

Chapter 2

► MANAGEMENT AND SOCIETY

► THE EXTERNAL ENVIRONMENT, SOCIAL RESPONSIBILITY, AND ETHICS

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Corporate Social Responsibility (CSR)

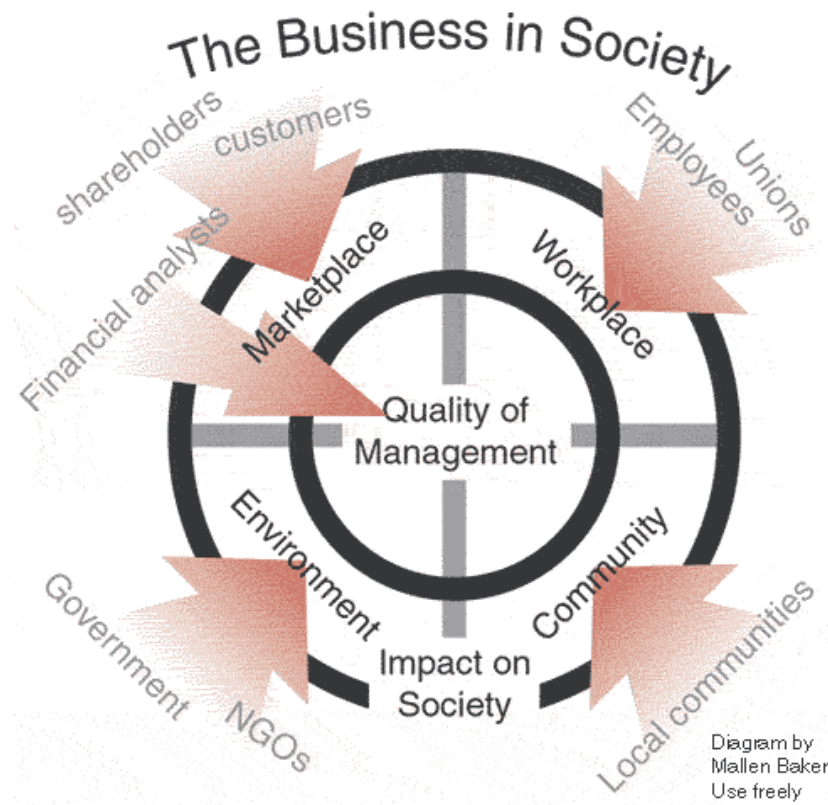
“Corporate social responsibility (CSR) refers to companies taking responsibility for their impact on society. As evidence suggests, CSR is increasingly important to the competitiveness of enterprises. It can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, and innovation capacity.”

...More on definitions

- ▶ *“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”* (The World Business Council for Sustainable Development, 2004)
- ▶ *“A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”* (The World Business Council for Sustainable Development, 2004)

► Dimensions	The definition is coded to the dimension if it refers to	'Examples'
► The environmental dimension	The natural environment	'a cleaner environment' 'environmental stewardship' 'environmental concerns in business operations'
► The social dimension	The relationship between business and society	'contribute to a better society' 'integrate social concerns in their business operations' 'consider the full scope of their impact on communities'
► The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation	'contribute to economic development' 'preserving the profitability' 'business operations'
► The stakeholder dimension	Stakeholders or stakeholder groups	'interaction with their stakeholders' 'how organizations interact with their employees, suppliers, customers and communities' 'treating the stakeholders of the firm'
► The voluntariness dimension	Actions not prescribed by law	'based on ethical values' 'beyond legal obligations' 'voluntary'

The Business in Society



Lecture goals:

- More ethical managers
 - Improve decision making
 - Be able to practice CSR
 - More critical perspective



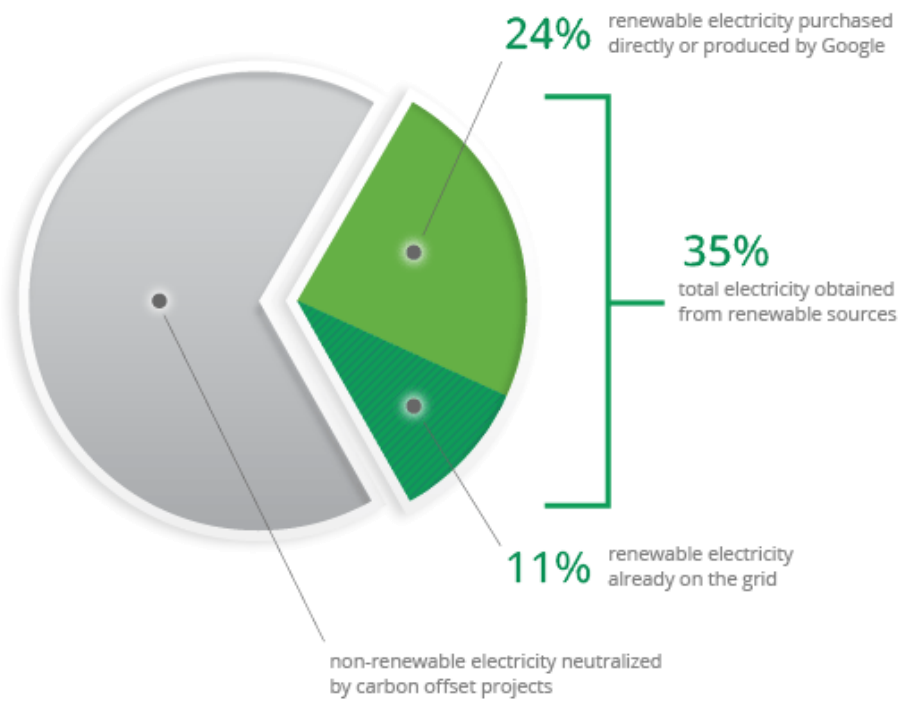


The Companies with the Best CSR Reputations...

- ▶ The ranking is based on research from members of the public in 15 markets around the world: Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, Russia, South Korea, Spain, UK, and the U.S.
- ▶ Companies are judged based on their performance in a number of areas, including environmental, social, workplace, and government

Google Green

Google uses 35% renewable energy (2013)





- buying electricity directly from wind farms near their data centers
- Working with utility partners to find solutions that will make more renewable energy available for firm and for others. All of these initiatives help them to get clean energy at competitive prices and the wind farm owners get the money they need to build these projects and/or finance additional clean energy facilities. Together they make the grid a little bit greener.
- Bike-to-work program
- The solar panel on the roofs
- They are striving to power the company with 100% renewable energy. In addition to the environmental benefits, they see renewable energy as a **business opportunity** and continue to invest in accelerating its development. They believe that by helping power more of the world with renewable energy, they're creating a better future for everyone.

- ▶ Google footprint: **beyond zero**
- Efforts in efficiency, buying clean energy and purchasing carbon offsets bring their carbon footprint down to zero. They are going beyond carbon neutral and have made agreements to fund over \$1.5 billion in renewable energy projects that create far more renewable energy for the world than they consume as a company. In addition, google products enable users to save energy themselves.





- Google build greener, healthier workplaces
- They work hard to create the healthiest, most productive work environments possible for Googlers around the world. They create buildings that function like living and breathing systems by optimizing access to nature, clean air and daylight.



- First major Internet services company to gain external certification of high environmental, workplace safety and energy management standards throughout their data centers. (i.e.ISO 14001)
- Recycle 100% of the electronic equipment that leaves data centers
- Since 2007, they are repurposed enough outdated servers to avoid buying over 300,000 new replacement machines.
- Before they buy new equipment and materials, they look for ways to reuse what they already have.
- When they can't find a new use for their equipment, they completely erase any components that store data, and then resell them into the market—giving their equipment a **second life**

► *Data centers that save energy*

- Google data centers are some of the most efficient in the world. Specifically, data centers use only **50%** of the energy of most other data centers. In addition to reducing the impact on the environment, efficient data center designs have saved over a billion dollars to date.
- Google used very little of the world electricity (less than 0.01%)



- a green transportation system that includes biodiesel shuttles and the largest corporate electric vehicle charging system in the country.

► *Committed to sustainable food*

- Google is committed to offering nutritious, flavorful food to employees on all of campuses worldwide.
- They provide healthy choices, local tastes and plenty of variety in the most responsible way possible. Social and environmental responsibility are built into every part of the food program: from the partnerships they develop with farmers and suppliers to the efforts to minimize waste.



Creating shared value (CSV) is a business concept intended to encourage business to create economic and social value simultaneously by focusing on the social issue that they are capable of addressing.



Business Case Study - Nestle_Corporate Social Responsibility_group discussion

To create shared value companies should:

- ▶ Reconceive products and markets to provide appropriate services and meet unmet needs. For example, the provision of low-cost cell phones developed new market opportunities as well as new services for the poor.
- ▶ Redefine productivity in the value chain to mitigate risks and boost productivity. For example, in reducing excess packing in product distribution reducing cost and environmental degradation.
- ▶ Enable local cluster development by improving the external framework that supports the company's operations, for example by developing the skills of suppliers



- ▶ Apple found ways to use energy and materials more efficiently in their facilities, to get energy from cleaner sources, and to make some of the world's most energy-efficient electronic products. They are still the only company in their industry whose data centers are powered by **100 percent renewable energy**.
- ▶ All data centers is powered entirely by clean sources such as solar, wind, and geothermal energy. So whenever you download a song, update an app, or ask Siri a question, the energy Apple uses is provided by nature.



- Recycled more than 421 million pounds of electronic waste. Every Apple Retail Store in the world will now take back Apple products for free and recycle them responsibly.

- When Apple set out to build a 100% renewable energy powered data center, they were told it couldn't be done. But then they did it.
- All Apple data centers are powered by 100% renewable energy sources, which result in zero greenhouse gas emissions.
- The data centers run services like Siri, the iTunes Store, the App Store, Maps, and iMessage. So every time a song is downloaded from iTunes, an app is installed from the Mac App Store, or a book is downloaded from iBooks, the energy Apple uses is provided by nature



- ▶ **400** Apple Retail Stores across the world. In many cases a store's electric meter is in a landlord's name, not Apple's. And many states and countries don't offer the ability to directly purchase renewable energy. But so far Apple has been able to convert more than **140** of their U.S. retail stores, and all **21** of Australian stores, to **100% renewable energy** by either purchasing from third-party renewable energy providers or participating in utility green tariff programs that meet rigorous standards.



- To get around while at work, employees can use Apple shared bike program, car-share vehicles, and intercampus shuttles. Employees took more than **71,000 trips** on shared bikes in 2013
- Half of the vehicles in their corporate fleet are hybrids

► **Keeping recycling local**

- All electronic waste they collect worldwide is processed in the region where it's collected—nothing is shipped overseas for disposal
- **Water** is the world's most precious resource. At Apple own facilities, as well as those of suppliers, they continue to look for ways to reduce water consumption during manufacturing, cooling, landscaping, and sanitation.
- Apple Maiden, North Carolina, data center employs an innovative cooling system that reuses water **35 times**, resulting in a **20%** reduction in overall water consumption at the data center.

Fairphone

- ▶ Dutch social enterprise company founded in 2011 which aims to develop smartphones that are designed and produced with minimal harm to people and the planet
- ▶ Fairphone is starting new relationships between people and their products by showing where stuff comes from and how it's made



FAIRPHONE

Fairphone

- ▶ To integrate materials in their supply chain that support local economies
- ▶ conflict-free minerals from the DRC to stimulate alternative solutions
- ▶ Providing alternatives for miners in conflict-affected regions
- ▶ Every smartphone contains about 40 different minerals, including tantalum, tungsten, copper, iron, nickel, aluminum, tin, silver, chromium, gold and palladium
- ▶ All these minerals and metals originally enter the supply chain from the mining sector - a challenging industry in terms of sustainability
- ▶ **From pollution and extremely dangerous working conditions to child labor, a number of mining-related practices desperately require improvement.**
- ▶ While conflict-free minerals are certainly available from other countries, their goal is to work directly where they can contribute to alternatives to current mining practices, empowering workers and improving the livelihoods of the local population.
- ▶ They want to become a vehicle for change in the regions that need it most.

Fairphone's ambitions for mining

- ▶ Integrate as many responsibly mined minerals into their supply chain, with a special focus on areas of high-risk of conflict.
- ▶ Focus on the Democratic Republic of Congo (DRC) to buy from local initiatives, increase employment for small-scale miners and contribute to economic development and regional stability
- ▶ Partner with established multi-stakeholder initiatives that can trace minerals directly to their source.
- ▶ Increase industry and consumer awareness for the issues surrounding mining and existing alternatives.
- ▶ Strive to improve working conditions for miners, which would introduce local wages, address child labour and reduce environmental degradation caused by mining practices.

Fairphone at a glance

- ▶ Started as a campaign within Waag Society in **2010**. Registered as an independent social enterprise in **2013**.
- ▶ Using a smartphone as a **storytelling** device to reconnect consumers to their products and **uncover** how things are made.
- ▶ **39** employees with **20** different nationalities and **17** languages spoken.
- ▶ **60,000** Fairphones sold.
- ▶ **100%** independently financed (no donations or venture capital) to preserve their social values.
- ▶ Surrounded by an enthusiastic community of Fairphone owners, **lots of** Facebook fans, **24,056** Twitter followers and **44,404** newsletter subscribers.
- ▶ Based in Amsterdam, the Netherlands.

Tony's Chocolonely



- ▶ Taking Responsibility is a Choice
- ▶ It's almost their tenth [anniFAIRsary](#). The first Tony's Chocolonely bar came onto the market in November 2005: milk chocolate in an alarming red wrapper, as things were seriously awry in the chocolate industry.

So how it all started?

- ▶ Dutch TV journalist Teun van de Keuken raised the alarm about conditions on West African cocoa plantations after discovering child slaves working there. He tried to contact all major chocolate companies, but no one would talk to him. Teun van de Keuken decided to take responsibility on his own



- ▶ **A 100% slave-free chocolate industry**
- ▶ Their mission is to make other people as passionate about 100% slave-free chocolate as they are
- ▶ Chocolate is made from pure cocoa without any bitter aftertaste. The problem is that pure honest cocoa isn't all that easy to find in a world in which cocoa is treated as just another mindlessly traded global commodity.
- ▶ They set up long-term relationships with reliable and trustworthy cocoa farmers in Ghana and Ivory Coast. They know the farmers' names, they know their cocoa.

- ▶ Slavery = cocoa?
- ▶ Slavery today still exists in the global cocoa trade, but it doesn't have to.
- ▶ Approximately 60% of the world's cocoa comes from two West African countries: Ghana and Ivory Coast. To satisfy the global demand for chocolate, about 2.5 million farmers work on their cocoa plantations. But like all statistics, these numbers reveal little about the reality of cocoa economics.

The economic reality of a cocoa farmer:

- ▶ *“Let's say you buy a bar of chocolate in the supermarket for €2.50. That's not a bad price for a quality bar of chocolate, right? Of this price, the cocoa farmer receives about 12¢. On an annual basis, that's approximately €1,000. For a typical Ghanaian family of 6. This translates into less than €1 per person per day to live on. That's far below the African poverty line.”*

- ▶ Approximately 2.5 million people work on cocoa plantations in Ghana and Ivory Coast. The majority of these people—1.8 million—are children.
- ▶ 460,000 of them are modern-day slaves, including 15,000-30,000 children
- ▶ What does child slavery involve? It involves children being taken from their families, denied an education and forced to work under dangerous conditions
- ▶ 100% Slave-free chocolate is possible! And they want to inspire others to copy them
- ▶ They regularly and openly share their business model and best practices with other chocolate makers, even direct competitors, if it will nudge them towards 100% slave-free chocolate.



The Principles of CSR

- Sustainability
- Accountability
- Transparency

Three basic principles which together comprise all CSR activity.

Sustainability

- Society must use no more of resource than can be regenerated
- Firms with better CSR reputation have a much higher ability to foster desired supportive behaviors among consumers, including buying their products, recommending their company, or trusting the company to do the right thing when faced with difficulties or disruptions



Figure 1. Top 10 Reputation Leaders in 2015

Rank		
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

Figure 2. 2015 Reputation Leaders in CSR Dimensions

GOVERNANCE



CITIZENSHIP



WORKPLACE



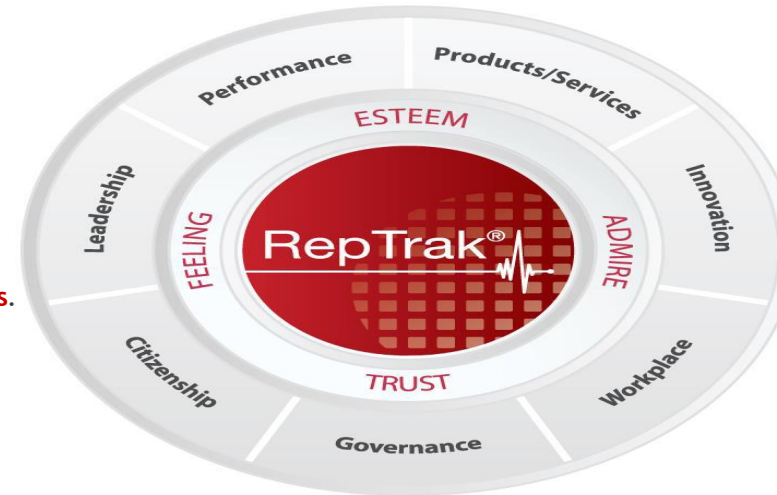
► *Citizenship Best Practices: Google*

- Google's environmental sustainability strategy is well integrated with the company's core business. The company incorporates CSR and sustainability principles into its own operations and designs products/services in a way to enable customers to reduce their own environmental impact:
 - Google's data centers use 50% less energy than the typical data center
 - Google committed over \$1 billion to renewable energy projects
 - A business using Gmail decreases its environmental impact
- *In today's competitive global economy, business reputation of companies has a stronger than ever impact on their financial performance. Reputation is a critically important asset that can impact revenue, make or break new product launches, and contribute to the long-term business success of a firm*

- Companies need to find a balance between informing the public about their CSR performance through external communications, employees, third-parties, as well as by engaging in the types of CSR/sustainability activities that spur information sharing by “word of mouth” among the general public.
- Many Firms Are Not Effective in Communicating their CSR Performance...
- Despite the growing interest in CSR among global stakeholders, most firms still struggle to find the best way of communicating with the general public on the topic of CSR

- Customers **buying** your products..
- Policy makers and regulators giving you a **license to operate**...
- The financial community **investing** in you...
- The media **reporting** on your point of view..
- Employees **delivering** on our strategy...

- ▶ For them to support you they need to trust you.
- ▶ Trust you as a company that will deliver on its promises.
- ▶ Trust you as a company who has a good reputation.
- ▶ For your stakeholder to trust you, you need to **deliver on their expectations**.
- ▶ *They expect you to be leading within*

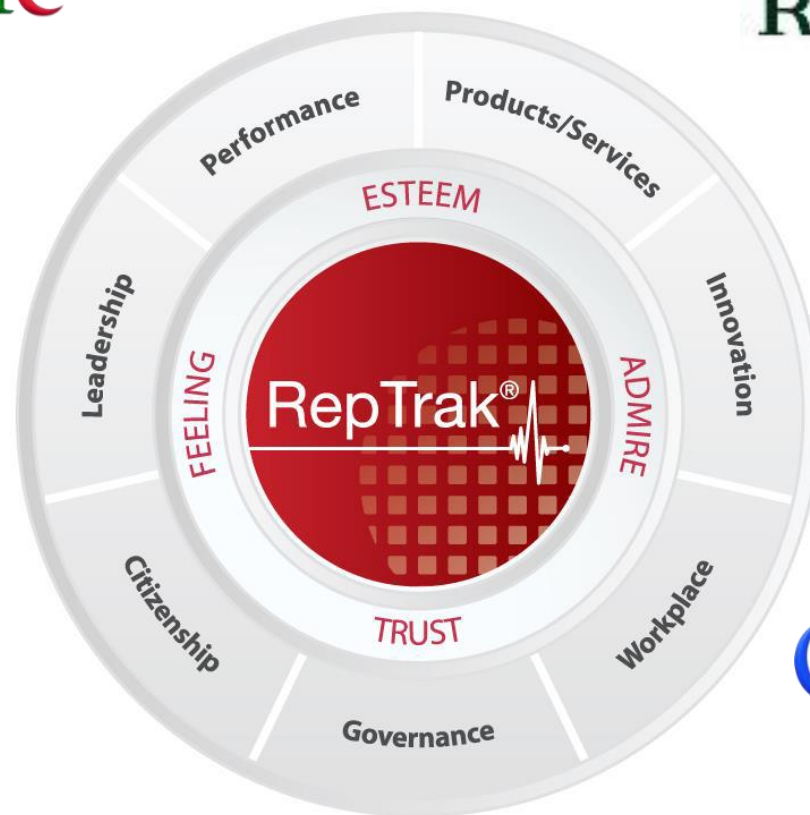


7 key dimensions:

- ▶ 1.Products / Services
- ▶ 2.Innovation
- ▶ 3.Workplace
- ▶ 4.Governance
- ▶ 5.Citizenship
- ▶ 6.Leadership
- ▶ 7.Financial Performance

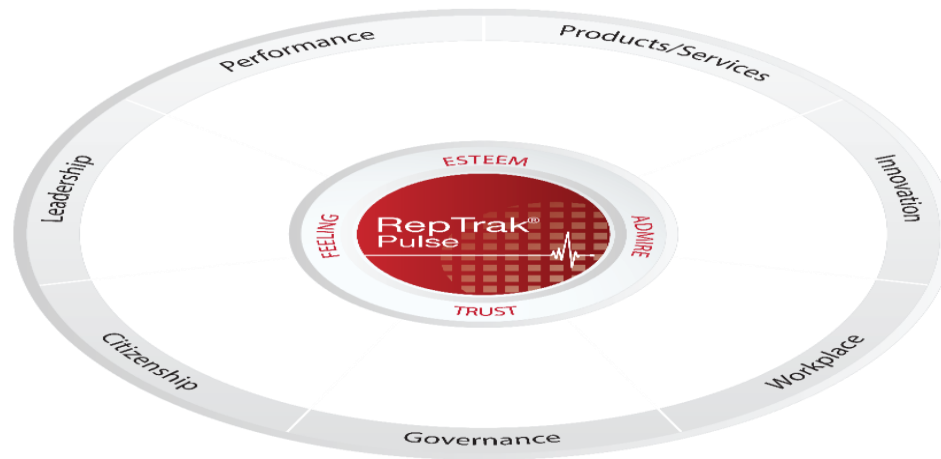
“Your success as a company relies on people supporting you..”

The Companies with the Best Reputation in 2015 within 7 dimensions of Reputation:



The best 100 Companies:





- ▶ Even the 100 most visible and well know companies are struggling to get their message across to consumers
- ▶ Across the 7 dimensions of reputation there are between 43 and 61% of consumers who are uncertain as to what these companies are doing within the specific dimensions
- ▶ These people are fence sitters who can go positive or negative with more information.
- ▶ Companies who are able to communicate and engage with consumers on their company story across the 7 dimensions will see massive improvements in recommendations and willingness to buy their products

The World's View on Cities: A Study of the Reputation of 100 Cities, 2015



City Selection Methodology is based on largest population, largest GDP, cities which enjoy the highest amount of tourism
Data Collection Method : CAWI (online interviews) Data Collection Period: From February to March 2015
Sample: Over 19.000 consumers from G8 countries rating the 100 cities included in the study
Source: Reputation Institute, 2015

Arguments against CSR



- Management has one responsibility and that is to maximize the profits of its owners or shareholders
- Friedman argued that social issues are not the concern of business people and that these problems should be resolved by the unfettered workings of the free market system.
- Further, this view holds that, if the free market cannot solve the social problems, it falls not upon business, but upon government and legislation to do the job
- CSR has been that business is not equipped to handle social activities.
- Managers are oriented towards finance and operations and do not have the necessary expertise (social skills), to make socially oriented decisions (Davis 1973)
- Not related to the business “proper aim”(Hayek,1969)
- CSR is that business already has enough power, and so why should we place in its hands the opportunity to wield additional power, such as social power (Davis 1973)?
- by pursuing CSR, business will make itself less competitive globally

Arguments in favor of CSR



- It is in business's long-term self interest to be socially responsible
- Healthy climate will ensure its long-term viability
- Fulfills society's expectations
- Proacting is better than reacting
- Planning, anticipating and initiating is more practical and less costly than simply reacting to social problems once they have surfaced (Carroll and Buchholtz, 2009)
- Business should engage in CSR because the public strongly supports it.
- Business should be responsible to their workers, communities and other stakeholders, even if making things better for them requires companies to sacrifice some profits (Bernstein, 2009)

Ethical responsibilities in practice

- The ethical responsibilities of business ‘embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders’ moral rights’ (Carroll 1991)
- Ethical responsibilities refer to a corporation’s voluntary actions to promote and pursue social goals that extend beyond their legal responsibilities
- ▶ Kinder, Lydenberg, Domini (KLD) social performance index
- ▶ “Covers corporate performance regarding environmental, social and governance issues.”
- ▶ Environmental issues include climate change, products and services, and operations and management; social issues include community, diversity, employee relations, human rights and product; governance issues include reporting and structure; and, finally, controversial business issues include abortion, adult entertainment, alcohol, contraceptives, firearms, gambling, military, nuclear power and tobacco (KLD Research and Analytics, Inc.

Business-case arguments for CSR practices



- Cost and risk reduction
 - ▶ *“A number of researchers (e.g. Berman et al. 1999; Dechant et al. 1994; Hart 1995; Shrivastava 1995) contend that being environmentally proactive results in cost and risk reduction”*
- Gaining competitive advantage
 - ▶ *“companies with good records on employee relations, environmental stewardship, community involvement, and corporate governance”*
- Developing reputation and legitimacy
 - ▶ *“firms may strengthen their legitimacy and enhance their reputation by engaging in CSR activities”...they are able to demonstrate that they ‘belong’ to society*
 - ▶ *disclosure of information regarding their performance on different social and environmental issues (for ex. Corporate social reporting)*
- Seeking win-win outcomes through synergistic value creation
 - ▶ *“CSR is perceived as a vehicle that allows both the firm to pursue its interest and stakeholders to satisfy their demands”*

Thank you for your attention



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