

CHAPTER 6

Community and society: corporate social responsibility (CSR)



Learning outcomes

By the end of this chapter you should be able to:

- critically evaluate the role of organisations in their society(ies)
- define the concept of corporate social responsibility in the context of relevant regulatory frameworks
- define and critically evaluate the role of ethics in business policy and practice
- diagnose ethical problems and identify strategies for making ethical decisions in organisational/cultural contexts
- appreciate the environmental complexities that influence organisational communication and public relations strategies.

Structure

- Sustainable business: corporate social responsibility (CSR)
- Business case for corporate social responsibility: why be socially responsible?
- Organisational responsibilities to stakeholders
- Organisational responsibilities to society
- Regulatory frameworks
- Ethics and business practice

Introduction

Enron, Shell UK, Union Carbide and Exxon Corporation are just a few of the major international corporations that have been under the worldwide media spotlight for their corporate actions and activities. Executives from these companies have at varying times over the past 20 years been vilified by the media, attacked by shareholders and customers and in some instances imprisoned. Why? Because the organisations they represent have had a major impact on the social and physical environments in which they operate (e.g. oil and chemical leaks). This chapter will explore the role of organisations in society and how, irrespective of the profit or not-for-profit imperatives, many are taking a critical view of their roles and responsibilities. In many instances (including some of the companies above), this has involved a radical repositioning of the organisation's *vision and values* that are impacting on the operational as well as the public relations (communication) strategies they employ.

Concern for the environment in which a business operates is not a new phenomenon but its prevalence in Anglo-American business policy is growing and, due to the internationalisation of markets and business practice, this is influencing corporate strategy for large PLCs and small to medium-sized enterprises (SMEs) throughout the world. These corporate policy changes are encouraging organisations to increase their awareness and concern for the society(ies) in which they operate. An additional development is in the more sophisticated business use of the societal relationship as part of the corporate strategy and as a marketing tool. This has been demonstrated through the expansion of sponsorship programmes (see Chapter 27) and more recently with the development of

Definition: ‘Vision and values’ relates to the business practice of identifying an organisation’s corporate vision – where it wants to go and how it wants to be perceived through its core values. (Go to the internet and look up value and mission statements for corporations.)

cause-related marketing (CRM) – associating companies or brands with charitable causes (see Chapter 18). This chapter will describe in detail the relationships between an organisation and the community within which it operates. It will explore the complex issue of business ethics with guidelines on how to promote ethical decision making in practice. There are links from this chapter to Chapter 18, which explores how public relations is responding to an increasingly

CSR-conscious business environment through the development of communications programmes (see Case study 6.1).

Sustainable business: corporate social responsibility (CSR)

Individual members and groups in the community in which an organisation operates are increasingly being recognised as important *stakeholders* in the long-

term security and success of large and small enterprises. Building relationships with these community groups is, therefore, an important issue in corporate and communications strategy. In order to understand how this can be achieved it is essential to understand in more detail the complexities of the relationships between a business and its community(ies).

case study 6.1

BBC World Service Trust – international impact

The aim of the BBC’s World Service Trust is to help developing countries and countries in transition to build media expertise for the benefit of the population.

Following 25 years of conflict in Afghanistan, the country is now looking to the future and the Afghan media have a major role to play in uniting the nation, rebuilding its culture and changing the population’s mindset from one of war to peace.

The BBC’s role has been to help develop the media infrastructure. The work of the BBC World Service Trust has been focused on helping the Afghanistan media to rebuild themselves and ensure they have the necessary broadcasting skills and principles.

The BBC World Service Trust has helped set up a new public service broadcasting body, a strong and independent media network that may reassure the Afghan people that action is being taken to recreate a democratic society. The BBC World Service Trust claims the programme has gone far beyond its remit to rebuild Afghanistan’s media infrastructure.

According to the BBC World Service Trust, the impact is as follows:

- increased audience – now estimated at 85% of the population and improved profile for the BBC as a social broadcaster
- staff development opportunities and enhanced motivation for staff from different BBC divisions –

including developing skills for BBC journalists working on news gathering

- increased trust – as a result of the BBC’s long-term commitment to Afghanistan and production of education programmes, covering human rights, civil society, voter education, women’s rights and minority rights
- establishment of an independent media – with a robust infrastructure that allows the reconstruction process to be communicated to even the most isolated communities
- training for Afghan journalists – of whom 20% are women (who were denied employment and education under the Taliban regime)
- media resources and training to use radio and studio equipment.

This example demonstrates how an organisation can get involved with a section of society and make real improvements. In this example, the BBC is using its experience as a broadcaster to help improve the media landscape in a specific country. The engagement with the issues is, however, more than just a practical one; other outputs relate to the communications impact in Afghanistan, staff development, perceptions of the BBC and an ability to meet the corporate objectives/mission of the BBC.

Source: www.bbc.co.uk/www.bitc.org.uk



PICTURE 6.1 Being corporately responsible should mean taking steps to avoid having a negative impact on the society in which an organisation operates. (Source: © Reuters/Corbis.)

It is also important to define some of the business terminology that is frequently used when analysing businesses in their societal contexts.

Definition: A *stakeholder* is someone who has an interest (stake) in the organisation, which may be direct or indirect interest as well as active or passive, known or unknown, recognised or unrecognised (see also Chapters 11 and 27).

Corporate social responsibility

A well-used business and management term, corporate social responsibility (CSR), is often associated with the phrase ‘enlightened self-interest’ – how organisations plan and manage their relationships with key stakeholders. CSR is, therefore, an organisation’s defined responsibility to its society(ies) and stakeholders. Although organisations are not a state, country or region, they are part of the infrastructure of society and as such they must consider their impact on it. A simple analogy for the impact organisations have on their community has been presented by Peach (1987; see Figure 6.1, overleaf),

which shows the ripples from a stone thrown into a pond to represent the impact of a business on its environment. There are three levels of impact ranging from the *basic* in which a company adheres to society’s rules and regulations to the *societal* where a company makes significant contributions towards improving the society in which it operates. In the middle level, companies are perceived to manage their activities so they adhere to the level and go beyond it. For example, this might be a company obeying legal requirements on employment rights as a foundation and then providing more generous interpretations of these legal rulings. Also the company may seek to reduce the negative impact of the organisation on its society without necessarily taking positive action to make improvements that would take it to level three. (See also Box 6.1, overleaf.)

Companies operating at the highest level, *societal*, do exist: companies are increasingly obtaining public recognition and visibility for their positive corporate actions. For example, in the UK, Business in the Community (BITC) has a PerCent Standard (formerly the Per Cent Club), which is awarded as a voluntary benchmark to companies donating at least 1% of pre-tax profits to community/social benefits.

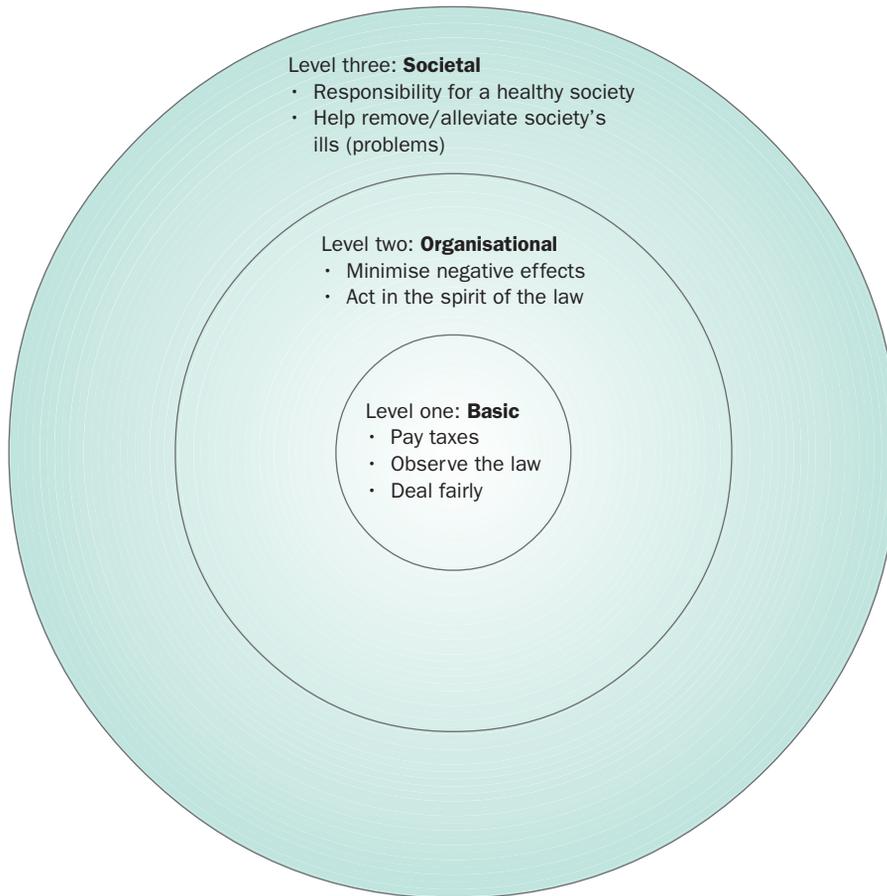


FIGURE 6.1 Impact of a business on its environment (source: after Peach 1987: 191–193).

In 2002, 122 companies reporting to the standard invested a total of £854.7m. This demonstrated a significant increase from £303.37m in 1999. Box 6.2 gives the full details from the BITC survey for 2004.

Definition: Financial regulation of donations refers to the legal requirement in the UK that any donation over £200 has to be recorded in a company's end of year annual report and accounts (the financial statement to shareholders).

When considering CSR it is important to make a distinction between corporate activities that are intended to contribute to the society and charitable acts or philanthropy (see Activity 6.1).

Philanthropy

One simple definition of *philanthropy* is that 'corporations perform charitable actions'. This is very different from CSR, with philanthropy being a charitable act not necessarily linked to the expectations of society.

box 6.1

Peach model in action

Some clear examples at the *basic* level might be a company in the supermarket retail sector that is profitable, pays its taxes and maintains minimum terms and conditions for its employees. At the highest, *societal*, level you could describe a supermarket retailer that conforms to society's rules and laws but also contributes to its society by funding community initiatives (e.g. holidays for disadvantaged children, investments in school facilities, transport for elderly people, lobbying for improved treatment of waste by local companies in line with its initiatives, contributing to positive legislation change in support of society, surpassing national and international employment rights and conditions, innovation in childcare or part-time mothers' conditions of work, etc.).

**box
6.2**
PerCent Standard results for 2004

In 2004, 152 companies reported their community investment through to the PerCent Standard. Submissions were received from companies in the FTSE250 and Business in the Community's membership. The results found that:

- 116 companies achieved the 1% Standard
- 109 companies are members of Business in the Community
- 56 companies are members of the FTSE100
- 58 are members of the London Benchmarking Group
- 6 companies still contributed to their community but made pre-tax losses
- 35 companies reported for the first time.

2004 total reported community investment was £934,327,608. This is broken down between:

Cash contribution:	£604,509,460 (2003 – £496,623,319; 2001/02 – £381,280,998; 2000 – £244,126,127; 1999 – £200,755,733)
Employee time:	£60,618,041 (2003 – £44,819,158; 2001/02 – £38,641,240; 2000 – £28,754,690; 1999 – £25,500,729)
Gifts in kind:	£195,848,025 (2003 – £263,204,495; 2001/02 – £101,625,924; 2000 – £41,798,114; 1999 – £35,032,923)
Management costs:	£73,351,282 (2003 – £50,086,509; 2001/02 – £42,020,316; 2000 – £28,777,488; 1999 – £22,332,603).

The 2004 top 10 UK givers were:

Allen & Overy – £12,600,000
 Vodafone in the UK – £10,514,160
 Co-Operative Group – £8,124,661
 Procter & Gamble – £6,628,933
 Sainsbury's – £6,069,143
 Allied Domecq – £5,761,900
 BSkyB – £5,054,631
 GWR Group – £5,033,145
 KPMG – £4,270,234
 John Lewis Partnership – £4,166,803

The top 10 in absolute terms were:

GlaxoSmithKline – £144,290,400
 Altria – £128,150,272
 BP – £50,123,223
 Unilever – £45,780,905
 Royal Bank of Scotland – £40,100,000
 Lloyds TSB – £36,680,000
 Barclays – £32,821,803
 HBOS – £29,392,310
 BHP Billiton – £25,941,192
 Anglo-American – £24,158,000

Source: Business in the Community (www.bitc.org.uk)

Philanthropy did occur in large industrial firms in the UK during the nineteenth century (such as Joseph

Rowntree, Titus Salt) through the donation of money and amenities such as schools, hospitals or housing for employees and their communities. *Corporate philanthropy* can be perceived as a short-term one-way relationship, which is unpredictable on behalf of the recipient and therefore more difficult to manage and strategically plan for. For example, during the dot-com boom (during the late 1990s when the financial performance and market impact of web-based businesses and technology companies in general were seriously exaggerated), technology company directors commonly gave large sums in charitable donations. The Slate 60 is an annual list of US charitable gifts and pledges that has reported since 1996: in 2002 the total of \$4.6bn was down from 2001's high of \$12.76bn (see www.slate.msn.com). Depending on the general and sector-specific economic performance, individuals

activity 6.1
Business impact on society

Identify, name and describe a company or organisation that fits into each of the levels in the 'stone in the pond' analogy.

What would those organisations in levels one and two need to do to move towards the third, societal level?

Feedback

You need to consider what changes in ethical business policy or practice would make a difference to society. It is not enough just to make statements of intent.

go on or off the list, reinforcing the unpredictable nature of this type of activity. For example, Bill Gates (the world's richest man and Microsoft's founder) was on the list in 2001 with \$2bn in gifts. In 2005 Gates made the largest ever private donation of £400m (\$750m) to the child health charity he set up with his wife, Melinda, the Global Alliance for Vaccines and Immunisation (see also Chapter 27). Although gifts can be turned on and off by the donor like a tap, there are some benefactors who donate through trusts, which enable the act to be sustained over longer periods of time (e.g. the Rowntree Foundation or the Wellcome Trust in the UK, the John D. Rockefeller Foundation or the Bill and Melinda Gates Foundation). (See Activity 6.2.)

Definition: *Philanthropy* means 'a love of humankind; practical benevolence especially charity on a large scale' (*Concise Oxford Dictionary* 1995).

Definition: *Corporate philanthropy* is 'a way of giving something back into local communities, improving quality of life for employees, and practicing corporate citizenship' (Cutlip et al. 2000: 470).

In recognition of the interest shown by various stakeholder groups – employees, customers and particularly the financial community and investors – it is now common business practice for large and small to medium-sized enterprises (SMEs) to publish corporate literature and brochures giving details of their community activities and CSR. Non-financial reporting on corporate responsibility in annual reports became prevalent in the mid-1990s. In the UK, for example, BT's annual review and summary financial statement (1996/7), included a section called 'Why we are helping the community: we're all part of the same team'. Within the report BT stated that:

activity 6.2

Identifying CSR and philanthropic actions

List examples of what you might consider to be CSR or philanthropic actions by an organisation/company.

Feedback

Can you make distinctions between the two? Think about each organisation's objectives for the action. What was the intended outcome? What did it hope to achieve? Was it long term? Was it pre-planned or in response to an individual(s) request?

It is increasingly clear that businesses cannot regard themselves as in some way separate from the communities in which they operate. Besides, research has shown that the decision to purchase from one company rather than another is not a decision about price alone.

The practice has evolved to such a degree that companies now produce specific corporate responsibility reports. For example, O2 (formerly part of BT) is a Europe-wide mobile telephone company that launched its first corporate responsibility report in 2003.

Business case for corporate social responsibility: why be socially responsible?

Organisations in developed economies are today influenced by public opinion, shareholders, stakeholders (who can be shareholders, consumers and members of campaign groups) and the political process. Consequently, organisations that ignore their operational environment are susceptible to restrictive legislation and regulation. This is a particular issue in Europe with the increasing power and influence of the European Union, the single currency and the European parliamentary process. Representative bodies for business such as Business in the Community (BITC), CSR Europe, Institute of Business Ethics, Business for Social Responsibility, and the Prince of Wales International Business Leaders Forum (IBLF) have formed to help senior managers deal with the demands of varied stakeholder groups.

Is CSR good business practice? On the one hand, many companies profited from unethical practices in the early part of the twentieth century, as demonstrated by the success of textile and mining industries and more recently with companies manufacturing chemical-based products such as asbestos. Furthermore, Milton Friedman has been the consistent business voice stating that the business of business is simply to increase profits and enhance shareholder value. Friedman (1970) wrote key articles arguing these views in the 1960s and 1970s. Although there are few contemporary academic papers supporting his views, they are frequently cited as the opposing arguments to CSR.

On the other hand, in contrast to Friedman's views, there are the examples of both old and new companies benefiting themselves, their stakeholders and employees through more ethically based practice. Worldwide examples include Cadbury, Lever's, IBM, Co-Operative Bank and Coca-Cola. Even before corporate responsibility became a boardroom agenda

item around the turn of the millennium, there is evidence of its commercial value. For example, Johnson & Johnson's chief executive officer, James Burke, demonstrates that companies with a reputation for ethics and social responsibility grew at a rate of 11.3% annually from 1959 to 1990 while the growth rate for similar companies without the same ethical approach was 6.2% (Labich 1992). Furthermore, arguments and evidence are emerging to support CSR's contribution to the financial performance of organisations (Little and Little 2000; Moore 2003).

CSR can contribute to corporate image and reputation (Lewis 2003; Sagar and Singla 2004). The importance of a good reputation can include the following:

- Others are more willing to consider the organisation's point of view.
- It helps to strengthen the organisation's information structure with society and therefore improve resources in all areas.
- It makes it easier for the organisation to motivate and recruit employees – and to promote increased employee morale (Lines 2004).
- It will enhance and add value to the organisation's products and services.

A socially responsible reputation is also a way of differentiating organisations and providing competitive advantage. This is supported by announcements from companies such as McDonald's and BT in the UK that they would be investing more time and resources into socially responsible activities. BT was influenced by a MORI report, which stated that 80% of respondents believed it was important to know about

an organisation's socially responsible activities in order to form a positive opinion about them. CEOs worldwide are starting to recognise that CSR is an important agenda item. Research by the India Partnership Forum (2003) shows that nearly 70% of CEOs say that CSR is 'vital' to profitability and that, irrespective of economic climate, it will remain a high priority for 60% of CEOs across the globe.

A company with an acknowledged strategy change on corporate responsibility and environmental engagement is oil firm Royal Dutch/Shell. During 1998, Shell had its first meeting with institutional shareholders (major company investors, e.g. on behalf of pension funds) to explain the company's new policies on environmental and social responsibilities. This initiative came following criticism of the company's action in high-profile environmental issues (e.g. when Shell was challenged by campaign groups over its decision to dismantle the Brent Spar oil platform at sea rather than on land owing to the supposed environmental impact) and human rights cases (execution of human rights activist Ken Sara Wiwo, in Ogoniland, where Shell had a dominant interest).

At the meeting with shareholders, Mark Moody Stuart of Shell Transport and Trading (the company's UK arm) stated that he did not agree with arguments that institutional shareholders were not interested in issues such as social responsibility: 'I don't think there is a fundamental conflict between financial performance and "soft" issues. Many shareholders want outstanding financial returns in a way they can feel proud of or comfortable with.' (See Think abouts 6.1 and 6.2.)

think about 6.1 Shell Europe

During both the Brent Spar and Ogoniland crises, Shell faced a Europe-wide consumer boycott of its fuel products as well as significant media criticism (see above, www.shelluk.co.uk, www.greenpeace.org.uk and Chapter 19). Why do you think Shell took the potentially risky strategy of reopening debate about environmental and societal issues after such high-profile vilification by the two important stakeholder groups (consumers of their products and the media)?

Feedback This initiative by Shell clearly demonstrates the company directors' desire to tackle key issues head on but also to make the company more accountable to its publics and specifically to the communities (and therefore stakeholder groups) in which it operates.

think about 6.2 Business effects of CSR

Does CSR stretch an organisation's relationship with, and activities of, its supply chains (companies that supply products and services)? Can you think of suppliers for a company that it should not be associated with?

Feedback Some companies have developed supplier policies that define the requirements for supplier organisations. For example, it would not be socially responsible for a furniture retailer that operates a 'green' purchasing policy to buy its raw materials from suppliers who purchase their wood from unsustainable sources.



PICTURE 6.2 Ken Saro-Wiwa was a human rights activist from the Ogoniland where Shell had a dominant interest. (Source: AFP/Getty Images.)

Organisational responsibilities to stakeholders

Stakeholder analysis is a clear way of defining those groups and individuals who have a significant relationship with an organisation (see also Chapter 12). Stakeholders can be described as those with a vested interest in the organisation's operations. Figure 6.2 simply demonstrates the most common stakeholders in for-profit organisations.

These are simplified stakeholder groups which can be expanded and broken down into subgroups. In order for an organisation to act with social responsibility it is necessary to understand the fundamental elements of the organisation's operations and its relationships with stakeholders. To achieve this it can be helpful to ask and analyse the following questions:

- 1 How is the organisation financed, e.g. shareholders, private ownership, loans, etc.?
- 2 Who are the customers for the products and services, e.g. agents, distributors, traders, operators, end users, etc.?
- 3 What are the employee conditions and terms, including status, contracts and hierarchical structures?
- 4 Are there community interactions at local, regional, national and international levels?

- 5 Are there governmental, environmental or legislative actions that impact on the organisation?
- 6 What are the competitor influences on the organisation, e.g. markets, agents, distributors, customers, suppliers?
- 7 What are the supplier influences on the organisation, e.g. other creditors, financial supporters, competitors?
- 8 Are there any issues or potential risks that may be affected by local, national or international pressure groups or interests?

CSR from a stakeholder perspective may bring the organisation closer to its stakeholders and importantly improve the two-way flow (Grunig and Hunt 1984) of information and subsequently understanding.

Once stakeholders are identified, you need to define the responsibilities you have towards them and then define and develop strategies to manage these relationships (see Activity 6.3).

activity 6.3

Defining organisational stakeholders

- (a) Choose an organisation and define its stakeholders.
- (b) How would you prioritise these stakeholders in terms of their importance to financial performance for the organisation?

Feedback

Financial performance is important for all organisations but this prioritised list may look different if instead it were arranged according to CSR performance towards stakeholders.

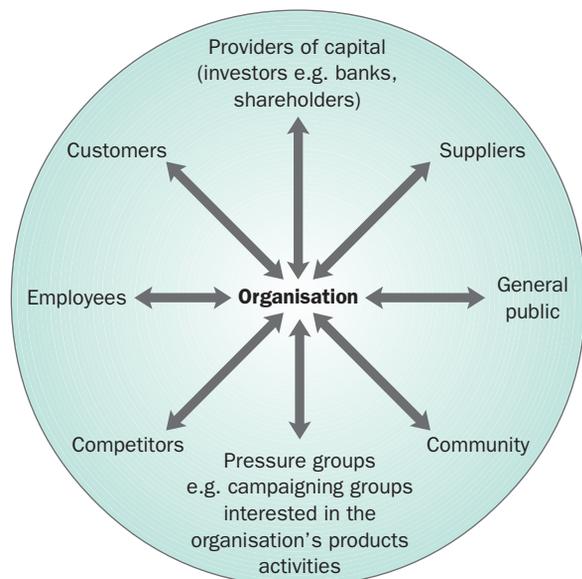


FIGURE 6.2 Typical for-profit organisational stakeholders

Organisational responsibilities to society

Business ethics writer Carroll (1991) argues there are four kinds of social responsibility: economic; legal; ethical; and philanthropic, demonstrated through the CSR pyramid in Figure 6.3.

To aid managers in the evaluation of an organisation's social responsibilities and to help them plan how to fulfil the legal, ethical, economic and philanthropic obligations, Carroll designed a 'stakeholder responsibility matrix' (see Table 6.1, overleaf). Carroll makes the clear distinction that social responsibility does not begin with good intentions but with stakeholder actions.

Carroll's matrix is proposed as an analytical tool or framework to help company managers make sense of their ideas about what the firm should be doing, economically, legally, ethically and philanthropically, with respect to its defined stakeholder groups. In practice, the matrix is effective as it encourages the manager to record both descriptive (qualitative) and statistical data to manage each stakeholder. This

information is then useful when identifying priorities in long- and short-term business decision making that involves the multiple stakeholder groups that influence most organisations. It enables these decisions to be made in the context of the company's or organisation's value systems – what it stands for – as well as accommodating economic, social and environmental factors. To express this simply, the manager is able to make decisions in a more informed way with a clear map of the numerous factors that will impact on these decisions. It is a detailed approach to stakeholder management but is one way of providing informed foundations about stakeholders to enable strategies, actions or decisions to be taken that reflect the complex environment in which most organisations operate (see also Figure 6.4, overleaf).

Table 6.1 (overleaf) provides an example of the matrix applied to one stakeholder group and the types of recorded data required. The organisation is a small clothing manufacturing business. The stakeholder group used for the analysis is customers. Each social responsibility cell has been considered in the context of this stakeholder group and data input currently

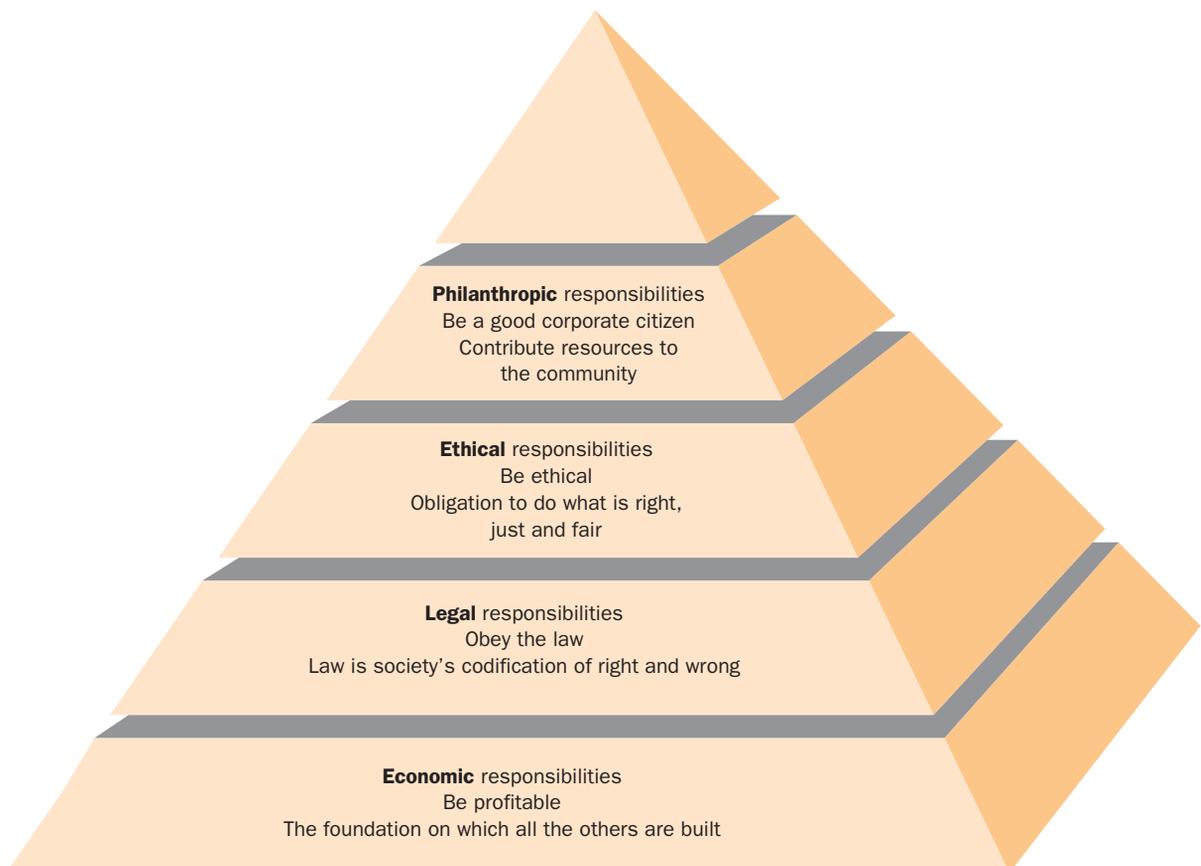


FIGURE 6.3 Corporate social responsibility pyramid (source: after Carroll 1991)

TABLE 6.1 Stakeholder responsibility matrix (source: after Carroll 1991)

Stakeholders:	Economic	Legal	Ethical	Philanthropic
Providers of capital				
Customers				
Employees				
Community				
Competitors				
Suppliers				
Pressure groups				
General public				

available about the responsibility the firm acknowledges towards this group. Clearly the data included are not exhaustive and further records could be sought or gaps in information identified and subsequently commissioned by the public relations or communications team.

This information will help managers when the organisation is defining corporate strategies for long- and short-term decisions to ensure they accommodate the multiple stakeholder interests.

Regulatory frameworks

As consumers we have product choice – do we go for brand, price or even ethical or corporate responsibility performance? Companies such as Shell, Nike and Nestlé have experienced the threat and financial effects of global boycotts and are realising that greater mobility of stakeholders and globalisation of communication mean that reputation management is increasingly

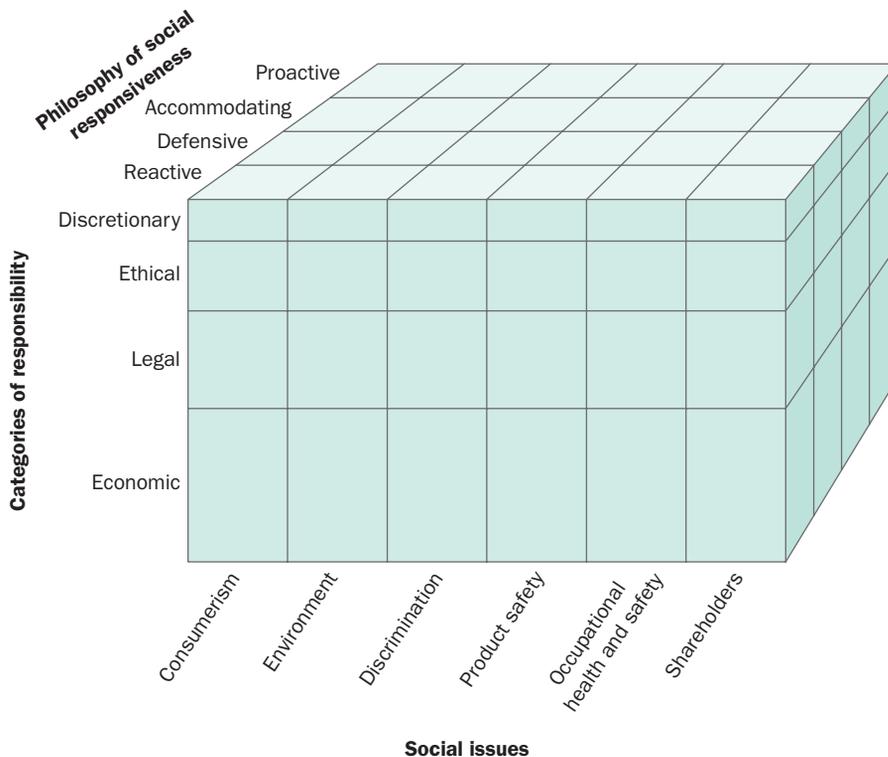


FIGURE 6.4 Carroll's responsibility matrix (source: adapted from Carroll 1991)

TABLE 6.2 An application of the stakeholder responsibility matrix to a small clothing manufacturer

Stakeholders	Economic	Legal	Ethical	Philanthropic
Customers	Financially well-managed company Clear financial reporting	Conform to consumer health and safety product guidelines (e.g. quality controls and standards for fire safety of garments, etc.) Correct labelling National and transnational product labelling, e.g. European standards	Fairly priced products Highest quality Products are designed for and fit for purpose (e.g. if for specialist sector such as workwear) Provide best products with the highest standards of care for employers and suppliers Transparent sourcing of materials (no use of child labour or low-paid employees) Do not abuse our suppliers or workers	Give waste products to needy organisations Give unsold products to customers' preferred charities or homeless groups Support other employee and customer initiatives Etc.

important. One manifestation of this is the speed of communication and in particular news distribution globally via new technology, satellite and the emergence of 24-hour news channels. The process of news gathering has been speeded up as has the news production cycle – all of which is crucial for public relations when managing reputation and communication for organisations. Research by the World Economic Forum in 2003 revealed that 48% of people express 'little or no trust' in global companies. Consequently, even large and powerful corporations must adopt more ethical working practices in order to reduce risk and maintain favourable reputation. The growth of organisations such as Business in the Community in the UK and CSR Europe is helping to place CSR in the mainstream of business thinking and encourage more organisations to leverage the opportunities of CSR. This has a number of implications, including the increased need for guidance for companies. Subsequently the past few years have seen the emergence of an increasing number of standards and guidelines in the areas of CSR and sustainable development. These include:

- Dow Jones Sustainability Index
- FTSE 4 Good Index
- Business in the Community's Corporate Responsibility Index

- Global Reporting Initiative's (GRI) Reporting Guidelines.

Public and business attitudes are changing and in 1999 a global poll of 25,000 citizens (MORI 1999) showed that perceptions of companies are more strongly aligned with corporate citizenship (56%) than either brand quality (40%) or the perception of the business management (34%). Further evidence of the public attitude change was reported in the *Financial Times* (2003) which claimed that in the late 1970s the British agreed by two to one that the profits of large companies benefited their customers. In 2003 the public disagreed by two to one. This attitude change is reiterated by Fombrum and Shanley (1990) who found in earlier studies that a business that demonstrates responsiveness to social concerns and gives proportionately more to charity than other firms receives higher reputation ratings by its publics. There is a range of research that demonstrates consumers' willingness to reward socially responsible companies, with far-reaching effects. One such effect is the changing focus of investment decisions. This has resulted in the emergence of 'triple bottom-line' reporting whereby social and environmental performance hold equal importance to financial performance. It can therefore be argued that, in the eyes of consumers, the media, legislators and investors, social

case study 6.2

European campaign – GlaxoSmithKline–Barretstown

Therapeutic recreation for children with serious illness

GlaxoSmithKline (GSK) is one of the world's largest pharmaceutical companies. The company's partnership with Barretstown in Ireland began in 1994 to kick start their European Community Partnership Programme focusing on children's health.

Barretstown was established as the first 'hole in the wall' camp in Europe, building on the success of the first North American camp to enable children with serious illnesses to experience 'summer camp' by providing first-class medical facilities on the site of the camps. Barretstown Castle was donated by the Irish government to provide a similar facility and additional facilities were constructed to adapt to the children's special needs.

Through a programme of activities and adventure in a safe and medically supported environment, children meet and develop friendships with other children. Many paediatricians see their patients' participation in Barretstown as an integral part of clinical treatment. As well as helping children feel better through greater confidence and self-esteem, their experience at Barretstown helps them do more than they ever thought they could. Being involved with the programme helps GSK volunteers learn how to deal sensitively with issues relating to disability.

As Barretstown involves children from countries where GSK has a business operation, it reflects their regional structure and draws different GSK businesses together to work on a shared programme. GSK employees from these countries participate as volunteer carers (helpers) and GSK businesses provide practical support locally, for example funding children's flights to Ireland. GSK's funding has been focused on establishing the 'European Liaison Network' an important interface between Barretstown

and children's hospitals. The network provides a framework across 19 countries for raising awareness about the camp among doctors, parents and children, as well as recruiting children to participate. More than 110 hospitals across Europe nominate children to participate. According to GlaxoSmithKline, the impact is as follows:

- Barretstown provides volunteers with opportunities for personal development, in particular for developing creativity, teamwork and diversity awareness. GSK volunteers learn how to deal sensitively with issues relating to disability, especially the way those children feel about their appearance and body image.
- GSK Barretstown has created a model for other GSK businesses to adapt to local programmes. Several of GSK's businesses have adopted 'therapeutic recreation' as a focus in developing their own community programmes. GSK supports smaller scale programmes with local children's hospitals in Hungary, Portugal and Romania.
- Early data show that the main benefits of the programme are that the children regain self-esteem, develop confidence and have some of their independence restored after what may be long periods of isolation and hospitalisation.
- From serving 124 children in 1994, Barretstown has grown and now supports over 10,000 children drawn from 110 hospitals in 19 European countries.
- The partnership with Barretstown has been key in contributing to building GSK's reputation as a good corporate citizen among internal and external stakeholders.

Source: www.gsk.com/www.bitc.org.uk

and environmental responsibilities are increasingly powerful drivers of reputation. (See Case study 6.2.)

Definition: 'Triple bottom-line' reporting is a phrase increasingly used to describe the economic, environmental and social aspects that are being defined and considered by business. These are sometimes called the three Ps – profit, planet and people!

Ethics and business practice

Before looking in detail at the techniques for operating a business in society (and for implementing CSR programmes, discussed in Chapter 18), we

need to consider the important issue of *ethics* and ethical business practice. *Business ethics* is a substantial issue and an important part of understanding what is called corporate governance. It ranges from high-profile issues about equal opportunities, 'glass ceilings' for women in work, whistleblowing (employees reporting on unethical or illegal activities by their employers), whether large PLCs pay their SME suppliers or contractor on time down to whether it is all right for a director or senior manager to take a ream of paper home for a computer printer, when this is a sackable offence for an office junior!

Business ethics is therefore about us as individual members of society, as part of the community or as part of organisations (whether these are work or

think about 6.3 Ethical dilemmas

Ethical dilemmas occur when we are faced with decisions that cause dissonance (conflict) in our loyalty (taken from Festinger's theory of cognitive dissonance, see Chapter 14). Take the example of a cheating colleague who is extracting small amounts of money from the organisation through false expenses claims. If we know about their actions, should we show loyalty to them or to our organisation? We are left with an 'ethical decision'. What do you think you would say or do if it were a director or management colleague in this case? How would you manage the ethical dilemma?

Feedback 'Ethical problems are not caused entirely by "bad apples". They're also the product of organisational systems that either encourage unethical behaviour or, at least, allow it to occur' Trevino and Nelson (1995: 13).

You need to gather all the facts and also consider the impact of your decisions/actions on the organisation as a whole. See the section on ethical decision making.

leisure/interest organisations). For example, we may be an employee of a national supermarket chain and a trustee for a local school or scout group. We make decisions within these environments that have ethical implications and societal impact (see Peach 1987: Figure 6.1). Ethics is an important part of business reality, as managers make decisions that affect a large range of stakeholder groups and communities from the employees of the organisation to the residents who live close to its business sites. (See Think abouts 6.3, 6.4 and 6.5; see also Box 6.3, overleaf.)

Definition: Trevino and Nelson (1995) define *business ethics* as 'the principles, norms and standards of conduct governing an individual or group'.

Definition: Ethics = extension of good management.

Ethical decision making: theory and practice

Business ethics author Snell (1997) argues that there are two approaches to the teaching and understanding of business ethics by practitioners. One of these is termed 'systematic modernism', which is the more explanatory, conservative voice of business leaders and political leaders on societal issues. The explanations are more functional and seek resolutions in the short to medium term, i.e. through legislation, the use of law and order and reliance on individual's social responsibility. In contrast, 'critical modernism' is the current 'underdog' yet this has been influenced more by theoretical ethical debates. It is argued therefore that the critical approach takes business ethics a stage further than just face-value explanations of why something is right or wrong.

think about 6.4 Good apples and bad apples

The 'good' and 'bad apple' analogy is frequently used in the context of ethics. Apply this analogy to your own experience and think of an example of unethical conduct. Was it the responsibility of the individual (apple) or the organisation (barrel) or was it a combination of the two?

Feedback Arguably, we are born amoral, not moral or immoral. Psychologists have argued that ethics, as such, are not innate. They are culturally bound and influenced by the social environment we grow up in. We develop and change our personalities throughout our lives – including during our adult life – and research (Rest and Thoma 1986) has found that adults in their 30s who are in moral development programmes develop more than young people.

think about 6.5 Individual and corporate ethics

Dissonance or conflict is what causes individual problems with corporate ethics and there are stark examples such as a religious person working for a pharmaceutical company that decides to market an abortion product, or an environmentally conscious employee working for a high-polluting company. What should these individuals do to manage the conflict? What should their management do?

**box
6.3**

Example of ethical guidelines

Unilever has published its ethical guidelines – or ethical principles – as follows: ‘Unilever believe that economic growth must go hand in hand with sound environmental management, equal opportunities world-wide and the highest standards of health and safety in factories and offices.’

Its code of business principles covers sensitive issues such as bribery: ‘Unilever does not give or receive bribes in order to retain business or financial advantages. Unilever employees are directed that any demand or offer of such a bribe must be immediately rejected.’

Source: www.unilever.com

Table 6.3 (below) highlights how the two schools of thought operate and interpret different ethical issues. (See Activity 6.4.)

Philosophers have studied ethical decision making for centuries and tend to focus on decision making tools that describe what should be done in particular situations (see also Chapter 15). The most well-known philosophical theories are categorised as consequentialist, regarding the consequences of actions, with utilitarianism being the best known and associated with the ‘greatest happiness’ principle (i.e. the greatest happiness for the greatest number of people). Trevino and Nelson (1995: 67) state that a utilitarian approach to ethical decision making should ‘maximise benefits to society and minimise harms. What matters is the net balance of good consequences over bad.’

Generally, utilitarian ethical decision making is therefore focused on what we do and what are the consequences of our actions, i.e. who will be harmed or affected. In a business context, this means which stakeholders will be affected. One method of testing this approach is to ask if everyone acted in the same way, what sort of environment would be created? Just imagine what the impact would be if each of us dropped our lunch wrappers and leftovers onto the floor every day! Extend this out to all businesses draining their waste water/fluids into the nearest river/ocean outlet. This theory does underlie a lot of business writing and thinking and people’s approaches to ethical decision making.

A second strand of philosophical thinking is categorised under deontological theories which focus on

TABLE 6.3 Competing modern narratives on business ethics (source: adapted from Snell 1997: 185)

Issue	Typical systematic modern narrative	Typical critical modern narrative
Corruption: bribery and extortion	Bad because it dents local or national pride, deters inward investment and is a sign of backwardness	Bad because it is inherently unfair, disadvantaging the politically and economically weak
Protection of the environment	Our sons and daughters will suffer or perish unless we adopt proper controls	Indigenous (native) peoples, rare animal species and future citizens are entitled to a habitable environment
Inflated executive salaries	One should set up systems of corporate governance overseen by non-executive directors to safeguard minority shareholders’ interests	One should campaign for wider social justice, including action to help the poor and reduce unemployment
Function of codes of ethics	They are tools for inspiring the confidence of customers and investors, and a means of controlling staff	They are a starting point only. People should be encouraged to develop their own personal moral code
Preferred Kohlberg stages	Conventional reasoning: preserving stability, the rule of law and order and social respectability	Postconventional reasoning: concern for social welfare, justice and universal ethical principles

activity 6.4

Ethics in everyday life

Think about how you act in different situations. How would you react if a college friend started telling jokes about people with physical disabilities? Would you smile in an embarrassed way, laugh and hope they wouldn't carry on, confront the speaker and ask them to stop, or what?

Feedback

It is often useful to reflect on our codes of ethics, what we see as right and wrong, and on whether we act on our beliefs or are more interested in how others perceive or see us.

motives and intentions through duties or the action itself rather than the outcome or results. German philosopher Emmanuel Kant wrote about the 'categorical imperative', which asks whether your ethical choice is sound enough to become universally accepted as a law of action that everyone should follow (see Kant 1964). The obvious example is whether telling lies is ever acceptable. Imagine a company context where it was perceived that telling a lie for the good of the company was to its benefit. Kant would argue against this case unless the company is prepared to accept that from that point forward all employees were permitted to lie – a 'categorical imperative'. You need only consider the case of Enron in the USA (see case study in Chapter 20) to appreciate where such an ethical management system will lead with regard to telling mistruths and lies to a range of stakeholders.

Another ethical approach that is popular with business ethics academics and fits into the business context is virtue ethics, which is also founded in traditional philosophical theory. It focuses on the integrity of the actor or individual more than on the act itself. Within this approach it is important to consider the relative importance of communities or stakeholder groups. For example, in a professional context you may be bound by community standards or practical codes of conduct. This can help the individual make ethical decisions because it gives them boundaries to work within.

Changing the culture and changing organisational ethics

Any attempt to change ethical practice within an organisation must be based on a simple assumption that all human beings are essentially good and capable of development and change. Changing ethical practice through changing the culture of an organisation is not a quick fix; it takes time as you have to address the formal and informal organisational subcultures. The culture of an organisation clearly affects what is appropriate or inappropriate behaviour. To understand the culture an audit is necessary and can be car-

ried out through surveys, interviews and observations.

Having completed an audit, the next stage is to write a culture change intervention plan that includes targeting the formal and informal systems.

The formal systems are more transparent and easier to change, as follows:

- draw up new codes of conduct
- change structure to encourage individuals to take responsibility for their behaviour
- design reward systems to punish unethical behaviour
- encourage *whistleblowers* and provide them with appropriate communications channels and confidentiality
- change decision-making processes to incorporate attention to ethical issues.

For the informal system, the following may be important:

- re-mythologise the organisation – revive old myths and stories about foundations, etc. that guide organisational behaviour (revived myths must, however, fit with reality).

See Activity 6.5 and Case study 6.3, overleaf.

Definition: A *whistleblower* is someone who speaks out about an organisation's unethical behaviour or malpractice. Examples are employees who tell the public about financial mismanagement or theft inside an organisation or government employees who leak evidence of wrongdoing such as selling arms to particular regimes or government actions that contravene policy or legal frameworks.

activity 6.5

Ethics in practice

To conclude this chapter on business and its role in communities and society, think about the following.

Managers are the key to ethical business practice as they are the potential role models for all employees, customers, suppliers, etc. and also the endorsers of ethical policies. Due to changes in management practice, business process reengineering and the downsizing of western companies, many modern businesses have fewer managers today – yet each manager has more staff to control:

- 1 How should organisations be ethical? Identify three or four reasons. Divide these reasons into those that are linked to financial gain and those that are societally sympathetic.
- 2 Are employees attracted to ethical employers? Give reasons why you believe they may or may not be.
- 3 List those companies you would be proud to work for and those that you would be ashamed to be employed by or represent. What are the key features of each? What are the similarities and differences?

case study 6.3

Co-operative Bank case study

At the Co-operative Bank they have brought it all together extremely well. Established in 1872, it was always a small bank. But in the late 1980s a new managing director asked the bank's few but loyal customers why they were there. From a significant minority, the answer came back that they thought the bank was ethical. The bank then asked 30,000 of them what else they would like. (Most national opinion polls in the UK ask about 2000 people.) The questions were based on the simple premise that a person will only knowingly lend money for something they approve of and as putting money into a bank is indirectly lending it to others it has the same effect. In 1992 this led to the first ethical policy where the bank promised never to invest in areas not approved of by its customers. The results were as follows: 90% only wanted to support governments or businesses supporting human rights; 87% would not fund companies manufacturing or trading in armaments to oppressive regimes; 80% were against animal exploitation; 70% wanted to reduce environmental damage; 66% rejected the fur trade; and 60% did not want to support the production or sale of tobacco products. (See the company website for the current policy.)

The bank also produces reports indicating how well it is doing against the often challenging measures set by its customers, which can also be seen at its website. The policy has worked. During a time of severe economic downturn for most, the bank's profitability almost tripled, from £45.5m in 1996 to £122.5m in 2002.

As the sector grows the research will continue to add to our knowledge or its value. Those expressing values-led decisions are moving up to overtake the profit led – or you could say that people are beginning to ask the true cost of products and services rather than just what is on the price ticket. In a MORI poll for the Co-operative Bank it was found that 25% have actively sought products from companies with a responsible reputation. Interestingly, where they had the facts, 50% have chosen the responsible and 50% have boycotted the irresponsible.

CSR policies have to be well researched and managed as shown here and they have to go deep and for the long term – there are a lot of pressure groups watching very closely and testing claims.

Source: Co-operative Bank (www.co-operativebankcase-study.org.uk; www.co-operativebank.co.uk)

Summary

Milton Friedman's perception that the business of business is simply to increase profits and enhance shareholder value has less credibility in the twenty-first century. Also the public is increasingly sophisticated on environmental and ethical issues such as: global warming; worldwide natural disasters such as the Asian tsunami and businesses' responses; animal testing; hunting with dogs in the UK. There is rising power for the consumer in national and international contexts as demonstrated by Shell and Body Shop. The influence of corporate image and reputation on an organisation's business success (Andersen; McDonald's/McLibel) is increasingly recognised, as is the use of business ethics to create competitive advantage (Co-Operative Bank; Body Shop). Enhanced communication (the internet) for and with stakeholders and interest groups, media expansion and global influence (24-hour news) and the mobilisation of

national and international issue and pressure groups (such as Greenpeace or the anti-Iraq War lobby) can all separately and together affect any business today.

This chapter has focused on the role organisations play in their society(ies) and how the understanding of business ethics and CSR may improve business performance and enhance reputation through more effective use of public relations and communication. Chapter 18 will build on these principles to discuss how CSR is being incorporated into many organisations' strategic planning and how public relations is being used to support this.

Discussion in this chapter has focused on:

- stakeholder influences
- ethical decision making
- changing cultural and organisational ethics.

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- O2: www.mm02.co.uk
- The Shell Group: www.shell.com
- Unilever: www.unilver.co.uk

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