

Corporate Social Responsibility: Whether or How?

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CSR: Whether or How?

◆ What is CSR?

- CSR's rise to prominence—what is it?

◆ Why CSR?

- A good idea? Normative vs. business case
- General business case not equally valid for all firms

◆ How CSR?

- In answer to “whether?” lies pointers on “how?”
- CSR = different things to different people—not always clear what is socially responsible

What is Corporate Social
Responsibility?

CSR Today

- ◆ Attention to the responsibilities of business is not a new idea...
- ◆ ... but it has never been more prominent on the corporate agenda, especially in Europe
- ◆ Also known as corporate citizenship, CR, sustainable development, triple bottom line

Rise to Prominence of CSR

- ◆ Social and environmental reporting
 - 2,500+ companies globally
 - 64% Global Fortune 250 (71% of UK N100)
 - Trend increasing
- ◆ Major topic at World Economic Forum
 - “Corporate competitiveness, corporate governance and corporate citizenship... will play a crucial role in shaping the agenda for business leaders in the coming decade” (WEF, 2003)
- ◆ Government interest

The Economist

JUNE 8TH-14TH 2002

Failure against illegal drugs

PAGE 27

...and a failed Lambeth experiment

PAGE 28

The truth about Vivendi

PAGE 69

The state of Afghanistan

PAGES 13 AND 23-25

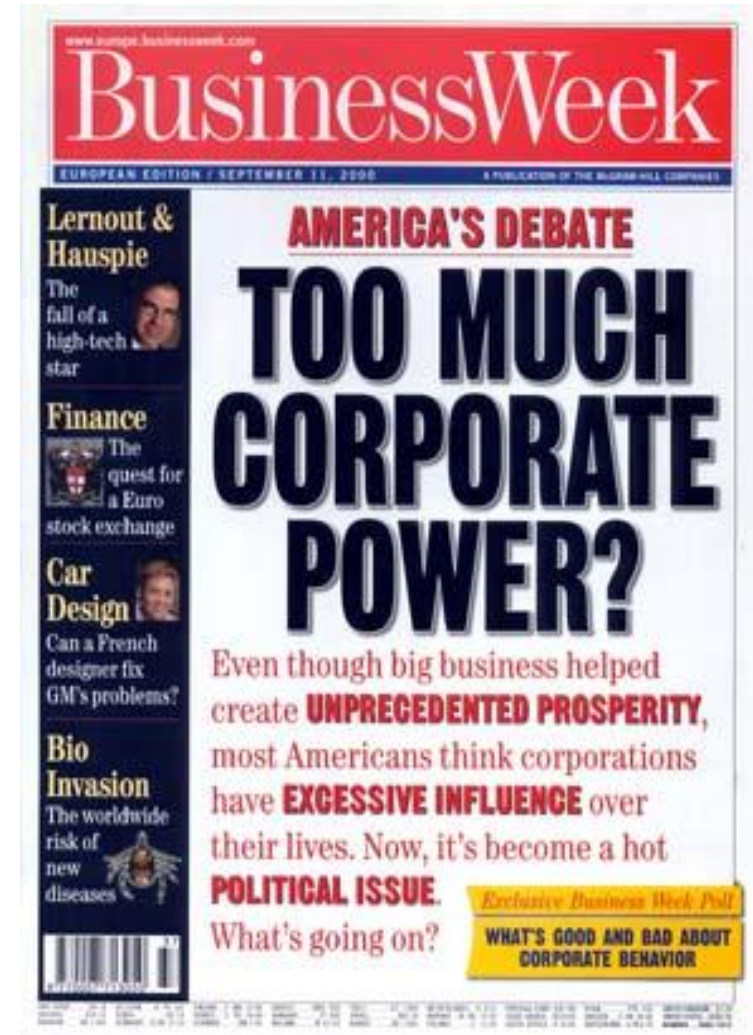
THE WICKEDNESS OF
WALL ST

£2.80



23

Not just scandals...



Defining CSR

- ◆ CSR refers to obligations of the firm to society or, more specifically, its stakeholders
 - Obligations beyond legal requirements and the firm's duties to its shareholders
 - Intended to minimize any harms and maximize the long-run beneficial impact of the firm on society

CSR at Starbucks (Starbuck's CSR Report, 2001)

- ◆ “Conducting our business in ways that produce social, environmental and economic benefits to the communities in which we operate. In the end, it means being responsible to our stakeholders.”



Why CSR?

Milton Friedman on CSR (1970)

- ◆ Social responsibility is a fundamentally subversive doctrine in a free society
- ◆ There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

CSR—Why Not?

◆ Friedman's Argument

- Spending someone else's money
- Problem of competing claims—the role of profit
- Competitive disadvantage
- Competence
- Fairness—domination by business
- Legitimacy—the role of government



Counters to Friedman/CSR Critics

- ◆ Normative (moral)
 - Societal expectations—business as good citizen
 - ‘Moral minimum’—where you have to draw the line—at least avoiding or correcting social injury (negative injunction vs. affirmative actions)
 - It is the “right thing to do”

Counters to Friedman/CSR Critics

◆ Pragmatic

- Assumptions of neo-classical economic model & the reality of mixed markets (e.g., externalities)
- Corporate power & managerial discretion in practice
- Coupled with diminished role of government and changes in public expectations of business

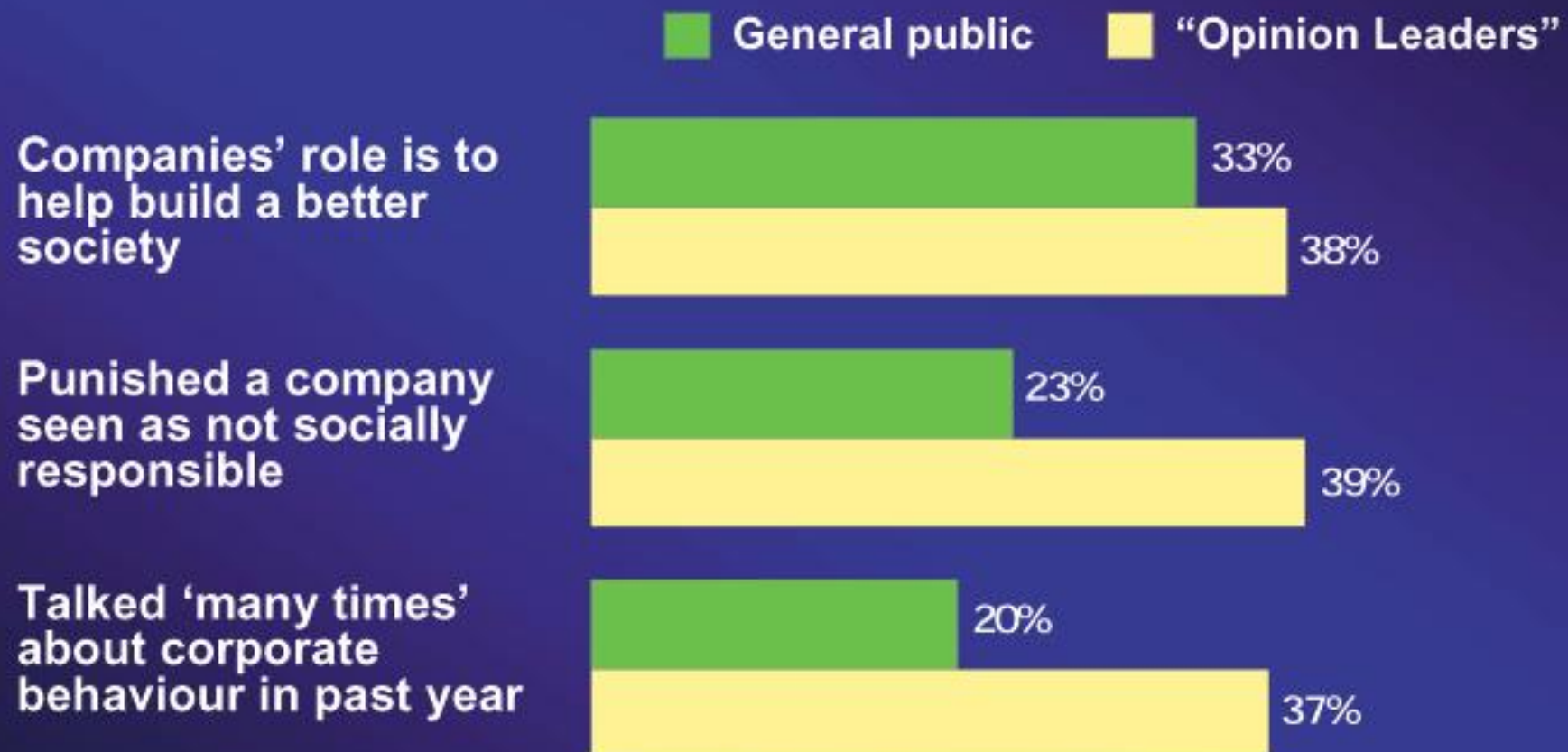
Counters to Friedman/CSR Critics

◆ Business case

- Traditional arguments for CSR
 - Relationship between enlightened self-interest and long-term profitability
 - Avoiding or pre-empting legal or regulatory sanctions
 - Direct/indirect economic efficiencies from more socially responsible practices
- New arguments today
 - Societal expectations and demands
 - Reputation risk management







Base: 25,000 adults in 23 countries, May 1999

MORI

Business Case for CSR



- ◆ “Consumers are demanding more than ‘product’ from their favorite brands. Employees are choosing to work for companies with strong values. Shareholders are more inclined to invest in businesses with outstanding corporate reputations. Quite simply, being socially responsible is not only the right thing to do; it can distinguish a company from its industry peers.”

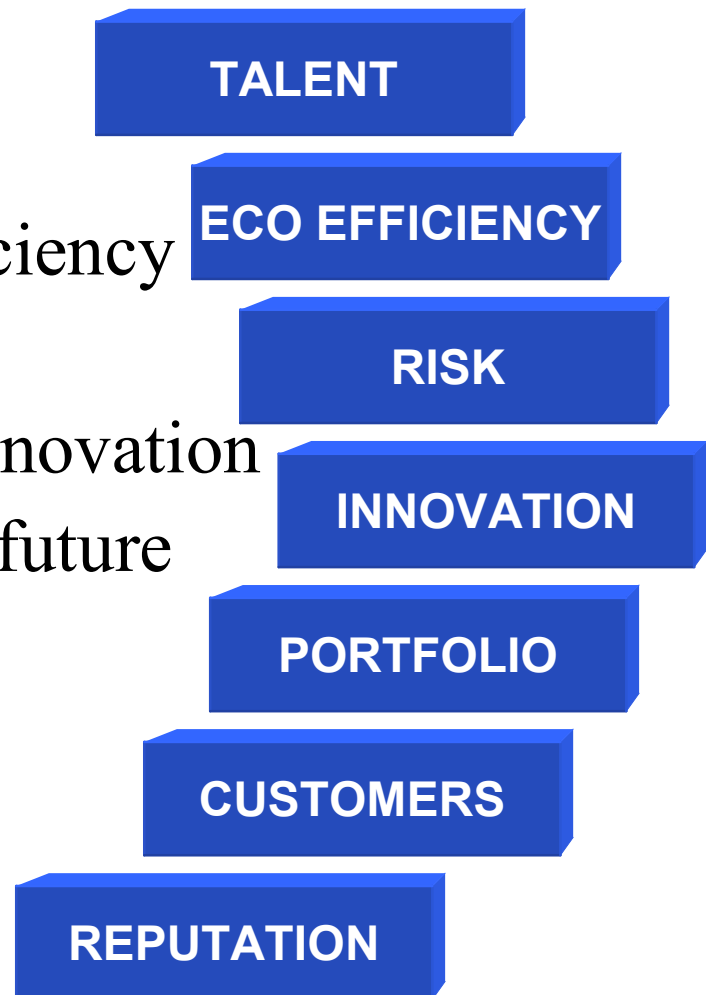
Starbucks’s CSR Report, 2001

Business Case for SD at Shell



◆ Seven building blocks

- Attract and motivate talent
- Reduce costs through eco-efficiency
- Reduce risk
- Influence product & service innovation
- Influence the portfolio for the future
- Attract more loyal customers
- Enhance reputation



Business Case for Pharma CSR

- ◆ “We are not socially responsible because we are boy scouts, but because it benefits the company”

Lars Rebien Sorensen, CEO, Novo Nordisk, 2005

Business Case for CSR

- ◆ Key caveat
 - Beware the hype...
 - General business case not equally valid for all firms

How CSR?

What is Responsibility?

- ◆ Providing needed goods & services, jobs, paying taxes—& returns to shareholders
- ◆ Philanthropy/charitable donations
- ◆ Addressing major social & environmental issues that arise in a firm's business (e.g., emissions at Shell, BP)
- ◆ Championing social causes (e.g., Nike's supply chain issues)
- ◆ “Redefining capitalism”

Nike's Supply Chain Issues



- ◆ Nike insisted that worker mistreatment in factories of its independent contractors was none of its business
 - “I don't know that we need to know”

- ◆ Not everybody agreed...



Nike's Supply Chain Issues



◆ About face in 1997

- “Good shoes come from good factories, and good factories have good labor relations.” (Phil Knight)
- Monitoring & report (with independent verification) on working conditions of 650,000 employees in 800 factories

Nike's Supply Chain Issues



- ◆ Industry-wide efforts in 2005 (Nike 2004 Report)
 - “After a bumpy original response... we focused on making working conditions better and showing that to the world.” (Phil Knight)
 - Nike publicly discloses supply chain.



Developing CSR Strategy

- ◆ Not whether, but how?
- ◆ Developing the right strategy for CSR
 - 1-size-fits-all can't be right
 - Different ethical identities/values
 - Industry-specific factors
 - Which vulnerabilities? (mitigating risks)
 - Which opportunities? (positive contributions)

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