4 Corporate Social Responsibility

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Introduction

The traditional objective of business organisations has been to maximise the wealth of capital providers (shareholders). Opponents of this notion have, however, argued that an organisation's activities impact on other parties that are directly or indirectly related to the organisation. Similarly, the achievement of an organisation's objective can be constrained by these parties. For example, the quality of an organisation's product affects its customers while the decision of customers to buy or not to buy from an organisation equally affects the profit maximisation potential of the organisation. The proponents of this alternative view of an organisation's objectives argue that the interests of all of these parties must be considered in the decision making of the organisation for it to be financially viable in the long run. This notion gave momentum to the concept of corporate social responsibility (CSR). With an increase in man-made disasters to the environment (e.g. the Exxon Valdez oil spill in Alaska in March 1989), with consequent threats to human and animals' lives and with increasing workplace disasters (e.g. the Rana Factory collapse in Bangladesh in April 2013), CSR has become a major issue for organisations in recent times. Virtually all organisations now reflect how they are socially responsible in their websites or in a report.

In contrast to private sector organisations, public and third sector organisations do not follow a profit or wealth capitalising motive. Rather, the main objectives of public and third sector organisations is to provide a universal and equitable service through non-market mechanisms to all citizens to maintain and ensure their welfare. Thus, the public and third sector ethos reflects society's full humanity in that it recognises that society can be driven by ethical and moral principles rather than simply the pursuit of profit. However, such organisations have also fallen foul of unethical and questionable moral practices. For example, the Charity Commission[1], which registers and regulates charities in England and Wales to ensure public confidence and support in charities, reported that in 2015/16, one charity alone lost more than £1m to fraudulent activities. Within the public sector, the Department of the Prime Minister and Cabinet in Australia in a speech to the Institute of Public Administration stated that the public sector was responsible for 'some incredible high-profile failures'[2] during 2016 and needed to improve. In the UK, Transparency International UK[3] (TI-UK) highlighted corruption vulnerabilities in some of Britain's key public sector organisations. Recent scandals such as phone hacking, and the debate over the ethics of political party funding are two such examples. Other examples include high-profile crisis cases in public services, such as the mistreatment of patients at the Mid Staffordshire NHS Foundation Trust, and the Rotherham Children's Services scandal, which revealed severe abuse of children under the council's care. Such examples emphasise a lack of corporate social responsibility and reinforce the need for action to be taken.

Despite the call for widespread adoption of more robust CSR systems, the meaning of CSR and the argument for how organisations should engage in it is still not clear. Following on from the foundations on the CSR concept discussed in Chapter 3, the essence of this chapter is to discuss the meaning of CSR, its theoretical justifications and practical implementation in organisations today. To further our understanding and knowledge of CSR issues, debates and ways forward, stakeholder engagement, CSR reporting and procedures for soliciting necessary information about CSR engagement with society are discussed.

CSR and organisations

The general idea of CSR is that organisations do not exist in isolation. They interact with the larger society in which they operate. These groups or individuals within the larger society in which a business operates are called stakeholders. Stakeholders are groups or individuals that can affect or be affected by the achievement of an organisation's objectives (Freeman, 1984). There are many categorisations of stakeholders thus making it somewhat difficult to pick out a universal categorisation. Stakeholders can be internal or external. Internal stakeholders include employees, shareholders, and management while external stakeholders include competitors, customers and creditors. According to Clarkson (1995), primary stakeholders are stakeholders whose continuing involvement is crucial for an organisation's going concern, e.g. customers, shareholders, employees,

1 See: http://www.managementtoday.co.uk/why-weve-lost-faith-charities/reputation-matters/article/1369094

2 See: http://www.abc.net.au/news/2016-12-07/public-sector-responsible-for-high-profile-failures/8100382

3 See: http://www.transparency.org.uk/our-work/uk-corruption/#.WeoKFGhSwuU

government, and the community. Conversely, secondary stakeholders do not engage in any transactions with the business and the survival of the business does not directly depend on them, e.g. the media and NGOs. Freeman and Reed (1983) consider primary stakeholders as *narrow* stakeholders and secondary as *wide* stakeholders. One other categorisation worthy of a mention is *legitimate* and *illegitimate* stakeholders. 'Legitimacy refers to the extent to which a group has justifiable right to be making its claims' (Carroll, 1991, p. 43). This last categorisation is broad and could encompass different stakeholder groups.

Organisations make decisions at different points in time which may affect their stakeholder groups, but stakeholders do not necessarily have congruent interests in the organisation. For example, employees demand higher pay while shareholders demand higher returns. Hence, management will often make a trade-off regarding which stakeholder group(s) they should consider in their decision making. This is usually done by looking at the stakeholder's power or ability to exert pressure on the management and the legitimacy of their claim (Carroll, 1991).

As noted in Chapter 3, there is no universally accepted definition of the concept of CSR. This makes it a difficult task to really say what CSR is and what CSR is not. Many definitions of CSR abound, for example, Dahlsrud (2008) analysed 37 definitions of CSR. However, what is common to the various definitions of CSR is that they can be summarised into five broad themes; environmental, social, economic, stakeholder and voluntary dimensions (Dahlsrud, 2008). The environmental dimension deals with how business activities affect the natural environment; social focuses on the impact of business activities on society; economic examines how business activities contribute to economic development; stakeholder prescribes that business practices should take into consideration all relevant stakeholders of the business; and voluntary implies CSR should be an activity not prescribed by the law.

In general then, corporate social responsibility refers to "organisation activities – voluntary by definition – demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders" (Van Marrewijk, 2003:102). According to Davis (1973, p. 312) "CSR is the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social [and environmental] benefits." These definitions combine all the four dimensions of CSR as discussed above.

Carroll (1991) developed a CSR pyramid that shows various levels of an organisation's CSR activities (see Figure 4.1). It begins with the basic level, moving up to a more inclusive CSR at the peak.