12 Corporate Social Responsibility and Corporate Governance

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It is almost inconceivable that you have not used at least one of the following items today: a computer, a notebook, a tablet, a mobile phone, a video game console, a television or another electrical item. You probably did so without considering the social impact of the product upon people and natural resources, perhaps automatically, or possibly because you trust the manufacturers and retailers of these products to have made these considerations on your behalf. Unfortunately, in recent years, various incidents have brought their negative impacts to public attention, damaging trust in them and the companies that produce them. The trust placed in business organizations represents a form of social contract between businesses, customers and wider society. It is central to the successful functioning of business organizations. Several processes and measures are utilized by businesses to manage these relationships, and two of them – corporate governance and corporate social responsibility – are explored in this chapter.

Foundations of CSR and Corporate Governance

In 1824, John Cadbury, a young Quaker, opened a shop in Birmingham selling tea, coffee, and other goods. Cadbury believed that alcohol was the main cause of social degradation and that his products would serve as an alternative to its temptations. He also held the strong religious belief that all human beings should be treated equally, and was a major advocate of social reform. Following his lead, his two sons sought to improve working and social conditions for their employees and the community by providing good quality low-cost homes for their workers in the Bournville Village away from the squalor of city slums (Dellheim, 1987). They believed that if people could have their own, secure home a better quality of life could be created. Further, 'one-tenth' of the Bournville estate was to be used as open recreation space for residents to use and to promote exercise and healthy lifestyles. Cadbury have also been seen as instrumental in developing the Garden City Movement (see below) along with others such as Sir Ebenezer Howard, the father of modern town planning (Hall, 1998). Each advocated a need for decentralization and de-concentration in order to avoid the negative effects of urban life such as poverty, overcrowding, environmental decay and alienation (Chatterton, 2000).

Over the years, the Cadbury family legacy has remained apparent and subsequent generations have ensured that their workers' rights remain at the forefront of thought, from setting up pensions to founding colleges in the local community, and while the family have not owned the company since the 1960s they still maintain close ties with the local area. Here, then, we have a company that has shown how business can have a positive impact upon the community and society (Bryson and Lowe, 2002). During this period of development of better conditions for their workers, Cadbury continued to be a successful company, providing financial returns and growing their output to become a globally known brand (Rowlinson and Hassard, 1993).

Cadbury's confectionary rivals, Rowntree and Fry, were also central to efforts to highlight the plight of workers in Victorian Britain, with Seebohm Rowntree's reports in particular seen as providing significant impetus for the reforming activities of Liberal governments in this period.

Such was the business and social success of these companies in the period that Fitzgerald (2005, 2007) has argued that a corporate culture centred on both efficient production and management practices, and broad service to the community developed within the British confectionary industry. Though the modern terms for such practices were only introduced long after the Victorian period, we can see examples of both CSR and corporate governance in the case of Cadbury's, and other British confectioners.

Exercise

Think about the examples of the British confectionary companies discussed so far, what motivations might lie behind the actions of these organizations?

Businesses operate within, and are part of, wider communities and societies at a number of levels (local, national, global, etc.), and they therefore have a responsibility to act according to social expectations and norms, particularly since doing so will allow them to 'sustain, survive and grow' (Sethi, 2003, p.48). The ethical considerations which underpin much of contemporary corporate governance and CSR have roots in ancient philosophical debates, such as those surrounding Aristotle's integrated property rights in Ancient Greece (Hall, 1998) or the moral considerations relating to business and capitalism raised by Adam Smith in his seminal works the *Wealth of Nations.* Writing during the 18th Century Enlightenment in Britain, Smith grappled with the difficulty of transferring moral considerations into free market economic ideas (Bolton, Kim and O'Gorman, 2011). Ethics are concerned with the driving force of the moral agent (whether it is an individual or a firm) as opposed to the act itself or its outcome, and it is the role of the business as an active agent and the moral concerns surrounding its resulting impact that underpin academic debates surrounding CSR and corporate governance. Though both concepts have their roots in ethics and philosophy, it was only in the post-war period that they developed significantly into the position that they now occupy within modern business environments.

For a more detailed review of ethics and ethical theory, please see Jack, Glasgow, Farrington and O'Gorman's chapter on 'Business Ethics in a Global Context' (MacIntosh, and O'Gorman, 2015).

Outlining corporate governance

Corporate governance is essential to ensuring confidence in democratic market economies, and does so through strengthening the relationship between a company's management, its board, its shareholders and other stakeholders (OECD, 2004, p.12). In order for large corporations to ensure investment, they must display an ability to manage resources in such a way that a return on that investment can be considered likely. They also have to be self-regulated and able to clearly display this. This is not just a modern problem, but it is only in recent decades that the techniques through which it is addressed have been referred to as corporate governance (Tricker, 2000). In summary, corporate governance broadly refers to the manner through which companies are directed and controlled and, if handled appropriately, it should ensure that businesses operate successfully, legally and ethically, while remaining transparent and accountable to both internal and external stakeholders.

Example definition

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting.

Corporate governance as defined in *The Cadbury Report* (1992, paragraph 2.5).

Although corporate governance is a form of self-regulation, a number of governmental and non-governmental organizations at both national and transnational levels have produced codes, frameworks and guidelines to assist companies with its implementation (for example, see HM Treasury, 2011; OECD, 2004). These codes often include common features, such as:

- **Leadership:** the board holds collective responsibility for the long-term success of the company with responsibilities clearly divided amongst its members. A chair of the board is responsible for its leadership but no one individual should have unfettered powers of decision.
- **Effectiveness and capability**: Corporate boards and committees should have appropriate skills and knowledge of the company to scrutinise the corporation's activities and should ensure these are refreshed appropriately. Board members should be appointed and re-elected through fair and rigorous selection procedures.
- **Accountability and transparency**: fair and balanced assessments of a company's prospects and progress should be produced and made available.
- **Relations with shareholders**: measures should be taken to ensure that there is an open dialogue between shareholders, boards and managers.
- **Sustainability**: businesses should be guided to create and allocate value fairly and sustainably to reinvestment and distribution to shareholders.

(Adapted from HM Treasury, 2011; OECD, 2004; please note that other codes may include different or additional principles).

Corporate governance is a concept which has to be reactive to public perceptions of corporate practice, and the effectiveness of codes such as the one outlined above often become the focus of fierce debate following high-profile corporate