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Corporate social responsibility: Why bother?

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Corporate Social Responsibility (CSR) is not a new concept, but unfortunately has been defined in so many ways, it is often misinterpreted. In fact it has had 40 years to evolve from a somewhat infant concept to a successful managerial tool to build a company's reputation in the global market arena. Corporate *social* responsibility has become corporate *strategic* responsibility — an imperative element of corporate global business strategies. Many leaders, entrepreneurs, investors, executives and politicians now recognize CSR's potential for differentiation and positioning in the global marketplace. In the 21st century, we find CSR to have a remarkable acceptance among practicing managers; publicly traded corporations especially label CSR an essential tool for their long-term legitimacy and profitability. CSR has matured from its infancy, becoming a corporate reputational adding-value strategy for firms.

GLOBAL ISSUES I: PLAYING THE MARKET

The liability-of-foreignness is a common problem for firms entering new markets. Companies expanding their operations by entering a new host country face scrutiny by local competitors and customers. Lundin Petroleum is a Swedish resource-prospecting corporation active in Africa and former Soviet Union satellite regions. Chief executive officer (CEO) Ian Lundin said in an interview that the reason they engage in CSR is that:

> *We view our business as not only having a permit to operate in our markets but a social license to operate. We further want to jointly understand our stakeholders to prevent misunderstandings and misperceptions. As such, we align CSR to reduce business risk, to build our reputation and to achieve a competitive advantage when governments approve our permit applications. At the end of the day, the stockholders depend on us to do the right thing short term to maximize return long term. As society evolves so do we. All business is partnerships with the society.*

Companies like Lundin Petroleum do not engage in CSR for window-dressing purposes. They have experienced first-hand that CSR is a market force that can have both short-run and long-run consequences. By assigning a strategic status to the concept of corporate responsibility, they ascribe CSR intangible value with long-term benefits relative to their market participants (investors, employees, customers and geographical stakeholders affected by their business activities). They therefore allocate corporate resources to ensure that their CSR efforts result in win-win outcomes for the company and the market environment.

GLOBAL ISSUES II: WHISTLE BLOWERS

Recently, whistle-blowers have surfaced suggesting that some firms have been causing environmental and ethical malfeasance. Organizations like WikiLeaks have been used to unveil "wrong doings" by governments, corporations and individuals. This also fuels the need for CSR to be strategic. The recent technology race has restructured peoples' accessibility to, and usage of mobile computing. We have witnessed a radical shift in which mobile devices have shifted from mere diary and e-mail functions to becoming universal portals actively targeting social issues. The avalanche of smart phones, pen-tablets and cloud computing applications in combination with social media like FaceBook, LinkedIn, YouTube etc. have not only made it extremely easy for anyone to reach millions of people in seconds with shame and blame stories of socially bad behaviors from corporations, but also generated a craving for it. People of all ages, socioeconomic backgrounds, race, religion and geography use social media to be seen, heard, accepted and possibly to provide an existential meaning. The enlightened, communicative and sometimes vitriolic consumer has been born. It is easy to envision their expectations: "throw them to the lions;" "the rich and greedy should not escape punishment;" "let's give the masses what they want." In many cases there's a sincere urge to make the world a better place, yet sometimes it is

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often just individual sensation seeking. Like digital gladiators, enlightened consumers today take on personal crusades relative to specific firms if they perceive a company as "bad" (guilty or not) in regards to its marketplace behavior.

When British Petroleum (BP) failed to safeguard their offshore drilling activities in the Gulf of Mexico, leading to the 2010 oil spill, activists in the U.K. punished BP by erecting barricades hindering motorists from refueling their cars at BP's gas stations. When the fashion company Tommy Hilfiger was exposed as keeping children in sweatshop and slave-like conditions in Burma, activists managed to hurt their sales, as consumers abandoned what they perceived as an "unethical brand." While the guilt was certain in the first case, it was not in the second. Tommy Hilfiger was innocent, as they were victimized by counterfeit operations. The sweatshop belonged to a criminal network. Sometimes corporations get the shame and blame even when they are innocent.

Regardless of existing levels of market exposure, corporations risk being targeted by activists and are therefore better off with sufficient portions of reputational armor protecting their good-standing and market legitimacy. It is better to be prepared (being credible) beforehand should the "trouble hit the fan." Even governments can be targeted. When the French secret service, DGSE, had two agents bombing and sinking the Greenpeace vessel Rainbow Warrior in Auckland, New Zealand in 1985, to protect the vessel from entering French military nuclear test zones in the South Pacific, citizens of most European countries joined the protesting activists and condemned the French government. This led to a massive boycott of French produce — mostly wines — opening the market for the Australian and New Zealand wine producers. When the consumers got accustomed to the substitute wines most consumers never returned to purchase French wine. The estimated 20 percent annual drop in wine exports has not recovered since — three decades later.

CSR AS A CONCEPT

Currently CSR is a corporate behavior and management philosophy that an increasing number of corporations worldwide choose to adopt. The underlying perspective has therefore shifted toward a global perspective of strategic CSR instead of a focus on a one-country/one-issue orientation. The typical and traditional set-up of a CSR program entails a corporation contributing some set of resources (usually people or money) for a social impact outside the normal scope of the company. In simple terms, they give money to some cause that is not part of their corporate trading activities. Some corporations allow their employees to engage in some volunteer work while being paid by the employer. One such corporation is the Australian branch of PriceWaterhouseCoopers (PWC), which in 2010 joined forces with the NGO (non-governmental organization) Mission Australia to mentor young people from challenged areas in management skills. This increases the recruitment pool of future top managers within PWC, educates the youngsters participating in the program and attracts new customers. New customers specifically selected PWC as their partner due to their reputation and composition of CSR activities. Other corporations engage in the provision of clean drinking water in under-developed African villages, where the environmental improvement contributes to the wealth development of that society. Both examples can increase a company's market size in the form of new customers long-term.

Numerous corporations in Europe, the United States and in the Asia-Pacific region (for example Microsoft, BMW, SONY, Toyota, Colgate-Palmolive, IKEA, Carlsberg and LEGO) are convinced that CSR can improve their brand, their reputation and their financial performance. A study performed by PriceWaterhouseCoopers reported that as many as 70% of international CEO's believed their CSR efforts to be vital to their firm level profitability, and KPMG's 2012 report of Corporate Responsibility echoed these beliefs. The updated 21st century version of CSR: "CSR_v2.0", provides opportunities demanding a sincere approach which in turn must be managed and implemented strategically to be valuable.

STRATEGIC CSR

CSR is used to reinforce firm corporate strategy or to gain some specific benefit in the global marketplace. The pharmaceutical corporations Glaxo-Smith Kline and Astra-Zeneca deploy CSR to support their long-term legitimacy, being dependent on animal and human in vivo research. The FMCG giant Nestle uses CSR to increase product quality and output from their suppliers by educating suppliers (farmers) in India. The firms GAP Inc. and OriFlame engage in CSR as a means to build credibility of "natural" products with as low environmental and user impact as possible. The industrial global tool company Sandvik engages in CSR to protect the group from lawsuits, litigation and to detect and fight corruption. These companies and thousands of other corporations take a long-term investment approach to CSR. They also view CSR as a means to create or increase some competitive advantage, with the ultimate effect of increasing their performance.

While executives for a long time have understood and accepted that brand image can increase firm performance, CSR now shares that role. CSR also increases a company's credibility, which along with reputation provides a form of insurance (reputational capital) in case of sub-optimal ethical behavior. When Telenor (a top ten global telecommunications company) in 2008 was targeted regarding workers' safety negligence by the European media, their share price decreased approximately 5 percent. A sub-contractor to their subsidiary in Bangladesh disregarded contractual agreements (regarding workers' safety), leading to fatal accidents around their acidic galvanization pools. The CEO, Jon Fredrik Baksaas, personally visited the factory in Bangladesh twice with his audit executives to ensure that a solid solution was reinstated, audited and managed long-term. Since Telenor had a strong CSR reputation and immediately took action to rectify the situation, the share price was restored in a few weeks to its former level. The bad press was considered "out of character" for the otherwise well reputed corporation. Their prompt action was soon positively reported in the European media and by market analysts.

Global companies are now challenged with more complex interactions and diverse interests of multiple stakeholders. It is not enough to look after customers or suppliers alone, but also those who can, might and will be affected by a corporation's operations and market activities. It therefore appears that companies need to apply a broader, more holistic market approach that extends outside traditional realms to better