Corporate Social Responsibility: Contextual Considerations

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Abstract

The roles of business in present world are not limited to its traditional functions only-producing and distributing goods/services and achieve growth at any means and maximize profit. Rather good business gets a hold of creating betterment for the society in present and for the future too. Theses added functions/activities of business are termed as Corporate Social Responsibility (CSR). It is not donations/gifts of that business to its stakeholders/society, it is its implicit responsibility, that will certainly be paid back to the business in long run in the forms of goodwill, reputation, growth and ultimately to profitability. If a business organization target societal welfare and be socially responsible, the profits automatically roll in. Protecting the environment and the social welfare at large should not only be rested upon the will of business. The regulatory authorities, social & state machineries with appropriate & effective legal framework should be employed to make the business socially responsible.

Introduction

The role of business worldwide and specifically in the developed economies has evolved over the last few decades from classical ‘profit maximizing’ approach to a social responsibly approach, where businesses are not only responsible to its shareholders but also to all of its stakeholders in a broader inclusive sense. One can identify so many reasons for shifting the role of business from classical concept to a responsible business concept, but negative impression of stakeholders on the enterprise would get a higher priority among others. In one hand, enterprises create wealth and job opportunities for the society and on the other; they are pollute and destroy environment and ecology with devastating impact on human health and bio-diversity worldwide, just to gain business growth and profitability ultimately and overlooking the other long term economic considerations (economic value of damages-social, environmental etc.). To address the social problems or the problems of the stakeholders, the business community evolved a new approach in their business strategies named CSR and through CSR enterprises are intent to strike a balance between economic and social goals include responsibilities for current and past actions as well as adequate attention to future impacts.

There is no universally accepted definition of CSR. There are different type of views on what CSR is and what it is not. Having become a buzzword in boardrooms and the media, CSR is more often misunderstood as giving back to the society and considered to be synonymous with philanthropy. The dominant school of thought is that CSR is no philanthropic activity and a business must earn for what it invests. The company does it for its own long term good. Drawing a parallel with Publicity and Public Relations it is argued that philanthropy could earn publicity but CSR, like Public Relations is a long term investment with assured returns. It advocates that CSR constitutes a series of initiatives taken by a company in its enlightened self-interest. It would be motivating to derive a meaning of the concept with the dissection of each of the words. CSR is not a difficult concept and can be explained as: ***Corporate*** - means organized business; ***Social*** - means everything dealing with people, the society at large; ***Responsibility*** - means accountability between the two.

The World Business Council for Sustainable Development in its publication Making Good Business Sense by Lord Holme and Richard Watts, used the definition for CSR as 'Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large' (http://www.mallenbaker.net/csr/definition. php).

CSR is also defined by the Commission of the European Communities (2006): "[CSR] is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholder on a voluntary basis. It is about enterprises deciding to gobeyond minimum legal requirements and obligations stemming from collective agreements in order to address societal needs".

Though various definitions have been attached to the term, it can be stated that CSR, in its broadest sense, delineates the relationship between business and society and the role of business in sustainable development. The fundamental idea behind CSR is that a corporation or company incurs responsibilities to society beyond maximization of profit and beyond meeting the minimal requirement of the law. CSR also has numerous facets. Corporations are overwhelmed by many issues in the name of CSR: stakeholder demands, environmental issues, issues of sustainability, diversity, labour conditions, ethical investment, and philanthropy among others. Clearly, there is no one agreed concept. An important distinction should be made, however, between internal and external CSR practices.

Internal CSR refers to programmes that focus on the core business and on the workforce, such as:

- Human Resources (HR) practices,
- Health, Safety and Environmental (HSE) practices,
- Codes of Conduct,
- Fulfilling and Motivating Work Environment,
- Employee Development Programmes,
- Local Content Policies,
- Assessing and Increasing the Social and Environmental Impact of a Company,
- Environmental Management Systems (EMS),
- Product Responsibility,

External CSR refers to social and environmental programmes directed towards the external environment, including:

- Community development programmes,
- Sponsorships corporate SOCIAL responsibility,
- Donations,
- Contributions to Civil Society Organizations (CCSO),
- Educational programmes at various levels,

- Supply -chain management,
- Cluster development,
- Involvement in the development debate

Triple Bottom Line (TBL) & Sustainability reporting

The concept of CSR became prominent in the 1970s. During 2nd half of the 20th century in the developed countries, another concept has come to consider the people and environment along with traditional bottom line 'profit' is called Triple Bottom Line (TBL) reporting. Triple Bottom Reporting is defined as corporate communication with stakeholders that describe company's approach to managing one or more of the economic, environmental and/or social dimensions of its activities and through providing information on these dimensions. Companies are increasingly including economic, environmental and social information in their public reporting**.** A TBL company conceives a reciprocal social structure where corporate, labour and other stakeholders all will be benefitted. It also endeavors to benefit the natural order as much as possible or at the least do no harm and minimise environmental impact.

Sustainability reporting has come after TBL to consider social and environmental impacts for not only present generation but also future generations. Although sustainability reporting has come into developed countries many years ago but from the very beginning of 21st century it has been used in developing countries. Sustainability is practiced by managing environmental, social and economic impacts and considering the impacts on future generation. Most commonly accepted definition of sustainability is given by Brundtland Commission. According to Brundtland Commission sustainability means "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Difference between TBL & Sustainability Reporting

The major difference between triple bottom line reporting and sustainability reporting is that triple bottom line considers the current impact of an organization on people and environment but sustainability reports current impact as well as impact on next generations. That means organizations should run in such way so that present people and their environment as well as next generations and their environment will not be affected. Whatever may be the terminology used business are trying to satisfy their stakeholders to legitimize their existence.

In developed economies, the enterprises are concerned enough to meet the requirements as mentioned under CSR. It might be for their mere sense of responsibility or might be for strong regulations and monitoring where they are running. But in developing economy those are rare in existence. So, it is a great challenge to ensure the right doings of the businesses and ensure the societal, economic and environmental prosperity of present people and their environment as well as next generations for the economy like ours. There are ample reasons for much deeper thinking regarding the issue and to find ways out to implement such well being for the society and the country at large.

Key Drivers of CSR:

• ***Ethical consumerism*** - Over the last two decades can be linked to the rise of CSR. Industrialization in many developing countries is booming as a result of technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are beginning to make purchasing decisions related to their environmental and ethical concerns.

• ***Transparency and trust*** - Business has low ratings of trust in public perception. There is increasing expectation that companies will be more open, more accountable and be prepared to report publicly on their performance in social and environmental arenas.

• ***Increased public expectations of business*** - Globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes and employment. As corporations pursue growth through globalization, they have encountered new challenges that impose limits to their growth and potential profits. Global competition forces multinational corporations to examine not only their own labour practices, but those of their entire supply chain, from a CSR perspective.

• ***Laws and regulation*** - Independent mediators, particularly the government, ensuring that corporations are prevented from harming the broader social good, including people and the environment. Governments should set the agenda for social responsibility by the way of laws and regulation that will allow a business to conduct themselves responsibly.

• ***Stakeholder priorities***. Increasingly, corporations are motivated to become more socially responsible because their key stakeholders expect them to understand and address the social and community issues that are important to them.

History of CSR

The rise in anti-corporate activism over environmental and human rights issues made a shift in corporate attitudes towards social and environmental aspects essential. In 70s and 80s saw major international boycotts of companies investing in South Africa, notably the Nestlé boycott over the company's aggressive milk formula marketing strategies in the global South. The 1992 Earth Summit in Rio was a key moment in the evolution of CSR as corporate involvement succeeded in impeding the Summit's ambitious task to 'find ways to halt the destruction of irreplaceable natural resources and pollution of the planet.' Proposals put forward by Sweden and Norway for regulation of multinationals were crushed in favour of voluntary corporate environmentalism.

Variance of CSR

CSR practices are not same throughout the world. Due to geographical, economic, environmental, political, regulatory, social and cultural differences it would not be appropriate to generalize the results of studies of developed nations to developing countries. Researchers find out that CSR practices differ from country to country (Adams, Hill & Roberts, 1998) and between developed and developing countries (Imam, 2000). Gray, Javad, Power & Sinclair, (2001) also found that "the nature and patterns of CSR vary between types of industry". CSR activities also differ between western and eastern region. Western emphasizes more on human resource information. Gray et al., (2001) concluded that "Surveys of CSR practices in western countries reveal that companies place the greatest emphasis on disclosing human resource information such as employee numbers and remuneration, equal opportunities, employee share ownership, disability policies, and employee training." In developing countries like Bangladesh many people still now do not understand the meaning of CSR. They just think that CSR activities only confined to philanthropic activities performed by organizations. But CSR activities do not only include philanthropic activities it also includes economic, ethical and legal responsibilities. Bangladesh is a country where people are largely prone to engage in corruption. In this situation CSR activities are considered by corporation as an ethical dilemma.

Stakeholders, Shareholders & Legitimate Theory

Stakeholder theory and legitimacy theory strongly advocates for CSR. An argument voiced for stakeholder theory is that society should let business attempt to solve society's problems because other institutions have clearly failed to do so (Davis, 2001). Jensen Meckling, 2002 argued that "Corporations should consider the effects of their actions upon the customers, suppliers, general public, employees, and others who have a stake or interest in the corporation."Stakeholder theory advocates performing CSR by the organization because organizations arenot only responsible to their shareholders, being a part of the society they are also responsible to the stakeholders.

Legitimacy theory claims that corporations have implicit contracts with stakeholders to provide for their long-term needs and wants. By providing for the desires of stakeholders, the corporation legitimizes its existence (Guthrie & Parker, 1989).And it has been found in different studies that socially responsible firms are less likely to manage their earnings.

Shareholder theory proposes that the corporation should legally maximize long-term shareholder wealth (Jensen, 2002). Companies would not in practice increase stakeholder welfare at the expense of shareholder wealth (Karnani, 2010). Shareholders appoint the managers and board of directors as anagent to run their businesses' resources so that their profit/wealth can be maximized. By fulfilling the prime motives of maximizing profit of the shareholders the board of directors and management can perform the philanthropic responsibilities to the society.

Why CSR is necessary

Yongtae Kim,MyungSeok Park, Benson Wier have tried to find out relation between earnings quality and CSR. In their article titled "Is Earnings Quality Associated with Corporate Social Responsibility?" they found that socially responsible firms are less likely (1) to manage earnings through discretionary accruals, (2) to manipulate real operating activities, and (3) to be the subject of Social Economic Cost investigations, as evidenced by Accounting and Auditing Enforcement Releases against top executives. They also observe that CSR firms are larger, have higher growth opportunities, have better earnings performance, and have lower leverage than nonCSR firms.

CSR can differentiate a company from its competitors by engendering consumer and employee goodwill (McWilliams & Siegel, 2001). If rivals are not engaged in CSR then they will lose customer loyalty. On the other hand, some firms are involved in CSR simply because they believe it is the right thing to do. Regardless of the underlying reasons, CSR has become a commonly used term in the business arena (Lindgreen, Swaen, &Maon, 2009). N. Craig Smith (2003b), a former professor at Harvard Business School, argued that "The impression created overall is that the debate about CSR has shifted: it is no longer about whether to make substantial commitments to CSR, but how". So still now a long controversy is going on about corporate social responsibility.

How CSR be ensured in Bangladesh

Besides converting the organizations more socially responsible from their inner sense of responsibility, some external forces should exerted simultaneously so that they feel compulsion and interest as well to go for CSR activities. Some of the means may be as per the following:

1. Rebate of taxation for socially responsible business.
2. Reduction of financial cost for such organizations (reduce rate of loan pricing from banks/financial intuitions based on CSR rating).
3. Publicly presenting the grading/rating of the organization, so that they can create positive/negative impact in the markets for their products/services.
4. The entrepreneurs/sponsors may be awarded for their CSR related outstanding activities (like CIP or others).

Argument behind No CSR

In the developing and underdeveloped countries like Bangladesh, there are numerous social and environmental problems like poverty, illiteracy, violence against women, pollution, corruption etc. These problems are not so easy to solve. If these problems were as simple to solve as stakeholder theory advocates maintain, they would have been remedied long ago by profit-seeking firms focused on benefiting society (Karnani, 2010). Firms do not exist for solving such kind of problems. This is the responsibility of the government to solve such kind of social and environmental problems. The businesses can serve the society by providing necessary goods and services to their existing and potential customers at a fair and reasonable price by maintaining proper quality, obeying the related laws.

Friedman (2002) asserted in a New York Times article, “There is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" (p. 230). Friedman (2002) also argued that if an organization performs its' all business activities properly then it will be the main CSR of that organization to their stakeholders. Proper, reasonable and legal activities of the business will not provide benefit only to their shareholders but also to their stakeholders. So, no extra CSR activities will be required by the organizations.

Conclusion

The modern concept of Corporate Social Responsibility (CSR) is evolving gradually despite several hindrances. Driving forces behind this evolution is pressurized from Conventional CSR Watchdogs include Labor Unions, Consumer Groups, Environmentalists, NGOs and all ‘Stakeholders’while slow progress is attributed to lack of Good Governance, absence of strong labor unions, consumer forums and above all lack of understanding by business houses, specifically non-exporting ones, that CSR is not charity but is rather an instrumental public relation investment.

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