Corporate Social Responsibility

- What responsibilities do corporations have towards society?
- A corporation should be held accountable for any of its actions that affect people, their communities, and their environment
- Responsibility toward its market & non-market stakeholders
- Requires companies to balance the benefits to be gained against the costs of achieving those benefits
Corporate Social Responsibility (CSR) means

- Corporations have an obligation to consider the interests of clients, employees, shareholders, communities and ecological concern in all aspects of business operations.

World Bank view on CSR & Business Ethics.
Corporate Social Responsibility (CSR) and Power

- Social responsibility of business is the result of:
  - Essential function it performs for a variety of stakeholders
  - Immense influence it has over the lives of its stakeholders
- The world’s largest 200 companies account for more than 25% of the world’s economic activity
- Every action corp. make will affect the quality of human life
- With power comes responsibility = the “Iron Law of Responsibility”
  - In the long run, those who do not use power in ways society considers responsible will lose it

History of the CSR Concept

- Turn of the 20th century corporations came under attack for being too big and powerful
- Curbs on their power began with antitrust and consumer protection laws
- Farsighted industrialists (e.g. Andrew Carnegie) started philanthropic efforts aimed at educational and cultural institutions
Others (e.g. Henry Ford) started paternalistic programs to support employee social and health needs.

View that business leaders had a responsibility that went beyond just making a profit became more widespread, called the “Charity Principle”.

Around 1920s the charitable needs of communities began to shift from just being the purview of a small group of wealthy philanthropists to business firms themselves.

Became more common for businesses to offer programs/charitable support to needy.

Broader concept of business as “trustees”, who work in the public interest, came to be known as the “Stewardship Principle”.

The Stewardship Principle – business control vast resources that can affect people in many ways. Therefore, business leaders have an obligation to use the resources in ways that are good not for shareholders alone but for society generally.

Produced the modern theory of stakeholder management.
## Foundation Principles of Corporate Social Responsibility

<table>
<thead>
<tr>
<th>Charity Principle</th>
<th>Stewardship Principle</th>
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<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>- Business, acting as a public trustee, should consider the interests of all who are affected by business decisions and policies</td>
</tr>
<tr>
<td><strong>Type of activity</strong></td>
<td>- Acknowledging business and society interdependence</td>
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<td>- Corporate philanthropy</td>
<td>- Balancing the interests and needs of many diverse groups in society</td>
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<td>- Voluntary actions to promote the social good</td>
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<tr>
<td><strong>Examples</strong></td>
<td>- Enlightened self-interest</td>
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<tr>
<td>- Corporate philanthropic foundations</td>
<td>- Meeting legal requirements</td>
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<tr>
<td>- Private initiatives to solve social problems</td>
<td>- Stakeholder approach to corporate strategic planning</td>
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<td>- Social partnerships with needy groups</td>
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### CSR development form Malaysian’s perspectives

**From philanthropy to corporate responsibility**

*Level of impact on How business is done*

**Before 1970**: Philanthropy: Doing good fast

**1970-1990**: PR Whitewash: Doing good to look good

**1990-2001**: Strategic CSR: Sustainable doing good to do well

**2001 - onwards**: Strategic CSR: Sustainable doing good to do well

**Source**: ICR Malaysia, The STAR 26/1/08
The CSR Debate

- Despite strong support in the business community for CSR, it is not universally accepted.
- 2005 Global study of corporate executives found 84% thought large corporations should “Generate high returns to investors but balance [this] with contributions to the broader public good.”

The Pros and Cons of Corporate Social Responsibility

<table>
<thead>
<tr>
<th>Arguments for Corporate Social Responsibility</th>
<th>Arguments against Corporate Social Responsibility</th>
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</thead>
<tbody>
<tr>
<td>Balances corporate power with responsibility.</td>
<td>Lowers economic efficiency and profit.</td>
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<tr>
<td>Discourages government regulation.</td>
<td>Imposes unequal costs among competitors.</td>
</tr>
<tr>
<td>Promotes long-term profits for business.</td>
<td>Imposes hidden costs passed on to stakeholders.</td>
</tr>
<tr>
<td>Improves business value and reputation.</td>
<td>Requires skills business may lack.</td>
</tr>
<tr>
<td>Corrects social problems caused by business.</td>
<td>Places responsibility on business rather than individuals.</td>
</tr>
</tbody>
</table>
Multiple Responsibilities of Business

- Businesses have 3 responsibilities:
  - Economic responsibilities
  - Social responsibilities
  - Legal responsibilities
- Challenge is to balance all three
- Successful firm is one which finds ways to meet each of its critical responsibilities and develops strategies to enable the obligations to help each other
Enlightened Self-Interest

- Economic and social goals come together in companies that practice enlightened self-interest
  - Means firm leadership can see it is in the company’s self-interest in the long term to provide true value to its customers, to help its employees grow and behave responsibly
- Do socially responsible companies sacrifice profits by promoting the social good?
  - Studies comparing CSR with firm performance shows there is a moderately positive association between the two factors
  - Corporate social and environmental responsibility is likely to pay off

Legal Requirements Versus CSR

- A Co. must abide by laws and regulations governing society
- Legal rules set the minimum standard for business
- Current legal standards for CSR are minimum public expectations
- Companies should go beyond the legal standard and strive for higher levels of social responsibility
Levels of Social Responsibility

- 1. Social Obligation - Meet minimum regulations, do what is required by law, no more
- 2. Social Responsibility - Go beyond what is required by law, mitigate negative effects
- 3. Social Responsiveness - Proactive approach, promote positive change
### Physical Environment

<table>
<thead>
<tr>
<th>Social Obligation</th>
<th>Social Responsibility</th>
<th>Social Responsive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comply with EPA, state and local laws</td>
<td>Clean up pollution beyond requirements</td>
<td>Develop technology to reduce pollution</td>
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</tbody>
</table>

### Labor Markets

<table>
<thead>
<tr>
<th>Social Obligation</th>
<th>Social Responsibility</th>
<th>Social Responsive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comply with wage and hour laws, min. benefits</td>
<td>Provide added benefits to keep out unions</td>
<td>Improve quality of work life</td>
</tr>
</tbody>
</table>
Stockholder Interests Versus other Stakeholder Interests

- Managers/directors are constantly under pressure to produce value for owners/investors
- Management’s central goal is to promote the interests of the entire company, not any single stakeholder group
- Challenge is to put emphasis on long-run profits rather than focus on immediate returns
  - An enlightened self interest approach helps reconcile these challenges
  - It is acceptable to incur short term costs for socially responsible activities that benefit both the company and the public in the long term

In reality?
- Are companies willing to reduce its profits in its attempt to promote the overall interest of the stakeholders?
Barriers to CSR (World bank)

A) Corporate Level
- Lack of leadership and vision
- Too much focus on short-term goals
- Inability to recognize opportunities
- Lack of entrepreneurial spirit and innovation

B) Country/Society Level
- Lack of creative pressure from the government and civil society.
- Lack of support from the consumers
- Lack of peer support through business associations - reluctance of other companies to follow
- Lack of economic/market incentives

Importance of CSR now

- The development of CSR is the result of changes in the developed world’s core values (greater concern for environmental deterioration, discriminatory working practices, respect for human rights, etc.)
- The development of CSR also linked to three key factors (Nieto and Ferna´ndez, 2004)
3 key factors linked to CSR

- Increased regulation: From diverse international organizations (UN, OECD, EU...) and governmental.
- Pressure from consumer markets: Consumer markets are now gradually making responsible purchases, choosing organic products or those produced in accordance with CSR criteria (fair trade, limited use of non-renewable resources, fair working conditions, etc.).
- Pressure from the financial market: Most recent pressure in money markets. Investors are looking for SRI (socially responsible investment), which refers to funds and companies that develop good CSR practices.

Reasons that drive companies to adopt CSR criteria

- Business ethics.
- The personal commitment of the company’s directors.
- Improve competitiveness.
- Strengthen the company’s image.
- Prevent negative publicity, lawsuits or campaigns against the company.
- Increase customer loyalty.
- Stand out from the competition.
- Improve human resources management.
- Strengthen the loyalty of management staff.
- Attract new employees.
- Improve adaptation to change.
- Cost reduction.
- Tax breaks.
CSR and HRD/HRM

- Have wide range of concepts and can vary between the minimum requirements of respecting the workers’ basic human rights and the implementation of policies that help employees achieve a work/life balance.

Areas of CSR practices in organizations

- Four main areas:
  - The recognition of and respect for basic human and workers rights established by the various international bodies.
  - Adoption of the measures aimed at improving quality of work, such as continuous learning, a better work/life balance, job stability, etc.
  - Actions in the area of outsourcing, which affect contractors, sub-contractors and suppliers.
  - Actions related to changes deriving from company restructuring operations, owing to the social consequences of such operations.
SA 8000 Standard

- Social Accountability standard
  - drafted in 1997 in the United States, with the aim of improving labour conditions on a global scale.

Social Responsibility requirements of the SA8000 standard

- Child labour
- Equality and discrimination practices - no interference with individual rights such as religious beliefs will be respected
- Forced labour or recruitment under the threat of force
- Health and safety - provide a safe and healthy working environment
- Trade union freedom and the right to collective bargaining
Cont.

- Disciplinary practices – fair disciplinary practices
- Working hours - comply with national legislation and industry standards regarding working hours:
- Pay - Salaries must comply with legal requirements and be sufficient to cover “basic needs” and provide some additional income

World Bank Survey on CSR
E-Survey on Corporate Social Responsibility (US 546 – World 2602)

Which of the following factors most affects public impression of individual companies?

- Financial factors
- Company size
- Business strategy
- Management quality
- Corporate reputation
- Labor practices
- Goods/services ethics
- Responsibility to society
- Environment impact

E-Survey on Corporate Social Responsibility (US 546 – World 2602)

Which of the following problems affects you, your family and your community the most?

- Pollution
- Depletion of resources
- War
- Violation of workers rights
- Human rights abuse
- Economic instability
- Gap rich/poor
What are the main constraints that make it difficult for companies in your country to address Corporate Governance, Corporate Social Responsibility and Business Ethics issues in a more systematic and effective way?

**E-Survey on Corporate Social Responsibility (US 546 – World 2602)**

- Lack of govt involvement.
- Too much govt involvement.
- Lack of govt officials’ involvement in CG, CSR, & BE.
- Lack of an institutional framework.
- Undeveloped legal system.
- High level of corruption.
- Unfamiliarity with established standards.
- Cultural differences.
- Over-focus on short-term gains.
- Lack of understanding of good business practices.
- Lack of financial resources.
- Lack of prudent regulations.
- Lack of proper corporate governance structures.
- Weak corporate governance systems.
- Lack of communication.
- Lack of systems.

**WHAT IS...**

**CORPORATE GOVERNANCE?**

- “Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders”.

- *(Definition from the Finance Committee Report on Corporate Governance Malaysia)*
Corporate governance (CG) vs CSR

- CG emphasis on shareholder rights, which require transparent and accountable management structures, contribute to stakeholder interest, as well as to economic efficiency.
- According to the Cadbury Report on CG (1992), Corporate Governance (CG) is defined as “the system by which companies are directed and controlled”.
- That is, CG is about improving board structures and procedures to make a company more accountable to shareholders, covering issues such as financial reporting, transparency and audit, remuneration of directors, separation of powers and minority shareholders.
- At its broadest, CG can be seen as the full set of relationships between a company's management, its board and its stakeholders, including but not exclusively shareholders.
- In Malaysia, High Level Finance Committee was formed in 1998 to establish framework for CG. Malaysian Inst of CG was also formed Code of CG was issued in March 2001.

- Malaysia defined CG broadly, however the role of the code is mainly to guide boards of directors by clarifying their responsibilities and ways to strengthen the directors control over their companies.
- Internal focus and strongly focus on economic value that the corp. may add.
- 4 main principles in the Malaysian Code of CG:
  - Director
  - Director’s remuneration
  - Shareholders
  - Accountability and Audit
CSR has a more external focus—considering a wider range of stakeholders.

In addition to its shareholders, a firm also interacts with employees, consumers, public authorities, non-governmental organizations, all of which entertain differing expectations.

As a response, companies develop strategies where they voluntarily integrate social and environmental concerns in their business operations.

It focuses corporations not just on the economic value they add but also on their environmental and social impact.

Increasingly there is a recognition that good corporate governance solely in terms of business processes is not sufficient.

More consideration is given to CSR as a more holistic approach to governance.
CG vs CSR

- Transparency
- Integrity
- Accountability
- Sustainability

- Transparency
- Integrity
- Accountability
- Sustainability
- Social Awareness

(Source: MICCI)

CSR elements/categories

- Environment sustainability
- Enhancing local community well-being (community relations)
- Promoting rights of employees, suppliers, competitors or customers
- Transparent and honest accountability
- Legal and honest operations
- Global citizenship to promote social and environmental justice.
Corporate Citizenship

- Refers to businesses putting corporate social responsibility into practice
- Involves
  - Proactively building stakeholder partnerships
  - Discovering business opportunities in serving society, and
  - Transforming a concern for financial performance into a vision of integrated financial and social performance

Davenport Principles of Corporate Citizenship

- One researcher's answer to core elements of corporate citizenship
- Total of 20 Principles with 3 performance categories: ethical business behavior, stakeholder commitment, and environmental commitment
  - For stakeholder commitment -- principles define overall standards and specific standards for 5 stakeholder groups
- Definition and standard:
  - Good corporate citizens strive to conduct all business dealings in an ethical manner, make a concerned effort to balance the needs of all stakeholders, while working to protect the environment
Davenport Principles of CCZ

Ethical Business Behavior
1. Engages in fair and honest business practices in its relationship with stakeholders.
2. Sets high standards of behavior for all employees.
3. Exercises ethical oversight of the executive and board levels.

Stakeholder Commitment
4. Strives to manage the company for the benefit of all stakeholders.
5. Initiates and engages in genuine dialogue with stakeholders.
6. Values and implements dialogue.

Community
7. Fosters a reciprocal relationship between the corporation and community.
8. Invests in the communities in which corporation operates.

Consumers
9. Respects the rights of consumers.
10. Offers quality products and services.
11. Provides information that is truthful and useful.

Employees
12. Provides a family-friendly work environment.
14. Provides an equitable reward and wage system for employees.
15. Engages in open and flexible communication with employees.
16. Invests in employee development.
- **Investors**
  17. Strives for a competitive return on investment.

- **Suppliers**
  18. Engages in fair trading practices with suppliers.

- **Environmental Commitment**
  19. Demonstrates a commitment to the environment.
  20. Demonstrates a commitment to sustainable development.