Corporate Social Responsibility of Business – An Overview

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Abstract:

Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship or sustainable responsible business/ Responsible Business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and international norms. With some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law.

Introduction:

CSR aims to embrace responsibility for corporate actions and to encourage a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others.

The term "corporate social responsibility" became popular in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility more narrowly construed.

Proponents argue that corporations increase long term profits by operating with a CSR perspective, while critics argue that CSR distracts from business' economic role. A 2000 study compared existing econometric studies of the relationship between social and financial performance, concluding that the contradictory results of previous studies reporting positive, negative, and neutral financial impact, were due to flawed empirical analysis and claimed when the study is properly specified, CSR has a neutral impact on financial outcomes.

Critics questioned the "lofty" and sometimes "unrealistic expectations" in CSR or that CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

Political sociologists became interested in CSR in the context of theories of globalization, neoliberalism and late capitalism. Some sociologists viewed CSR as a form of capitalist legitimacy and in particular point out that what began as a social movement against uninhibited corporate power was transformed by corporations into a 'business model' and a 'risk management' device, often with questionable results.

CSR is titled to aid an organization's mission as well as a guide to what the company stands for to its consumers. Business ethics is the part of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment.

Definition:

Business dictionary defines CSR as "A company’s sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship through their waste and pollution reduction processes, contributing educational and social programs and by earning adequate returns on the employed resources.

Consumer perspectives:

Most consumers agree that while achieving business targets, companies should do CSR at the same time. However not all CSR activities are popular. Most consumers believe companies doing charity will receive a positive response. Also found that consumers are loyal and willing to spend more on retailers that support charity.
Consumers also believe that retailers selling local products will gain loyalty—shares the belief that marketing local products will gain consumer trust. However, environmental efforts are receiving negative views given the belief that this would affect customer service found that not all CSR activities are attractive to consumers. They recommended that retailers focus on on found that if the social initiative done by the company is not aligned with other company goals it will have a negative impact.

CSR Approaches:

A more common approach to CSR is corporate philanthropy. This includes monetary donations and aid given to non-profit organizations and communities. Donations are made in areas such as the arts, education, housing, health, social welfare and the environment, among others, but excluding political contributions and commercial event sponsorship.¹

Another approach to CSR is to incorporate the CSR strategy directly into operations. For instance, procurement of Fair Trade tea and coffee. Creating Shared Value, or CSV is based on the idea that corporate success and social welfare are interdependent.

A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues and philanthropy.

The Harvard Business Review article Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility provided examples of companies that have developed deep linkages between their business strategies and CSR.

CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but emphasizes the opportunities for competitive advantage from building a social value proposition into corporate strategy. CSV gives the impression that only two stakeholders are important—shareholders and consumers.

Many companies employ benchmarking to assess their CSR policy, implementation and effectiveness. Benchmarking involves reviewing competitor initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and how others perceive competitor CSR strategy.
Cost-benefit analysis:

In competitive markets cost-benefit analysis of CSR initiatives, can be examined using a resource-based view (RBV). According to Barney "formulation of the RBV, sustainable competitive advantage requires that resources be valuable (V), rare (R), inimitable (I) and non-substitutable (S)." A firm introducing a CSR-based strategy might only sustain high returns on their investment if their CSR-based strategy could not be copied (I). However, should competitors imitate such a strategy, that might increase overall social benefits. Firms that choose CSR for strategic financial gain are also acting responsibly.

RBV presumes that firms are bundles of heterogeneous resources and capabilities that are imperfectly mobile across firms. This imperfect mobility can produce competitive advantages for firms that acquire immobile resources. McWilliams and Siegel examined CSR activities and attributes as a differentiation strategy. They concluded that managers can determine the appropriate level of investment in CSR by conducting cost benefit analysis in the same way that they analyse other investments.

Reinhardt found that a firm engaging in a CSR-based strategy could only sustain an abnormal return if it could prevent competitors from imitating its strategy.

Scope:

Initially, CSR emphasized the official behaviour of individual firms. Later, it expanded to include supplier behaviour and the uses to which products were put and how they were disposed of after they lost value.

Engagement plan:

An engagement plan can assist in reaching a desired audience. A corporate social responsibility individual or team plans the goals and objectives of the organization. As with any corporate activity, a defined budget demonstrates commitment and scales the program's relative importance.

Accounting and auditing:

Social accounting is the communication of social and environmental effects of a company's economic actions to particular interest groups within society and to society at large. Accounting emphasizes the notion of corporate accountability.

Crowther defines social accounting as "an approach to reporting a firm’s activities which stresses the need for the identification of socially relevant behaviour, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques.

Reporting guidelines and standards serve as frameworks for social accounting, auditing and reporting:

- Accountability’s AA1000 standard, based on John Elkington's triple bottom line (3BL) reporting
- The Prince's Accounting for Sustainability Project's Connected Reporting Framework
- The Fair Labour Association conducts audits based on its Workplace Code of Conduct and posts audit results on the FLA website.
- The Fair Wear Foundation verifies labour conditions in companies' supply chains, using interdisciplinary auditing teams.
- Global Reporting Initiative's Sustainability Reporting Guidelines
- Economy for the Common Good's Common Good Balance Sheet
- Good Corporation's standard developed in association with the Institute of Business Ethics
- Earth check Certification / Standard
- Social Accountability International's SA8000 standard
- Standard Ethics Aei guidelines
- The ISO 14000 environmental management standard

Ethics in training:

The rise of ethics training inside corporations, some of it required by government regulation, has helped CSR to spread. The aim of such training is to help employees make ethical decisions when the answers are unclear. The most direct benefit is reducing the likelihood of "dirty hands", fines and damaged reputations for breaching laws or moral norms. Organizations see increased employee loyalty and pride in the organization.

Common CSR actions include:

- Environmental sustainability: recycling, waste management, water management, renewable energy, reusable materials, 'greener' supply chains, reducing paper use and adopting Leadership in Energy and Environmental Design (LEED) building standards.
- Community involvement: This can include raising money for local charities, providing volunteers, sponsoring local events, employing local workers, supporting local economic growth, engaging in fair trade practices, etc.
Ethical marketing: Companies that ethically market to consumers are placing a higher value on their customers and respecting them as people who are ends in themselves. They do not try to manipulate or falsely advertise to potential consumers. This is important for companies that want to be viewed as ethical.

Social license:

“Social license” refers to a local community’s acceptance or approval of a company. Social license exists outside formal regulatory processes. Social license can nevertheless be acquired through timely and effective communication, meaningful dialogue and ethical and responsible behaviour.

Displaying commitment to CSR is one way to achieve social license, by enhancing a company’s reputation

Potential business benefit:

Corporate social responsibility (CSR) isn’t just about doing the right thing. It means behaving responsibly, and also dealing with suppliers who do the same. It also offers direct business benefits.

Building a reputation as a responsible business sets you apart. Companies often favour suppliers who demonstrate responsible policies, as this can have a positive impact on how they are perceived by customers.

There are other benefits too:

- A good reputation makes it easier to recruit employees.
- Employees may stay longer, reducing the costs and disruption of recruitment and retraining.
- Employees are better motivated and more productive.
- CSR helps ensure you comply with regulatory requirements.
- Activities such as involvement with the local community are ideal opportunities to generate positive press coverage.
- Good relationships with local authorities make doing business easier. See the page in this guide on how to work with local community.
- Understanding the wider impact of your business can help you develop new products and services.
- CSR can make you more competitive and reduces the risk of sudden damage to your reputation (and sales). Investors recognise this and are more willing to finance you.

Reference: