Corporate Social Responsibility

Concept

Definitions: Explosion of words

Corporate

Social

Responsibility

No such thing!
Only profit for shareholders
using **legal** means

Ethical Business

Corporate Citizenship

Social = people/community

Socially Responsible Business

Include planet

Green Management

Sustainable business

History of the concepts

- 1953 – Howard R. Bowen
  - “the obligations of businessmen to pursue those policies, to make those decision, or to follow those lines of action which are desirable in terms of the objectives and values of our society”
- 1970 – Milton Friedman
  - “The Social Responsibility of Business is to increase its profits”
  - “Few trends could so 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.”
- More recently - David Packard (HP)
  - “Why are we here? Many people assume, wrongly, that a company exists solely to make money. People get together and exist as a company so that they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society”

(Young and Dhanda 2013, 194)

In any case . . .

- US
  - Early CSR focused on philanthropy: using part of the profits to charitable causes
  - Expanded to the protection and improvement of the lives of workers
  - Further expanded include all areas of operations
    - hiring and training workers
    - Purchasing
    - Supply chain policies
    - Environmental impact
    - Ethics and governance
- Europe
  - Operating the core business in a socially responsible way
  - Investment in communities

- 1990s – Rapid growth of CSR coinciding with increasing importance of sustainability
  - 1991 – World Business Council for Sustainable Development (WBCSD)
  - 1992 Business for Social Responsibility
  - 1996 CSR Europe

(Young and Dhanda 2013, 194-5)

Why do they do it? - internal

- Moral obligations
  - To do right
- To be sustainable – TBL
- To satisfy stakeholders
  - To get approval from governments and communities
- Reputation of the company

(Young and Dhanda 2013, 196-7)

Why do they do it? – external pressure

- Increasing Affluence
  - Consumers are becoming more picky
  - More than the price
- Globalization
  - Cannot hide any more
- Ecological sustainability
  - Growing concern for the environment
- Brands
  - Positive Brand building

(Young and Dhanda 2013, 198-9)

Which one do you think was the most important for CEOs?

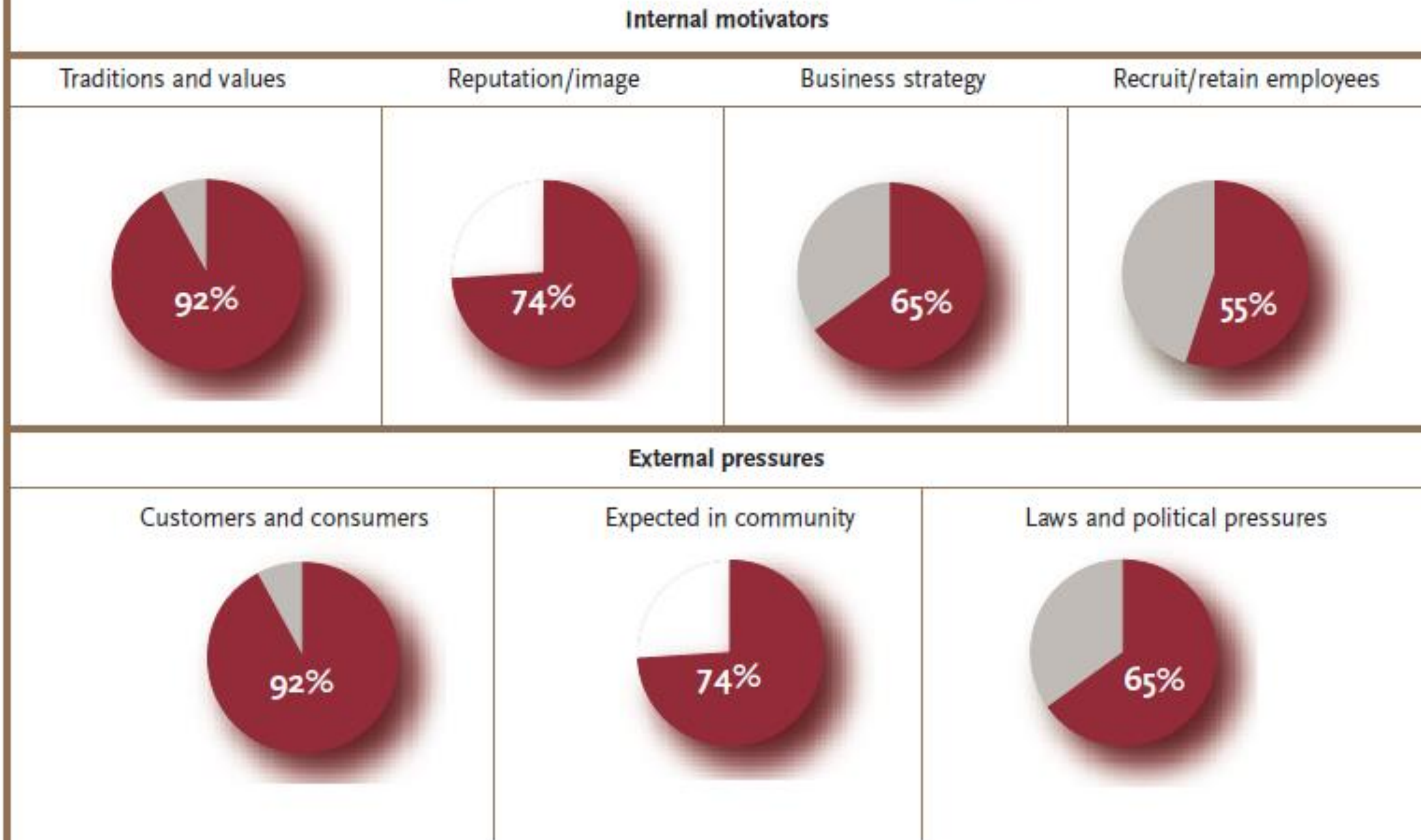
"when asked whether each item was an important motivation for them to improve their company's corporate citizenship. . ."

- Internal:
  a. Business Strategy
  b. Reputation
  c. Recruitment / Retention of workers
  d. Tradition and Values

- External:
  a. Community
  b. Customers and Consumers
  c. Laws and political pressure

WHAT DRIVES COMPANIES TO EMBRACE CORPORATE CITIZENSHIP?

Corporate citizenship "drivers" U.S. national survey, 2005



Source: *The State of Corporate Citizenship in the U.S.: Business Perspective 2005*
Center for Corporate Citizenship at Boston College, U.S. Chamber of Commerce Center for Corporate Citizenship and The Hitachi Foundation.

(Mirvis and Googins, 2007, 19)

CSR can help business performance

- By . . .
  - Reducing operational costs
  - Help risk management
  - Create competitive differentiation
  - Increase Brand value and reputation
  - Facilitate access to capital
  - Shareholder value – outperform in share price
  - Investing in human capital
- And triggers Innovation

(Encyclopedia of CSR, 2013 “Business Case for CSR”)

But it’s not always that good

- CSR’s failures
  - CSR has been restricted to the largest companies
    - and to a specific PR department within these companies

  - CSR has adopted a model akin to the quality management model that results in incremental improvements

  - CSR does not always make economic sense and,
    - in the short term, companies that push their costs to society are rewarded

- Does not always make society (or environment) benefit
  - → greenwashing
  - → Marketing strategy

(Young and Dhanda 2013, 203)

Types of CSR

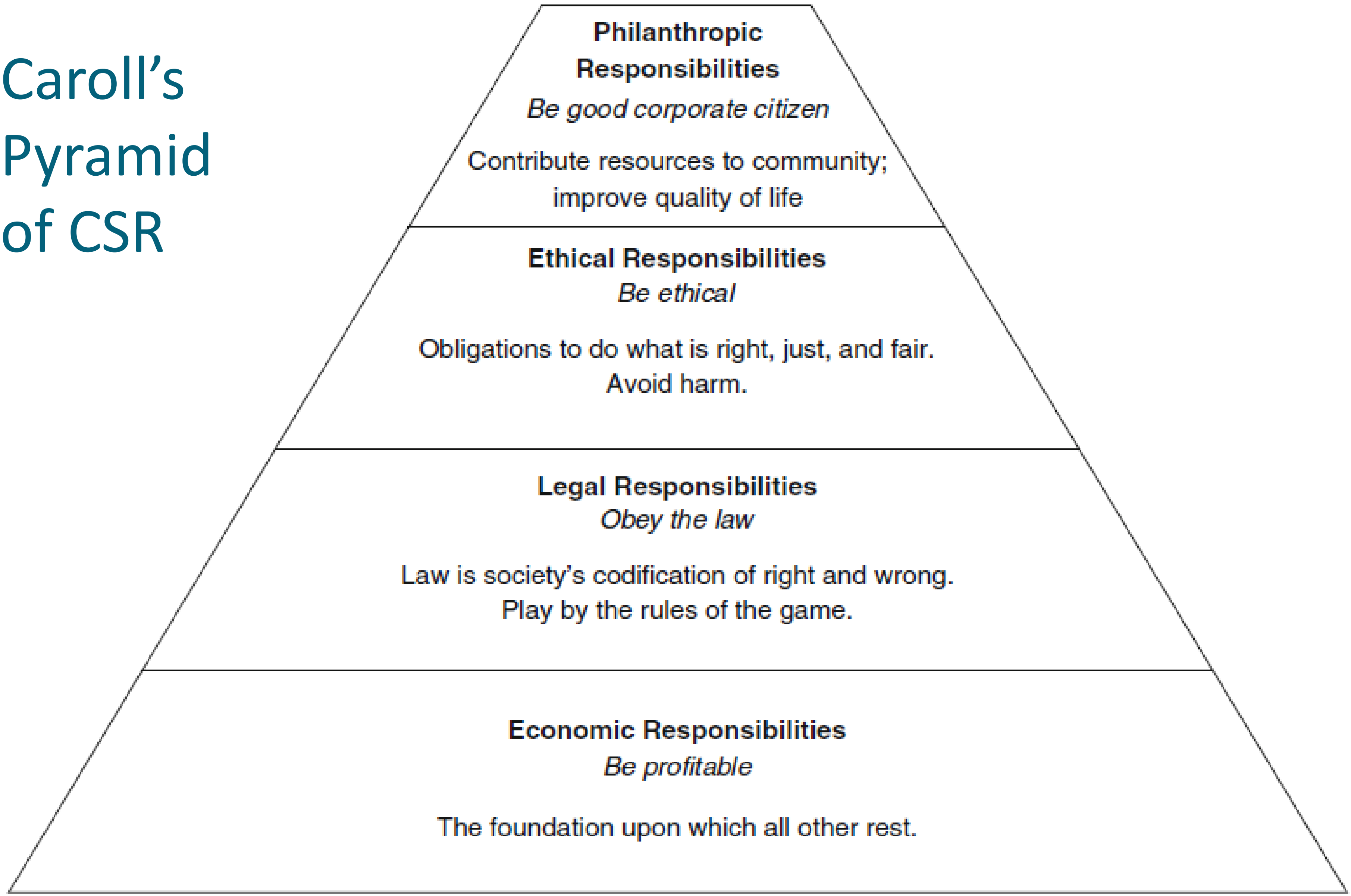
Types of CSR

- Kramer (2006)

  - Responsive CSR
    - Companies act as good citizens
    - mitigate harmful value chain impacts

  - Strategic CSR
    - Identify initiatives whose social and business benefits stand out in scope
    - Tabs "Shared value" by investments in aspects that strengthen the competitive advantage for the company

Caroll's Pyramid of CSR



Pyramid of CSR, Fig. 2 The pyramid of corporate social responsibility (Source: Carroll 1991: 42)

(Encyclopedia of CSR, 2013 "Pyramid of CSR")

Phases of CSR

Stage1:
Business Strategy

Stage 2:
Overcoming obstacles

Stage 3:
Fertile Ground

Stage 4:
Brand building

- Reactive Phase
- public relations, damage control

- process efficiencies in manufacturing and services
- establish relationship with stakeholders including NGOs

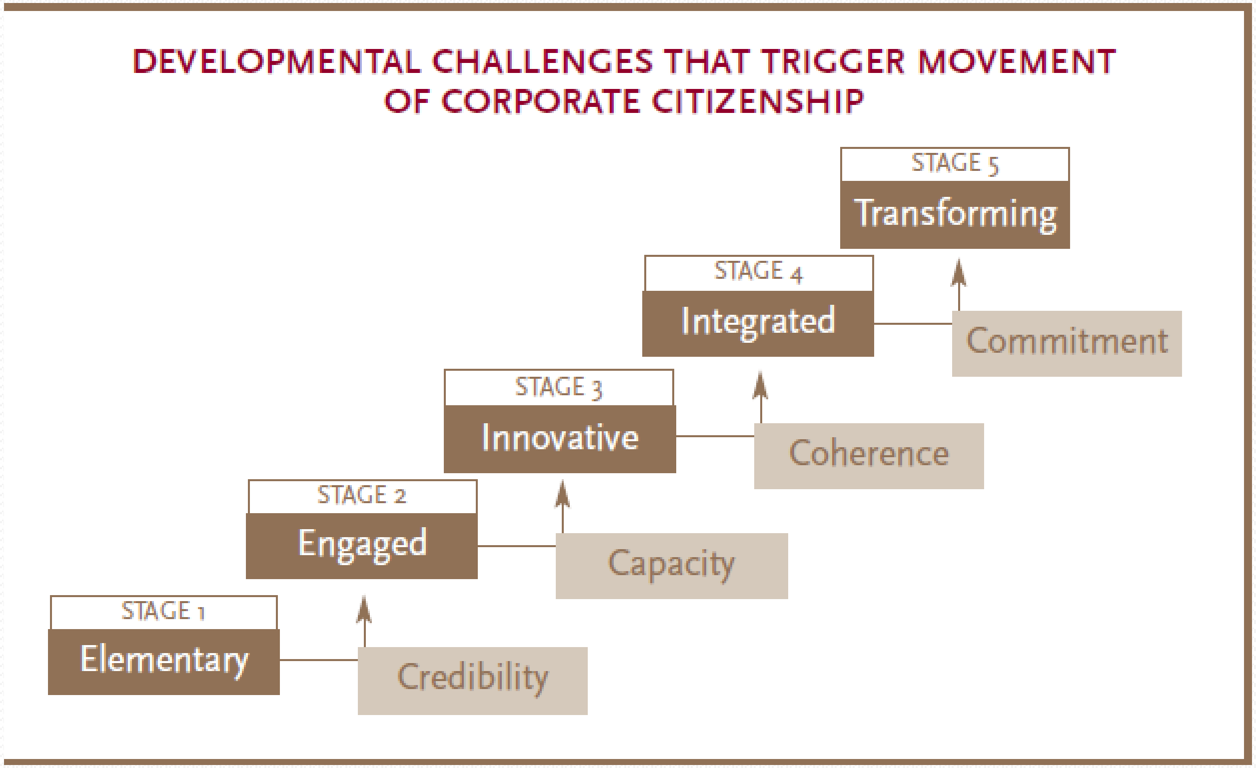
- Create key performance indicators to publicly report on various functional business units

- Build business value through. . . .
- Brand enhancement, product development, and R&D to look for solutions to social issues that impacts the TBL

(Young and Dhanda 2013, 195-6)

Stages of Corporate Citizenship

- Mirvis, P. H and B. K. Googins, 2007. "Stages of Corporate Citizenship: A Developmental Framework". *IEEE Engineering Management Review.*



(Mirvis and Googins 2007, 5)

7 Dimensions of Citizenship

	1.Citizenship Concept	2. Strategic Intent
3. Leadership	4. Structure	5. Issues Management
6. Stakeholder Relationship	7. Transparency	

(Mirvis and Googins, 2007, 4)

Stage 1: Elementary

- **Citizenship Concept:** Jobs, profits & taxes
- **Strategic Intent:** Compliance
- **Leadership:** Lip service; out of touch
- **Structure:** Marginal; staff driven
- **Issues Management:** Defensiveness
- **Stakeholder relationships:** Unilateral
- **Transparency:** Flank protection

(Mirvis and Googins, 2007, 6)

Stage 2: Engaged

- **Citizenship Concept:** Philanthropy, environmental
- protection
- **Strategic Intent:** License to operate
- **Leadership:** Supporter, in the loop
- **Structure:** Functional ownership
- **Issues Management:** Reactive, policies
- **Stakeholder relationships:** Interactive
- **Transparency:** Public relations

Engaged Stage

SHELL

The Anglo-Dutch oil company Shell illustrated this during its response in the mid-90s following the challenge by environmentalists to the proposed sinking of its Brent Spar platform and by social activists to the arrest by the Nigerian government of a community leader who had protested the company's treatment of the indigenous Ogoni tribe and homeland.[1] Shell's scenario-planning process had not anticipated such threats; and its then-current Business Principles proved woefully inadequate to guide a response to the issues which resulted in contradictory responses from country managers, various corporate groups, and Shell's committee of managing directors.

Shell thereupon created a crisis management group of all relevant interests in the company to address the immediate issues. Later, a cross-functional, multi-business team was formed to study the larger issues of Shell's role in society, engage external stakeholders, and set new socially and environmentally responsible business principles. The strategic intent, characteristic of this stage, was to protect Shell's reputation and preserve the company's "license to operate" around the globe.

Over the next several years Shell's citizenship efforts broadened. In 1999, as the Shell Group began to innovate, it devised a sustainable development management framework that addressed economic development, wealth creation, climate change, and engagement with society. It also established a council of key staff and line executives to oversee its implementation. In 1998 Shell was also one of the first large, public companies to issue a report on its social and environmental performance, *People and Profits*.

But there's a cautionary note here, too. Shell's efforts to strengthen its social and environmental capabilities were not matched by developments in transparency and ethics. Knowing misstatements of its oil reserves and failings in environmental reparation in Nigeria have since harmed Shell's reputation and license to operate. The Group's latest move, to create a single CEO position, is another attempt to deal with a changing landscape.

[1] For a description of Shell's response, see Mirvis, P. H. Transformation at Shell: Commerce and citizenship. *Business and Society Review*, 105-1, (2000): 63-84.

(Mirvis and Googins, 2007, 7)

Stage 3: Innovative

- **Citizenship Concept:** Stakeholder management
- **Strategic Intent:** Business case
- **Leadership:** Steward, on top of it
- **Structure:** Cross-functional coordination
- **Issues Management:** Responsive, programs
- **Stakeholder relationships:** Mutual influence
- **Transparency:** Public reporting

Innovative Stage

BAXTER INTERNATIONAL

One company that progressed into the innovative stage of citizenship early on is the global healthcare company Baxter International. In the early 1990s the company piloted what would become the United Nation-sponsored Global Reporting Initiative by measuring and reporting on its economic, environmental, and social performance. In 1997 it became one of the first adopters of the CERES principles to report on and improve its environmental performance. In the process, Baxter embraced the still-controversial idea that the company is responsible to both stockholders and stakeholders and will be held accountable for its performance. This commitment was tested in 2001 in Spain when six patients died during dialysis treatment—potentially because of problems with filters manufactured by a Baxter subsidiary. The company responded by recalling the filters, apologizing publicly, taking a $189 million hit, and reducing, at his own request, the CEO's bonus.[1]

[1]Hammond, K. H. "Harry Kraemer's Moment of Truth." *Fast Company.* 64 (2002): 93.

(Mirvis and Googins, 2007, 8)

Stage 4: Integrated

- **Citizenship Concept:** Sustainability (TBL)
- **Strategic Intent:** Value Proposition
- **Leadership:** Champion, in front of it
- **Structure:** Organizational alignment

Issues Management: Pro-active, systems
Stakeholder relationships: Partnership, alliances
Transparency: Assurance

Integrated Stage

BP

British Petroleum was another leader in attempting to integrate citizenship from top-to-bottom and throughout its businesses. BP's integrated agenda begins with a commitment to sustainability that builds on the logic of multi-stakeholder capitalism but joins social, environmental, and economic sustainability to the long-term survival of the firm.[1] Other firms have expressed this kind of holistic conception of citizenship in the form of the triple bottom line.

Such high minded commitments are important, but insufficient in the post-Enron era. Accordingly, BP has put into place an integrated governance system that includes a Board-level Ethics and Environmental Assurance Committee, Corporate Directors of Social Policy and Business Ethics, Group-level oversight bodies, corporate and regional coordinators, and business unit accountability measurements and audits. Heading all of this machinery is Lord John Browne, CEO, who has been the champion of corporate citizenship in BP and a global spokesman for all of industry. BP, then, exemplifies three keys to developments in this phase: 1) Vocal, out-in-front leadership; 2) an inclusive vision of citizenship; and 3) integrative structures, processes, and systems.

[1] *BP Social Report*. (2003). www.bp.com. "For us 'sustainability' means the capacity to endure as a group by renewing assets, creating and delivering products and services that meet the evolving needs of society, attracting successive generations of employees, contributing to a flourishing environment and retaining the trust and support of customers, shareholders and communities."

(Mirvis and Googins, 2007, 10)

Stage 5: Transforming

- **Citizenship Concept:** Change the game
- **Strategic Intent:** Market creation or social change
- **Leadership:** Visionary, ahead of the pack
- **Structure:** Mainstream; business driven
- **Issues Management:** Defining
- **Stakeholder relationships:** Multi-organizational
- **Transparency:** Full disclosure

Transforming Stage

UNILEVER

Making a business of citizenship is not limited to high-technology companies. Unilever, the Anglo-Dutch marketer of foods and home-and-personal care brands, has been widely noted for its socio-economic investments in emerging markets including the sale in India and parts of Africa of iodized salt that addresses a dietary deficiency among the poor, and a campaign on hand-washing in India, where its Lifebuoy soap aims to reduce diarrheal disease.[1] In both instances, the company devised new supply-chains to make their products affordable to the poor, developed new distribution channels that turned under-privileged women into village-level entrepreneurs, and partnered with government agencies and NGOs to leverage expertise and legitimate their efforts. This thrust, pioneered in its India operating company, has spread to water purification (where P&G is also a player) and to children's nutrition (where other competitors have initiatives, too).

There is more to this, however, than the immediate bottom line. While C.K. Prahalad makes the case that there is a fortune at the "bottom of the pyramid," the experience of Unilever (and P&G) is that these are long term investments to unlock markets.[2] None of their efforts achieve accustomed hurdle rates of return on capital in the short term. Our interviews with some 60 marketing experts, top executives, and citizenship specialists in Unilever, however, revealed broader, strategic motivations for "changing the game." On the supply side, for instance, they pointed out that their capacity to grow is threatened by current environmental trends. Hence the global company has launched multi-sector sustainability partnerships concerned with agriculture, fish, and water supply. As for demand, they pointed to pandemic problems of both under- and over-nutrition (obesity) that beckon their know-how and that of their competitors. Finally there is the question, as one executive put it, of "Who are we?" Unilever has embraced a "vitality mission" and its corporate brand promise is to add vitality to life. Yet our interviewees find a gap between who they say they are and what they produce. Today the company is experimenting with a "vitality check" for its brands to certify their use of safe and healthy ingredients and their contribution to environmental and social sustainability. Why? "We made a statement of 'our purpose in being,'" said one business leader. "We can't go back on it. This is us."

[1]See Prahalad, C. K. and A. Hammonds. Serving the world's poor, profitably. *Harvard Business Review*, (September, 2004).

[2]Prahalad, C. K. *The Fortune at the Bottom of the Pyramid*. (Upper Saddle River, NJ: Wharton School Publishing, 2005).

(Mirvis and Googins, 2007, 12

STAGES OF CORPORATE CITIZENSHIP

THE CENTER FOR CORPORATE CITIZENSHIP AT BOSTON COLLEGE

Dimensions	Stage 1: Elementary	Stage 2: Engaged	Stage 3: Innovative	Stage 4: Integrated	Stage 5: Transforming
Citizenship Concept	Jobs, Profits & Taxes	Philanthropy, Environmental Protection	Stakeholder Management	Sustainability or Triple Bottom Line	Change the Game
Strategic Intent	Legal Compliance	License to Operate	Business Case	Value Proposition	Market Creation or Social Change
Leadership	Lip Service, Out of Touch	Supporter, In the Loop	Steward, On Top of It	Champion, In Front of It	Visionary, Ahead of the Pack
Structure	Marginal: Staff Driven	Functional Ownership	Cross-Functional Coordination	Organizational Alignment	Mainstream: Business Driven
Issues Management	Defensive	Reactive, Policies	Responsive, Programs	Pro-Active, Systems	Defining
Stakeholder Relationships	Unilateral	Interactive	Mutual Influence	Partnership Alliance	Multi-Organization
Transparency	Flank Protection	Public Relations	Public Reporting	Assurance	Full Disclosure

(Mirvis and Googins, 2007, 3)