9
Corporate Social Responsibility

Key concepts and terms

- Corporate social responsibility (CSR)
- Strategic CSR
- Stakeholder theory

Learning outcomes

On completing this chapter you should be able to define these key concepts. You should also know about:

- The meaning of corporate social responsibility
- CSR activities
- Developing a CSR strategy
- CSR strategy
- The rationale for CSR

Introduction

Corporate social responsibility (CSR) is exercised by organizations when they conduct their business in an ethical way, taking account of the social, environmental and economic impact of how they operate, and going beyond compliance. As defined by McWilliams *et al* (2006) CSR refers to the actions taken by businesses 'that further some social good beyond the interests of the firm and that which is required by law'.

CSR has also been described by Husted and Salazar (2006) as being concerned with 'the impact of business behaviour on society' and by Porter and Kramer (2006) as a process of integrating business and society. The latter argued that to advance CSR, 'We must root it in a broad understanding of the interrelationship between a corporation and society while at the same time anchoring it in the strategies and activities of specific companies.'

The CIPD, in *Making CSR Happen: the contribution of people management* (Redington, 2005) placed more emphasis on CSR in the workplace when it defined it as: '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 was justified by the CIPD (2007b) as a relevant and important HR activity because:

> *HR is responsible for the key systems and processes underpinning effective delivery. Through HR, CSR can be given credibility and aligned with how businesses run. CSR could be integrated into processes such as the employer brand, recruitment, appraisal, retention, motivation, reward, internal communication, diversity, coaching and training.*

Strategic CSR defined

Strategic CSR is about deciding initially the extent to which the firm should be involved in social issues and then creating a corporate social agenda – considering what social issues to focus on and to what extent. As Porter and Kramer (2006) emphasize, strategy is always about choice. They suggest that organizations that 'make the right choices and build focused, proactive and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack'. They also believe that: 'It is through strategic CSR that the company will make the greatest social impact and reap the greatest business benefits.' Baron (2001) points out that CSR is what a firm does when it provides 'a public good in conjunction with its business and marketing strategy'.

CSR strategy needs to be integrated with the business strategy but it is also closely associated with HR strategy. This is because it is concerned with socially responsible behaviour both

outside and within the firm – with society generally and with the internal community. In the latter case this means creating a working environment where personal and employment rights are upheld and HR policies and practices provide for the fair and ethical treatment of employees.

CSR activities

CSR activities as listed by McWilliams *et al* (2006) include incorporating social characteristics or features into products and manufacturing processes, adopting progressive human resource management practices, achieving higher levels of environmental performance through recycling and pollution abatement and advancing the goals of community organizations.

The CSR activities of 120 leading British companies, Business in the Community (2007)

1. Community – skills and education, employability and social exclusion were frequently identified as key risks and opportunities. Other major activities were support for local community initiatives and being a responsible and safe neighbour.

2. Environment – most companies reported climate change and resource-use as key issues for their business; 85 per cent of them managed their impacts through an environmental management system.

3. Marketplace – the issues most frequently mentioned by companies were research and development, procurement and supply chain, responsible selling, responsible marketing and product safety. There was a rising focus on fair treatment of customers, providing appropriate product information and labelling, and on the impacts of products on customer health.

4. Workplace – this was the strongest management performing area as most companies have established employment management frameworks that can cater for workplace issues as they emerge. Companies recognized the crucial role of employees to achieve responsible business practices. Increasing emphasis was placed on internal communications and training to raise awareness and understanding of why CSR is relevant to them and valuable for the business. More attention was being paid to health and well-being issues as well as the traditional safety agenda. More work was being done on diversity, both to ensure the business attracts a diverse workforce and to communicate the business case for diversity internally.

Business in the Community also reported a growing emphasis on responsible business as a source of competitive advantage as firms move beyond minimizing risk to creating opportunities. A survey conducted by Industrial Relations Services (Egan, 2006) found that:

- most employers believe that employment practices designed to ensure the fair and ethical treatment of staff can boost recruitment and retention;

- relatively few employers are strongly convinced of a positive link to business performance or productivity;

- the issue of ethics in employment is often viewed as part of a broader social responsibility package;

- policies on ethical employment most commonly cover HR practice in the areas of recruitment, diversity, redundancy/dismissal proceedings and employee involvement.

The rationale for CSR

Stakeholder theory as first propounded by Freeman (1984) suggests that managers must satisfy a variety of constituents (eg workers, customers, suppliers, local community organizations) who can influence firm outcomes. According to this view, it is not sufficient for managers to focus exclusively on the needs of stockholders or the owners of the corporation. Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that non-financial stakeholders perceive to be important.

A different view was expressed by Theodore Levitt, marketing expert. In his 1958 *Harvard Business Review* article, 'The dangers of social responsibility', he warned that 'government's job is not business, and business's job is not government'. Milton Friedman (1970), the Chicago monetarist, expressed the same sentiment. His maxim was that the social responsibility of business is to maximize profits within the bounds of the law. He argued that the mere existence of CSR was an agency problem within the firm in that it was a misuse of the resources entrusted to managers by owners, which could be better used on value-added internal projects or returned to the shareholders.

Generally, however, academics at least have been in favour of CSR and there is plenty of evidence both in the UK and the United States that many firms are pursuing CSR policies.

Arguments supporting CSR, Porter and Kramer (2006)

1. The moral appeal – the argument that companies have a duty to be good citizens. The US business association Business for Social Responsibility (2007) asks its members 'to achieve commercial success in ways that honour ethical values and respect people, communities and the natural environment'.

2. Sustainability – an emphasis on environmental and community steward-ship. As expressed by the World Business Council for Sustainable Social Development (2006) this involves 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'.

3. Licence to operate – every company needs tacit or explicit permission from government, communities and other stakeholders to do business.

4. Reputation – CSR initiatives can be justified because they improve a company's image, strengthen its brand, enliven morale and even raise the value of its stock.

The rationale for CSR as defined by Hillman and Keim (2001) is based on two propositions. First, there is a moral imperative for businesses to 'do the right thing' without regard to how such decisions affect firm performance (the social issues argument) and second, firms can achieve competitive advantage by tying CSR activities to primary stakeholders (the stakeholders argument). Their research in 500 firms implied that investing in stakeholder management may be complementary to shareholder value creation and could indeed provide a basis for competitive advantage as important resources and capabilities are created that differentiate a firm from its competitors. However, participating in social issues beyond the direct stakeholders may adversely affect a firm's ability to create shareholder wealth.

It can be argued, as do Moran and Ghoshal (1996), 'that what is good for society does not necessarily have to be bad for the firm, and what is good for the firm does not necessarily have to come at a cost to society'. It could be argued, more cynically, that there is room for enlightened self-interest that involves doing well by doing good.

Much research has been conducted into the relationship between CSR and firm performance, with mixed results. For example, Russo and Fouts (1997) found that there was a positive relationship between environmental performance and financial performance. Hillman and Keim (2001) found that if the socially responsible activity were directly related to primary stakeholders, then investments may benefit not only stakeholders but also result in increased shareholder wealth. However, participation in social issues beyond the direct stakeholders may adversely affect a firm's ability to create shareholder wealth.

Developing a CSR strategy

The basis for developing a CSR strategy is provided by the following competency framework of the CSR Academy (2006), which is made up of six characteristics.

CSR competency framework

1. Understanding society – understanding how business operates in the broader context and knowing the social and environmental impact that the business has on society.

2. Building capacity – building the capacity of others to help manage the business effectively. For example, suppliers understand the business's approach to the environment and employees can apply social and environmental concerns in their day-to-day roles.

3. Questioning business as usual – individuals continually questioning the business in relation to a more sustainable future and being open to improving the quality of life and the environment.

4. Stakeholder relations – understanding who the key stakeholders are and the risks and opportunities they present. Working with them through consultation and taking their views into account.

5. Strategic view – ensuring that social and environmental views are included in the business strategy so that they are integral to the way the business operates.

6. Harnessing diversity – respecting that people are different, which is reflected in fair and transparent business practices.

To develop and implement a CSR strategy based on these principles it is necessary to:

- understand the business and social environment in which the firm operates;
- understand the business and HR strategies and how the CSR strategy should be aligned to them;
- know who the stakeholders are (including top management) and find out their views and expectations on CSR;
- identify the areas in which CSR activities might take place by reference to their relevance in the business context of the organization and an evaluation of their significance to stakeholders;

- prioritize as necessary on the basis of an assessment of the relevance and significance of CSR to the organization and its stakeholders and the practicalities of introducing the activity or practice;

- draw up the strategy and make the case for it to top management and the stakeholders;

- obtain approval for the CSR strategy from top management and key stakeholders;

- communicate information on the whys and wherefores of the strategy comprehensively and regularly;

- provide training to employees on the skills they need in implementing the CSR strategy;

- measure and evaluate the effectiveness of CSR.

Corporate social responsibility – key learning points

The meaning of corporate social responsibility (CSR)

CSR refers to the actions taken by businesses that further some social good beyond the interests of the firm and that which is required by law. It is concerned with the impact of business behaviour on society and can be regarded as a process of integrating business and society.

CSR strategy

CSR strategy determines how socially responsible behaviour is exercised both outside and within the firm.

CSR activities

CSR activities include incorporating social characteristics or features into products and manufacturing processes, adopting progressive human resource management practices, achieving higher levels of environmental performance through recycling and pollution abatement, and advancing the goals of community organizations.

The rationale for CSR

There are two arguments for CSR (Hillman and Keim, 2001). First, there is a moral imperative for businesses to 'do the right thing' without regard to how such decisions affect firm performance (the social issues argument) and second, firms can achieve competitive advantage by tying CSR activities to primary stakeholders (the stakeholders argument).

Developing a CSR strategy

- Identify the areas in which CSR activities might take place by reference to their relevance in the business context of the organization and an evaluation of their significance to stakeholders.

Corporate social responsibility – key learning points (continued)

- Prioritize as necessary on the basis of an assessment of the relevance and significance of CSR to the organization and its stakeholders and the practicalities of introducing the activity or practice.

- Draw up the strategy and make the case for it to top management and the stakeholders in order to obtain their approval.

- Communicate information on the strategy comprehensively and regularly.

- Provide training to employees on the skills they need in implementing the CSR strategy.

Questions

1. What does the concept of corporate social responsibility (CSR) mean and what are the main activities involved? Review the situation in your own organization and identify what CSR activities are taking place and what more could be done.

2. Comment on the following remarks: 'The most important thing a corporation can do for society, and for any community, is contribute to a prosperous economy' (Porter and Kramer, 2006). 'Profits should be a reflection not of corporate greed but a vote of confidence from society that what is offered by a firm is valued' (Matsushita, 2000).

3. You have been asked by your HR director to produce a memorandum setting out the business case on why the company should develop a more active corporate responsibility strategy. You looked at the research conducted by IRS (Egan, 2006) and came across the following information: 'The main motivation for employers in engaging in community and charitable work seem to be varied and sometimes interlinked. The following factors were cited by 12 organizations each: to enhance corporate image/reputation, to promote the business and to improve employee satisfaction and motivation. The desire to help others was mentioned by 10, with seven wishing to help employee development and four hoping to boost recruitment and retention. Two organizations each mentioned the aims of enhancing profitability, helping acquire public sector contracts and helping to acquire other contracts. Just one employer was motivated by a sense of moral obligation.' Taking into account these varied arguments, produce the business case.

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