

CORPORATE SOCIAL RESPONSIBILITY IN MANAGEMENT



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CORPORATE SOCIAL RESPONSIBILITY

What is CSR?

Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (“Triple-Bottom-Line- Approach”), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.

Promoting the uptake of CSR amongst SMEs requires approaches that fit the respective needs and capacities of these businesses, and do not adversely affect their economic viability. UNIDO based its CSR programme on the Triple Bottom Line (TBL) Approach, which has proven to be a successful tool for SMEs in the developing countries to assist them in meeting social and environmental standards without compromising their competitiveness. The TBL approach is used as a framework for measuring and reporting corporate performance against economic, social and environmental performance. It is an attempt to align private enterprises to the goal of sustainable global development by providing them with a more comprehensive set of working objectives than just profit alone. The perspective taken is that for an organization to be sustainable, it must be financially secure, minimize (or ideally eliminate) its negative environmental impacts and act in conformity with societal expectations.

Key issues of CSR

Environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labour standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures. A properly implemented CSR concept can bring along a variety of competitive advantages, such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brand image and reputation, enhanced customer loyalty, better decision making and risk management processes.

Corporate social responsibility (CSR) is a type of international private business self-regulation that aims to contribute to societal goals of a philanthropic, activist, or charitable nature by engaging in or supporting volunteering or ethically-oriented practices. While once it was possible to describe CSR as an internal organizational policy or a corporate ethic strategy, that time has passed as various international laws have been developed and various organizations have used their authority to push it beyond individual or even industry-wide initiatives. While it has been considered a form of corporate self-regulation for some time, over the last decade or so it has moved considerably from voluntary decisions at the level of individual organizations, to mandatory schemes at regional, national and international levels.

Considered at the organizational level, CSR is generally understood as a private firm policy. As such, it must align with and be integrated into a business model to be successful. With some models, a firm's implementation of CSR goes beyond compliance with regulatory requirements and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law". The choices of 'complying' with the law, failing to comply, and 'going beyond' are three distinct strategic organizational choices. While in many areas such as environmental or labor regulations, employers may choose to comply with the law, or go beyond the law, other organizations may choose to flout the law. These organizations are taking on clear legal risks. The nature of the legal risk, however, changes when attention is paid to soft law. Soft law may incur legal liability particularly when businesses make misleading claims about their sustainability or other ethical credentials and practices. Overall, businesses may engage in CSR for strategic or ethical purposes. From a strategic perspective, the aim is to increase long-term profits and shareholder trust through positive public relations and high ethical standards to reduce business and legal risk by taking responsibility for corporate actions. CSR strategies encourage the company to make a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others. From an ethical perspective, some businesses will adopt CSR policies and practices because of ethical beliefs of senior management. For example, a CEO may believe that harming the environment is ethically objectionable.

Definition

Since the 1960s, corporate social responsibility has attracted attention from a range of businesses and stakeholders. A wide variety of definitions have been developed but with little consensus. Part of the problem with definitions has arisen because of the different interests represented. A business person may define CSR as a business strategy, an NGO activist may see it as 'greenwash' while a government official may see it as voluntary regulation." In addition, disagreement about the definition will arise from the disciplinary approach." For example, while an economist might consider the director's discretion necessary for CSR to be implemented a risk of agency costs, a law academic may consider that discretion to be an appropriate expression of what the law demands from directors.

Corporate social responsibility has been defined by Sheehy as "international private business self-regulation." Sheehy examined a range of different disciplinary approaches to defining CSR. The definitions reviewed included the economic definition of "sacrificing profits," a management definition of "beyond compliance", institutionalist views of CSR as a "socio-political movement" and law's own focus on directors' duties. Further, Sheehy considered Archie

Carroll's description of CSR as a pyramid of responsibilities, namely, economic, legal, ethical, and philanthropic responsibilities. While Carroll was not defining CSR, but simply arguing for classification of activities, Sheehy developed a definition differently following the philosophy of science—the branch of philosophy used for defining phenomena.

Carroll extended corporate social responsibility from the traditional economic and legal responsibility to ethical and philanthropic responsibility in response to the rising concerns on ethical issues in businesses. This view is reflected in the *Business Dictionary* which defines CSR as "a company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs and (3) by earning adequate returns on the employed resources."

CSR Approaches

Continental European and the Anglo-Saxon Approaches

Some commentators have identified a difference between the Canadian (Montreal school of CSR), the Continental European and the Anglo-Saxon approaches to CSR. It is said that for Chinese consumers, a socially responsible company makes safe, high-quality products; for Germans it provides secure employment; in South Africa it makes a positive contribution to social needs such as health care and education. Even within Europe, the discussion about CSR is very heterogeneous.

CSR is Corporate Philanthropy

A more common approach to CSR is corporate philanthropy. This includes monetary donations and aid given to nonprofit organizations and communities. Donations are made in areas such as the arts, education, housing, health, social welfare and the environment, among others, but excluding political contributions and commercial event sponsorship. Another approach to CSR is to incorporate the CSR strategy directly into operations, such as procurement of Fair Trade tea and coffee.

Creating Shared Value or CSV

Creating shared value or CSV is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues and philanthropy. The *Harvard Business Review* article "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility" provided examples of companies that have developed deep linkages between their business strategies and CSR. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but emphasizes the opportunities for competitive advantage from building a social value proposition into corporate strategy. CSV gives the impression that only two stakeholders are important – shareholders and consumers. Many companies employ benchmarking to assess their CSR policy, implementation and effectiveness. Benchmarking involves reviewing competitor initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and how others perceive competitor CSR strategy.

Cost-Benefit Analysis

In competitive markets cost-benefit analysis of CSR initiatives can be examined using a resource-based view (RBV). According to Barney (1990), "formulation of the RBV, sustainable competitive advantage requires that resources be valuable (V), rare (R), inimitable (I) and non-substitutable (S)." A firm introducing a CSR-based strategy might only sustain high returns on their investment if their CSR-based strategy could not be copied (I). However, should competitors imitate such a strategy, that might increase overall social benefits. Firms that choose CSR for strategic financial gain are also acting responsibly.

RBV presumes that firms are bundles of heterogeneous resources and capabilities that are imperfectly mobile across firms. This imperfect mobility can produce competitive advantages for firms that acquire immobile resources. McWilliams and Siegel (2001) examined CSR activities and attributes as a differentiation strategy. They concluded that managers could determine the appropriate level of investment in CSR by conducting cost benefit analysis in the same way that they analyze other investments. Reinhardt (1998) found that a firm engaging in a CSR-based strategy could only sustain an abnormal return if it could prevent competitors from imitating its strategy.

Moreover, when it comes to cost benefit analysis, one should look at Waddock and Graves (1997), who showed that corporate social performance was positively linked to financial performance, meaning that the benefit of being socially responsible outweigh the costs. McWilliams and Siegel (2000) noted that Waddock and Graves had not taken innovation into account, that companies that did CSR were also very innovative, and that the innovation drove financial performance, not CSR. Hull and Rothenberg (2007) then found that when companies are not innovative, a history of CSR does in fact help financial performance.



Scope of CSR

Initially, CSR emphasized the official behaviour of individual firms. Later, it expanded to include supplier behaviour and the uses to which products were put and how they were disposed of after they lost value.

Supply chain

In the 21st century, corporate social responsibility in the supply chain has attracted attention from businesses and stakeholders. Corporations' supply chain is the process by which several organizations including suppliers, customers and logistics providers work together to provide a value package of products and services to the end user, who is the customer.

Corporate social irresponsibility in the supply chain has greatly affected the reputation of companies, leading to a lot of cost to solve the problems. For instance, incidents like the 2013 Savar building collapse, which killed over 1000 people, pushed companies to consider the impacts of their operations on society and environment. On the other side, the horse meat scandal of 2013 in the United Kingdom affected many food retailers, including Tesco, the largest retailer in the United Kingdom leading to the dismissal of the supplier. Corporate social irresponsibility from both the suppliers and the retailers has greatly affected the stakeholders who lost trust for the affected business entities, and despite the fact that sometimes it is not directly undertaken by the companies, they become accountable to the stakeholders. These surrounding issues have prompted supply chain management to consider the corporate social responsibility context. Wieland and Handfield (2013) suggested that companies need to include social responsibility in their reviews of component quality. They highlighted the use of technology in improving visibility across the supply chain

Corporate Social Initiatives

Corporate social responsibility includes six types of corporate social initiatives:

1. Corporate philanthropy: company donations to charity, including cash, goods, and services, sometimes via a corporate foundation
2. Community volunteering: company-organized volunteer activities, sometimes while an employee receives pay for pro-bono work on behalf of a non-profit organization
3. Socially-responsible business practices: ethically produced products which appeal to a customer segment
4. Cause promotions and activism: company-funded advocacy campaigns
5. Cause-related marketing: donations to charity based on product sales
6. Corporate social marketing: company-funded behavior-change campaigns

Implementation of CSR

CSR may be based within the human resources, business development or public relations departments of an organisation,^[49] or may be a separate unit reporting to the CEO or the board of directors.

Engagement plan

An engagement plan can assist in reaching a desired audience. A corporate social responsibility individual or team plans the goals and objectives of the organization. As with any corporate activity, a defined budget demonstrates commitment and scales the program's relative importance.

Accounting, auditing and reporting

Social accounting is the communication of social and environmental effects of a company's economic actions to particular interest groups within society and to society at large. Social accounting emphasizes the notion of corporate accountability. Crowther defines social accounting as "an approach to reporting a firm's activities which stresses the need for the identification of socially relevant behavior, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques." Reporting guidelines and standards serve as frameworks for social accounting, auditing and reporting:

1. AccountAbility's AA1000 standard, based on John Elkington's triple bottom line (3BL) reporting
2. The Prince's Accounting for Sustainability Project's Connected Reporting Framework
3. The Fair Labor Association conducts audits based on its Workplace Code of Conduct and posts audit results on the FLA website.
4. The Fair Wear Foundation verifies labour conditions in companies' supply chains, using interdisciplinary auditing teams.
5. Global Reporting Initiative's Sustainability Reporting Guidelines
6. Economy for the Common Good's Common Good Balance Sheet
7. GoodCorporation's standard developed in association with the Institute of Business Ethics
8. Synergy Codethic 26000 Social Responsibility and Sustainability Commitment Management System (SRSCMS) Requirements—Ethical Business Best Practices of Organizations—the necessary management system elements to obtain a certifiable ethical commitment management system. The standard scheme has been built around ISO 26000 and UNCTAD Guidance on Good Practices in Corporate Governance. The standard is applicable by any type of organization.;
9. Earthcheck Certification / Standard
10. Social Accountability International's SA8000 standard
11. Standard Ethics Aei guidelines
12. The ISO 14000 environmental management standard
13. The United Nations Global Compact requires companies to communicate on their progress (or to produce a Communication on Progress, COP), and to describe the company's implementation of the Compact's ten universal principles.
14. 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.
15. The FTSE Group publishes the FTSE4Good Index, an evaluation of CSR performance of companies.
16. EthicalQuote (CEQ) tracks reputation of the world's largest companies on Environmental, Social, Governance (ESG), Corporate Social Responsibility, ethics and sustainability.
17. The Islamic Reporting Initiative (IRI) is a not-for-profit organization which leads the creation of the IRI framework; the guiding integrated CSR reporting framework based on Islamic principles and values.

Common actions

Common CSR actions include:

1. Environmental sustainability: recycling, waste management, water management, renewable energy, reusable materials, 'greener' supply chains, reducing paper use and adopting Leadership in Energy and Environmental Design (LEED) building standards.
2. Human capital enhancement: Companies provide additional resources for capacity building of local employees, including technical and professional training, adult basic education, and language classes.
3. Community involvement: This can include raising money for local charities, providing volunteers, sponsoring local events, employing local workers, supporting local economic growth, engaging in fair trade practices, etc.
4. Ethical marketing: Companies that ethically market to consumers are placing a higher value on their customers and respecting them as people who are ends in themselves. They do not try to manipulate or falsely advertise to potential consumers. This is important for companies that want to be viewed as ethical.

Social License to Operate

Social License to Operate can be determined as contractual grounds for the legitimacy of activities and Projects Company is involved in. It refers to the level of support and approval of a company's activities by its stakeholders. Displaying commitment to CSR is one way to achieve social license, by enhancing a company's reputation.

The primary objective for the companies is to obtain and maintain the Social License to Operate. Based on the Requisite Organization research of Dr. Elliott Jaques to achieve this goal a company needs to:

1. Identify the business strategy and business objectives
2. Identify the social license holders (employees of a company, labour unions, local and national governments, communities, activist groups, etc.) for every business objectives
3. Identify the support that the company desires to achieve from the social license holders by specifying for every business objective social license elements (target of support, context of support, time of support, action of support)
4. Quantitatively measure the intention (positive or negative) of the social license holders to support the business objectives
5. Identify the factors that negatively impact the intention of the social license holders to support the business objectives (strength of their belief in support, their evaluation of support outcomes, pressure to provide support, enablers / disablers of support, etc.)
6. Develop the Social License Development Strategy to remove the negative factors and ensure positive intention of all the social license holders to support all the business objectives of the company.
7. Perform ongoing monitoring and quantitative measurement of changes in the Social License to Operate of the company.