

Chapter 5

Corporate Social Responsibility (CSR), The Corporate Social Audit Corporate Sustainability



INTRODUCTION

- The focus in this chapter is on corporate social responsibility, which involves responsibilities outside of making a profit and the key questions for corporations include:
 - **Does business have a social responsibility?**
 - **If so, what is the extent and type of the responsibility?**

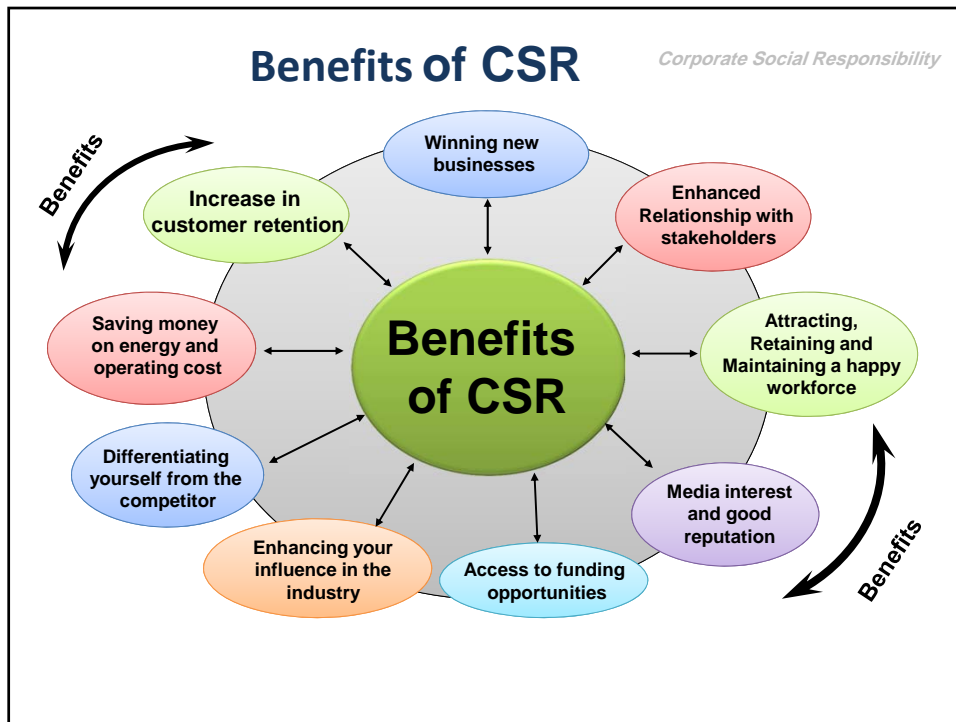
- **What is Corporate Social Responsibility (CSR) :**
 - **CSR** :“is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders”.

- **What is Corporate Social Responsibility?**



Benefits of CSR

1. Enhance relationships with stakeholders.
2. Access to funding opportunities.
3. Differentiating yourself from the competitors.
4. Saving money on energy and operating cost.
5. Increase in customer retentions.



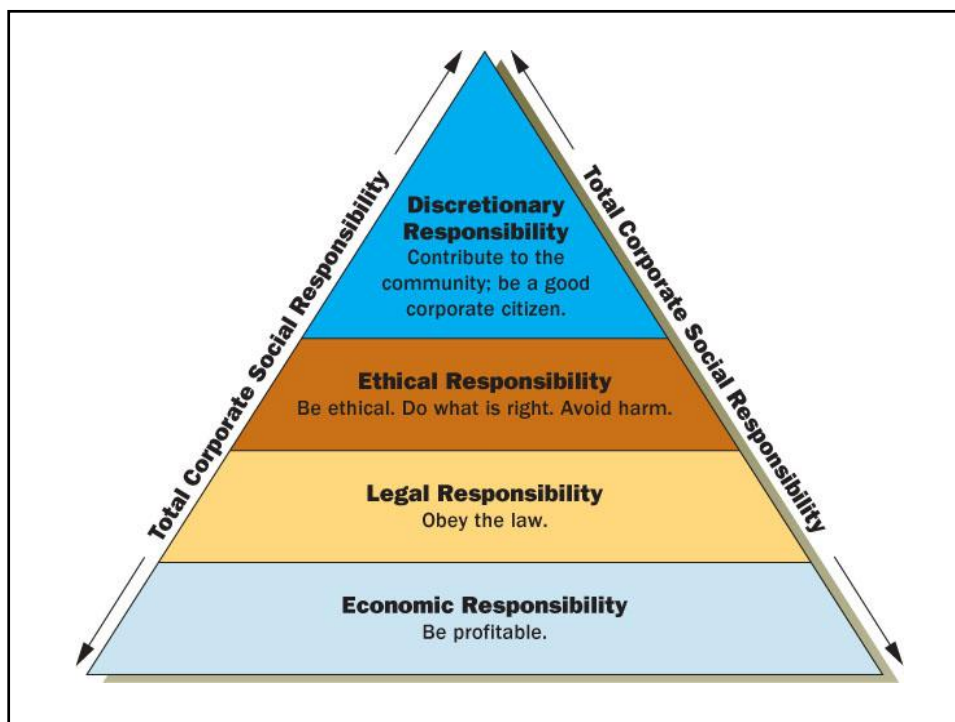
Common Corporate Social Responsibility initiative



- Actions to protect the environment.
- Actions to create a work environment that enhances employees' quality of life.
- Actions to build a diverse workforce.

Carroll's Four-Part Definition of CSR

- In 1991, **Carroll** first presented his **CSR model** as a pyramid. It was suggested that, although the components are not exclusive, it “helps the manager to see that the different types of obligations are in a **continual tension** with one another”.
- **Carroll's model of CSR** includes the **economic, legal, ethical and discretionary** (philanthropic) expectations that society has of organizations at a given point in time.



Corporate Social Responsibility (CSR)

Carroll's Four Part Definition *Understanding the Four Components*

Responsibility	Societal Expectation	Examples
Economic	Required	Be profitable. Maximize sales, minimize costs, etc.
Legal	Required	Obey laws and regulations.
Ethical	Expected	Do what is right, fair and just.
Discretionary (Philanthropic)	Desired/ Expected	Be a good corporate citizen.

The CSR Equation

$$\begin{array}{l}
 \text{Economic Responsibilities} \\
 + \\
 \text{Legal Responsibilities} \\
 + \\
 \text{Ethical Responsibilities} \\
 + \\
 \text{Philanthropic Responsibilities}
 \end{array}
 =
 \boxed{\begin{array}{c}
 \text{Total} \\
 \text{Corporate} \\
 \text{CSR}
 \end{array}}$$

Components of CSR

1. Economic Responsibilities:

- Firm has a responsibility to use the resources available to produce goods and services for society.
- **Examples:**
 - Generating a high and consistent level of profitability,
 - Establishing and maintaining a strong competitive position,
 - Operating the firm at a high efficiency level.

Components of CSR

2. Legal Responsibilities:

- The laws and regulations that all firms are expected to follow as they perform their daily functions.
- **Examples:**
 - Operating consistent with government and legal expectations;
 - Showing complete compliance with all regulations.

Components of CSR

3. Ethical Responsibilities:

- Change over time because they are based on expectations of society.
- **Examples:**
 - Meeting expectations of both social and ethical standards;
 - Ability to adapt to new or developing ethical and moral standards;
 - Being a good corporate citizen.

Components of CSR

4. Discretionary Responsibilities:

- Those responsibilities in which society does not have a clear message to present to businesses as to what their courses of action should be.
- Left in the hands of managers to make the right judgment.
- **Examples:**
 - Giving to charitable organizations;
 - Providing drug treatment programs.

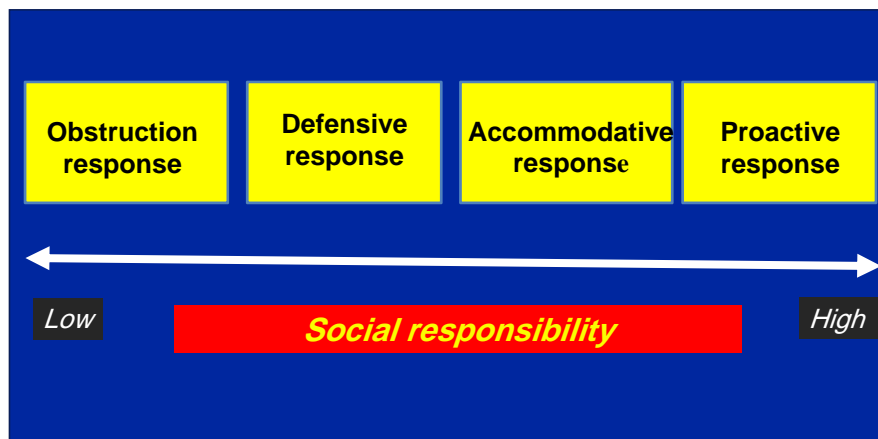
Managers Response to Social Responsibility

There are many ways managers respond to this duty:

- 1. Obstructionist response :** Managers choose not to be socially responsible.
 - Managers behave illegally and unethically.
 - They hide and cover-up problems.
- 2. Defensive response :** Managers stay within the law but make no attempt to exercise additional social responsibility.
 - Put **shareholders interest** above all other stakeholders.

- 3. Accommodative response :** Managers realize the need for social responsibility. Legal, ethical
 - Try to balance the interests of all stakeholders.
- 4. Positive response:** Managers actively support social responsibility.
 - Go out of their way to learn about and help stakeholders.
 - Support and help stakeholders.

Levels of Responsibility



The Corporate Social Audit

The Corporate Social Audit

- **Definition of Social Auditing (SA):**
- **Social Auditing (SA):** is a formal review used to measure the impact that a corporation has on its clients, staff and society as a whole.
- ***The purpose of a social responsibility audit*** is to ensure that the company is doing all it can to support non-tangible gains such as employee satisfaction, community support and customer loyalty.

What is Social Auditing ?

- ❑ **Social Auditing can enhance an organization's capacity to:**
 - Evaluate their impact on stakeholders.
 - Determine how well they are living up to the values they promote.
 - Tell people what you are achieving.
 - Improve overall performance.
 - Enhance decision-making.

The Corporate Social Audit

- **A social audit looks at factors such as :**
 1. Company's record of charitable giving.
 2. Volunteer activity.
 3. Energy use.
 4. Work environment.
 5. Worker safety.
 6. Consumer protection.

Corporate Sustainability

Corporate Sustainability

- **Corporate sustainability** : involves meeting the needs of today's stakeholders in a manner that protects the environment and resources needed for future generations, directed at improving a company's **Triple Bottom line (TBL)**.
- **The TBL** :is an accounting framework that includes three dimensions of performance: **Social, environmental and economic**.

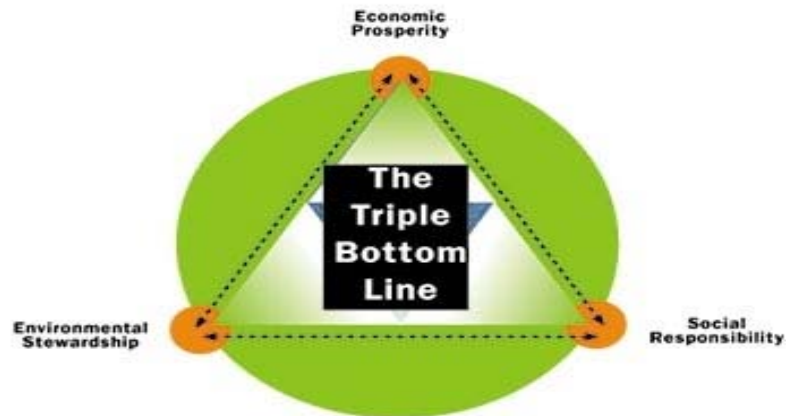
Corporate Sustainability

The Triple Bottom Line (**TBL**) is made up of:

"Social, Economic and Environmental"

"People, Profit, Planet "

Triple Bottom Line (TBL)



What is triple bottom line reporting?

- **TBL reporting** : “is a framework for measuring and reporting corporate performance against **economic**, **social** and **environmental** factors”
- A move from one dimensional economic reporting to three dimensional: economic, social and environmental reporting.

Economic factors:

- ❑ Generally accounting principles.
- ❑ Customers.
- ❑ Suppliers.
- ❑ Employees.

Social factors:

- ❑ Bribery and corruption.
- ❑ Child labor.
- ❑ Training and diversity.

Environmental factors:

- ❑ Energy.
- ❑ Water.
- ❑ Emissions, and waste.

Triple Bottom Line (TBL)

TBL reporting enables organizations to:

1. Measure and manage their financial and non-financial performance.
2. Have their performance and impacts demonstrated **independently**.
3. Communicate effectively with consumers, governments, investors, employees, other stakeholders and supervisory groups.

How is TBL reporting achieved?

- ***TBL reporting achieved*** through the application of what is called the ***Global Reporting Initiative “GRI”***.
- ***GRI*** : *is a common framework for sustainability reporting”*
<https://www.globalreporting.org/Pages/default.aspx>
- Started in 1997 by the combination for Environmentally Responsible Economies and the United Nations.