WHAT IS CSR ALL ABOUT?

Dr. Michael Hopkins

In this introductory paper to this new journal, I should like to set the stage with a definition of CSR followed by its relation to the literature and other definitions. The definition has served me well and, as with all substantive definitions, its use will allow you to develop a CSR strategy with your eye always on the ball. Over the years I have developed such a strategy and my forthcoming CSR Text Book (Springer, Germany) takes each element of the definition and develops a path to follow. Now readers of this journal will undoubtedly take my definition and its implicit steps and revise, challenge, hopefully not reject but that also happened in all serious journals. As such I am happy to challenge future authors to do exactly that, improve where necessary, certainly question but always keep your eye on the ball – as, in fact, the famous US scholar Jere Behrman once advised me when I was astonished with both his excellent writings and his productivity. In this case the ball is harnessing the corporate world to ensure it contributes to sustainable development.

Key Words: CSR, Sustainability, Stakeholder, Corporate

Introduction

To begin with in this paper, I shall to put a definition of Corporate Social Responsibility (CSR). No definition is perfect but the one I present is based upon academic work, mainly in the USA, but has been updated and improved mainly through feedback from the, literally, hundreds of times the definition has been presented, dissected and discussed. You will see that many other definitions are similar and encompassed by the following definition. Since I first presented this definition in my book The Planetary Bargain[1] many similar offshoots have arisen, as shown below. But the main ones in common usage today are those of the EU and ISO26000 and both are similar.

1. Corporate Social Responsibility is a process that is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. 'Ethically or responsible' means treating key stakeholders in a manner deemed acceptable according to international norms.

2. Social includes economic, financial and environmental responsibility. Stakeholders exist both within a firm or institution and outside.

3. The wider aim of social responsibility is to create higher and higher standards of sustainable

[1] Original Source: Michael Hopkins: A Planetary Bargain: Corporate Social Responsibility Comes of Age (Macmillan, UK, 1998; updated and re-printed by Earthscan, 2003 and again reprinted by Routledge, UK, 2010). The definition has also been slightly improved over time and may continue to do so as better versions appear. Since 1998 the definition has been changed only thrice – once to note that CSR is a process to achieve sustainable development, then to include non-private institutions and the most recent to link more closely to the body of work of the Global Reporting Initiative (GRI) by noting that both CSR and Sustainability address multi-stakeholders and their choice depends upon their *materiality* i.e. importance to the institution.

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living, while preserving the profitability of the corporation or the integrity of the institution, for peoples both within and outside these entities. The key is how profits are made, not the pursuit of profits at any cost.

4. CSR is a process to achieve sustainable development in societies. Both CSR and Sustainability address multi-stakeholders and their materiality.

5. Corporate means any body private, public or NGO [our definition applies neatly outside the traditional private corporate sphere]

Now this definition is a bit of a mouthful so, and as I say to my ex-students, delegates, colleagues etc, if I meet you in the street I want you to at least recite the essential part of the above definition, and you won't go far wrong in using and applying it, which is:

CSR is about treating key stakeholders responsibly

1. **Definitions**

2.1 Other definitions

2.1.1 [Carroll, 1979; 2008, 500]: The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that a society has of organizations at a given point in time.

2.1.2 EU Definition of CSR: "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis." In October 2011, the EU introduced some new thinking and stated that CSR is 'the responsibility of enterprises for their impacts on society". We shall look at this in more detail later.

2.1.3 Mallenbaker Definition: "CSR is about how companies manage the business processes to produce an overall positive impact on society".

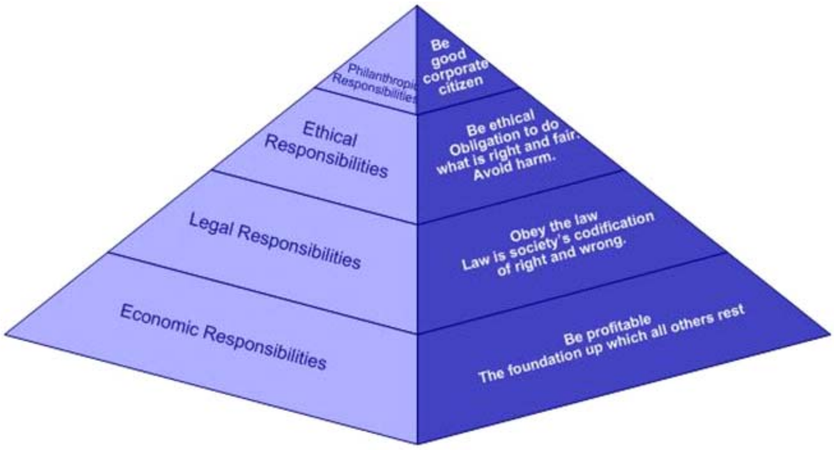
2.1.4 The World Business Council for Sustainable Development (WBCSD): "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" .

2.2 Comments on the above Definitions of CSR

2.2.1 Carroll's CSR model

Carroll's definition is often pictured in the CSR Pyramid below **Figure 1.1**, and is where many CSR practitioners and theoreticians start. Carroll's CSR pyramid describes well what society might expect of a business but ignores external stakeholders.

Figure 1.1 Carroll's CSR Pyramid [Source: http://research-methodology.net/carrolls-csr-pyramid-and-its-applications-to-small-and-medium-sized-businesses/accessed 2 Aug 2014]



Carroll's CSR Pyramid

As can be seen above, Carroll argued that companies should have economic responsibilities. Obviously, without making a profit then a company will cease to exist and CSR dies. However, the key issue is that CSR is not anti-profits, simply is all about how profits are made!

Carroll then goes on to mention legal responsibilities but doesn't consider those countries where the law is ignored (corrupt Governments for instance) or has been modified to support cronyism. No easy guide here, but remember that 'rules are made for the guidance of wise men, and the observance of fools'!

Ethical responsibilities come next, but it seems that ethical behaviour[2] is not so easy to define. Perhaps the best is 'do unto others as you would wish to be treated yourself'.

At the top of the pyramid is 'philanthropy'. I shall discuss below the link between CSR and philanthropy. Prof. Donna Wood[3], one of the early pioneers in CSR, has had a fascination with Carroll's pyramid and cites her student who, famously, put the pyramid on its head. In my own model I would exclude philanthropy and not treat any of the levels as superior, or inferior, to any of the remaining others.

2.2.2 EU's Definition

Here I have a consideration of both internal and external stakeholders. But it does not say how social values are to be addressed i.e. responsibly or ethically, simply says to interact. This could mean simply reading a newspaper to a full-fledged approach. But, the main issue is the word 'voluntary'. In early discussions of CSR, the fear was that CSR meant that there would be a new set of standards followed by laws on all aspects of CSR. Today, there is concern that too many standards could bring industry to a halt. What I believe (see 'should CSR be compulsory below') is that each law needs or standard needs to be carefully treated so as to ensure that serious abuses are illegal while others do not interfere with local customs and culture.

[2] See also *Business Ethics* Paperback, 2009, Prentice Hall, by Andrew Wicks, R. Edward Freeman, Patricia H. Werhane, Kirsten E. Martin

[3] See Adele Santana & Donna J. Wood (2009). Information, Corporate Social Responsibility, and Wikipedia. *Ethics and Information Technology*, 11 (2), 133-144

Clearly, such a statement raises a whole host of questions as to whether, for instance, women should be forced to wear headscarves or forced not to in some countries. What do you think?

More recently, the EU has dropped the word 'voluntary' from its definition and evolved to one similar to our own definition expressed here. However, their definition focused upon 'impacts on society' thereby not emphasising 'internal stakeholders'. Yet, some retort (eg Adrian Henriques who worked on this for ISO26000 that also use the term 'society') that society includes internal stakeholders…our opinion is better to use internal and external stakeholders to be crystal clear that I don't mean society as being external to a corporation or institution.

2.2.3 Mallenbaker's Model

Mallen Baker is included here because of his interesting blog and discussion on CSR definitions[4]. His graph, below, has also appeared quite frequently as well. His definition is limited in only looking at the impact 'on' society. But his graph provides a wider view, as does the text on his website, where he states that 'Companies need to answer to two aspects of their operations.

- The quality of their management - both in terms of people and processes (the inner circle).
- The nature of and quantity of their impact on society in the various areas.'

Yet he does not explore his graph further in terms of internal stakeholders, preferring to note that 'Outside stakeholders are taking an increasing interest in the activity of the company. Most look to the outer circle - what the company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities, or in how it treats and develops its workforce. Out of the various stakeholders, it is financial analysts who are predominantly focused - as well as past financial performance - on quality of management as an indicator of likely future performance.'

2.2.4 WBSCD's definition commented

The World Business Council on Sustainable Development[5] is a CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development. It simply mentions ethics and contribution to economic development as two key components of CSR. Thus most of its members tend to see CSR as promoting economic development, particularly in emerging (developing) countries. This is one of the reasons why, CSR tends to be sometimes misunderstood by many, who work in the field as essentially focusing upon development.

2.3 Sustainability

You may be looking for a definition of Sustainability at this point. I have a digression below, a whole chapter in my text book on sustainable development and the term 'sustainable' comes into many chapters.

[4] http://www.mallenbaker.net/csr/definition.php, accessed March 31 2014

[5] http://www.wbcsd.org, accessed March 31 2014

The term is still evolving and some, like me and in this book, take it to be exactly the same as the above definition of CSR. While other scholars stick to the essentially environmental definition. So when I use the term sustainability it will be clear when I mean CSR and when I mean environmental.

2.4 The many definitions of CSR

Thus, there are many definitions of CSR[6]. But this is not surprising since many concepts take a long time before a commonly accepted definition comes about. You will read that there are many definitions of CSR or, even, that there is no consensus on an agreed definition. There is truth in the latter statement but only to the extent that few, if any, definitions in the social sciences have consensus. For instance, did you know that 'economic growth' contains very different items as does 'unemployment'. In fact the UN with its SNA[7] (System of National Accounts) is a recognized source of economic growth definitions, but is hundreds of pages long.

As for unemployment, the ILO (International Labour Organisation) has done great work here but, again, you will see hundreds of pages of detailed definition[8]. Yet, the USA for example commonly uses nine different definitions of unemployment known as U1 to U9.

But don't worry too much, my experience has shown that a good definition will allow you to work out a whole strategy to accomplish the concepts defined within the definition. Such is the way with my own CSR definition above which I have kept mercifully short.

2.4.1 **The many ways to talk about CSR**

Nevertheless, the terms used in the attempt to convince corporations to become more attuned to their stakeholders know no upper bound.

- Corporate social responsibility
- Corporate responsibility
- Corporate sustainability
- Corporate citizenship
- Good corporate governance
- The ethical organization
- The inclusive organization
- The civil organization

[6] See Glossary for full list plus other concepts used in this book

[7] http://unstats.un.org/unsd/nationalaccount/sna.asp, accessed March 31 2014

[8] http://laborsta.ilo.org/applv8/data/c3e.html accessed March 31 2014

- Shared Value

All terms that have been used by different commentators.

2.4.2 CSR definition by Michael Hopkins

The definition I recommended for this journal is the one above. But here let me de-construct the definition into a little more detail.

The three main components of my CSR definition are:

1. What is corporate?
2. What is a stakeholder?
3. What is Ethical behaviour?

2.4.2.1. What is corporate?

Corporate means any group of people that work together in a company or organisation, whether for profit or non-profit. Thus, interpreted in this way, means that 'corporate' means any 'body' of individuals and therefore does include NGOs, Public Institutions and Social Enterprises (increasingly known as the Third Sector).

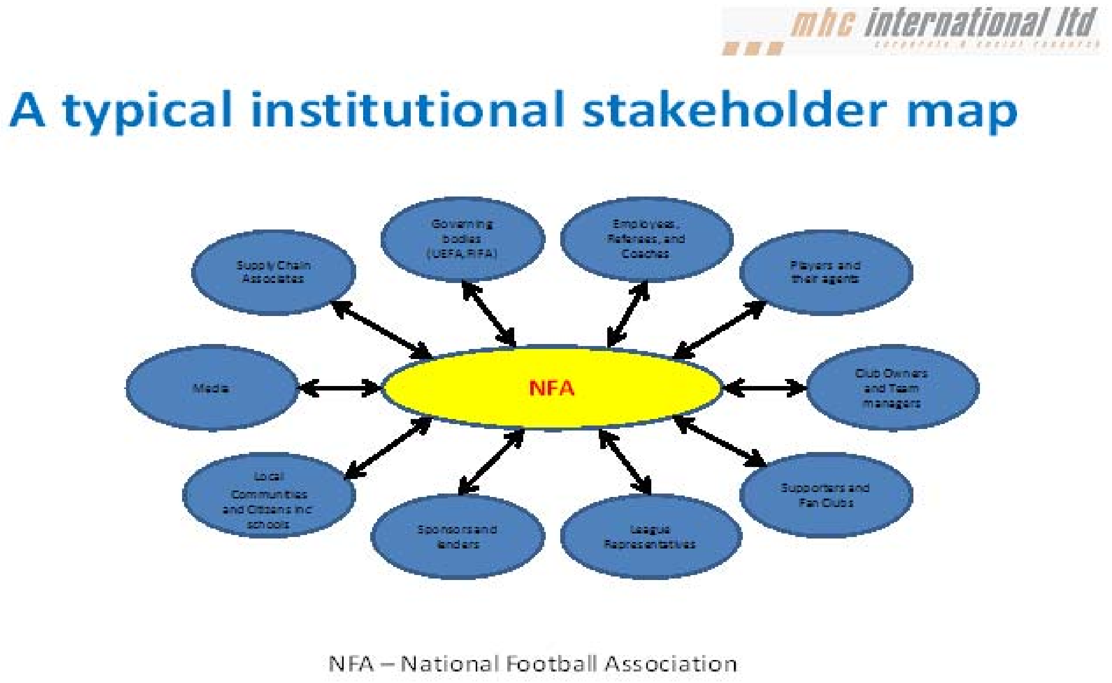
2.4.2.2. What is a stakeholder?

Briefly, stakeholder theory had its roots in the work of Ed Freeman[9] who argued that "...I can revitalize the concept of managerial capitalism by replacing the notion that managers have a duty to stockholders with the concept that managers bear a fiduciary relationship to stakeholders. Stakeholders are those groups who have a stake in or claim on the form. Specifically I include suppliers, customers, employees, stockholders, and the local community, as well as management in its role as agent for these groups. I argue that the legal, economic, political, and moral challenges to the currently received theory of the firm, as a nexus of contracts among the owners of the factors of production and customers, require us to revise this concept. That is each of these stakeholder groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake.

A typical stakeholder map for a company or institution **Figure 1.2** (in fact used by the author in his presentation to the 53 UEFA Football Associations in 2012 – (UEFA the European Football Association) where a number of steps were recommended to devise a CSR strategy…and will be discussed in more detail in Chapter 17) could look like the one displayed in the graph.

[9] see: Strategic Management: A Stakeholder Approach (Boston, Pitman,1984)

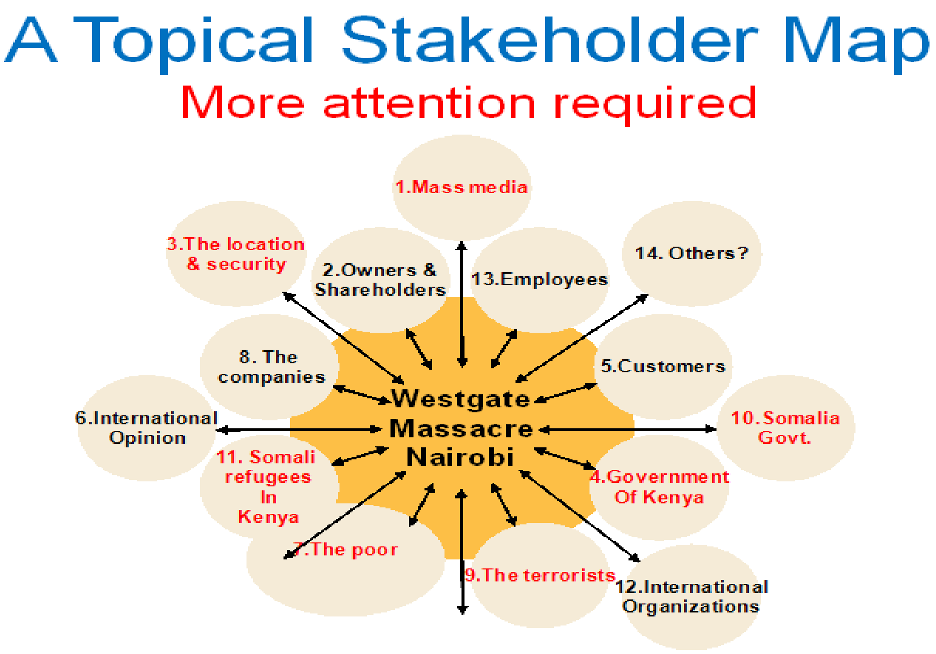
Figure 1.2 National Football Association (NFA) [Source: Created by Michael Hopkins Oct 2012]



Note that stakeholder theory has moved on. Here, and following more recent custom for instance, the environment is included as a stakeholder and, in that way, the social, economic and environmental model of the firm is complete. Some argue that the environment is not a 'person' but that can be sidelined since there are representatives of the 'environment' such as NGOs and/or the communities in which people live.

You may have noticed by now that I treat the word corporate as any collection of bodies or institutions and not necessarily solely large corporations. Since I was in Nairobi at the time of the Westgate terrorist attack and was struck by the awful reporting of the media, the misleading statements of politicians and total confusion I created the following stakeholder diagram **Figure 1.3**.

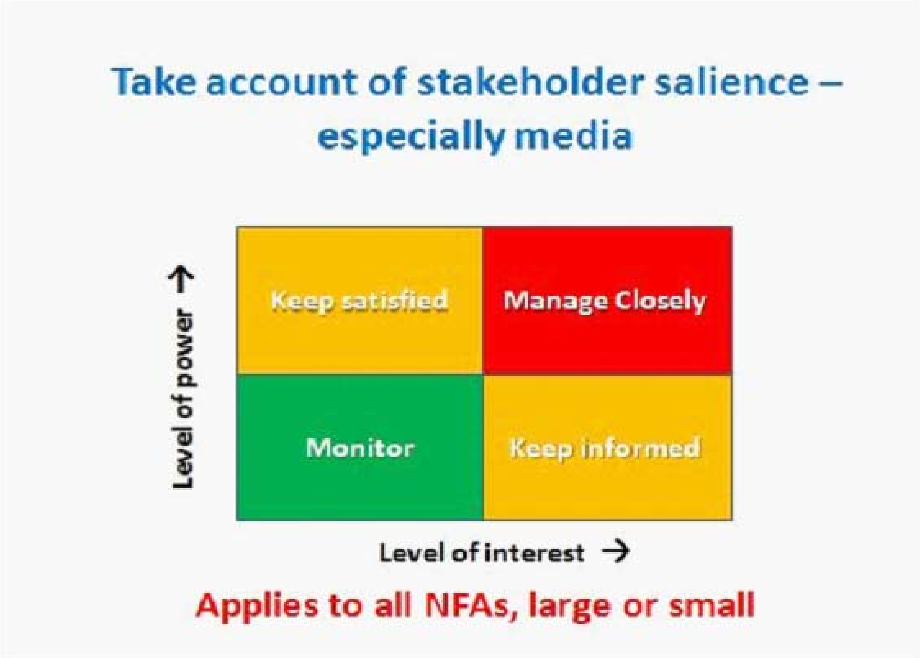
Figure 1.3 – A Topical Stakeholder Map [Source: Created by Michael Hopkins Nov 2013]



If you are interested in how I used the above to come to my main conclusion which was, because terrorists seek glorification of their disgusting deeds and this happens essentially through media, then there is strong case to ban media to report on ongoing events until the event has finished, then see the reference below[10].

The choice of stakeholders, and how to consult them, is an art in itself and no one theory covers all aspects. A widely cited article on this is by Mitchell et. al[11].
These authors argue that stakeholder theory must account for power and urgency as well as legitimacy, no matter how distasteful or unsettling the results (the figure below – **Figure 1.4** is typical and, again, we use the example from UEFA). Managers must know about entities in their environment that hold power and have the intent to impose their will upon the firm. Power and urgency must be attended to if managers are to serve the legal and moral interests of legitimate stakeholders.

Figure 1.4 – Level of Power and Interest [Created by Adrian Payne, June 2012]



2.5 What is Ethical behaviour?

Following on from above, what is meant by business ethics? An interesting source is: Rosamund Thomas[12] who says that there are many definitions of 'Business Ethics' in the same way that there are numerous different 'Codes of Ethics' and this variety and looseness of terminology, methodology and 'best practices' c an cause confusion. She argues that 'Business Ethics' comprises at least three issues:

[10] http://mhcinternational.com/component/content/article/85-monthly-features/articles/171, accessed 30 March 2014

[11] Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts Author(s): Ronald K. Mitchell, Bradley R. Agle, Donna J. Wood Source: The Academy of Management Review, Vol. 22, No. 4 (Oct., 1997), pp. 853-886 Published by: Academy of Management.

[12] in Ramon Mullerat (ed.) 'Corporate Social Responsibility - The Corporate Governance of the 21st Century', Kluwer Law International (revised edition, 2010)

1. The **values** underlying the business corporation, such as ‘integrity’, ‘honesty’, ‘fairness’ and others.
2. A corporate **‘Code of Ethics’** which goes beyond separate values to become a set of principles that makes a clear statement of what the business corporation is willing to do or not to do, like forbidding staff to take bribes or other financial incentives.
3. **Corporate Governance** which is the framework for the policies and procedures which govern the Board of Directors in a business corporation, including non-executive Directors and others who advise the Board. Corporate governance is a key part of Business Ethics’ since the morality of the Board and its individual Directors does, or should, underlie these policies and procedures.

2.6 Linking CSR and Sustainability

As mentioned above, at this point a digression on ‘sustainable’ or ‘sustainability’ is useful given the wide use of the term in the CSR literature. Many use the adjective or the noun, as substitutes for CSR or CR. Are they right?

If the word “sustainable” is seemingly everywhere, it was made possible by the World Commission on Environment and Development report “Our Common Future” published in April 1987 by a team led by Gro Harlem Brundtland. The report was a landmark document that brought environmental concerns and their link to social and economic development to the forefront of understanding of global problems. *Our Common Future* launched the notion of”sustainable development”, defining it as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”.

Indeed, corporate sustainability is increasingly being taking up by corporations leading one to wonder what is the relation between corporate social responsibility and corporate sustainability? As noted above, the term sustainability first came to widespread acceptance in 1987 and at that time the concept and study of sustainable development had hardly left the domain of environmentalists and ecologists. More recently, the term ‘sustainability’ has grown to encompass social and economic components as well as its historical work on the environment. Thus the sustainability school has split, rather confusingly into two. The first, being the conservationist school described above (which I denote by ‘Sustainability 1’) and the second that has moved out into the social and economic field (which I denote by Sustainability 2).

PricewaterhouseCoopers define corporate sustainability as ‘aligning an organisation’s products and services with stakeholder expectations, thereby adding economic, environmental and social value’.

And the Global Resources Initiative (GRI), that grew out of environmental work by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Programme (UNEP), produces, since June 2000, the GRI Sustainability Reporting Guidelines that cover economic and social performance as well as the more ‘traditional’ environmental ones. The world of business is embracing the notion of sustainability and many are now producing ‘sustainability reports’. Yet, as Simon Zadek has warned [13] that “It is simply inaccurate and misleading to talk about ‘sustainable business’. The 'sustainable' in sustainable development is just not the same as the 'sustaining' of a particular business, irrespective of its social and environmental performance".

The confusion with what is meant by 'sustainability' leads me to prefer the term CSR with its more lofty goals since it talks not only about issues that will sustain a corporation but also those for which a corporation is responsible. Whether there are additional concerns in the CSR toolbox that will, ultimately, provide for longer-term sustainability than those in the Sustainability toolbox is a point worthy of further discussion. A useful working approach to CSR and Sustainability is to use CSR as the process' through which sustainable development as defined by Gro Brundtland is the goal. Especially as many business confuse Sustainability 1 (mainly environmental concerns) with Sustainability 2 (the aim of CSR as defined here). One further comment is that companies, if they accept sustainability as a goal then they are moving toward wider society aims of sustainable development. You will find, of course, that companies use terms inter-changeably and quite like the term 'corporate sustainability' as interpreted by sustaining their company. You will, when working on these concepts, have to be careful that you adopt the full CSR stakeholder model and not assume that a profitable company is aiming at 'sustainable development'. What is important is how profits are made in a socially responsible manner not profits at any cost.

Well, you have seen a number of widely quoted definitions. Happily one can see a convergence between my own (earlier) definition and the contemporary ones that are oft-quoted – that of the EU and ISO26000.

3. Where is CSR today?

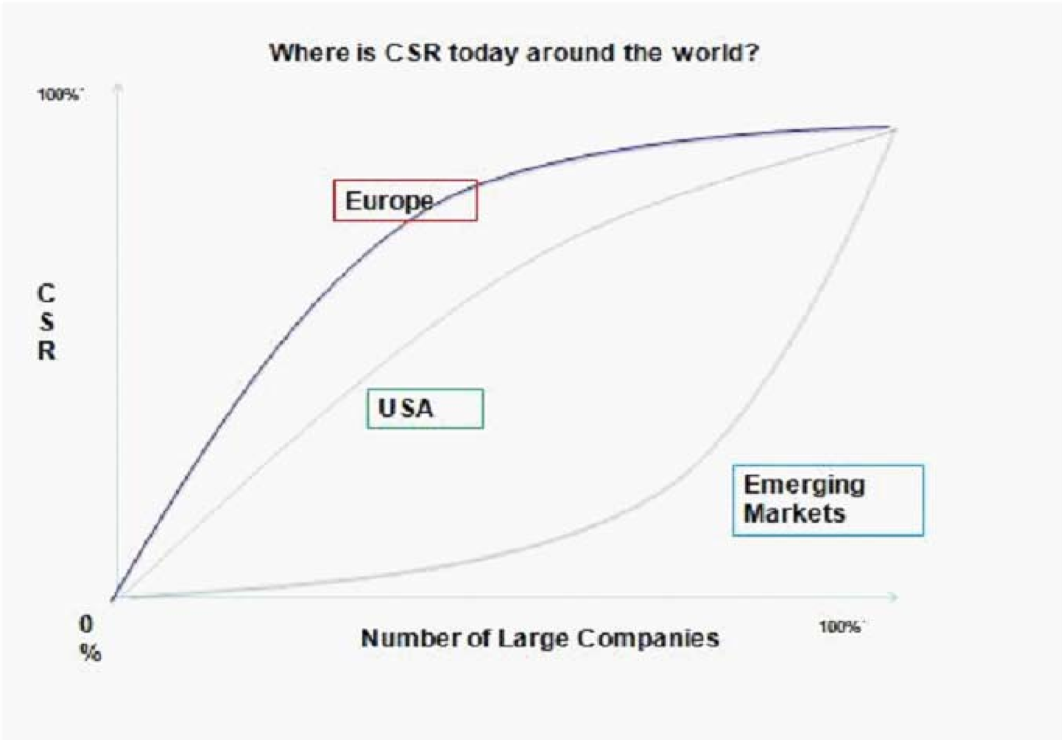
3.1 World view

In a world view of CSR, I have created the following 'stylized facts' diagram which remains true today as when I first created it in 2011. What is impressive in recent years has been the rapid advance in CSR in India and a short report of that has been ably done by PriceWaterHouse Coopers[14].

[13] Simon Zadek: The Civil Corporation: The New Economy of Corporate Citizenship, Earthscan, 2001, London, p. 122.

[14] https://www.pwc.in/en_IN/in/assets/pdfs/publications/2013/handbook-on-corporate-social-responsibility-in-india.pdf accessed Dec 17 2013

Figure 1.5 A Depiction of Where CSR is in the Global Context [Created by Michael Hopkins June 2011]



Essentially the **Figure 1.5** shows that Europe is ahead of most countries, followed by USA while emerging market economies (aka developing countries) are on the first rungs of CSR with few having a complete systematic approach to CSR (as, for instance, outlined in **Strategic CSR and Competitive Advantage**. In fact, right now, most developing countries – and the USA to a certain extent – focus on CSR as charitable giving. How CSR and philanthropy became intertwined is curious and is another story taken up below.

Corporate Social Opportunity is rising in importance as companies see the link between CSR and new forms of profit centres, products and services - e.g. concerns about climate change and food security have driven the emergence of food miles (i.e. how far food travels before it reaches your plate) and local products as key issues for consumers.

A model could be Unilever which is carrying out path-breaking work, especially its work in South Africa and Indonesia to estimate the *indirect* beneficial impacts of a company on such issues as ameliorating un- and under-employment. Nestle is also pursuing an interesting path with its *Shared Value* approach, highlighted in Davos 2011, although concern with the 'shared value' concept is its seemingly partial approach and potentially not treating all stakeholders. Shared value emphasizes company profits and consumer desires in its application in Nestle which may mean other stakeholders having less value.

BP is also worth a mention, having been very prominent in CSR (they call it corporate sustainability) in the 1990s and started well under Lord Browne but didn't filter down to the operations nor to the Government regulators nor to BP's sub-contractors as seen with the Deep Water explosion in the Gulf of Mexico and consequent heated discussions. Finally, Ford is now *the* electric car company – a real shift of strategy.

3.2 Recession impact

There was hope that, given the lack of responsibility among Western sub-prime holders, banks and financial institutions…there would be a new move towards responsibility. Undoubtedly, the financial crisis that started in 2007 and only ended in 20013 has increased the need for national, corporate, public and personal responsibility, and politicians increasingly use the word 'responsibility'. In a reflection of these points, it was felt that the optimism engendered by the election and re-election of President Obama had not led to much, if any, increased responsibility by corporations as instanced by the financial institutions cowering under public anger as to their increased profits.

Yet, the perceived failure of regulation and self-regulation to prevent the recession and major financial fraud will continue to stimulate a fundamental discussion about the role of the state, the role of CSR, and the sort of economic system that people want. On the one hand, the launch of ISO26000 in 2010 and the consensus around John Ruggie's work for the UN on business and human rights suggest that a voluntary approach still has a major role to play, but global increases in the regulation of social and economic activity suggest that the state will increasingly push aside many voluntary approaches e.g. in relation to sectors' voluntary marketing and labeling codes. There is a new need for a compact between business and the State with, in some cases, the Government becoming the dominant stakeholder.

3.3 Stakeholders

Stakeholder activism is increasing with a focus on radical transparency (from Daniel Goleman's – Ecological Intelligence but with an eye on the post-Wiki leaks world). Companies must know who their stakeholders are, identify the key ones and deal openly with them. It is dangerous to respond only to those who shout loudest: what is important is how the activity affects the core business of a company. How to deal with stakeholder priorities given that engaging with key stakeholders is essential for good C(S)R?

But, don't expect a set piece dialogue, it must be flexible and arrange conversations in congenial places. Not necessarily face-to-face, social media can help in focusing on particular "crowds", but social media has, to date, been primarily a tool of the young and educated.

Key questions are not always helped by theory of which the salience framework of Mitchell (see above) is one of the best known. The questions are: Who are the key stakeholders? How do you know you have chosen the correct ones? How do you dialogue? A useful guide to Stakeholder analysis can be found in Chapter 3.

3.4 Summary of key CSR trends

Likely to be:

- More emphasis on 'inclusivity' i.e. a strategic approach to CSR that covers all essential ingredients in the governance-environmental-financial-economic-social-sustainability (GEFESS) nexus, as

NGOs, governments and companies increasingly realize that company or NGO programmes, however big or good, are incomplete and restrained in their effectiveness if they don't address some underlying structural and governmental problems (e.g. new hospitals or schools in the developing world have limited and short-lived impacts where the supporting infrastructure of trained staff, etc is missing).

- Scalability will also become a watchword: having one niche area or product for CSR will not be enough because all products will need to be responsible – see GSK and their open patent.
- There will be more emphasis on supply chains and this could be the 'big' story for the rest of the decade after the events in 2010 with Deep Water, Financial subsidiaries, Rating agencies, Mortgage slicing, Emerging market costs and conditions of work etc.
- Companies have tended to shift more to make a big impact in a few areas rather than a system wide approach, this trend is likely to continue as systematic CSR is still not widely understood although signs are that it is increasing (e.g. Nestle despite some limitations with its 'Shared Value' approach, Unilever, Ford, Nike, Gap).
- Governments will play an increasing role in, for instance, governance but Ialso see some countries legislating for CSR (e.g. Nigeria, Mauritius and India even though the models adapted seem to be overly concerned with philanthropy).
- Companies will be forced to be more socially responsible in their advertising.
- There is a move toward CSR for public institutions and NGOs and there is increasing interest in 'personally responsibility' especially for those in senior positions.
- Smart companies will look more to the social value of their brands.
- Climate change may move down the list of priorities to be replaced by more concern with worker rights and human rights, with concerns about water supply and quality also rising on the agenda (NB Nestlé's CEO advocated such a move in 2009).
- The lesser known sustainability issue of bio-diversity will also rise up the agenda and more attention will be placed on its economic value.
- Where multinationals pay their tax is likely to be increasingly focused upon by activist groups and, given the recent tenor of street demonstrations, protests could turn increasingly ugly.
- Emerging markets are where the energy is and one can expect to see a lot of innovation in the C(S)R agenda.
- Integrated reporting and simpler reporting are likely. I wrote about this when I signaled the need for simpler reporting standards and simpler measurement indicators – see Chapter 4 where we express an argument for orthogonality in reporting standards.

Should CSR be compulsory?

Principles and standards of CSR abound to such an extent that companies are starting to puzzle how to handle all these new demands. For instance, the list of principles and indicators proposed by the GRI (Global Reporting Initiative) are so weighty that companies may start to ask themselves why bother? Financial regulation is tough enough but at least it can help companies to know their main costs and benefits. Social, economic and environmental principles leading to three additional balance sheets seem to be an additional burden, particularly if the benefits are poorly understood and the costs increasing. Consequently, the sentiment behind triple-bottom line reporting falls in line with CSR thinking through its value as a short hand formula for introducing the subject of CSR. However, it is better to stick with one bottom line, profits, using the stakeholder model preferred here.

On regulation, a pro-regulatory view comes, surprisingly, from companies themselves - at least some of them such as BP, the UK's Co-operative Bank etc. They believe that their existing behaviour exceeds most existing standards and, of course, they wish to bring other companies, especially their competitors, up to the same level. In fact this process is encapsulated in the book *The Planetary Bargain* where it is suggested that companies would invoke, voluntarily, a number of basic principles. They would then 'shame and name' rogue companies thereby encouraging limited legislation.

But, the danger of this 'minimalist' position, which was essentially to stop a race to the bottom whereby companies would jump to favourable countries, has been admirably highlighted by Adrian Henriques who noted:

The most common reason given for why new legislation would set CSR back is the lowest common denominator argument. This suggests that if there were legislation on CSR, then companies would deliver what the law requires, but never more. At the moment, voluntary CSR is experiencing a "hundred flowers in bloom" [Ethical Performance, March 2002].

What, therefore, are the pluses and minuses for CSR regulation?

Pluses from legislation:

- It would help to avoid the excessive exploitation of labour, bribery, and corruption.
- Companies would know what is expected of them thereby promoting a level playing field
- Many aspects of CSR behaviour are good for business (reputation, human resources, branding, easier to locate in new communities etc.) and legislation could help to improve profitability, growth and sustainability
- Some areas, such as downsizing, could help to re-address the balance between companies and their employees
- Rogue companies would find it more difficult to compete through lower standards
- The wider community would benefit as companies reach out to the key issue of under-development around the world

Minuses:

- Additional bureaucracy, with rising costs of observance
- Costs of operation could rise above those required for continued profitability and sustainability
- Critics already argue that the CSR of companies is simply to make a profit, and legislation would increase the vocalization of these concerns
- Reporting criteria vary so much by company, sector, country and they are in constant evolution.

To conclude this section, more and more companies are already focusing voluntarily on CSR issues but it is clear in the light of the poor corporate governance that resulted in both the Enron and World Com debacles that some further form of legislation is necessary. Thus the argument that no regulation is necessary is out of the question as is full regulation – the pointer is probably somewhere between the two positions.

Then, a key question remains: Who should be the regulator?

Government? In the USA the Security and Exchange Commission originally played an active role in regulation - the Sarbanes-Oxley bill for instance - but reduced regulation more and more during the second Bush administration to the extent that many feel that de-regulation, in the financial industries at least, led to the 2007-2009 recession. In Europe the EU stated its position as being on the side of 'voluntary' in the beginning of the millennium which will relieved many anti-EU lobbyists and have not budged much since. Only a few nations will in all probability embed CSR principles into national legislation.

The UN? In developing countries one would normally look toward the UN but we know that the UN is not a regulatory body and can only suggest changes to national legislation. The UN Global Compact, for instance, is essentially voluntary although the UN does de-list some companies if they do not report regularly on progress toward meeting the ten principles required.

The Corporate Sector? Like it or not 'voluntary' will be the status quo for the foreseeable future with only a few companies interested in legislation to create a level playing field.

5. Is CSR philanthropy[15]?

Corporate social responsibility (CSR) is NOT the same as corporate philanthropy as can be seen for readers of the work up to here [nearly finished by the way!!]

5.1 Philanthropy has few key stakeholders

CSR does not concentrate on only one stakeholder whereas philanthropy, "the practice of performing charitable or benevolent actions" does. Most, if not all, philanthropy is devoted to items that Governments should be doing [health grants to developing countries, help to the handicapped, drugs for HIV/AIDS for example]. And their failure should not be the preserve of corporations. However since Government is one of the stakeholders of a corporation there is nothing to stop corporations offering their management and technical skills to Government to improve or introduce programmes to help vulnerable groups. Corporations exist to make profits. There is nothing wrong with that, only the way profits are made is the concern of CSR practitioners. Philanthropy does little or nothing to help companies make profits, while *all* CSR activities are linked to improving a company's bottom line.

5.2 CSR is before profit

One of the confusions over defining and acting upon corporate social responsibility (CSR), according to Professors Young-Chul Kang and Donna Wood in the USA, results from a flawed assumption that CSR is an *after-profit* obligation. This means that if companies are not profitable they do not have to behave responsibly!. They say '*in the extreme, if all firms are affected by severe economic turmoil or are run by lazy, short-sighted managers, then societies would have no choice but to accept pollution, discrimination, dangerous working conditions, child labour etc*.'

Embedding socially responsible principles in corporate management is what the two authors call a '*before-profit*' obligation. They cite corporations who embody these ideas and see the trend accelerating. For instance, in 1950 Sears's CEO listed four parties to any business in order of importance as 'customers, employees, community and stockholders'. For him, profit was a 'by-product of success in satisfying responsibly the legitimate needs and expectations of the corporations' primary stakeholder group'. By the 1980s, Levis even repurchased its stock in the public market under the rationale that stockholder's interests might limit the firm's effort to be a socially responsible organisation. And, Migros, of Switzerland, funds its cultural and social programmes not by profits, but by gross sales, so that profitability does not influence the firm's level of involvement.

5.3 CSR is sustainable, philanthropy is generally not

CSR is sustainable in that CSR actions become part and parcel of the way in which a company carries out its business. Its links to the bottom line of a company must be clearly laid out simply because, if it does not contribute to the bottom line, it will eventually be rejected by hard-nosed directors and shareholders.

Philanthropy tends to be whimsical. It simply depends on the whims of the company directors at a particular time. Many NGOs receive their funds from corporations and carry out excellent work. Rather like Heineken beer, most NGOs carry out programmes that other programmes (mainly Government ones) can't reach. But NGO interventions are based on a scatter gun approach and are *spotty*. They can intervene wherever they like. Governments, on the other hand, have to intervene everywhere or nowhere. Better, much better, for a company to assist a Government in making its contributions either nationally, or internationally, more efficient and appropriate. This then ensures widespread, and even coverage.

5. Is CSR philanthropy[15]?

[15] Based upon http://mhcinternational.com/monthly-features/articles/154-corporations-should-abandon-philanthropy-and-concentrate-on-csr accessed March 31 2014

Corporate sponsorship is different from corporate philanthropy. Sponsorship is a business tool used by companies as part of their communication, advertising or PR budgets to associate the corporation's products and services with dynamic images for their customers' consumption. Sponsorship usually requires a service, or action, in return for financial support, so this frequently has clear marketing benefits and is therefore directly linked to a company's bottom line. Sometimes, this may indeed be for good causes such as supporting UNICEF to associate the company's products with reducing child labour around the world. Philanthropy does not necessarily ask for a definite service or action in return and it is certainly not usually based on a business relationship or partnership. On a personal level, this is like responding favourably to the postal requests made by the major charities. Yet the line between philanthropy and sponsorship is difficult to draw and there are many grey areas - but better to have a clear sponsorship potential than a fuzzy charitable action that is more than likely to be unsustainable.

5.5 Should good causes not be part of CSR?

Some of the words here could annoy many readers who may accuse us of undermining good people and good causes. But this is not the point. The desirable outcome is sustainable actions that do not depend on the whims of, albeit, good-natured people.

Yet, there is a structural problem here. Governments mainly encourage charitable giving, often through tax breaks, since it takes the responsibility away from them. Governments are also corporations and must act in a socially responsible manner.

6. India and CSR: Will the new CSR Law hurt or help India?

Over 25 May until June 3rd, I travelled to India where I gave four workshops on CSR as part of CSRFi. In Mumbai I was hosted by the Wockhardt Foundation and CSR Advisers while in Bangalore by the Bangalore Chamber of Industry and Commerce and Erin Advisers.

There is great interest in CSR in India particularly since the publication of new CSR Rules in the Indian Company Law that went into force on April 1st this year. In each of the workshops I insisted that CSR was a multi-stakeholder initiative as described in detail on the front page of my website www.mhcinternational.com which, in turn, also forms the basis of the EU, ISO26000 and GRI defintitions. In India, CSR means CSR projects, and large companies with profits over a certain amount are compelled to spend 2% of these on CSR projects. They are also invited to set up CSR committees within their company – leading according to some estimates[16] to about 16,000 companies using 48,000 Board members.

For some large companies such as Tata or Infosys, compliance is easy since they already partake in many so-called CSR projects. The company law lists the project areas where companies are invited to create CSR projects and are displayed in the two graphics below.

[16] By Centre for Advancement of Philanthropy

India CSR Rules Schedule 7

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(1) In Schedule VII, for items (i) to (x) and the entries relating thereto, the following items and entries shall be substituted, namely:-

"(i) eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water;

(ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;

(iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;

(iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water;

India CSR Rules Schedule 7 (cont'd)

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(v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;

(vi) measures for the benefit of armed forces veterans, war widows and their dependents;

(vii) training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports;

(viii) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;

(ix) contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;

(x) rural development projects."

Normally lists like those above are more familiar in UN or Government Planning documents and are essentially for guidance to the public sector. Sometimes such plans also include incentives for the private sector to be involved in executing the programmes. But the new India company law is unique across the world – nearest parallels are probably in Mauritius and Nigeria.

The law has led to great interest in CSR around India and raised the profile of companies and their role in Indian society. I think raising the level of this interest is a very good thing but I wish it had been handled very differently. Clearly, many believe that given India's high level of poverty which some estimates put at 60% of the population, then large companies should contribute to development.

However, there are a number of questions and implied objections:

1. Is it not the job of Government to invest in development projects? Using tax revenue to invest in such things as the Prime Minister's National Relief Fund or Rural Development Projects or measure for armed forces veterans? Or at least to provide the incentives for the private sector to be involved such as tax breaks, incentive systems, foundations, social funds, tax subsidies (such as a basic income), micro-credit institutions etc.?

2. If the private sector is much better at such things as promoting education, gender equality, setting up old age homes etc etc, why does the Government not raise taxes on corporate profits and then allocate the revenue to so-called CSR projects using the private sector through a bid and tendering system?

3. Will the emphasis on CSR projects actually hurt CSR in India? This is my main worry, since companies caught in the CSR profit net will feel that they need do no more on CSR and will avoid multi-stakeholder systematic CSR? This could mean India being behind companies around the world that have adopted full-fledged CSR. In Mauritius, a similar tax of 1% on profits allocated to Government chosen NGOs had led to the phrase 'CSR' being considered by companies as a dirty word!

4. Without Indian companies adopting CSR frameworks that are not required under the new law - such as GRI G4 sustainability reporting, SA8000 labour conditions, Fairtrade production of their exports, UN Human Rights Principles for Companies etc. - will these actions lead to less exports? Will Indian consumers, as in many countries, prefer to pay a premium for fairly produced products from companies that have a full-fledged CSR system? Or will the same old exploitations of labour, shoddy products, environmentally unsound policies etc continue? Not by all companies it must be said since many large companies have adopted, as I mentioned above, system wide CSR policies that are both up to international standards and are actually beneficial to the company itself (see my book 'The Planetary Bargain' on such a system wide approach or a shorter free version on my website – A strategic approach to CSR.)

5. Should not any CSR project be closely aligned with the business case of the company involved in the new law? If this is not the case then the new CSR law is simply introducing a new tax.

6. Will investment in the new CSR projects be sustainable i.e. once the initial investment is done will the projects look after themselves?

7. How will the Government ensure that the companies involved don't all choose the same projects? In an exercise in our workshops, involving groups choosing projects for Tata..many opted for bio-

toilets, a great need in India, but could such investment simply lead to a huge surplus of bio-toilets while other key problems are ignored?

The above issues were discussed and participants carried out a number of interactive case studies in groups in the workshops held over the ten days that I was in India. Most companies I spoke with, except the very largest, were rather bemused by the new laws and were asking for guidance on what to do next. So huge possibilities for new consulting and advisory services of which we are happy to assist. But was that the real intention of the Government? Certainly not, to be fair they are seriously interested in reducing poverty and the Indian intellectuals have been writing what to do about that for many years. Perhaps it is time to turn back to listen to these intellectuals and come up with laws that actually do help to reduce poverty in India while not punishing large companies? Rather use large companies management expertise which they have in great abundance and, as many civil servants would admit, strikingly lacking in public institutions in general.

8. Final Remark

To conclude, companies should work hand-in-hand with Governments to promote economic and social development.

Government should help those people who cannot be helped to help themselves through a subsidy. Government should look after vulnerable groups and not just await the whim of corporate philanthropy: if a charity fails because a company fails then this is a disaster for all the vulnerable groups and people concerned.

In the end, a company that is philanthropically generous but is not aware of, or engaged in, its broader CSR role will not be in business for very long. As Michael Porter wrote:

If companies are just being good and donating a lot of money to social initiatives then they will be wasting shareholders' money. That is not sustainable in the long-run, and shareholders will quickly lose interest

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