

Paper E1 Enterprise Operations

Philanthropy is only one face of corporate social responsibility. CSR also covers ethics, regulatory compliance and business's contribution to economic development

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Corporate social responsibility (CSR) is included in the E1 syllabus under the "Global business environment" heading and covers a key syllabus objective: "Explain the principles and purpose of corporate social responsibility and the principles of good corporate governance in an international context."

As companies race to become the most attractive in the eyes of the global consumer, they no longer consider CSR to entail little more than, say, making a one-off donation to some obscure charity. It has taken on far greater meaning in an age of climate change, recession, sweatshop scandals etc. Also, given the scale of CSR investment made by some organisations – Marks and Spencer spent more than \$12m on community projects in 2009-10, for example – it is clear that corporate social responsibility is not only a buzz phrase; it is a serious business matter.

CSR encompasses the following four operational aspects:

- **How the company is contributing to the development of its local economies.** Cosmetics company, The Body Shop, is a good example of a business that is mindful of this aspect. It procures many of the raw materials for its products from poor villages in Africa. Rather than exploiting these suppliers by paying them a miserly rate, it gives them healthy returns and assistance with developing facilities such as schools and water wells. This approach contrasts starkly that of certain international jewellers, which have been accused of obtaining so-called blood diamonds from Africa at low cost using armed mercenaries.
- **How the company is restricting its operations to the given regulatory boundaries.** Consider the recent frauds committed by some of the world's



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leading financial service providers. For example, the Galleon hedge fund scandal of 2009 in the US featured a high level of insider trading. This was a clear violation of federal law, which culminated in the firm's closure. Also, five years before the Deepwater Horizon oil platform exploded in the Gulf of Mexico, a fire at a BP refinery in Texas killed 15 people and injured more than 100. The company was fined a record \$87m after the US Occupational Safety and Health Administration cited several hundred violations. It was also fined \$50m by the US Department of Justice to settle criminal charges arising from the disaster.

- **How ethically acceptable the company's operations are to society.** This aspect does not have to relate directly to a business's operations. For

Illustration: Denis Carrier/Dutch Uncle

example, Nike was accused of acting unethically when an Australian news service found that one of its contractors in Malaysia was using forced labour. Immigrant workers from poverty-stricken countries such as Vietnam and Bangladesh were living in a virtual prison. Their passports had been confiscated on arrival and they were being forced to buy them back with their wages. This was not Nike's legal responsibility, as it could not be blamed for that contractor's practices, but the public expected it to resolve the situation. After investigating the matter, Nike ordered the contractor to take corrective action, giving the workers their passports back and even buying them flights home – actions for which it was widely commended. On a different tack, The Body Shop recently ran a campaign encouraging customers in its stores worldwide to sign a petition against human trafficking.

- **How the company is making philanthropic contributions to society.** This aspect focuses on charitable donations. For example, according to Marks and Spencer's "How we do business" report, the M&S and Oxfam clothes exchange scheme has been running since January 2008 and has already raised £2.5m for the charity. Anyone donating an item of M&S clothing to Oxfam receives a £5 voucher to use on their next store purchase of £35 or more. In a similar vein, Johnson & Johnson gave \$10m to aid countries affected by the 2004 Indian Ocean tsunami, while it has also made significant donations to the Haiti earthquake relief effort. Such largesse should generate good PR for the company and boost its revenues.

CSR has faced stiff resistance from some companies' board members and other shareholders, because investments designed to make a business look good could reduce profits in the short term – and the amount of dividends payable to them. But this resistance seems to be diminishing steadily as concepts such as "the triple bottom line" emerge, along with the growing belief that organisations need to contribute towards the wellbeing of society. Also, research continues to suggest that consumers prefer organisations that they believe are good corporate citizens.

Businesses expect to gain the following main benefits from CSR:

- A strong brand image.
- Customer approval.
- A lower risk of failure as a result of misconduct.

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- Improved relationships with community groups, governments and other stakeholders.

In an era where the media are omnipresent, businesses should aim to create an organisational culture of "doing the right thing from the heart", which can help them to gain a competitive advantage. Despite having a high cost base compared with their rivals in India and other emerging economies, clothing manufacturers in Sri Lanka still attract a significant number of orders from iconic retailers such as Marks and Spencer and Victoria's Secret, largely because of their CSR practices, which are promoted under the "Garments without guilt" banner. This indicates an operational style free of the sweatshop practices that have been so common in that industry.

Companies will change their marketing mix in order to be seen to be acting ethically by giving consumers more information on which to base their purchasing decisions. For example, food companies such as McDonald's, which have been accused of contributing to high rates of heart disease, now provide nutritional details such as the fat content of their products on the packaging. Other firms have used marketing to campaign against what they see as unethical practice – The Body Shop versus animal testing, for example – and encourage customers to buy their products to support the cause. In another example of CSR marketing, American Express asked its customers to vote for their favourites from a list of selected charities and distributed \$1m among the organisations that received the most votes.

In order to comply with environmental laws and follow the principles of sustainability, an organisation may work to cut its waste emissions and use less raw material to retain more resources for future consumption. In such cases it might focus on implementing lean production methods and using more efficient technologies, such as computer-aided manufacturing.

EI students need to develop a sound knowledge of CSR and its significance in today's business environment. Crucially, you should gain a good understanding of the four different elements of CSR and be able to apply this to any given scenario in the exam.

Further reading Marks & Spencer, "How we do business report 2009": <http://corporate.marksandspencer.com>.
American Express's "Members project": www.takepart.com/membersproject.
The Body Shop's "Against animal testing" campaign: www.snipurl.com/lmapny.