<u>CORPORATE SOCIAL RESPONSIBILITY</u>

Globalisation of the world economy is underway, and various groups, including national governments, multinational corporations and international organisations such as the World Trade Organisation, are promoting this. However, globalisation should not be detrimental to the welfare of society.

As we have moved into the global market, there is an abundant supply of labour. Capital and free trade have expanded the possibilities. Some industries e.g. textiles, have moved from country to country seeking the lowest labour costs and highest profits. Firms operating in developing countries are often criticised for failing to be socially responsible in their operations (e.g. Nike & Gap were exposed as operating factories with sweatshop conditions) and this has lead to the development of Corporate Social Responsibility.

According to Certo (2002) “Corporate Social Responsibility (CSR) is the managerial obligation to take action that protects and improves both the welfare of society as a whole and the interests of the organisation”.

The most publicised areas in which businesses can act to protect and improve the welfare of society are: urban affairs, consumer affairs, environmental affairs and employment practice affairs. Companies are beginning to recognise that improving their impacts and addressing wider social and environmental problems will be crucial in securing their long-term success.

There are various arguments associated with businesses role in society, some of which are as follows:

The Role of Business in Society

1. Carr (1996): Pure profit making view- Economic CSR. Business has a lower ethical standards than society. Their only social responsibility is to obey the law.
2. Friedman (1962): Constrained profit making view- Business should maximise shareholder wealth, obey the law and be ethical
3. Freeman (2001): Socially aware view- Ethical CSR. Firm should be sensitive to potential harms of its actions on various stakeholder groups
4. Carroll (2001): Community service view- Altruistic CSR. Businesses must use their resources for social good.

Drivers to CSR

In a general context, the three main drivers for commitment to CSR are:

1. Performance: CSR is seen as an instrument to achieve objectives in relation to profitability, ROI & sales volume
2. Stakeholders: Social responsibilities are adopted in order to conform to norms and defined appropriate behaviour
3. Value: Businesses are self motivated regardless of pressure calling for CSR initiatives

In a multinational context the primary drivers for CSR are the need for companies to protect and build their reputation and to manage risk across countries, cultures and socio-political situations. For example: Shell lost market share in Germany when consumers were persuaded that their activities would harm the environment. Pryce (2002), states that such examples are often dismissed as media sensationalism but that they have forced CSR to become a major business issue.

Implementation Issues

Many firms promote their CSR principles to portray a positive image and gain support from stakeholders, but to what extent are these principles incorporated into the business strategy and managerial culture??

Most organisations begin by producing a code of conduct. For example: Desmonds have adopted two codes of conduct. Global Sourcing Principles (GSP) & Ethical Trade Initiative (ETI). The company needs to ensure that their suppliers and factories comply with the requirements of these standards.

When implementing CSR the following needs to be addressed so progress can be made:

- A definition understood & agreed by all
- Benchmarks to measure the attainment of CSR
- Processes to help achieve these benchmarks
- Internal & External audit system

Frankental (2001) argues that for CSR to have a real impact it should become a principle at the core of an organisations mission and not merely a peripheral consideration. A study by Strandberg (2002) claims there are different degrees of commitment to its application.

1. Light CSR: Superficial commitment
2. Compliant CSR: Voluntary commitment
3. Strategic CSR: Long term perspective on CSR as key to survival and source of competitive advantage
4. Integrated CSR: CSR is fully integrated into the business model
5. Deep CSR: CSR is seen in an international, national and industrial context

Limitations of CSR

Companies are often concerned with the financial payback of CSR activity before considering investment in the area. Recent studies have produced conflicting results ranging from, no relationship, positive relationship to negative relationship. This leaves mangers with no indication as to the desirability of investment in CSR in hard financial terms.

An argument against CSR is that transnational companies (TNC's) provide a valuable contribution in the economic development of developing countries. TNC's increase competition in an economy and provide investment, employment and other economic opportunities.Developing countries need economic development to gain the capacity to implement comparable policies in these areas. CSR could threaten economic growth by discouraging investment and creating barriers to exports.

CSR and Outsourcing

90% of businesses in Ireland are SME's. Therefore, CSR it shall be examined in this context using the example of sourcing as this is where CSR is operationalised.

Through outsourcing best practice filters down the supply chain from MNC's to SME's. However, with CSR the lack of accepted practices means that the transfer of knowledge has been stifled and SME's have found themselves without specific guidance on the matter.

For SME's to be competitive in the face of globalisation they need to source components & finished products internationally and exploit opportunities of lower prices at acceptable quality levels from overseas suppliers. Many factors influence international supplier selection decisions e.g. perceived risk. Such factors may be in conflict with one another. E.g. lower priced materials from a foreign supplier may be offset by their lack of consideration for CSR (Min and Galle, 1994).

This poses a dilemma for SME's as they have limited resources. Ultimately, the pressure to buy cheaply will be greater than that to buy from an ethical company (Beckett, 2003). Many companies are unsure how to include such intangible criteria into their supplier selection criteria. Pyrce (2002) suggests responsible buying is on the business agenda. According to Mellahi and Wood (2003), Social Responsible Buying (SRB) is "the inclusion in purchasing decisions of the social issues advocated by organisational stakeholders". Issues surrounding SRB include; human rights, working conditions and child labour.

A recent study proposed that firms apply a strategic and progressive approach to integrate non-economic criteria into the purchasing process. However, the study was based within a large organisation rather that an SME. Studies conducted by Spence and Loranzo (2000), concluded that it was inappropriate to impose large company CSR practices upon an SME. Even in a scaled down version these practices may not work as SME's face different issues and environments. SME's are faced with the challenges of CSR both from the perspective of an outsider and as a supplier. As a result, there is a need to develop socially responsible guidelines to aid them in the outsourcing decision.