International Corporate Social Responsibility (CSR)

Module Overview

This module introduces you to Corporate Social Responsibility (CSR). This is the idea that, in addition to their primary function of making money for the benefit of shareholders, businesses have a wider responsibility to the society in which they exist. Although some business people and economists continue to argue that this is not what businesses are for, and quote Adams Smith's dictum that 'I have never known much good done by those who affected to trade for the public good', many businesses seem to be willing to adopt CSR.

Not that all businesses have always been exclusively focused on profit: as we will show in Chapter 1, the history of corporate philanthropy is a long one, and no-one denies that the owners of businesses – the shareholders – have a perfect right to do whatever they wish with their funds. Disagreements may arise, however, when managers – who have an agent-to-principal relationship with shareholders – take upon themselves the right to decide where these funds may be spent. It then becomes necessary for them to explain why CSR is a good idea for the business. This raises the question of whether CSR is, as the economist Milton Friedman has suggested, merely a practical way of benefiting the profitability of the company.

In any event, and as Friedman accepts, there are ground rules for all businesses in how they conduct themselves. The minimum package is always the requirements of law. Law may regulate a wide range of business's activities, from employment practices to the use of and emission of dangerous materials and pollutants, to their impact on the environment. As you will discover, some companies tell us that their willingness to abide by the law is evidence of their social responsibility, but this is not so. It is generally agreed that CSR begins where the law ends.

This ties in with the notion of citizenship. A good citizen is not merely someone who conducts his or her life without breaking the laws. It is someone who contributes to society in a beneficial way, and avoids doing harm. Businesses can be good citizens, provided that they relate ethically to other citizens – and particularly to their stakeholders. Shareholders are stakeholders, but so are many other groups: employees, suppliers and the community. Companies also share with other citizens the need to safeguard the planet within which they live and work.

You will see that CSR has been taken up by many large and multinational companies, and that the differences in standards between different countries and regions can pose some difficult ethical dilemmas for companies. The particular problem is that expansion into less developed countries often motivated by the desire to benefit from cheaper labour. This can lead to companies being accused of exploitation, and there have been several scandals about low pay and poor working conditions. Companies which espouse CSR in their home countries are obliged to react positively to such differences. Many companies are also keen to see a level playing field for business, in which unfair advantages are progressively eliminated.

Companies are being urged at any levels – by consumers, civil organisations, governments and international bodies – to help in a general move towards sustainability. There is some pressure to move towards new ways of reporting company performance, so that impacts on 'people' and 'planet' are reporting, as well as profit. This 'triple bottom line' would perhaps convince many people of the value of CSR, but accounting for people and planet can be difficult.
Pre-requisites
You will need to be in the habit of reading serious newspapers and the business press in order to have contact with the large number of CSR-related issues that are constantly arising.

You will also need the skills to search the Internet to find relevant material. Many companies now publish Sustainability or CSR reports alongside their annual reports, and you need to be able to access these. You should also be ready to look for opposition viewpoints on almost anything within CSR. There are almost always critics of whatever a company does, and you will need to be able to examine these criticisms with ‘a critical eye’.

Module Aims
The five main aims of this module are to:
- Explore the meaning and significance of corporate social responsibility
- Describe the attractions of CSR for business
- Examine some objections to CSR from certain economists and criticism from some green organisations
- Appreciate the ethical dimensions of business activity
- Examine the future potential of CSR.

Module Learning Objectives
After you have completed this module you should be able to:
- Explain the history and antecedents of CSR
- Evaluate the size and scope of CSR
- Appreciate the problems which multinational companies encounter when trying to apply ethical ideas
- Make a critical evaluation of the role of consumers in driving CSR forward
- Describe the impact on businesses of operating within a web of stakeholders
- Explain how companies can become ‘good citizens’
- Explain the criticisms of CSR made by green organisations
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Introduction

Overview
Before we can study Corporate Social Responsibility (CSR) meaningfully we need to understand what is meant by such a concept. In this chapter, we introduce different perspectives on what CSR is, and what it is not, as well as suggesting how it fits with other related terms you may have come across, such as the ‘Triple Bottom Line’ and ‘Sustainable Development’.

Corporate Social Responsibility is about companies being ‘good citizens’, but note the word ‘responsibility’. This indicates a duty to work for social benefit. Citizenship is more than obeying the basic laws of society. CSR always means going further than the law demands. The law does not require us to give to charity, help old ladies take their shopping home, or send our technicians to instruct school children. Being a good citizen means doing things, perhaps like these, that we are not obliged to do. As we will see, corporate good citizenship is not entirely new, but seems to be entering a new period of prominence.

Pre-requisites
To complete this chapter you need the skill to obtain resource information. Fluency with the Internet is essential. Companies’ annual reports are very important. Increasingly they contain ‘corporate citizenship’, ‘sustainability’ or CSR sections.

It is also valuable to look for contrary views. CSR is becoming ‘holy writ’ in many areas, but some people believe it is an incorrect approach for business while others believe it is merely a PR exercise. Sustainable development is a widely accepted notion, but there is an ongoing dispute between those who believe that the market will always find answers to problems created by development and those who believe that the market should not go entirely unchecked.

Aims
In this chapter we aim to help you:

- Locate the modern idea of CSR within a long history of social reform and corporate philanthropy
- Identify the directions in which supporters of CSR wish it to grow
- Explain some of the difficulties which CSR is facing in a world without a ‘level playing field’
Learning Outcomes
After you have completed this chapter, you should be able to:

- define the meaning and scope of Corporate Social Responsibility
- describe how CSR relates to philanthropy
- explain the concepts of stewardship and its relations to the idea of stakeholding
- identify some of the issues which may arise with Corporate Social Responsibility
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Essential readings

Readings with Section 1


This chapter outlines the basic objectives and key discussion points that popularly arise in the CSR debate. For this Section you need to read pp. 1-6 only, but it is worth reading the rest of the Chapter once you have completed Chapter 1 of this module, as it discusses concepts learnt in Sections 2, 3 and 4.

This book will be useful for background reading throughout the Module.

Readings with Section 2


This reading outlines how charity-giving or philanthropy (i.e. doing good with no incentives for profit) has become less popular among companies, but that it can be linked to reputation enhancement and improvement in profitability as a result.

Readings with Section 3


This chapter takes the reader through how the main corporate stakeholders would be impacted positively by company CSR activities. Please just scan this chapter to get a broad idea of who the main stakeholders are and their concerns or perspectives for CSR.

Like *The Market for Virtue*, this book will be useful throughout the Module.


This chapter is useful in that it links the concept of philanthropy with the Stewardship approach, showing that the latter is more directly related to core business objectives - which is to meet the needs of key stakeholders. We will revisit the latter part of the Chapter later in the course.
Readings with Section 4


This paper looks at how perspectives on CSR differ between the US and Europe, particularly with respect to reporting. It notes that neither have mandatory requirements for CSR but that differences do emerge in its practice.


These extracts consider the issue of government intervention in CSR compared to voluntary initiatives by corporations and provides some perspective on differences at national and regional level.

Readings for further study


This provides a background to stakeholder theory and its conceptual foundations and will be useful to students who may wish to understand the basics of Stakeholder theory (in the early part of the chapter) or to extend their knowledge of the concept further (later in the chapter).


This chapter provides further information on the links between CSR, TBL and sustainability.

Web links

- http://www.berr.gov.uk/

This website provides some useful definitions of CSR and how it applies to business in the UK

- http://www.csr.gov.uk

This dedicated UK website considers the UK government perspective on CSR and how it encourages business to adopt best practice

- http://www.europa.eu

This site provides detail of European Union regulation and legislation, and is a rich resource of social and environmental regulation, including EU statements on CSR policies.
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- http://www.gatesfoundation.org
  This website outlines the philanthropic work undertaken by the Gates Foundation (founder of Microsoft).

- http://www.carnegieuktrust.org.uk/home
  This website highlights the work of the Carnegie Trust, a well-known corporate philanthropist.

- In addition, you would find it useful to look at the websites of some large corporations such as Royal Dutch Shell, BP, HSBC or any others and review their CSR reports to give you some ideas of the areas covered by companies for CSR.
1.1. Definitions of CSR

“CSR is fundamentally about good business. Companies which take a wider view of their impacts, and consider the contribution stakeholders can make, can help build long term sustainable success. So, a better reputation with customers, improved staff motivation, a better ability to recruit employees allows companies to:

- exploit new market opportunities,
- attract and retain capital and
- better manage risk.”

Source: UK minister for CSR, Stephen Timms MP at www.berr.gov.uk/ministers/speeches/timms050704.html

Introduction

The term ‘corporate social responsibility’ has been with us since the 1970s though, as we shall see, CSR had much earlier roots. The period since the 1970s has been one of increasing globalization, increasing sophistication of markets and consumers and, crucially, one of increasing distribution of information. We know more and want to know more about the major forces that influence our lives. Among these are the vast commercial enterprises that dominate the globe.

Learning Objectives

After you have completed this section, you should be able to:

- define Corporate Social Responsibility
- outline the scope of Corporate Social Responsibility

What are corporations for?

Corporations, by which we mean medium to large-sized firms, businesses and companies, exist primarily to make money. They are the instruments through which profitable activity is carried out; they represent capitalism, therefore. The profit motive has often been characterised as single-mindedly grasping and unconcerned about all other interests, as the 1920s cartoon on the right shows.

However, it is clear that the profit-making instruments are also the deliverers of many desirable things for the community. Principally, they deliver goods and services of many kinds. In the UK, for example, they provide our food, transportation, banking and insurance services, holidays, entertainment and sources of information. In other countries, they provide much wider ranges of services, including waste disposal, medical care, security and even education. In the UK, their activities account for roughly 60 percent of spending, with government spending accounting for the remainder.

Corporations, then, are an essential mechanism in the community and they must have a strong stake in the interests, prosperity and comfort of their customers. On the 60:40 balance, you may feel that they may have a stronger interest in this than the government does. So corporations are for making profit for their owners (shareholders) but they are also for meeting some of society’s
needs. Of course, this can be done nicely, or nastily. Does simply providing their goods and services make them socially responsible? Vogel points out that ‘there is no consensus on what constitutes virtuous corporate behaviour’:

“Should Wal-Mart be considered a responsible company for providing customers with low-priced goods or an irresponsible one for paying its employees low wages and driving out independent merchants?”

What the UK government thinks about CSR

The government believes that ‘CSR is about the behaviour of private sector organisations and their contribution to sustainable development goals’.

Box 1.1.1: The UK government’s views of CSR

“Essentially it is about how business takes account of its economic, social and environmental impacts in the way it operates – maximising the benefits and minimising the downsides.

Specifically, we see CSR as the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society.”

This website also states that:

“The Government has a role in promoting continuous improvement in the business contribution to the three pillars: economic, social and environmental, of sustainable development”.

You will recall these later when we look at the ‘triple bottom line’.

Source: csr.gov.uk, www.csr.gov.uk

The EU’s position

It is remarked by many commentators that CSR is more advanced in Europe than in many other parts of the world.

Box 1.1.2: Defining CSR: An EU perspective

CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

The main function of an enterprise is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for society, particularly through an ongoing process of job creation. However, new social and market pressures are gradually leading to a change in the values and in the horizon of business activity.

There is today a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximising short-term profits, but instead through market-oriented yet responsible behaviour. Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interests.

In this context, an increasing number of firms have embraced a culture of CSR. Despite the wide spectrum of approaches to CSR, there is some consensus on its main features:

- CSR is behaviour by businesses over and above legal requirements, voluntarily adopted because businesses deem it to be in their long-term interest;
- CSR is intrinsically linked to the concept of sustainable development: businesses need to integrate the economic, social and environmental impact in their operations;
- CSR is not an optional ‘add-on’ to a business’ core activities, but rather about the way in which businesses are managed.

Socially responsible initiatives by entrepreneurs have a long tradition in Europe. What distinguishes today’s understanding of CSR from the initiatives of the past is the attempt to manage it strategically and to develop instruments for this. It means a business approach, which puts stakeholder expectations and the principle of continuous improvement and innovation at the heart of business strategies.

Source: EU Commission communication on CSR at tinyurl.com/22rpqy

Sustainable development

The term Sustainable Development was used in a landmark text in 1987: a report published by the UN Work Commission on Environment and Development, headed by the Norwegian Prime Minister, Gro Harlem Brundtland, and entitled Our common future. The Brundtland Report is widely regarded as a landmark in environmental development.

Box 1.1.3: the Brundtland Report

The Brundtland Report focused primarily on the needs and interests of humans and was concerned with securing a global equity for future generations by redistributing resources towards poorer nations to encourage their economic growth. It was the wish of the Report that all human beings should be able to achieve their basic needs. The Report also suggested that social equity, economic growth and environmental maintenance are simultaneously possible and that
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each nation is capable of achieving its full economic potential whilst at the same time enhancing its resource base. However, it recognised that achieving this equity and sustainable growth would require technological and social change. The Brundtland Report highlighted the three fundamental components of sustainable development, the environment, the economy, and society, and highlighted a number of major proposals for sustainable development:

**Environment:** We should conserve and enhance our resource base, by gradually changing the ways in which we develop and use technologies.

**Social equity:** Developing nations must be allowed to meet their basic needs of employment, food, energy, water and sanitation. If this is to be done in a sustainable manner, then there is a definite need for a sustainable level of population.

**Economic growth:** Economic growth should be revived and developing nations should be allowed a growth of equal quality to the developed nations.

Source: *The Encyclopaedia of Sustainable Development*

www.ace.mmu.ac.uk/esd/Action/Brundtland_Report.html

Thus sustainable development is primarily about the preservation of the Earth’s resources, while maintaining social equity and economic growth. This presents major challenges to corporations: it is in their nature to develop and the short-term demands of profit-making and competition will urge them to do so despite the environmental and social effects.

**Possible Discussion topic**

- You may like to discuss with other students the likely consequences for the world’s resources of ensuring ‘social equity and economic growth’ among less developed countries.

The challenges lie in the areas of consumption of, and damage to, elements of the environment and society. It is clear from the Brundtland Report that action on sustainable development must be wide-based, with governments, individuals and corporations cooperating. Increasingly, such actions will be regulated by law and by international agreements. Corporations which reject or undermine such initiatives are likely to meet strong opposition.² Before you continue, please attempt Activity 1.1.1. This will help you to consolidate your learning. Please remember, though, to undertake the reading for this topic first, and if you still have any problems or issues you would like to discuss, to go online and consult your tutor. You may also wish to compare your thoughts with those of your fellow students online.

² For more information on sustainable development, see the *Encyclopedia of Sustainable Development* at www.ace.mmu.ac.uk/esd/
Activity 1.1.1

(a) What is meant by ‘sustainable development’?
(b) Who, if anyone, believes that development itself is wrong?

Feedback: See page 39

Bottom lines

“The Polish poet Stanislaw Lec asked 'Is it progress if a cannibal uses a fork?’

Business consultant John Elkington believes that it can be. ‘In our rapidly evolving capitalist economies, where it is in the natural order of things for corporations to devour competing corporations, for industries to carve up and digest other industries, one emerging form of ‘capitalism with a fork’ – sustainable capitalism - would certainly constitute real progress.”


As we said earlier, corporations have always needed to think about how to serve their customers and society, but the traditional focus of business has always been on the ‘bottom line’.

For an example, see the Reed Elsevier annual report for 2006 in which income figures listed on page 24 finish with:

‘Net profit for the year €919 million’.3

The triple bottom line

Recently, a new perception of the bottom line has emerged. It was introduced by John Elkington in 1994. Elkington proposes that corporations should have a ‘triple bottom line’, which would include statements of:

- Economic value (rise or fall)
- Environmental value (added or destroyed)
- Social value (added or destroyed.)4

Elkington expected that businesses will be forced to enter a ‘new paradigm’. This will include more transparency, change in corporate values from ‘hard’ to ‘soft’, and a more inclusive approach to corporate governance.

Elkington’s idea proposes that an organisation’s license to operate in society comes not just from satisfying stakeholders through improved profits (the economic bottom line), but also by improving its environmental and social performance. As such, it encompasses


environmental responsibility, social awareness and economic profitability.

The process of ‘greening’ our minds and industries may have been under way for 40 years, but putting the world economy on a more sustainable footing has only just begun, Elkington believes.

“In sum, the TBL agenda as most people would currently understand it is only the beginning. A much more comprehensive approach will be needed that involves a wide range of stakeholders and coordinates across many areas of government policy, including tax policy, technology policy, economic development policy, labour policy, security policy, corporate reporting policy and so on. Developing this comprehensive approach to sustainable development and environmental protection will be a central governance challenge – and, even more critically, a market challenge – in the 21st century.”
Source: John Elkington,
www.johnelkington.com/TBL-elkington-chapter.pdf

The scope of CSR

Given that there is ‘no consensus’ as to what constitutes corporate social responsibility, the broad and optimistic statements made by some governments, the EU, the UN and numerous NGOs must be approached with caution. They may form a recognisable and active policy, but what corporations do in practice is a different matter. Provided that they remain within the law, corporations have a great deal of freedom in how to behave. Vogel asks us some questions that we will consider later in this module:

- Are companies morally obligated to insist that their contractors pay a ‘living wage’ rather than market wages?
- Are investments in natural resource development in poor countries with corrupt governments always, sometimes or never irresponsible?
- Are environmental expenditures necessarily wealth-enhancing?
- Is it irresponsible to produce weapons or nuclear power or to make money from gambling?5

Some examples

Some corporations will try to ‘do what is right’ (and avoid doing what is wrong) in all these situations.

UK Co-operative Society

The left-leaning UK Co-operative Society (a retailer with 3,340 outlets, 65,000 staff and gross revenue of £7.3 billion in 2006) says:

“We have a strict ethical policy on who we will not deal with. In 2004, we turned down £8.7 million of business because of ethical reasons including:

Businesses that supply weapons to oppressive governments
- Businesses that don't follow our animal welfare policy; and
- Businesses associated with exploiting workers, poor human rights, poor environmental performance, tobacco or clearing forests.”


Monsanto
Abstaining from certain forms of activity and business contacts does not, however, remove the ethical dilemmas. Often actions which corporations (and many scientists) believe are entirely beneficial, such as Monsanto’s development of genetically modified plants, are rejected by consumers:

‘The world’s first genetically modified wheat is to be shelved because of consumer resistance. US agri-chemical company Monsanto has announced that it would not try to market a strain it has developed called Roundup Ready. The company has already engineered the strain to survive its own Roundup brand of weedkiller. But there has been commercial resistance to the product from farmers around the world.’

Source: BBC News, news.bbc.co.uk/1/hi/business/3702739.stm

Shell
Attempts to create social benefits can have a negative impact. Vogel remarks that

‘Some firms have undermined the welfare of poor families – and of poor children in particular – by attempting to prohibit child labor. Some decisions made in response to NGO and consumer pressures may have increased, not reduced, the potential for harm to the environment – consider Shell’s decisions to dispose of its Brent Spar oil platform on land.”


Hewlett Packard
This is another corporation that is trying to demonstrate that it is a good ‘global citizen’:

“Hewlett Packard has stepped in as the exclusive hardware sponsor for the World Summit on Sustainable Development, which could see up to 65,000 delegates.

The company will provide 2,300 PCs, 128 servers, 53 notebook computers, 10 scanners, 274 printers and 135 digital cameras. The company move came as the organisers

6. The disposal of Brent Spar by dumping it in deep waters in the Atlantic led to widespread protests, led by Greenpeace. For a thorough review of the issues, see http://en.wikipedia.org/wiki/Brent_Spar_oil_rig.
struggled to get support in a number of areas - and had failed to sponsors for other key areas such as networks and internet access.”

Source: Business respect – CSR'; free email newsletter on CSR at www.mallenbaker.net/csr/nl/33.html

These four examples represent the public pressure under which corporations are increasingly being placed. But as we will see in the next section, ‘doing good’ is not an entirely new concept for corporations. Philanthropy has been with us almost as long as capitalism.
1.2 Early efforts at CSR and corporate philanthropy

‘We also believe that from those to whom much is given, much is expected. We benefited from great schools, great health care, and a vibrant economic system. That is why we feel a tremendous responsibility to give back to society’.

Source: Bill and Melinda Gates: www.gatesfoundation.org

Introduction

While the phrase ‘Corporate Social Responsibility’ is relatively new, appearing in the academic and corporate literature since the 1990s, there is a long history of companies and their management practicing social and environmental welfare. This section will consider the early models of corporate responsibility, including understanding the manifestations and motivations for that responsibility.

“In the United States, the idea of corporate social responsibility appeared in the early part of the twentieth century. Corporations at that time came under attack for being too big, too powerful, and guilty of anti-social and uncompetitive practices. Critics tried to curb corporate power through antitrust laws, banking regulations and consumer-protection laws.

Faced with this kind of social protest, a few far-sighted business executives advised corporations to use their power and influence voluntarily for broad social purposes, rather than for profits alone. This approach appealed to those who opposed more government restrictions on business because it allowed business to retain its power and influence while meeting some of society’s demands”.


Learning Objective

After you have completed this section, you should be able to:

- describe how corporate owners and managers historically viewed social and environmental responsibility
- explain why some corporations were involved in CSR-type activities, rather than pure philanthropy or charity

Early corporate philanthropists

Nineteenth century capitalism has a grim reputation, but some corporations did care about social and environmental matters, although it was very sporadic in terms of type and number of companies compared to today. One of the earliest to try to offer humane and ‘modern’ approaches was Robert Owen (1771–1858). Owen’s textile factories at New Lanark in Scotland were decades...
ahead of their time. We will also look at case studies such as Carnegie (steel in the US), Henry Ford, Cadburys, etc.

**Box 1.2.1: Robert Owen and Child Labour**

When Owen arrived at New Lanark children from as young as five were working for thirteen hours a day in the textile mills. He stopped employing children under ten and reduced their labour to ten hours a day. The young children went to the nursery and infant schools that Owen had built. Older children worked in the factory but also had to attend his secondary school for part of the day.

Owen’s partners were concerned that these reforms would reduce profits. Unable to convince them of the wisdom of these reforms, Owen decided to borrow money from Archibald Campbell, a local banker, in order to buy their share of the business. Later, Owen sold shares in the business to men who agreed with the way he ran his factory.

Robert Owen hoped that the way he treated children at New Lanark would encourage other factory owners to follow his example. It was therefore important for him to publicize his activities. He wrote several books including *The Formation of Character* (1813) and *A New View of Society* (1814).

Source: Spartacus, www.spartacus.schoolnet.co.uk/IRowen.htm

Owen’s ideas were CSR, rather than philanthropy. The key difference between philanthropy and CSR is that philanthropy is 'charity' or gift giving and does not necessarily relate directly to business objectives.

Philanthropy is basically a private action:

‘act of donating money, goods, time, or effort to support a charitable cause, usually over an extended period of time and in regard to a defined objective. In a more fundamental sense, philanthropy may encompass any altruistic activity which is intended to promote good or improve human quality of life’

Carnegie

The famous philanthropists include Andrew Carnegie, who founded the Carnegie Steel Company, which made him a 'Captain of Industry'. By the 1890s, the company was the largest and most profitable industrial enterprise in the world. Carnegie sold it to US Steel in 1901 and devoted the remainder of his life to large-scale philanthropy, with special emphasis on local libraries, world peace, and scientific research. In 1898 he offered the people of the Philippines, which the USA had just 'bought' from Spain, $20 million to buy their country back. His best-known contribution was the endowment of 2,500 libraries in the English-speaking world, many of which still exist.

Note that Carnegie's activities were private, rather than corporate. Carnegie's philanthropy was a matter of conscience. It was he, as a rich individual, who gave away money. His firms did not. This can be regarded as 'pre-corporate philanthropy'.

... ‘pre-corporate philanthropy’, consists of men and women who created companies and invented products, and held strong beliefs about helping certain aspects of society in the United States. The second phase focuses on chief executive officers and formalized programs designed to 'give back' to communities, often manifested in the creation of corporate foundations. The third phase, often referred to as 'strategic philanthropy,' involves the marriage of business interests and the needs of communities through these institutionalized programs. And, the fourth, and newest phase, centers on the concept of 'corporate social responsibility,' a holistic view of how companies operate and whom they serve, and how corporate philanthropy fits within a company's overall structure and philosophy.'

Source: 'McClimon, T. J., Grantmaker in the Arts, tinyurl.com/2bzylu'.

Can you think of other famous philanthropists? John D. Rockefeller was another famous US figure, as was J. Paul Getty. Current philanthropists from the western world include Bill and Melinda Gates, Oprah Winfrey, Michael Dell and George Soros.

Cadbury

The Cadbury family had a long tradition of philanthropy; they were Quakers. Pacifist tea-dealer John Cadbury set up a small shop in Birmingham, England in 1824. As a committed opponent of the 'evils of alcohol' he began manufacturing, in 1831, drinking chocolate and cocoa. The family established a manufacturing town on a greenfield site which they called Bournville, now a suburb of Birmingham with 7,800 houses. Bournville is 'dry': there are no pubs and no alcohol can be retailed there (residents support this position). Cheap good quality housing was provided for workers. John Cadbury was a social reformer: he campaigned against the use of child chimney sweeps,
and helped set up the forerunner of the powerful animal welfare charity RSPCA.

“Loyal and hard-working workers were treated with great respect and relatively high wages and good working conditions; Cadbury also pioneered pension schemes, joint works committees and a full staff medical service. Indeed, the Cadburys were particularly concerned with the health of their workforce, incorporating garden areas into Bournville's plans, and encouraging swimming, walking and all forms of outdoor sports.”

Source: en.wikipedia.org/wiki/Bournville

Unilever

Lever Brothers (which became Unilever) followed a similar paternalist approach to their workforce, building a factory town at Port Sunlight near Liverpool, beginning in 1888.

'Port Sunlight contains 900 Grade II listed buildings, and was declared a Conservation Area in 1978. It is also being put forward for World Heritage Site status to protect it from development and to preserve the unique character for future generations.'

Source: en.wikipedia.org/wiki/Port_Sunlight

Philanthropic foundations

Some large corporations moved to the idea of ‘foundations’: charitable and philanthropic NGO’s which distributed funds to worthy causes while keeping the brand name in public view. The first was that of John D. Rockefeller Senior's foundation in 1906. Rockefeller admired Carnegie's actions, and advisers told him that his ‘fortune was rolling up so fast his heirs would “dissipate their inheritances or become intoxicated with power”, unless he set up permanent corporate philanthropies for the good of Mankind’. The Rockefeller Foundation has distributed over $14 billion (at today's values) to a wide range of causes and individuals. It still continues, with J. D. Rockefeller III devising the term 'venture philanthropy' in 1969. Venture Philanthropy has aims which tie in with the ‘triple bottom line’ idea.

'Venture philanthropy is an approach to charitable giving that applies venture capital principles, such as long-term investment and hands-on support, to the social economy. Venture philanthropists work in partnership with a wide range of organisations that have a clear social objective. These organisations may be charities, social enterprises or socially driven commercial businesses, with the precise organisational form subject to country-specific legal and cultural norms.'

Source: Rob John, 'Venture philanthropy: the evolution of high engagement philanthropy in Europe', tinyurl.com/24nreed

The Ford Foundation, founded in 1936 approved $530 million in grants for projects that focused on 'strengthening democratic values, community and economic development, education, media, arts and culture, and human rights' in 1936. Although 1936 was the
year in which worker militancy in the US auto industry peaked, including many union actions against the 'Fordist/Taylorist factory system', the Ford Foundation supports many liberal causes. It has been criticised for radicalising law schools and for supporting Palestinian NGOs. Others, however, criticise it for right-wing values and links with the CIA.

There are numerous Foundations in the USA, some like the W.K. Kellogg Foundation (founded 1930 and now the seventh largest philanthropic foundation) are funded from grants in trust of Kellogg company shares.

Philanthropy is not limited to Western corporations:

'Tata does appear to be an example of pure corporate philanthropy. As Ranan Tata, chairman of Tata Sons, says, 'We are not doing this for propaganda or visibility. We are doing it for the satisfaction of knowing that we have really achieved and given something to the community in which we are working.' The Indian philanthropic tradition of Tata and thousands of other family businesses has evolved for many reasons: partly because to live in India is to live in the midst of grotesque inequality, partly because families tend to be rooted in communities and partly because good schools and hospitals produce an educated and healthy workforce.'

Source: Ethical Corporations: 'Evolving corporate philanthropy in India', tinyurl.com/24pe33

**Is philanthropy in decline?**

For some decades, US corporations and business leaders seemed to show less interest in philanthropy:

'over the last 15 years corporate giving as a percentage of profits has dropped 50%'


In recent years, however, private philanthropy by business people has revived. The Buffet Foundation, founded by the world’s second richest man, Warren. K. Buffet has been promised $31 billion from Buffet's personal fortune. The world’s richest man, Bill Gates, has a foundation with endowments worth $35 million.

**Suspicions of philanthropy**

'In many countries, the word philanthropy itself is viewed with suspicion or distaste, conjuring up images of a patronising attitude and largesse.'


Philanthropy did often merit the old-fashioned term 'largesse': a kind of feudal obligation towards the worse-off. It is also true that the sums dispensed, such as the Rockefeller’s $14 billion, are trivial compared to the vast sums earned in profit, and are a small fraction of the profits distributed to shareholders. It is often suspected that corporate philanthropy is a cheap way of achieving a positive public image.
Philanthropic efforts may also be criticised as inadequate, or may be contaminated by other actions by the corporation.

‘The Gates Foundation has poured $218 million into polio and measles immunization and research worldwide, including in the Niger Delta. At the same time that the foundation is funding inoculations to protect health, The Times found, it has invested $423 million in Eni, Royal Dutch Shell, Exxon Mobil Corp., Chevron Corp. and Total of France — the companies responsible for most of the flares blanketing the delta with pollution, beyond anything permitted in the United States or Europe. Indeed, local leaders blame oil development for fostering some of the very afflictions that the foundation combats.

Oil workers, for example, and soldiers protecting them are a magnet for prostitution, contributing to a surge in HIV and teenage pregnancy, both targets in the Gates Foundation’s efforts to ease the ills of society, especially among the poor. Oil bore holes fill with stagnant water, which is ideal for mosquitoes that spread malaria, one of the diseases the foundation is fighting.’

Source: Los Angeles Times: ‘Dark cloud over good works of Gates Foundation’, available at tinyurl.com/ymcnh9

It should be noted that philanthropists open themselves to being criticised for not being philanthropic enough, or towards the ‘right’ causes. The Gates Foundation, which focuses on health issues, has also been criticised for investing in 740,000 MacDonald shares, ‘confusingly’, as one website puts it.

Yet rewards come to philanthropists. Although it could be argued that the very rich have so much wealth that it is difficult to do anything with it except create more wealth, philanthropy attracts public approval. Tom Hunter, reportedly the first ever home-grown billionaire in Scotland, was knighted in 2005 for ‘services to Philanthropy and to Entrepreneurship in Scotland’.

‘Like Bill Gates and Andrew Carnegie, Sir Tom Hunter should be morally praised, not for giving away his wealth, but for having created it in the first place.’

Source: Letter to The Scotsman 22 July 07 by D. S. A. Murray

Gains from corporate philanthropy

Your observations of corporate philanthropy may have shown you that corporations tend to ‘brand’ their philanthropy, and relate it to their corporate interests. Others have suggested that philanthropy is merely a commercial tool for corporations. It can help with brand recognition, consumer attitudes and the public perception of the corporation. It can be a useful against accusations of corporate misdeeds: Microsoft has often been accused of creating monopolies and making super-profits. The fact that the Bill and Melinda Gates Foundation gives away billions of dollars to support health causes can help offset these criticisms.

Before you continue, and to consolidate your understanding of this topic, please attempt the following activity. Remember to seek online assistance if you have any difficulties or concerns.
Activity 1.2.1

Comment on the choice of philanthropic objects shown in the list below:

- IBM claims education as its top priority in its philanthropy. Through its Reinventing Education program, IBM has worked to develop and implement innovative technology solutions to solve tough problems in elementary and secondary education.
- Citigroup Foundation focuses its philanthropic efforts on both education and community development, including institutions that fund affordable housing, small business loans and retail initiatives.
- Altria, one of the largest food companies in the country, identifies alleviating hunger and supporting humanitarian aid as two of its largest giving programs (the arts being another).
- Microsoft contributes to projects that broaden access to technology.
- ChevronTexaco focuses much of its support on environmental protection.
- American Express gives grants to preserve and manage major tourism sites, including cultural institutions, around the world.
- Merck supports biomedical science training and education.
- Sara Lee Foundation believes that arts and culture are essential ingredients in fostering a vibrant and vital community, and celebrating the creativity and boundless potential of the human spirit.
- The Coca-Cola Company’s philanthropy has earned it a reputation for being a ‘local citizen’ in nearly 200 countries.

Feedback: See page 39

Critical reconsideration

This may be a good point to have a critical rethink about the point and usefulness of corporate charity and CSR. Although the sums disbursed are substantial and the recipients no doubt grateful, the totals involved are tiny compared with the world economy and the social and environmental need. Philanthropy and CSR may well do some good, but they will not ‘change the world’. You may feel it is doubtful whether corporations are capable of changing the world. Might it not be the case, that corporate giving is more about self-interest than generosity? Companies, after all, recognise that spending on public relations is a valuable investment.

You might like to discuss the example of Hoffman-La Roche's interest in ‘doing good’ in Bulgaria.

‘Hoffmann-La Roche’, which has been operating in Bulgaria for more than 75 years, has been consistent in its policy to support the efforts of Bulgarian institutions to improve the quality of life of Bulgarians suffering from socially important diseases. Roche has been giving real meaning to terms such as ‘partnership’ and ‘social responsibility’ integrated in Bulgarian healthcare. Some of the recent company’s

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initiatives and activities dedicated to supporting the Bulgarian community are:

- ‘Energy To Climb Mountains’ Initiative aimed to support the patients on haemodialysis and their Association, and to demonstrate their strengths, capabilities and strife for better living
- Grant for the establishment of a heart failure outpatient unit at Medical University - Pleven in a socially deprived region
- Donations of drugs and medical supplies to Bulgarian healthcare institutions and community hospitals
- Traditional donations as part of the national initiative ‘Bulgarian Christmas’ endorsed by the President of Bulgaria
- ‘Images of Hope’ Initiative

Source: Roche submission to Bulgarian Business Leaders Forum, tinyurl.com/25ylou

Bulgaria is no doubt grateful for HLR’s interest. You might want to ask what HLR will gain for its commercial operations in this low-income nation of 7½ million people.

Corporate philanthropy has been a positive benefit to many people. Outright gifts of money, products and facilities have benefited society. We can recognise such actions as ‘good citizenship’, even if we consider that the sums involved are small. The move to corporate social responsibility, however, takes us much further. It foresees a reintegration of corporations into society, with them accepting various responsibilities as part of a ‘social contract’ which also allows them to make profits for their shareholders.
1.3 Growth of the stewardship model and CSR

‘Many of today’s corporate executives see themselves as stewards or trustees who act in the general public interest. Although their companies are privately owned and they try to make profit for the stockholders, the company is managed and directed by professional managers who believe they have an obligation to see that everyone – not just those in need – benefits form the company’s actions. According to this view, corporate managers have been placed in a position of public trust’.


Introduction

As we have seen in the definitions of CSR provided earlier, the impact of the company on interested parties (or its ‘stakeholders’) is very much a central theme in corporate responsibility. This section will consider the concept of the Stewardship or Stakeholder model of CSR, a model which shows that corporate objectives are very much aligned with the needs of those affected by its business decisions and policies: as Frederick et al. put it, ‘business and society are intertwined and interdependent’.

Learning objectives

After you have completed this section, you should be able to:

□ explain how the stewardship model of CSR differs from the philanthropic model
□ identify the key organisational stakeholders and how their interests can be met through CSR policies

The meaning of stewardship

A steward is a person who oversees or manages resources in the interests of others. The concept of stewardship perhaps has its roots in Christian thought:

‘Christian stewardship is about sharing in God’s amazing generosity to each one of us. Stewards manage the resources God has loaned us as effectively as possible — our possessions, skills, wealth, time and the environment.’

Source: ‘Christian stewardship in the Church of England’, natstew.diochi.org.uk

The idea of stewardship is a concept which has developed within business to describe the way that corporations and, more widely, human beings in general, have responsibilities and should also care for the resources which are outside their direct control:

□ corporations sited on an industrial development may share stewardship of the area, to control traffic density, reduce noise
and pollution, and ensure the visual amenity and the safety of the public.

Governments and corporations may exercise stewardship over undeveloped land, the sea, and wildlife resources. The Marine Stewardship Council, for example, is an ‘independent non-profit organisation that promotes responsible fishing practices’. The Scottish Rural Stewardship Scheme (RSS) is ‘an Agri-environment Scheme designed to encourage farmers, crofters and common grazings committees to adopt environmentally friendly practices and to maintain and enhance particular habitats and landscape features’. This scheme encourages farmers to leave crops partly unharvested, in order to encourage wild birds. The Forest Stewardship Council enables customers to buy forest products of all kinds ‘with confidence that you are not contributing to global forest destruction’.

Some aspects of these matters will be covered by law, but there is always more that can usefully be done beyond the law. Also, stewardship indicates involvement and a sense of responsibility within a wider community, where, as Frederick et al., say:

‘corporate managers recognize that business and society are intertwined’


Some organizations feel they have a longer and perhaps historic commitment to stewardship, which includes ‘protecting the long-term value’:

“Our commitment to Stewardship means pursuing good environmental practice, making sure that our activities in the communities in which we operate are handled sensitively; providing a safe working environment; and taking a sustainable, long term view in our actions.”

Source: The Crown Estate: ‘Our core values’, www.thecrownestate.co.uk/stewardship

Stewardship and stakeholders

The Crown Estate (the business arm of the British royal family) could be expected to take a paternalistic position; royalty has always been expected to ‘do good’. The stewardship idea, however, differs from traditional philanthropy. It is an issue of process: how the corporation operates, rather than how generous it is with gifts.

This point of view takes us towards the idea of ‘stakeholders’. Stakeholders are those people and organizations in the community to which the corporation has a responsibility. Those who have a ‘stake’ include many who are not shareholders: employees, suppliers, neighbours and the public may be stakeholders. A stakeholder society is therefore a society in which the corporation is expected to be a ‘good citizen’.

The stewardship/trusteeship view is clearly a moral position. Does it mean that there is a gulf between the positions of stockholders and corporate managers? Every penny spent on good causes is money that corporations could have used to reward stockholders, or
to make the business function more effectively. Do managers have
to persuade stockholders to be moral? Or does ‘being good’ have
advantages for stockholders?

Before you continue, try to carry out activity 1.3.1, which will help
you to consolidate your learning. Please remember, though, to
undertake the reading for this topic first, and if you still have any
problems or issues you would like to discuss, to go online and
consult you tutor. You may also wish to compare your thoughts
with those of your fellow students online.

Activity 1.3.1
Please write a short response to the following question:

☐ How can acting as a ‘good steward’ benefit stockholders?

Feedback: See page 39

Starbucks: rewards and costs of stewardship

Starbucks’ Chairman and ‘Chief global strategist’ Howard Schultz
announced in 2005 that Starbucks ‘will spend more on employee
health insurance this year than on raw materials to brew its coffee’,
adding ruefully ‘It’s completely non-sustainable’. Starbucks provides
health care coverage to employees who work at least 20 hours a
week. It is expensive, but is enabling the company to take on more
older workers, for whom the healthcare benefit is important.

Conscience is a factor in this corporate decision. Schultz says he
remembers his father having to work in a range of low-paid jobs
without healthcare.

Starbucks accounts for 2% of world coffee production, and in 2000
began selling fair trade coffee. However, like many US companies,
it has been resisting trade unionism: Schultz said ‘if they had faith
in me and my motives they wouldn’t need a union’.

Perhaps Starbucks’ non-sustainable investment will lead it to
encourage more state provision. Private family healthcare insurance
in the USA in 2007 averages more than $12,000 per year.

Another key element of good stewardship is that it helps companies
avoid problems associated with liability and reputation. They can
co-operate more closely with state and local government, and
benefit from increased public approval. Starbucks cannot expect to
reach its goal of 40,000 outlets worldwide without strong approval.

Stewardship is at the heart of the environmental issue. Human
enterprises have repeatedly shown that they can harm the common
resources of the planet on which we all depend. Human
carelessness in letting goats range widely has repeatedly been
blamed for destruction of forests in ancient Greece, with severe
repercussions for soil erosion. Industrial development caused
widespread damage. In modern times, the biggest warning note
came from Rachel Carson:
Chapter 1: A history of CSR

Box 1.3.1 Silent spring

Rachel Carson's 1962 exposure of the effects of the indiscriminate use of chemicals, which describes how pesticides and insecticides are applied almost universally to farms, forests, gardens and homes with scant regard to the contamination of the environment and the destruction of wildlife. She argues that unless we recognize that human beings are only a part of the living world, our progressive poisoning of the planet will end in catastrophe.


The rise of the stakeholder view

Stewardship/trusteeship has naturally developed into its modern equivalent, 'the stakeholding society'. You may find it interesting that stakeholding can only be described as a social entity – a society – rather than as a process or function like 'stewardship'. Stakeholding takes 'acting in the general public interest' to its logical conclusions, and stakeholders are those who have a share or an interest, as in an enterprise.

Some people, such as Albert J Dunlap, CEO of Scott Paper, still hold a denunciatory view of stakeholding:

Stakeholders! Whenever I hear that word, I ask ‘How much did they pay for their stake?’ Stakeholders don’t pay a penny for their stake. Shareholders do!


This is increasingly a minority position, for it is easy to see that important stakes exist, even if the ownership of shares is not involved. If we look at Starbucks, for example, those non-shareholders with stakes in it include:

- Employees (including those who are members of trade unions)
- Suppliers (of coffee and other consumables, and of equipment, design, construction, advertising and printing services)
- Customers
- The local community
- Local authorities (who receive taxes from Starbucks units and whose economy benefits from their activities)
- Local education institutions (who may want Starbucks to recruit their students)
- Neighbouring non-competing businesses (who may benefit if Starbucks attracts more people to the shopping centre and keeps them there longer).
The advantages of doing good

Firms that exercise good stewardship; are ethical; and engage positively with stakeholders; can make some direct and simple gains. Public approval helps sell product. There is a great deal of choice in most markets, and customers can afford to be choosy. It is probably true that bad behaviour does commercial damage more easily than good behaviour creates commercial gains. An example of the negative picture is Nestlé.

Nestlé’s UK website tries to win public approval by its ‘business principles’:

‘Nestlé’s business objective is to manufacture and market the Company’s products in such a way as to create value that can be sustained over the long term for shareholders, employees, consumers, and business partners.

Nestlé does not favour short-term profit at the expense of successful long-term business development.

Nestlé recognises that its consumers have a sincere and legitimate interest in the behaviour, beliefs and actions of the Company behind brands in which they place their trust, and that, without its consumers, the Company would not exist.

Nestlé believes that, as a general rule, legislation is the most effective safeguard of responsible conduct, although in certain areas, additional guidance to staff in the form of voluntary business principles is beneficial in order to ensure that the highest standards are met throughout the organisation.

Nestlé is conscious of the fact that the success of a corporation is a reflection of the professionalism, conduct and the responsible attitude of its management and employees. Therefore, recruitment of the right people and ongoing training and development are crucial.

Nestlé continues to maintain its commitment to follow and respect all applicable local laws in each of its markets.’

Source: Nestlé careers website, tinyurl.com/3d8bzu

Nestlé is active in ‘community investment’, particularly in relation to children, who are its largest consumer group in the confectionary and snacks sector. It even finances a Children’s Book Prize. The company says that

‘we recognise that people have an interest in how our policies and principles reflect and impact upon the communities in which our offices and factories are based in the UK. To assist us implement our responsibility in these communities, we are actively involved with a number of organisations whose aim is to advise and guide us on social involvement.’

Source: Nestlé careers website, tinyurl.com/3d8bzu

The problem for Nestle is that these ‘doing good’ activities may look defensive. From the late 1970s it was attacked for the irresponsible marketing of infant formula milk to women in poorer countries, contrary to World Health Authority guidelines. The result was a
massive negative publicity campaign and boycott. The campaign condemns Nestlé encouraging mothers to replace normal breastfeeding with purchased powders. The result, the campaign claims, with support from the World Health Authority, is that hundreds of thousands of ‘infants who are not breastfed are at greater risk of short and long-term illness and death’.

The anti-Nestlé boycott has been large and effective. The campaign lists over 100 Nestlé products from Gold Blend coffee to Felix cat food. As the Guardian newspaper reported in September 2005:

‘What do Nike, Coca Cola, McDonald’s and Nestlé have in common? Apart from being among the world’s most well-known brands, they happen to be the most boycotted brands on the planet.

That finding came from this week’s global GMIPoll, an online opinion poll that surveyed 15,500 consumers in 17 countries. Nestlé emerges as the most the most boycotted brand in the UK because of what respondents consider its ‘unethical use and promotion of formula feed for babies in third world countries’.

Source: Tran, M. "Branded", Guardian Unlimited, 1 September 2005, available at tinyurl.com/2vj5qx

Nestlé has not apparently suffered loss of profits from the baby milk boycott, but its name and brands have become controversial, despite a positive rating from the UK Parliamentary NGO One World Trust. Thus when in 2006 it launched a fair-trade coffee called Partners Blend, it was accused of ‘greenwashing’. This represents a general risk when companies move towards socially responsible actions: it was pointed out that Partners Blend was the only fair trade item among the company’s 8,500 products.

The company has disputed claims made against its baby milk powder marketing campaigns from the beginning. Its website contains numerous defences of its position, which are sharply disputed by the boycott campaign. Was this defensive position perhaps an error? By its resistance to pressure, Nestlé has convinced itself that it can continue to market baby milk to women in poorer countries, and still holds 40% of the world market. This policy remains controversial.

NIKE was boycotted after it was accused of manufacturing using ‘sweatshop labour in countries such as China, Vietnam, Indonesia and Mexico’ and child labour in production of footballs in Cambodia and Pakistan. The boycott was widely publicised (with the Nike ‘swoosh’ logo being rebranded as the ‘swoshstika’) but seems to have had little real effect.

By comparison the prime example of positive and effective action when a problem area occurs is considered to be Johnson & Johnston, after the ‘Tylenol scare’ of 1982. Seven people died in

8. For details of which see tinyurl.com/hrhln
9. See http://www.oneworldtrust.org/?display=nestle
10. For more information, see http://www.saigon.com/~nike/
Chicago after Extra Strength Tylenol was deliberately contaminated with cyanide by a person unknown. Sales of the pain killer (value $1 billion) collapsed, but the company took quick and appropriate action. ‘Having sidestepped the position others have found themselves in – of having been slow to act in the face of consumer concern – they achieved the status of consumer champion.’

‘They acted quickly, with complete openness about what had happened, and immediately sought to remove any source of danger based on the worst case scenario – not waiting for evidence to see whether the contamination might be more widespread:

‘Having acted quickly, they then sought to ensure that measures were taken which would prevent as far as possible a recurrence of the problem

They showed themselves to be prepared to bear the short term cost in the name of consumer safety. That more than anything else established a basis for trust with their customers’

Source: http://www.mallenbaker.net/csr/CSRfiles/crisis02.html

An important side benefit was the development of tamper-proof packaging, which is now universal. You might want to think whether Nestlé might have reacted in such a positive way when medical/social criticisms of its baby milk products first appeared.

**A model of CSR**

**Cummins Engine Company** is an interesting case study of a company that moved from philanthropy, based on executive conscience, to a full scale adoption of CSR.

Founded in 1919, Cummins always took a benevolent attitude to its workforce and neighbourhood, based on the religious convictions of its founder Clessie Cummins.

- Cummins has contributed many top quality public buildings and artworks to its home town of Columbus, Indiana.
- Management staff members were racially integrated as early as the 1960s.
- Cummins was an early leader in reducing pollution caused by its products – diesel engines – though its R&D was challenged by repeated tightening of emissions regulations
- Charitable funds were given to many local causes, and staff actively contribute to these.

In 1980 the company hit a period of difficult trading because ‘they were losing their competitive edge to companies in Europe and Asia’. The Board considered three strategies:

- outright sale;
- a ‘harvest strategy’ of running out production, which would liquidate the company while returning increasing dividends to shareholders for a short period;
- a 3-5 year restructuring and investment of $1 billion.

‘In management’s opinion, only this option [the restructuring] balanced the interests of its long-term shareholders with those
of its other long-term ‘stakeholders’, such as employees, customers, suppliers and the local community.


Cummins cut the workforce and factory space by 30%, relocating plants and making financial control improvements. Team working and new quality production methods were introduced, and costs were cut by 22%. It maintained its charitable activities. Cummins has returned to profitability, but layoffs and sackings have been occurring in the period since its re-launch in 1990.

Cummins, which makes diesel engines and generators, has joined countless other companies across America in radically transforming itself. It has idled thousands of employees and shifted work to Mexico, China and India.

Columbus has adjusted to the new reality and remains a healthy, prosperous town. But the paternalism that once sustained it is no match for the incessant demands for cost-cutting at Cummins. Markets like China and India present rich new opportunities. To ignore them likely would put the company, and all its jobs, at risk.

"An employee in India is just as important as an employee in New York, as an employee in China, as an employee in Brazil," says Cummins Chairman and Chief Executive Tim Solso.


Nevertheless, Cummins continues to thrive. See its 2006 Annual Report in which it states that:

‘2006 was the best year ever in Cummins’ 88-year history. We gained share in key businesses around the world. We launched successful new products and announced plans to enter exciting new markets in the near future. We had record cash flow from operations of $840 million, even after funding our employee and retiree pension plans to well above required levels. We delivered additional value for our shareholders by reducing our debt by $556 million, year-over-year. We increased the quarterly dividend by 20 percent. We also purchased more than one million shares of Cummins stock as part of our stock buyback plan.’


It could be argued that Cummins Inc. would have achieved more for its shareholders if it had adopted a more traditionally ruthless approach, but there is no means of testing this. What does seem to be the case is that Cummins, despite or because of its moral and ethical stance, has enabled a large and profitable entity to remain in business when many others have failed. Its reputation has been considerably enhanced in the process, Reputation is important to companies, because a positive reputation helps in many aspects of
its operations, while a bad reputation hinders it. Reputation is particular important for multinational corporations.
1.4 Regional and International Perspectives on CSR

‘The long awaited law on new corporate income tax is expected to take effect in 2008, changing China’s existing rates for domestic firms (33 percent) and overseas-invested companies (15 percent) to a unified 25 percent. That will provide domestic and overseas-funded firms with a level playing field for the first time since the economic reforms began in the 1980s.’

Source: China Daily, 3 September 2007

Introduction

So far we have considered the idea and concept of CSR and provided some initial thoughts on why corporations choose to act in an environmentally or socially responsible manner. In this Section we will consider whether concepts of CSR are similar in different countries or regions; and what the role of government is in encouraging or requiring environmental or social corporate activities.

Learning objectives

When you have completes this section you should be able to:

- describe the different attitudes to CSR in different country/market contexts
- outline the role of government in regulating CSR

Voluntary or statutory standards?

Earlier, we saw that the UK government sees CSR as ‘the voluntary actions that business can take, over and above compliance with minimum legal requirements’. There is considerable pressure on governments to bring in more legislation. After all, the great social and environmental improvements in more developed countries began with unofficial campaigns by reformers, and often ended with legislation. In the UK, there is extensive legislation on human welfare, human rights, environmental protection and animal protection. Daniel Tschopp reports similar phenomena in the USA:

‘Due to the social and environmental concerns that arose in the late 1960s and early 1970s, the US government passed laws to address the issues. The legislation adopted included pollution and hazardous waste control (e.g. Federal Water Pollution Control Act, The Clean Air Act Amendments of 1977), the workplace (e.g. The Occupational Safety and Health Act of 1970, The Equal Employment Opportunity Act of 1972) and consumer protection (e.g. The Consumer Product Safety Act, The Federal Hazardous Substances Act) (Hess, 2001).

In retrospect, you might wonder why these statutory controls were not introduced earlier. Not everyone likes to be controlled by laws, however, and the view of the UK Minister for CSR, Stephen Timms MP, is:

‘I am well aware of the many and increasing calls for more regulation of company behaviour. And I agree that Government has a responsibility to ensure minimum legal standards. I remain convinced that the main focus of CSR should continue to be a voluntary one.’


The legal minimum is always the starting point for companies in CSR. The trouble may be that:
- standards in different countries differ
- corporations may be operating indirectly, through subcontractors

It is also the case that competitiveness may be at risk, since the international business ‘playing field’ is not level. The section on Competitiveness (pp. 10–11) in Corporate Social Responsibility – a government update is extremely weak. It does not recognise that the social conditions, welfare regimes and pay rates in Malaysia are (at present) significantly lower than those in the UK. Such differences led the Dyson Company to transfer its manufacturing of bagless vacuum cleaners to Senai in Johore, Malaysia, from Malmesbury in England in 2002.

Malaysia is a developing country, where, according to reports from the ILO, wages have been growing, skills levels increasing and participation by women in the workforce increasing. Still, wages are low by western standards, and the Malaysian Trades Union Congress (MTUC) has been campaigning for improvements, including a minimum wage:

‘Even five-star hotels in Kuala Lumpur pay a basic wage of 290 ringgit ($84) per month to cleaners and waiters’, noted the MTUC in a memorandum urging Prime Minister Abdullah Badawi to introduce a minimum wage.

Such paltry wages fall well below the official poverty line (monthly) income of 691 ringgit ($200) in peninsular Malaysia, 765 ringgit ($221) in Sarawak state and 888 ringgit ($257) in Sabah.

The MTUC is asking the government to introduce a minimum monthly wage of 900 ringgit ($261) and a cost of living allowance of 300 ringgit ($87). It points out that the minimum wage they are asking is less than the total monthly income earned by the lowest ranking civil servants, which is now above 1,000 ($290) ringgit.

The MTUC’s demands may have some justification. Analysts have pointed out that an individual would have to earn at least 1,200-1,500 ringgit ($348–435 dollars) to live in

dignity in urban areas such as Kuala Lumpur, where rentals, food prices and transport costs have soared in recent times.\footnote{Source: Netto, A. ‘Labour-Malaysia: Forget investors, fix minimum wages – unions’, International Press Services 17 July 2007, available at http://www.ipsnews.net/news.asp?idnews=38562, (Note: dollar values calculated August 2007)}

The minimum wage in the UK (from October 2007) was £5.52 per hour ($10.95), or £220.80 ($437.8) per 40-hour week. Median weekly pay for full-time employees in the UK grew by 3.7 per cent in April 2006 to reach £447 ($886.3).\footnote{The minimum wage in the UK (from October 2007) was £5.52 per hour ($10.95), or £220.80 ($437.8) per 40-hour week. Median weekly pay for full-time employees in the UK grew by 3.7 per cent in April 2006 to reach £447 ($886.3). The UK is obliged to react to wages in less developed countries where a skilled workforce can manufacture or process goods, but so are the local states. Malaysian Human Resources Minister Fong Chan Onn said that a 900-ringgit ($261) minimum wage would lead to a surge in migrant workers from neighbouring countries as wages in Malaysia would rise well above the average wage in those countries. He pointed out that a minimum wage meant paying the same amount to the 1.5 million legal foreign workers already present. Developed countries are facing the same dilemmas. Thus the UK has continually argued for exceptions to EU rules so as to make its own economy more attractive to investors (for example its opt-out from the EU’s 48-hour maximum working week limit rules). Every country in the EU is trying to attract inward investment with its ‘special attractions’.

The problem is that different conditions apply worldwide. Once globalization is complete, the major inequalities will disappear. This will be a long and difficult process, as the EU has found. There are still major inequalities in terms of wages and working conditions within the EU.

At present, the Eastern countries that were once members of the Soviet bloc offer the cheapest wages and a large pool of skilled workers. As more countries (including, possibly, Turkey) join the EU, there will continue to be a large low-wage sector. There are of course inequalities within the older countries of the EU: for example the North of Italy versus the South, and East Germany versus the West. However, these are increasingly to be seen as local variations, and EU policy is aimed to balance them out; market forces will assist this.

Before you continue, try to complete Activity 1.4.1, which will help you valuate the importance of wage differential between rival countries. Remember to do the background reading for this section, and use the interest to find different examples. It may be useful to discuss this issue on-line with other students.
Activity 1.4.1

Please write a short response to the following question:

Corporations consider many factors when relocating parts of their business, including labour supply, skills, wages, taxation and government policy. Is there any reason for Malaysia and its neighbouring countries to work together to establish a ‘level playing field’ in these matters?

Feedback: See page 40

How far can governments drive CSR?

The principal initiatives by Western states and the EU have been in terms of encouragement and the dissemination of good practice. The EU has launched a European Alliance on CSR, which ‘is not a legal instrument and is not to be signed by enterprises, the Commission or any public authority. It is a political process to increase the uptake of CSR amongst European enterprises.’ Its aim is to make Europe a ‘pole of excellence on CSR’. The EU’s principal concerns are with action within Europe, but there is also a strong international dimension:

‘…to promote CSR globally with a view to maximizing the contribution of enterprises to the achievement of the UN Millennium Development Goals. The ILO Tripartite Declaration of Principles concerning MNEs and Social Policy, the OECD Guidelines for MNEs and the UN Global Compact, as well as other reference instruments and initiatives, provide international benchmarks for responsible business conduct. The Commission is committed to promoting awareness and implementation of these instruments and will work together with other governments and stakeholders to enhance their effectiveness.’

Whilst the concept of CSR is essentially a discretionary activity by companies (indeed one undertaken in order to gain competitive advantage in their sector), government involvement does exist insofar as:

- they issue guidance on good practice and notify companies of regulation and incentives within the national (and EU if appropriate) regulations
- governments may also support international treaties and agreements which translate into requirements for compliance – such as trade agreements WTO and the UN ILO (International Labour Organisation)
- different countries may have differing perspectives on what is important from a social or environmental perspective: e.g. South Africa and apartheid, US and major environmental problems (such as Exxon Valdez).

There is little in CSR that is mandatory. The British government, for example, relies on providing a good example, encouraging businesses to respect international standards, and encouraging good practice. Recognizing that smaller companies are less attuned to CSR, it is:
“Working with partners to raise awareness of best practice within those sectors which are less engaged in CSR. Continuing to support work which provides guidance and best practice help tailored to the needs of SMEs.”


Given the unevenness of CSR practice, international standards are likely to become much more important. They provide a set of benchmarks against which business can be evaluated – and praised or blamed. A basic element in this is the move toward common reporting formats.

Finally, for this chapter, please attempt Activity 1.4.2. Remember to go online and consult your tutor if you have any issues you feel you would like to discuss.

**Activity 1.4.2**

Please write short notes on the following:

What do the following international initiatives aim to achieve? To what extent are they credible and authoritative?
(a) ISO 14000
(b) GRI (Global reporting initiative)
(c) AA 1000 standard
(d) SA 8000

Feedback: See page 40
Summary

Corporate Social Responsibility is about how corporations can make themselves good citizens – that is to say by doing the co-operative and supportive things that citizens do among each other. This is a very distinct position from the ‘traditional’ ruthless and self-interested stance of business. Corporations do much good in the course of their business activities, supplying us with products and services of many kinds. They do this, however, not out of a moral sense of goodness, but because they create value for their shareholders by doing so. CSR recognizes a different relationship to the world, in which businesses are not merely exploiters of opportunities in creating value, but in which businesses coexist with populations, governments and many other kinds of organisation in creating the world in which we live.

CSR is about a feeling of duty or obligation that goes beyond the duties and obligations laid down by law. CSR is essentially a voluntary initiative by business, which governments both nationally and internationally will often try to encourage, but are reluctant to regulate. It is a continuation of the motivation that led earlier businesses into the field of philanthropy, which in turn gradually developed into a broader concept of the responsibility of stewardship.

Self-Assessment Activity

Look at the website for the Body Shop (an international cosmetics company taken over by L’Oreal in 2006). The Body Shop has over the years built its reputation and position in the market on socially and environmentally friendly activities.

Look at: www.thebodyshopinternational.com/

☐ Review the company’s Values report and website materials and identify the scope of their CSR activities.

Feedback: See page 40
Chapter 1: A history of CSR

Feedback on Activities

Activity 1.1.1
Corporations and national governments are heavily committed to growth. A failure of firms and economies to grow, soon leads to economic crisis. Development (meaning growth) is therefore essential. But growth has brought increasing populations, urbanisation, pollution, waste and exhaustion of natural resources. Some means of supporting continuing development is therefore needed.

The UK government describes sustainable development as follows:

'A widely-used and accepted international definition of sustainable development is: development which meets the needs of the present without compromising the ability of future generations to meet their own needs. Globally we are not even meeting the needs of the present let alone considering the needs of future generations.'


'Growth scepticism' is a minority position, mainly held by ‘deep green’ groups. However, concerns about world population (which impacts on waste, pollution and resources) are widespread. Sir David Attenborough said in his recent series, The Life of Mammals: ‘Instead of controlling the environment for the benefit of the population, maybe we should control the population to ensure the survival of our environment.’

Source: http://www.mnforsustain.org/pop_england_reduce_englands_population.htm

Activity 1.2.1
The first seven examples, with the exception of ChevronTexaco show the corporation taking an interest in the areas of life where it does important business. This will have direct benefits for the corporation in terms of good publicity and possibly extra sales opportunities. ChevronTexaco’s position is more defensive: it supports environmental protection to protect itself against claims that as a major oil company it is destroying the environment.

Sara Lee’s Giving seems less business oriented, but if you look at the Sara Lee Foundation’s website, you will find that its gifts include ‘shelf-stable meat and bakery products’, and that it focuses on problems of hunger. ‘Much of Sara Lee’s sales come from life’s material necessities such as food, so Sara Lee feels a special responsibility to address the issue of hunger in its giving.’

Coca-Cola, with its brands recognised worldwide, and 96% of the company’s value being in ‘invisibles’, probably does not need to tie its philanthropy to products.

Activity 1.3.1
Stewardship may involve sacrificing short-term profits, but as Fredericks et al. say, ‘what is lost in the short term may be gained back over a longer period’. This is particularly true of internal activities designed to educate, develop and assure the health of the workforce. We may need to consider whether an expenditure is a ‘cost’ or an ‘investment’. Training has often been seen as a cost, and may be cut
in hard financial circumstances. But training is also an investment in the company’s future. Healthcare is also an important issue, with good healthcare being rewarded by higher attendance and – with the modern incidence of stress – better performance.

Activity 1.3.2
Theoretically, stakeholders can be those who contribute to or benefit from a firm’s activities. On this basis, campaigners for fair trade can be considered stakeholders of Starbucks, because it uses a great deal of fair trade coffee. It is rather harder to conceive of competitors as stakeholders. Competitors of Starbucks often complain of being taken over or ‘swamped’ by numerous Starbucks branches. Competitors might rejoice if Starbucks went bust, but they would have to admit that the company has revolutionized the high street refreshment market, creating a large new market in which others can participate. If Starbucks went bust, we might imagine that others would follow.

Activity 1.4.1
Competition exists between countries. Each will try to maintain a market advantage by providing conditions that are more attractive to inward investors. Malaysia’s government’s problem is that its conditions for workers are somewhat better than some neighbouring countries. It wishes to keep wages and conditions down to avoid attracting workers from Thailand, Burma, Indonesia, India and so on. The attractiveness of Malaysia to foreign workers may alert investors that these countries may provide a cheaper workforce. It would be of value to investors to have a level playing field between Malaysia, Thailand, Indonesia, etc., as it would make location choices simpler. But it is unlikely to be useful for any one of those countries. Arguments for a level playing field come from outside: for example, from British trade unions, and from companies and organizations that are opposed to the de-industrialisation of Britain and Europe.

Activity 1.4.2
The ISO 14000 and GRI are probably the most authoritative standards – though they are not mandatory and are not backed by international treaties. SA 8000 is well-respected, and may be taken up by ISO. AA 1000 is perhaps the weakest: but standards for ethical behaviour are undoubtedly hard to define.

Self-Assessment Activity
The Body Shop concentrates on the following areas:

1 Against Animal Testing – Within this category, the Body Shop have developed a commitment that their products are never tested on animals and they are 100% vegetarian. This meets the desires of their customers and their suppliers also comply with this. There is no clear evidence of support for pressure groups that support such views though.

2 Support Community Trade – the Body Shop operate a series of fair trade partnerships with their suppliers in less developed countries: ensuring a fair and capped minimum price but also encouraging education and local community initiatives.

3 Activate Self-Esteem – the Body Shop recognises both the large market of mature women for cosmetics but also the issues relating to negative images of older women in the media. As such it has developed a range of products for
older women (called WiseWomen™) with associated marketing communications. You may ask if this is CSR or a marketing opportunity, of course!

4 Defend Human Rights – this initiative looks at ensuring reasonable working conditions for all employees, not just of the company, but of their first tier suppliers. This includes lack of discrimination, rights to collective bargaining, reasonable working conditions, etc.

5 Protect our Planet – Much of the Body Shop’s current actions in this area relate to global warming, and it is working to try to reduce its own carbon emissions and to look for sources of renewable energy.