

Corporate Social Responsibility: A Conceptual Analysis

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ABSTRACT

Purpose: The purpose of this article is to explain and create enlightenment on corporate social responsibility and creating shared value concepts. This article explains the definitions of corporate social responsibility, discusses the importance of corporate social responsibility, explains what can be done for firms to be seen as practicing their corporate social responsibility, gives examples of issues pertaining to corporate social responsibility, articulates the concept of creating shared value and culminates with conclusions on this area.

Methodology: Research on corporate social responsibility and creating shared value was undertaken from the extant literature; subsequently, the finer points and conclusions drawn for the literature were filtered and condensed to undertake this conceptual analysis. Information from these sources were summarized, analysed and tabulated before arriving on this conceptual analysis.

Findings: Corporate social responsibility and/or creating shared value is the way forward. It has become imperative for organizations to survive and if executed well to achieve competitive advantage.

Keywords: Corporate social responsibility, Creating shared value

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1. INTRODUCTION

This article will initially explore the definitions of corporate social responsibility (CSR) from the extant literature. This will then be followed by a discussion of the importance of CSR. Subsequently, this article will elaborate what can be done by organizations to be seen as practicing their CSR. The next section will then analyse some organizational issues that have resulted in CSR taking centre stage followed by a new view of corporate social responsibility with the introduction of a concept, called, “creating shared value” (SCV).

2. DEFINITIONS OF CORPORATE SOCIAL RESPONSIBILITY

From the extant literature, there have been many definitions of CSR. According to Manakkalathil and Rudolf (1995), CSR is defined as

“the duty of organizations to conduct their business in a manner that respects the rights of individuals and promotes human welfare”.

In addition, Steiner and Steiner (2004, p.126) has defined CSR as the duty of a corporation to create wealth by using means that avoid harm to, protect, or enhance societal assets.

Carroll (1991, cited in Carroll, 1999), states that total CSR consists of organizations performing their economic, legal, ethical and philanthropic responsibilities.

According to Gray, Owen and Adams (1996) (cited in Professional Accountant, 2007, pp. 271-272), there are seven positions on social responsibility. These are shown below in Table 1.

Table 1 – Seven organizational positions on corporate social responsibility

Position	Description
Pristine capitalist	An organization has acted in a socially responsible manner if it can perform her economic and legal responsibilities. Such an organization believes in maximizing shareholders' interests and taking care of creditors and other relevant stakeholders. They believe in the Friedman's (1962) adage – "the business of business is business".
Expedients	An organization that has adopted the expedient position of CSR believes that firms have a limited social responsibility and will definitely perform her social responsibility if it is tied to her self-interest. Such organizations have an instrumental view on CSR.
Proponents of the social contract	An organization that adopts this position believes there exist a social contract between firms and stakeholders and part of this social contract entails that organizations perform their social responsibilities.
Social ecologists	An organization that adopts this position believes that corporations, especially large corporations have contributed a lot towards environmental degradation and should now redeem themselves by being more socially responsible.
Socialists	Firms that adopt this position believe that social responsibility can only be successful if the firm or the community adopts a socialist position where there is egalitarianism in societies and organizations, where upper-class workers (executives – <i>bourgeois</i>) do not exploit the lower-class workers (<i>proletarians</i>).
Radical feminists	A corporation that adopts this position believes that social responsibility can only work if organizations change their culture to be more feminine. In a feminine culture, there is gender equality, altruism and greater quality-of-work-life.
Deep ecologists	Deep ecologists or deep green firms believe that to be socially responsible, they should not only take care of shareholders but also all people in the human strata as well as respecting non-human species.

Having looked at the different definitions and positions on social responsibility, the next section explains why CSR has become very important.

3. WHY CSR IS IMPORTANT

Research has shown that there is a positive correlation between corporate social responsibility and profits (Margolis & Walsh, 2001; Griffin & Mahon, 1997; Dawkins & Stewart, 2003), that is, a certain percentage of an organization's profits are due to CSR. As a result, many firms have realized the value of practicing CSR.

Secondly, endeavoring in CSR initiatives can also result in increasing customer loyalty (Pirsch, Gupta & Grau, 2007, p. 126). Customers would rather give their businesses to firms that practice CSR than those that do not. Moreover, customers will have a good impression on firms practicing CSR and this positive impression will, in the long-term, increase customer loyalty.

Another reason for CSR becoming more prominent is that it helps to facilitate the entry of firms in new overseas markets (Zyglidopoulos, 2002). This is because host governments will obviously prefer a firm that is responsible to enter its market than an irresponsible firm. Globalization for a firm can therefore be promulgated through undertaking her social responsibility.

Fourthly, undertaking CSR initiatives will also allow a firm to implement its strategies successfully (Zadek, 2004). For instance, if a firm was to pursue a strategy of market penetration and product development but its promotion mix was deceptive and its factories were sweat shops and used fossil fuel causing massive contamination and pollution, then stakeholders like customers, government, non-governmental organizations, shareholders, and employees will not be happy. These stakeholders may take legal action and others like customers may boycott such a firm. This will affect shareholders' value. All of these will not augur well for the firm and it will not be able to implement its strategies successfully. On the other hand, if the situation was reversed, no stakeholders will oppose and such a firm can then implement its strategies seamlessly.

The next reason for promoting CSR is it can allow a firm to achieve a first-mover advantage (Sriram & Manu, 2002). If this advantage can be sustained through the different evolutions of a firm's CSR initiatives, then it may also give a firm a sustainable competitive advantage.

Another contributing factor for firms engaging in CSR is that firms believe that CSR can help to recruit, motivate and retain employees (Sprinkle & Maines, 2010, p. 447). Thus CSR can help a firm to be more competitive by having the right motivated workforce.

The next section looks at what firms can do to be seen as practicing their CSR.

4. HOW TO BE SEEN AS PRACTICING CSR

There are many ways for a firm to be seen as practicing her CSR. One way is to comply with codes. These codes can be formulated by transnational entities such as the United Nations (such as *Global Compact Principles*) (cited in Steiner and Steiner, 2004, p. 139), or by industry groups (the chemical industry in the United States of America has a code call, *Industry Care*) (cited in Steiner & Steiner, 2004, p. 140), by NGOs such as CERES (Coalition for Environmentally Responsible Economies) Principles (Steiner & Steiner, 2004, p. 142) or a firm can also formulate its own code. For example, Nestle has its own code of principles which focuses on consumers, human rights and labor practices, employees, suppliers and customer relations, and environment (Nestle, 2010).

Secondly, a firm may want to change its human resource management practices. She may want to recruit and select candidates who also believe in the ideals of CSR. A firm may also conduct training on the importance of CSR and to ensure that staff takes into account matters of social responsibility when making decisions. In addition, employees should also be appraised based on their contribution towards society and environment, among others. Employees who do contribute towards society and environment can then be better rewarded, both extrinsic and intrinsic (Steiner & Steiner, 2004, p. 171).

Thirdly, firms may want to undertake triple bottom-line reporting (TBL) as a manifestation of its commitment towards CSR. In TBL, a firm discloses not only its financial performance but also its societal and environmental performance. To ensure veracity, these reports, just like financial reports must be audited (Zadek, 2004; Pirsch, Gupta & Grau, 2007, p. 128; Steiner & Steiner, 2004, pp. 180-181).

Another way to be seen as practicing her CSR is to create high ranking positions or committees to oversee matters pertaining to CSR. For example, Unilever had created a position called, Chief Sustainability Officer to oversee matters pertaining to social responsibility and sustainability (Gunther, 2013). Nike on the other hand has created a corporate responsibility committee back in 2001 to contribute in five ways, namely, as a source of knowledge and expertise in CSR, as a sounding board and constructive critic on CSR issues, as a driver of accountability for CSR, as a stimulus for innovation on matters pertaining to CSR and finally as a resource for the board of directors (Paine, 2014).

Moreover, firms undertake environmental reporting to demonstrate their SCR commitment. One example of how firms undertake environmental reporting is shown below in Figure 1 (Raiborn, Butler & Massoud, 2011). This environmental report adopts the concept of quality as advocated by Crosby that analyses costs from three perspectives, namely, prevention costs, appraisal costs and failure costs (both external failure and internal failure) (ASQ.org, 2016).

Figure 1 – Environmental Cost Report for Year ended Dec. 31, 20xx

Costs of Compliance	\$
Prevention	
Training on environmental issues.....	P
Appraisal	
Monitoring, inspecting and testing environmental protection equipment.....	A
Costs of non-compliance	
Internal failure	
Rework costs for products not meeting environmental standards.....	IF
External failure	
Recall for environmental damaging products.....	EF
Total environmental costs.....	P + A + IF + EF
Environmental benefits	
Insurance reduction	}
Process improvements	
Etc.	
Net environmental cost or benefit.....	B- (P + A + IF + EF)

The next section will look at some CSR issues and how it impacted firms.

5. CSR ISSUES

This section looks at two firms and their corresponding CSR issues. The first firm discussed is BP Oil and the second is The Coca Cola Company.

The BP oil spill on 22nd April, 2010 at the Deepwater Horizon rig in the Gulf of Mexico had resulted in the leakage of more than 5000 barrels of oil per day (AFP, 2010; Sky Valley Chronicle, 2010; Wang, 2010). The oil well that leaked was the Macando oil field and the leakage occurred due to an improper seal on the oil field (Coy & Reed, 2010). As a result of this leak, BP's shares plunged by around 53% (Bloomberg, 2010a) and BP recorded a loss of \$17.2b in the second quarter of 2010. Their CEO, Tony Hayward had to step down on October 1, 2010 and the cleanup costs and other liabilities have exceeded \$30b and BP experienced a market capitalization loss of £45b (Bloomberg, 2010b). The spill also resulted in 11 men being killed and a total of 4.9 billion barrels of crude oil being spewed out into the Gulf of Mexico (Barrett, 2012).

This incident for BP had caused BP to experience reputational risk with the abovementioned consequences (Collier & Agyei-Ampomah, 2007). BP still remains at risk for as much as \$17.6b for alleged violations of the Clean Water Act (Barrett, 2012).

As a result of this incident, BP had taken measures to improve its reputation and to undertake greater CSR initiatives. Among the measures taken were conducting regular oil spill exercises, using technologies such as satellite imagery to detect potential oil spills, using a tool to develop an integrated picture using geospatial data, and incorporating learning from past experiences (BP, 2015a). BP's CSR initiatives now focus on climate change, safety, environment and society (BP, 2015b).

Coca Cola Company also had experienced some social and environmental issues in India. In 2002, in Plachimada, a village in Kerala, India, residents accused Coca-Cola's bottling plant to deplete and pollute ground water. It takes 2.5 liters of clean water to produce 1 liter of Coca Cola drink. Two years later, the local government forced Coca-Cola Company to shut down the bottling plant. Coca-Cola Company denies polluting water and sucking wells dry but admitted it mishandled the controversy on the public-relations front (Ling, 2008).

From this episode, Coca Cola Company became more aggressive in its CSR front. Among the initiatives were to help WWF (World Wildlife Fund) to preserve seven of the world's major rivers, install rainwater harvesting in Indian states, and promoting environmental education (Ling, 2008).

Coca Cola Company also intends to become water neutral by 2020. In addition, to demonstrate its CSR, 30% of its bottles now use a resin made from sugarcane instead of fossil fuels. It also provides scholarships and has contributed to build schools in China (Ignatius, 2011).

6. CREATING SHARED VALUE (CSV)

Many firms are shifting their stand from social responsibility, philanthropy or even sustainability to a shared value concept. According to Porter and Kramer (2011, p.46), creating shared value (CSV) is defined as

“policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates”.

CSV implies that organizations can become more competitive by improving economic and social conditions of communities. For example, if organizations can help to improve the

educational systems of communities, then this can help the firm to cut costs in remedial training and therefore, a firm's cost in the long-term will become lesser.

Thus communities gain and at the same time, organizations also gain. Creating shared value thus results in a win-win situation between firms and societies.

According to Porter and Kramer (2011), CSV can be achieved by reconceiving products and markets, redefining productivity in the value chain, and building a supportive industry cluster at a firm's location. This is briefly explained below.

6.1. RECONCEIVING PRODUCTS AND MARKETS

Reconceiving products, for example, producing healthier foods or environmentally friendly products can result in a win-win situation. Society gets better nutritious food and society in turn, will appreciate the brand more and as a result, brand loyalty will increase, resulting in improve bottom-line for the firm.

Reconceiving products and services can also include serving people at the bottom of the pyramid. For instance, financial institutions can provide micro-financing. This can allow people at the fringes of poverty to borrow money. With the money borrowed, these people may use the money to cultivate crops or to start a business. This will benefit societies. In addition, this can also benefit organizations by earning more money from the interests paid.

6.2. REDEFINING PRODUCTIVITY IN THE VALUE CHAIN

Many activities in a firm's value chain can harm society. For example, if an organization's factory uses fossil fuels, then there will be greenhouse gas effects. In addition, if there is excess packaging, there will also be disposal issues. Not only will this be bad for society and the environment, it will also be costly to businesses. Wal-Mart, for example, estimated it could save around 3,800 tress and 1,000 barrels of oil with an economic saving of \$2.4 million by reducing unnecessary packaging of its private-label toy products (Lai, Cheng & Tang, 2010, p. 6).

Procurement should also be done locally otherwise local suppliers become marginalized. With marginalized suppliers, suppliers cannot improve their quality. Firms should share technologies with suppliers, provide financing, and increasing access to inputs and this can allow suppliers' quality to improve. Firms can then buy more from local suppliers; local suppliers can then hire more workers and provide better wages. Thus there will be a virtuous circle.

6.3. Enabling local cluster development

No company can be self-contained, just as no man is an island. The success of a company is affected by the success of supporting companies and infrastructure around it. Productivity and innovation are strongly influenced by "clusters" – geographic concentrations of firms, related businesses, suppliers, service providers, logistical infrastructure, academic institutions, trade associations, standard organizations, among others.

As a firm and its cluster develops, there will be multiplier effect such as new job creation, new companies being seeded and higher demand for ancillary services. Thus CSV creates a win-win situation for all parties.

7. CONCLUSIONS

This article has defined the meaning of CSR, explain why CSR has become more prevalent, discussed what can be done to be seen as practicing CSR, gave examples of CSR issues and culminated with a new paradigm of CSV.

From this article, it can be dawned that CSR and/or CSV are important for organizations. Organizations, wherever they are in the world must strive to undertake CSR or CSV. There are no “if’s” or “but’s”; there are simply no excuses. It has become imperative to pursue it wholeheartedly. For this to occur, there must be a visionary leader who can steer and influence the firm to move in this direction. Such a leader must be ethical and believes in the concept of sustainable leadership.

The vision of an ethical and sustainable leader is to achieve moral good, and the core values of integrity, trust and morality are central (McCann & Sweet, 2014, p. 374). Sustainable leaders are concerned with creating current and future profits for an organization while improves the lives of all concerned (McCann & Holt, 2011 cited in McCann & Sweet, 2014, p.374).

Ethical and sustainable leaders must ensure that an ethical culture exist for firms to embark on CSR and/or CSV. With the right organizational culture, the values on social responsibility, environmental responsibility and shared value creation can be ingrained in every single employee and hopefully all stakeholders. With greater commitment from all stakeholders, CSR and/or CSV can become successful and organizations can coexist comfortably with communities and its environment.

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