol brand, enabling it to remain a strong revenue earner for the company to this day.

Given the large amount of time, money and effort companies invest in their brands, a good CSR policy is an effective means of protecting that investment and maximizing its impact.

Why is CSR important?

CSR is an important business strategy because, wherever possible, consumers want to buy products from companies they trust; suppliers want to form business partnerships with companies they can rely on; employees want to work for companies they respect; and NGOs, increasingly, want to work together with companies seeking feasible solutions and innovations in areas of common concern. Satisfying each of these stakeholder groups allows companies to maximize their commitment to another important stakeholder group—their investors, who benefit most when the needs of these other stakeholder groups are being met:

I honestly believe that the winning companies of this century will be those who prove with their actions that they can be profitable and increase social value—companies that both do well and do good....Increasingly, shareowners, customers, partners and employees are going to vote with their feet—rewarding those companies that fuel social change through business. This is simply the new reality of business—one that we should and must embrace.

Carly Fiorina
Chairman and Chief Executive Officer
Hewlett Packard Company¹³

The businesses most likely to succeed in the globalizing world will be those best able to combine the often conflicting interests of its multiple stakeholders, and incorporate a wider spectrum of opinions and values within the decision-making process and objectives of the organization. Lifestyle brand firms, in particular, need to live the ideals they convey to their consumers:

The 21st century will be the century of the social sector organization. The more economy, money, and information become global, the more community will matter.

Peter F. Drucker¹⁴
Founder of the Drucker Foundation (now the Leader to Leader Institute)

CSR is increasingly crucial to maintaining success in business—by providing a corporate strategy around which the company can rally, but also by giving meaning and direction to day-to-day operations.

Why is CSR relevant today?

CSR as a strategy is becoming increasingly important for businesses today because of three identifiable trends:

¹³ <http://www.hp.com/hpinfo/globalcitizenship/csr/>

¹⁴ Leader to Leader website, June, 2003, <http://www.pfdf.org/about/index.html>

- **Changing social expectations**
Consumers and society in general expect more from the companies whose products they buy. This sense has increased in the light of recent corporate scandals, which reduced public trust of corporations, and reduced public confidence in the ability of regulatory bodies and organizations to control corporate excess.
- **Increasing affluence**
This is true within developed nations, but also in comparison to developing nations. Affluent consumers can afford to pick and choose the products they buy. A society in need of work and inward investment is less likely to enforce strict regulations and penalize organizations that might take their business and money elsewhere.
- **Globalization**
The growing influence of the media sees any ‘mistakes’ by companies brought immediately to the attention of the public. In addition, the Internet fuels communication among like-minded groups and consumers—empowering them to spread their message, while giving them the means to co-ordinate collective action (i.e. a product boycott).

These three trends combine with the growing importance of brands and brand value to corporate success (particularly lifestyle brands) to produce a shift in the relationship between corporation and consumer, in particular, and between corporation and all stakeholder groups, in general.

The result of this mix is that consumers today are better informed and feel more empowered to put their beliefs into action. From the corporate point of view, the market parameters within which companies must operate are increasingly being shaped by bottom-up, grassroots campaigns. NGOs and consumer activists are feeding, and often driving, this changing relationship between consumer and company.

CSR is particularly important within a globalizing world because of the way brands are built—on perceptions, ideals and concepts that usually appeal to higher values. CSR is a means of matching corporate operations with stakeholder values and demands, at a time when these values and demands are constantly evolving.

CSR can therefore best be described as a total approach to business. CSR creeps into all aspects of operations. Like quality, it is something that you know when you see it. It is something that businesses today should be genuinely and wholeheartedly committed to. The dangers of ignoring CSR are too dangerous when it is remembered how important brands are to overall company value; how difficult it is to build brand strength; yet how easy it can be to lose brand dominance.

CSR is, therefore, also something that a company should try and get right in implementation.

Implementing CSR: Key steps

CSR is about common sense policies that represent a means of integrating a complete ‘social perspective’ into all aspects of operations. The goal is to maximize true value and benefit for an

organization, while protecting the huge investments corporations make today in their brands. CSR asks companies to ensure their business operations are clean and equitable, and contribute positively to the society in which they are based. Otherwise, they leave themselves open to too much danger from a potential consumer backlash.

CSR is good business sense, and a total approach to doing business, in a globalizing world where companies are increasingly relying on brand strength (particularly global lifestyle brands) to add value and product differentiation, and where NGO-driven consumer activism is increasing.

Many believe the issue of how corporations integrate CSR into everyday operations and long-term strategic planning will define the business marketplace in the near future. It will become a key point of brand differentiation, both in terms of corporate entities and the products that carry their brands.

Key steps on the road to integrating CSR within all aspects of operations include:

- Ensure the commitment of top management, and particularly the CEO, is communicated throughout the organization
- Appoint a CSR position at the strategic decision-making level to manage the development of policy and its implementation
- Develop relationships with all stakeholder groups and interests (particular relevant NGOs)
- Incorporate a Social or CSR Audit within the company's annual report
- Ensure the compensation system within the organization reinforces the CSR policies that have been created, rather than merely the bottom-line
- Any anonymous feedback/whistle-blower process, ideally overseen by an external ombudsperson, will allow the CSR Officer to operate more effectively

Corporations today are best positioned when they reflect the values of the constantly shifting and sensitive market environment in which they operate. It is vital that they are capable of meeting the needs of an increasingly demanding and socially-aware consumer market, especially as brands move front and center of a firm's total value. Global firms with global lifestyle brands have the most to lose if the public perception of the brand fails to live up to the image portrayed. Integrating a complete 'social perspective' into all aspects of operations will maximize true value and benefit for an organization, while protecting the huge investments companies make in corporate brands.