The Role of Corporate Social Responsibility (CSR) in the New Economy

By: **Otieno Mbare** [biography]

Abstract

The idea of corporate social responsibility has come to be accepted as one of the major components of business growth and sustainability. The success in the new economy comes with various challenges. Those challenges require business and their managers to think beyond traditional way of looking for short-term goals. It requires business and the people inside these behemoths to embrace a much broader perspective that is also inclusive of stakeholders.

The nature of society we are living in has changed. The nature of governance has equally changed since people are now enjoying more freedom within each societal democratic tenet. This freedom has found its way in the business and into the factories. The performance of the new economy is therefore pegged on the three pillars namely; economic, environment, and social. Additionally, issues concerning human rights at the work place, child labor are also considered.

Key Words

CSR, Stakeholders, Profits, New Economy, Sustainability Growth, Environment, Human Rights

Background

The study of business and society has been in the air for decades. More discussed, has been the relationship of business and society where business operates. Philosophers such as Kant, Plato, Marx, Freud, Sartre, Skinner, and Lorenz got concerned with what role man could play in the emancipation and development of society; in the same vein, concerned with the possible ameliorations to bolster economic growth. Of particular importance was the social condition of human life; the greed in society, especially of man, prompted much debate about human conditions. This debate gave birth to different schools of thought; where we had the Confusius[1] who were concerned primarily with the basic human welfare and spoke little about the ultimate nature of the world in which we live. Confucius[2] insisted that we live in a moral world, arguing that morality is part of the very fabric of the universe.

The other school, the Judeo-Christian tradition, in contrast, puts the emphasis on human goodness, and this is something that is open to all, and independent of intellectual power. The concern of human goodness is not just with the right action; it is at least with the foundation in human character and personality from which such life will flow. This Judeo-Christian tradition is quite in synch with the more intellectual philosophical arguments that seek to understand the moral reasoning of managers. Plato[3] asserts that spirit is usually on the side of *Reason* when inner conflicts occur. It is for similar reasons that some managers have a tendency of holding prayers before they embark on their daily work in the office. They seek guidance from the almighty so that the Holy Spirit would guide every decision they make. This assertion lends yet more credence to the current belief that *spirituality* is becoming important in management thinking.

Inner conflicts have been reported where alternative interests are pulling in different directions - a situation that organizational managers often find themselves. A lot of discussions have taken place in this area. Cases of corporate misconduct, human rights abuses with the concomitant degradation of the environment, have refocused attention on the activities of corporations and the people inside them. Plato argued that where there is any kind of internal conflict, there must be two different elements in the person with contradictory tendencies or desires. Plato takes the example of the thirsty man and argues that, there could be one part that makes him want to drink and a second that forbids him; the first, Plato calls "Appetite" and the second, he calls, "Reason". Emmanuel Kant (in Stevenson, 1998) had a basic philosophical problem of how people can be motivated to do their duty; to fulfill a moral obligation when it goes against their self-interested desires.

[1]Stevenson & Haberman (1998). Ten theories of human nature
[2]Stevenson & Haberman
[3]Stevenson & Haberman

Stevenson & Haberman[4] reports that the problems of human individuals that Plato diagnoses are intimately related in human societies. One cannot attribute to him either the simple moralistic view that social problems are due to individual wrongdoing or merely sociological view that the social order produces the faults in individual people. An imperfect society tends to produce flawed individuals, and troubled or poorly educated individuals contribute to social problems. According to this thesis, Plato was one of the first to see education as the key to constructing a better society.

Whereas Kant was credited as the deepest philosopher in his time, Marx was equally recognized as the great theorist of the industrial revolution, the development of the contemporary capitalist economic system. Although hostile to religion, Marx inherited an ideal of human equality from Christianity, and shared the Enlightenment hope that scientific method could diagnose and solve the problems of human society. The capitalist economic system thrived in much of Western societies and consequently, suspicion arose with the accumulation of wealth and power of the enterprise owners. Cannon[5] observed that the concentration of power in the hands of enterprise owners could threaten the state and the established ways of allocating resources by placing 'new fetters on the poor, and ... new powers on the rich'. This however raised the questions about the values, which shaped their behavior and the ethic under which their ventures operated.

Conversely, religion played a central role in shaping the attitudes and actions of the entrepreneurs. It was the non-conformist wing of the religion, considered members of an 'out-group', which played an especially important role in shaping the values of the new, entrepreneurial groups6. Direct intervention was used in the attempt to eradicate the worst abuses in the factories, mines, and homes. Cannon reports that the dominant approach by the non-conformists and the utilitarians was to create opportunities for self-employment or to advocate changes in behavior. It was, at this time that, social or corporate responsibility emerged as a subject of discussion. At this point, corporate responsibility meant showing the poor the error of their ways or providing golden rules for self-improvement. Nevertheless, the environment too, plays a central role in individual's behavior. There is a widespread belief that man's 'character' is formed for him by his environment. The vices of 'theft, 'idleness', 'drunkness', 'deception', and 'zealous opposition to their employers resulted from the conditions under which they worked and lived. Change the conditions and their behavior would, consequently, change.

4Stevenson & Haberman, 1998
5Cannon, T. 1994
Cannon, T. Corporate Responsibililty

Discourse concerning social responsibility of business became the subject of study, discussions, and, at times, elicits acrimonious debates. However, different schools of thought have emerged, with some supporting while others, are opposed to it. There is already a growing consensus both within business and outside in support of corporate social responsibility (CSR).

According to this view, a combination of recent changes on the world scene and pressures from the public opinion now requires business to take on a new role, a newly defined mission7. Expectations have been high for business to play a leading role in achieving shared objectives of public policy and making the world a better place. In doing so, business should embrace the notion of '*corporate citizenship*'. This means, business should run its affairs in partnership with an array of different stakeholders so as to pursue the common goal of 'sustainable development'. Only by acting this way can companies respond to society's expectations. This is because profits depend very much on a company's reputation, which in turn depends increasingly on being seen to act in a socially responsible way. Good business is sustainable, is part of global society not at odds with it, and reflects values which are shared a cross the world.

7Henderson, D.: The Case Against 'Corporate Social Responsibility'. Policy vol. 17, no. 2, 2001

Conversely, business plays a key role in society by providing goods and services as well as generating prosperity. That has been the traditional role of business, however, expectations are high from various stakeholders that business, with its swollen profits, should address much wider social issues affecting the society. Several attempts have been made to define and give meaning to what is called corporate social responsibility.

Concept of CSR

Corporate social responsibility is an issue that has dominated many executive discussions in recent times. Indeed, there are differing perspectives on CSR. At one extreme it is argued that CSR is achieved as long as an organisation does not obey the law. At the other extreme it is argued that an organisation has a duty to ensure a "good society".

The demands and expectations of corporate social responsibility impact differently on different business sectors. Some, such as the extractive sector, entail a 'heavy footprint' at the local level and are highly sensitised to a broad range of societal issues, from human rights to health and environment. Other sectors, such as financial services, often entail less physical impact at the local level, but nonetheless can have a significant influence on the development and well-being of the community in which the sector operates[8].

The concept of CSR is not new, as some would want us to believe. The debate about business as a moral institution goes back to the days of philosophers like Plato, Aristotle, Kant, Marx, and many others that prophesied about society and other activities within it. The same argument holds true in the Finnish business environment where companies claim that all the rhetoric about corporate social responsibility is not new. For Finnish companies, the issues being raised today started happening a hundred years ago. The only new thing that companies still not aware of how to handle are the new reporting initiatives and the 'social dimension' of business.

[8]Business for Social responsibility website

Concepts of the business-society relationship have evolved and expanded over the past five decades - from social obligation and stewardship, to social responsibility and social responsiveness[9] and finally, as Frederick (1994, 1998) suggests, to social consciousness. The literature is replete with theories and models which seek to describe, to explain, and to institutionalize the relationship (Preston and Post, 1975; Frederick, 1984; Steiner, 1997). Brennan suggest that this scholarship has resulted in less business defensiveness, more emphasis on managerial techniques for responding to social issues, and more empirical research on corporate social roles, responsibilities and constraints (*see also*, Frederick, 1994; Clarkson, 1995). As pointed out earlier, the efforts to adequately define and circumscribe corporate social responsibility have been characterized, at times, by acrimonious and frustrating debate and disagreement (Friedman, 1970; Chamberlain, 1973; Perrow, 1972; Preston & Post, 1975; Frederick, 1994, 1998).

In his study, Goodpaster (1983) noted that analyzing the concept of social responsibility is a central part of the larger area of inquiry known as business ethics. The debate in business ethics spans topics as wide as the ethical legitimacy of capitalism and as narrow as the personal moral dilemmas of business executives in their day-to-day decision-making. Nevertheless, the conundrum that remain unanswered is: What is this animal called 'corporate social responsibility that business must address?

In recent times, the European Commission[10] has come forward to support CSR initiatives and seems to be actively involved in debates about its usefulness for businesses. The commission believes it is in the companies' long-term interests to exceed their social and environmental obligations and deliver a superior ethical performance.

1 See, Brennan Linda & Johnson E. Victoria, 2000. *Seventh Annual International Conference Promoting Business Ethics,*
2000.Proceedings Vol. 2, pp. 703-713
10 The European Commission: Enterprise Europe, April-June, 2002, No. 7

CSR is*11* "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of work life of the workforce and their families as well as of the local community and society at large". Hick asserts that CSR centers on the relationship between business and society and how businesses behave towards their key stakeholders such as employees, customers, investors, suppliers, communities, and special interest groups (Hick, 2000). Henderson (*see, Guardian,Nov. 2001*) describes what he calls the new CSR agenda as follows: "It identifies a new and enlarged responsibility for businesses today in contributing to both the well-being of society in general and the integrity of the natural environment."

The relationship between the enterprises and society has a long a frustrating history (Johnson, 2000). Traditionally, managers have viewed the social role as a necessary evil, an amorphous and lower order concern. To be fair, however, even when managers embraced the philosophy of good corporate citizenship, there were few tools, techniques, structures and systems available for pragmatic company responses. Since corporate profit is a first order concern (see, Brennan), and because managers are familiar and comfortable with business disciplines, primary responsibility and allegiance to one stakeholder group, investors, was the requisite focus. Times have changed; the world has changed, and other stakeholders' needs must be addressed.

The Canadian Business for Social responsibility defines CSR as: "A company's commitment to operating in an economically and environmentally sustainable manner; at the same time, recognize the interests of its stakeholders." However, critics are quick to ask; Why should today's companies be interested in Corporate Social Responsibility? These are some issues posing dilemmas to business and the people entrusted with the management of these institutions.

11 World Business Council for Sustainable Development (WBCSD), 2000

The concept of CSR has brought another wave of change that is sweeping through business. It is instructive that this change has made leading companies that are recognized around the world, to acknowledge that there is another way of doing business. A number of companies are communicating this very message through their own involvement in work with the environmental defense fund, for example, McDonalds; by promoting fish conservation, for example, Unilever; by including references about human rights in its business principles, or by promoting ethical sourcing which Levi Strauss & Co. does. It goes without saying that bigger companies (Shell, BP, Levi Strauss, etc.) are following in the footsteps of smaller, socially active companies such as Ben & Jerry's and the Body Shop and putting corporate citizenship at the heart of strategic planning. This is, of course, where imitation finds it own place*12*. Companies imitate the actions of others to become equally successful. Men and women must live and work together compatibly in order to increase efficiency (Kangas, 1983: 2). He says compatibility demands an ethical environment in order to function properly. These men and women are the foundation, the cause, and the reason for the existence of all social institutions.

Imitating the actions of other companies may not work for all the companies in the same way. As Kerstin & Sevon*13* noted, imitation as a strategy for saving resources and achieving desired identity may also have its pitfalls. One such pitfall they noted exists in the reasoning about connections between the actions and identities of others. They go to argue that, in situations of perceived uncertainty and incomplete knowledge, organizations might feel that they do not know for sure what caused the desired states of others and whether the same magic will work once again, for them.

The concept of social responsibility, though gaining momentum, has been criticized by Friedman as subversion against capitalism. Milton Friedman argues that the 'social responsibility of business is to increase its profits' (1970, p.1). He says, 'there is one and only social responsibility of business ... to increase its profits so long as it stays within the rules of the game'. Friedman and other proponents of shareholder value argue that focusing beyond what is of ultimate value to the owners of businesses will dilute business focus, reward inefficiency and waste, and generally not give due diligence to the expectations of shareholders (Walker & Marr, 2002: p.25). Conversely, W.J.Byron has recently stated that 'provision to meet need is the highest purpose of business', he goes on to argue that the simple goal of profit maximization is not, in and of itself, satisfactory (cited in Dobson, 1990).

12 **Kerstin Sahlin-Andersson & Guje Sevon.** *Imitation and Identification as performatives*
13 **Kerstin Sahlin-Andersson & Guje Sevon.** *Imitation and Identification as performatives*

According to the European Commission's Green Paper entitled "Promoting a European Framework for Corporate Social responsibility" (July 2001), CSR is defined as a 'concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis'. On a simpler note, CSR are actions, which are above and beyond that required by the law. Frederick (1986: 4) summed up the position as follows: "The fundamental idea of 'corporate social responsibility' is that business corporations have an obligation to work for social betterment.

The EU Commission has taken this bold initiative not only because of its attractiveness, but because the new economy requires different sets of tools that can only be realized through the incorporation of CSR. To exchange good practice - not only on CSR tools like codes of conduct, reporting, labeling schemes and evaluation mechanisms - but on-going training and upskilling as key to raising productivity.

The Millennium Poll on Corporate Social Responsibility, September 1999 conducted by Mitsubishi Corporation found "two in three citizens want companies to go beyond their historical role of making profit, paying taxes, employing people and obeying all laws; they want companies to contribute to broader societal goals.", They claim that every aspect of business has a social dimension. CSR - or Corporate Social Responsibility - means open and transparent business practices that are based on ethical values and respect for employees, communities and the environment.

Just as corporate social responsibility is increasingly moving to the forefront of the corporate agenda, major media organizations around the world are providing increasing coverage and analysis of CSR activities.

Profits from the righteous path

The English Financial Times*14*, reported the conundrum that is now at the heart of every business case for CSR: does ethical behavior pay off financially? It is reported that scandals over corporate excess and fraud reveal the high cost of unethical behavior. Proving there is another side to the coin - that doing the right thing boosts shareholder value - is much harder. Yet research published by the UK's Institute of Business Ethics, comparing companies in the FTSE 250, provides strong evidence that those clearly committed to ethical behavior perform better financially over the long term than those lacking such a commitment.

The Observer observed that the attitudes of the British contrast vividly with that of the US, where contracts have been awarded for the 'reconstruction' of Iraq. The paper observes that America Inc (some call it 'Corporate America') have gone into battle for its own commercial interests with all the ferocity of a corporate 'shock and awe' campaign. Can Iraq be rebuild on a clear conscience? The paper accurately notes that there is an ethical issue at the heart of this debate. It is an issue that calls for more open and honest debate. If your government was responsible for the destruction of a large part of Iraq's infrastructure, do you have a responsibility to help rebuild it? And if that were so, do you expect to make profit in the process? These are issues confronting humanity today and how self-appointed-rogue-world-polish should be dealt with by other nations of the world body.

14Financial Times, March 31, 2003

Human Rights

Issues concerning human rights have dominated discussions by activist groups such as the NGO's. It has been found that a number of companies are in breach of human rights of their employees. The case is worse in less developing countries where for one reason or another, a child has to be sacrificed under inhuman conditions existing in those factories. The most surprising thing is that some of these companies are subsidiaries of firms in the most developed world where awareness of CSR is considered much higher. A growing number of socially aware investors conduct in-depth research before buying stock to ensure that they do not invest in companies that are perceived to be either directly or indirectly complicit in violations of international labor and human rights standards. Negative revelations about a firm's record or the factories that supply it can lead these investors to avoid or sell stock in the company and, in many cases, result in deterioration in the value of the stock.

The labor rights (2000) outlines an ethical approach to child labor, based on the key principles of the United Nations Convention on the Rights of the Child 1989. The report also suggests measures that a socially responsible company and its suppliers can take to

address child labour. It is aimed mainly at business managers of international companies in the retail sector and their suppliers, from multinational companies to small and medium-sized enterprises.

In a related story, the Financial Times writes that the debate about whether good corporate behavior should be self-imposed or enforced starts to look irrelevant when you have a lawsuit hanging over your head. As a wave of legal actions - such as a case alleging that Unocal, the US oil company, used forced labor in Burma - put business responsibility on trial, the voluntary versus mandatory debate is increasingly being overtaken by the law*15*.

Ever since this topic came up, a number of issues have sprung up that traditionally used to be discussed outside the domain of business. For example, human rights could never be found in the domain of business; it was a pet topic of political activists. Now it has warmed its way to the executive boardroom. The workplace code of conduct is a sector-wide code of conduct and monitoring principles set up by the Fair Labour Association. The Code addresses Labour issues in nine key areas: child labour, forced labour, discrimination, harassment, freedom of association, wages, health and safety, hours of work and overtime compensation.

15Financial Times, April, 3rd 2003, London

The International Business Leaders Forum together with Amnesty International, has recently produced a new primer, Human rights - is it any of your business? This management primer has been produced in collaboration with Amnesty International UK Business Group. It offers a comprehensive, practical introduction to a subject on every responsible company's agenda, and currently at the forefront of public attention. That is, human rights, and the inextricable link between business and human rights.

The way a company conducts its business has become a matter of both public and government concern. This is because, getting license to operate anywhere on the globe would require a company to produce its CV. The past record of a company is evaluated before it's given the clean bill of health to operate. The demands place major constraints on companies. More especially, firms that had been used to free riding. These are the type that used to operate in countries with less strict laws. Such companies would find the going rather rough since the new demands would come as a regulation to them.

With the World Bank and other organizations like ILO positively tuning towards the new concept of CSR, it will just be a matter of time for government to fully entrench this ideas into law. A spot check of countries indicate that countries like Finland have already put most of these concepts into law making it difficult for any company to flout those rules. The steps taken by such government are quite in line since no company can self-regulate. It should, at the same time, not be misconstrued as a negation of the much hyped market liberalization. The fact of the matter is, you cannot let business decide alone on a matter that touches on its core interests - the government must play its rightful role to ensure that the consumers, workers, and the environment are well protected by legislation.

In the strategic management theory[16], use of imagination[17] has not been emphasized to managers. Imagination is becoming a versatile ingredient for managers to adopt while executing their managerial chores. With the increased use of the new technology, one false step in business is just enough to throw the business out of the market at the twinkle of an eye. There is urgent need for thorough re-evaluation of company philosophy and values. This requires a continuous process of checking through traditional values with the new challenges facing business in modern times.

As Sveiby[18] noted, the word 'strategy' is usually associated with activities and decisions concerning the long-term interaction of an organization with its environment. The environmental concerns are featuring prominently in the list of stakeholders that business is expected to interact with because business are the principal emitters of dangerous chemicals. For business to gain more trust from the consumers and the public at large, it has to formulate activities that are friendly to the environment. In that way, business would strike a strong rapport with all various stakeholders who depend on the environment for various reasons.

The sustainability of business requires a combination of different tools at play. Those tools can be found internally or externally. Individuals come into the organization with a set of skills that are external to the company. Such highly skilled individuals are 'volunteers' since they may leave the company anytime if they are not well treated. They are not at the mercy of the organization since many firms need their skills. Some have argued that the skills may not leave the company entirely; some 'carbon copy'[19] would remain behind. However, 'carbon copies' have not been known to perform similar work as their 'original forms' would. Those competences[20] must be continuously developed and shared across the firm. *Knowledge shared is knowledge doubled*. That is easier said from the organization standpoint that the individual since the individual would think that sharing the knowledge would mean a lose of career.

16 Carlsson, C. (1993). Defines Strategic management as a process through which a company for a chosen planning period i) defines its operational context, (ii) outlines and decides upon its strategic goals and long-term objectives, (iii) explores and decides its strengths, weaknesses, opportunities and threats, (iv) formulates its sustainable competitive advantages, and (v) develops a program of action...
17 Berg, Per Olof. Magic in Action: Strategic management in a New Economy.
18 Sveiby, Karl-Erik. A Knowledge-based Theory of the Firm To Guide Strategy Formulation. *Journal of Intellectual capital, vol. 2, No4.*
19 See, Sahlin-Andersson, K. & Guje Sevon
20 Sveiby

Conversely, when I talk of a firm's competencies[21], I take the case where a company is using the existing competencies to render voluntary work to the community its operating. Studies have found voluntary gestures by companies positively reflect on the firm. It is good for reputation (image) building and gaining loyalty and legitimacy in the community.

Performance in the new economy will require an assortment of ideas and magical strategies[22] to remain competitive and profitable. As the wave of CSR is sweeping across nations and world bodies such as ILO are incorporating it with two arms, successful businesses will those that are able to articulate clearly their philosophies are principles as depicted in the integrated conceptual model shown in the previous page. CSR has

emerged as on such strategies that even the European Parliament has seconded and mandated the committee dealing with such issues to keep a register of companies that have been blacklisted.

21 see, O'Brien, D. (2001) Sveiby, K. E. (2001)
22 Ber, P. O. Magic in Action:Strategic Management in A New Economy
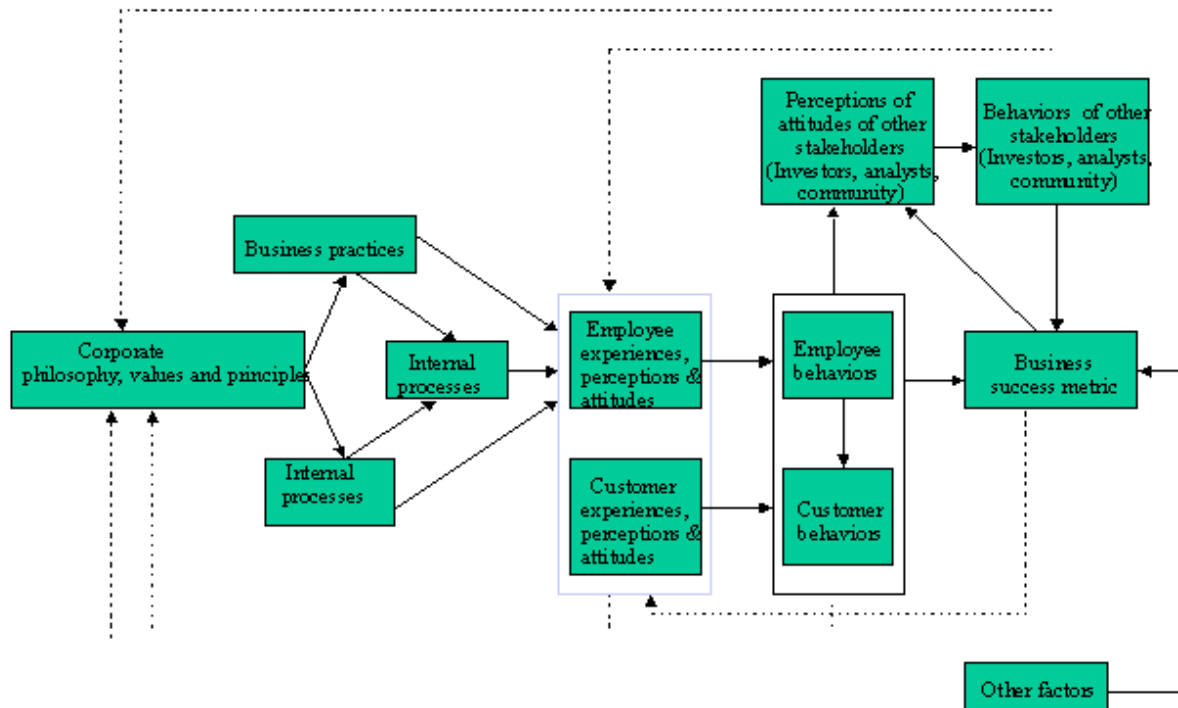
An Integrated Conceptual Model
Source: Doug Grisaffe, "Understanding and managing linkages of information within your organization"
Adopted from Walker & Marr (2001)

The imitation that Kerstin and Sevón eloquently discuss in their paper is already taking place among companies. In this respect, companies whose CSR initiatives have worked and considered successful are being imitated by those seeking solutions for their past miscalculations.

Conclusion

In concluding this debate, it should be acknowledged that the debate about CSR would remain in the public domain for a long time. Several companies and executives are acknowledging the importance of corporate social responsibility. The issue has become such a top issue that every stakeholder demands information concerning its treatment in the companies. The media has kept the debate in the public domain and ethical investors and financiers are seeking more information all the time.

My position is that companies should not see it as a burden, an extra baggage that would eat into their profits, however, companies should see a big opportunity it's presenting and capitalize on it.

References

Stevenson, L & Haberman, D.L: Ten Theories of Human Nature, *Third Edition*, 1998.

Cannon , T. (1994): Corporate Responsibility

Henderson, D.: The Case Against 'Corporate Social Responsibility'. *Policy vol. 17, no. 2, 2001.*

Business for Social responsibility website

Brennan Linda & Johnson E. Victoria, 2000. *Seventh Annual International Conference Promoting Business Ethics, 2000.Proceedings Vol. 2, pp. 703-713*

Goodpaster, K.E.: Journal of Business Ethics 2 (1983), 1-22

Hick, (2000): Morals Maketh the money. *Australian CPA*, Vol. 70:4, 2000, pp. 72-73 Guardian Newspaper, Nov. 2001

The European Commission: Enterprise Europe, April-June, 2002, No. 7

World Business Council for Sustainable Development (WBCSD), 2000

Kangas, E. J.: Journal of Business Ethics 2 (1983), 127-133

Kerstin Sahlin-Andersson & Guje Sevon. *Imitation and Identification as performatives.* Not published

Walker, S.F. & Marr, J.W. Stakeholder Power, A Winning plan for building stakeholder commitment and driving corporate growth (2002)

Dobson, J. Journal of Business Ethics (1990: 9)

Frederick (1986: 4) Frederick, W.C. 1986. Theories of corporate social performance: Much done, more to do. Working paper, University of Pittsburg, Graduate school of Business.

Financial Times, March 31, 2003

Financial Times, April, 3rd 2003, London

Carlsson, C. (1993). Research Report

Berg, Per Olof. Magic in Action: Strategic management in a New Economy.

Sveiby, Karl-Erik. A Knowledge-based Theory of the Firm To Guide Strategy Formulation. *Journal of Intellectual capital, vol. 2, No4*.

O'Brien, D. (2001), Sveiby, K.E. (2001) Integrating Corporate Social Responsibility with Competitive Strategy. *Center for Corporate Citizenship. 2001*