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Research paper

CSR activities in consumer co-operatives: Exploring the case of Finnish S Group co-operatives based on board reporting

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A B S T R A C T

Research has often depicted consumer co-operatives as specifically socially responsible organizations that both can and should take CSR issues especially seriously. In this paper, we analyse the CSR activities of the regional co-operatives of the leading Finnish retailer S Group based on annual board reporting. In light of our findings, we argue that no consistently high level of CSR can be identified across the S Group and all its regional co-operatives. Therefore, we do not deem it feasible to conclude that consumer co-operatives are inherently socially responsible organizations merely due to their organization form. Instead, it seems that the fact that the members are in charge in a consumer co-operative and elect a board to oversee it serves to keep the responsibility in the hands of local residents, but at the same time, it also requires a genuine interest towards governance of the co-operative as well as CSR issues. In the absence of either, the level of responsibility is likely to depend on the interest management and board members show in these issues. The paper concludes with practical implications for the S Group and consumer co-operatives in general as well future avenues for research on CSR and consumer co-operatives.

1. Introduction

Over the last decade firms have been subjected to more intense scrutiny due to several malpractices which have attracted public attention. Among these are the ethical failings of corporations such as Enron and WorldCom, the rise in unregulated greenhouse gas emissions, social and environmental challenges in the global supply chain as well as corruption (Knudsen, Geisler, & Ege, 2013). While these particular malpractices have been unfortunate, on a positive side they have also served to increase the importance of corporate social responsibility (CSR) on boardroom agendas. The basic idea of CSR is that "business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes" (Wood, 1991, p. 695). This means that while business is expected to be profitable (economic responsibilities), at the same time it is expected to obey the law (legal responsibilities), be ethical (ethical responsibilities) and a good corporate citizen (philanthropic responsibilities) (Carroll, 1991). Therefore, organizations are also increasingly keen to communicate their commitment to social responsibility to their shareholders, customers, employees, government and the public at large (Jone, Comfort, Hillier, & Eastwood, 2005) in order to demonstrate that they are living up to these expectations. At the same time there are also those (e.g., Cho, Laine, Roberts & Rodrique, 2015) who see that contradictory societal and institutional pressures require organizations to engage themselves into hypocrisy and development of facades, which means that often there are significant gaps between CSR talk and practice.

Nevertheless, research so far has demonstrated that company form might also have a role to play as it comes to expectations and requirements for appropriate CSR behaviour. As an example, Tuominen (2013) has emphasized that consumer co-operatives are organizations that both can and should take CSR issues especially seriously. This is due the fact that their corporate purpose is fundamentally different when compared to investor-owned firms (IOFs). While both organizations trade with a view to making profits, the difference is that, instead of trading with a view to benefitting investors, a co-operative trades to "to serve the community in which it trades, and more particularly its members, by carrying on its chosen trade" (Mills, 2002, p. 173). This purpose often leads to embeddedness in a particular geographical area inhabited by the user-owners (Jussila, Tuominen & Saksa, 2008), highlighting the importance of responsibility towards the regional stakeholders. In fact, research so far has pictured consumer co-operatives as regionally responsible organizations that pay significant attention to their employees and other regional stakeholders and promote local interests, also engaging in non-business related activities to support the community, in addition to benefitting their members (Jussila, Kotonen

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& Tuominen, 2007).

Co-operative principles (see MacPherson, 1995) likewise guide co-operatives towards corporate social responsibility and therefore co-operatives are often depicted as community oriented, socially responsible organizations (e.g., Dobrohoczki, 2006). Research so far has therefore encouraged consumer co-operatives to actively promote social values (Pestoff, 1999) and engage into strategic CSR (actions and reporting, Tuominen, Tuominen, Tuominen, & Jussila, 2013) in order to maintain good relations with their regional stakeholders, build social capital and to differentiate themselves from their non-regional competitors. However, there have also been accounts in the literature according to which it is hard to perceive any difference between the operations of consumer co-operatives and IOFs (e.g., Sparks, 2002). Additionally, Hicks, Maddox, Robb, and Webb (2007) have studied co-operatives in Canada and found that there are also challenges when it comes to CSR. That is, they found only a few limited examples of the wider social values and goals of co-operatives, although there are opportunities to report on these aspects of co-operative performance within the structure of financial statements. Thus, as the research findings so far are to some extent controversial in that they highlight both the potential of consumer co-operatives to being model proponents of CSR and the challenges in utilizing this potential, more research on consumer co-operatives CSR is needed.

In this paper, our aim is to ascertain *how CSR activities manifest in the annual reports of boards of the regional consumer co-operatives of S Group.* According to the Finnish legislation (Co-operatives Act 6:2) the board of directors is required to supervise the administration of the co-operative and the appropriate organization of its operations. Consequently, the board of directors has an important role in managing and controlling the operations of the co-operative. Further, according to the Act 6:2 the board of directors is to be held responsible for the appropriate arrangement of the control of the company accounts and finances. However, Knudsen et al. (2013) maintain that board supervision should also include CSR issues, as otherwise “a company’s CSR programmes are not likely to deal effectively with rising societal demands” (p.239). Thus, we claim that in the last resort, the board of directors is also responsible for CSR activities and reporting and this is why we decided to apply content analysis on board reports of the 19 regional co-operatives. The reason for selecting S Group in general was the fact that it is the leading retailer in Finland with 43% domestic market share in its most important business areas (i.e. food and groceries and specialty goods).

As annual board reports are obligatory for all firms irrespective of their size, they can be considered ideal research material for our purposes. That is, all regional co-operatives are required to publish them, which makes them commensurable with each other. We also claim that audited annual board reports are likely to afford a more realistic picture of CSR activities in co-operatives than do the marketing materials disseminated by these organizations. Moreover, while Uski, Jussila, and Kovanen (2007) examined S Group’s CSR on group level, our content analysis enables us to identify the reported responsibility activities and to make a more detailed examination on a co-operative level.

While there are many approaches to CSR in academia (see Garriga and Melé, 2004, for an overview), research so far suggest that there also are differences between CSR practices in large and small firms (e.g., Baumann-Pauly, Wickert, Spence, & Scherer, 2013) and in CSR reporting practices between firms in a given industry (e.g., Jones et al., 2005). Additionally, the identity of owners also has a role to play as it comes to CSR performance (e.g., Bingham, Gibb Dyer, Smith, & Adams, 2011). Thus, we provide an interesting case study of the prevailing situation in the Finnish context by examining whether such different approaches and practices also exist across the regional co-operatives of the S Group. What makes this especially interesting is that Finland has traditionally been considered a transparent, corruption-free country with high moral principles and integrity, with importance attached to values such as honesty (Kujala, 2010, 2004).

Our paper is organized as follows. We start by briefly introducing the reader to different approaches towards CSR, including the model used in this study to evaluate the level of responsibility in the board reports of each of the co-operatives. We then move to consumer co-operatives, discussing the characteristics which may enable them to be socially responsible organizations as well as accounts that are not so optimistic about their assumed high level of CSR. After presenting our research design in more detail, we continue with data analysis. Finally, after summarizing the findings of this work, we discuss the findings in relation to the existing knowledge and make proposals for future research and practice.

2. Theoretical framing

2.1. Corporate social responsibility: different approaches, ways of realisation and communication

CSR commonly manifests in the firm’s choices of how to operate within the social, political, legal and ethical standards of the environments in which it finds itself as well as where it will and will not operate (Devinney, Schwalbach, & Williams, 2013). However, the term means different things to different people (Votaw, 1972) On the one hand, a distinction is often made between CSR as philanthropy and CSR as core business. The former refers to conducting a business unfettered by wider social concerns and making charitable donations to some worthy causes afterwards, and the latter to operating the core business in a socially responsible way with the aim of enhancing the competitiveness of the business and maximizing wealth creation for society (Jones et al., 2005). On the other hand, Carroll (1991) states “the total CSR of business comprises distinct components that, taken together, constitute the whole” (p. 42) and that philanthropy is only the “icing on the cake (p.42)”. This means that economic responsibility underpins all else, but at the same time business is expected to obey the law, as the law is society’s codification for acceptable and unacceptable behaviour. Ethical responsibility, then, means that a business firm has an obligation to do what is right, just and fair and avoid harm to stakeholders. Only after the expectations belonging to the economic, legal and ethical categories are met comes philanthropic responsibility, which is associated to contributing financial and human resources to the community and to improve the quality of life.

Garriga and Melé (2004) have further categorized CSR approaches into four groups: 1) instrumental, in which a corporation is merely an instrument for wealth creation and its CSR activities are conducted in order to achieve economic results, 2) political, which relates to the power of corporations in society and the responsible use of that power, 3) integrative, in which corporations focus on the satisfaction of social demand and 4) ethical, which are based on the ethical responsibilities that the corporations have towards society. Following this categorization they have also stressed the importance of developing a more comprehensive theory on the business and society relationship, which could best be done by integrating profits, political performance, social demands and ethical values (Garriga and Melé, 2004).

In practice, an examination of organizations’ CSR approach can be made according to the stages of CSR they are currently engaged in; when developing their sense of CSR organizations typically go through five stages as they move along the learning curve (Zadek, 2004). According to Zadek (2004), at the *defensive* stage organizations tend to deny the links between the company’s practices and the alleged negative outcomes. At the *compliance* stage companies adopt a policy-based approach to CSR as a cost of doing business, whereas the following *managerial* stage refers to embedding the societal issues in core management processes, reflecting that an organization realizes that it is facing a long-term problem that cannot be solved with compliance or public relations strategies. A company that is at the *strategic* stage has realized that realigning its strategy to implement responsible business practices can give it a competitive advantage. At this level societal