

# The Business and Environmental cases for CSR (Porter and Kramer 2002, 2006):

**The case for CSR brings together both the shareholder and stakeholder view PROVIDED it will lead to a shared benefit (society and shareholders)**

Underlying principles of the business case for CSR pg 43

- **CSR agenda must be driven by the corporation not society/stakeholders**
  - **HOWEVER** currently CSR is emerging from stakeholders and not being corporation driven
    - o **Address the problem before the public come knocking on your door**
    - o Outside stakeholders shouldn't be the drivers as it is very costly, not proactive

The business case for CSR argues that a business should engage in philanthropy as long as it feeds back to the firm

- Does CSR feed back into financial performance?

## 1) Business Case for CSR:

a) The Emergence of CSR – Stakeholder driven, not corporate driven (bad see above)

- Public Response to corporate behaviour (examples)
  - o **Shell & the Brent Spar** incident (refer to detail on pg 9)
  - o **Nike**, consumer boycott (withdraw from buying), because of abusive labour practises of supplier
  - o **Pharmaceutical companies**, expected to respond to AIDS pandemic in Africa
  - o **Fast food outlets**, held responsible for obesity & poor nutrition
    - **Eg:** McDonalds healthy food changes
- Activists (NGOs) more aggressive
- Digital technology – the 'CNN' world & social media
- SRI has taken CSR to boardrooms
  - o Shareholder resolutions being had on CSR, highlighting the large financial risk of engaging in conduct which is deemed by stakeholders to be 'unacceptable'

## 4 Prevailing justifications for CSR (Porter & Kramer 2006):

1) Moral Obligation

- o 'Duty to be a good citizen'

2) Sustainability

- o Emphasises environmental and community stewardship
- o 'Meeting the needs of the present without compromising the ability of future generations to meet their needs' – Norwegian Prime Minister Gro Harlem Brundtland

3) License to operate

- o A company needs permission from governments, communities, and numerous other stakeholders to do business

- Being environmentally and socially responsible is more likely to achieve that

#### 4) Reputation

- Improve a companies image, strengthen its brand name, enliven morale and even raise the value of its stock

**NOTE:** Weaknesses of these justifications are that they focus on the tension between business and society rather than on their interdependence.

#### b) CSR – A source of tension between business & society

- Many prevailing approaches are so disconnected from seeing CSR as a business idea and strategy (profits) to benefit the company
- Businesses are awoken to the pressures of CSR however the most common response is neither strategic or operational but merely cosmetic. They rarely offer a strategic direction for CSR or framework
- By looking at it from a strategic viewpoint, it **can result in a win-win scenario for both society and businesses** (interdependence between business and society)
  - 'CSR can be much more than a cost, a constraint, or a charitable deed-it can be a source of opportunity, innovation and competitive advantage' (Porter & Kramer 2006 pg 80):

#### c) The business case for CSR relies on the integration of business & society

- Due to the interdependence between business and society:
  - Business decisions and social policies must follow the principal of '**shared value**' (society gains & shareholders gain)
  - By incorporating the communities into the goals of a corporation a '**competitive advantage**' can be created

#### d) How is integration achieved?

##### i) Prioritising social issues AND

- Essentially looking for the points of intersection between the corporation and **generic social issues** (issues that are not significantly affected by a company's operations) such as:
  - Waste
  - Pollution
  - Climate change
  - Loss of biodiversity
  - Poverty

##### ii) Mapping the social impacts of the value chain (stakeholder view of social issues that are **significantly affected by** a company's activities)

- Looking inside out (value chain of corporation):

- Primary activities
  - Marketing and sales (truthful advertising, non-price discrimination)
  - Outbound logistics (packaging disposal, transportation impacts)
  - Operations (branch operations, emissions, work safety, water usage)
- Support activities
  - Firm's infrastructure (planning, transparency, financial reporting practises)
  - Human Resource Management (recruiting/training, compensation and layoff policies)
  - Technology Development (product design/testing, ethical research eg animal testing, product safety)
  - Procurement (purchasing, supply chain practises, uses of certain inputs (animal fur), utilizing natural resources)
- Eg: Glencore is a significant energy consumer and therefore has recognised its need to reshape how they produce (**CO2 emissions**) and market natural resource commodities
  - Glencore also operates in South Africa and are **tackling HIV** in their workforce and local communities by improving health care and free access to it
- Looking outside in (social influences on competitiveness):
  - Local demand conditions
    - Sophistication of local demand (social value orientated?)
    - Demanding regulatory standards (Toyota emissions example)
  - Context for firm strategy and rivalry
    - Intellectual property protection?
    - Corruption?
    - Fair/Open markets (no trade barriers & fair regulations)
  - Factor (input) conditions
    - Availability of scientific & technological infrastructure (Nestle example)
    - Availability of human resources (Dreamworks example)
    - Access to research institutions & technological infrastructure (Microsoft example)
  - Related and supporting local industries
    - Availability of local suppliers (Nestle Example)
    - Access to firms in related fields

Examples that benefit both society & corporate competitiveness: (shared value)

- 1) Toyota
  - a. Toyota's response to concerns over automobile emissions was dealt with by their Toyota Prius, the hybrid electric/gasoline vehicle, the first in a series of innovative car models that have produced a competitive advantage and environmental benefits. Their lead is so substantial other car companies are licensing the technology
- 2) Microsoft
  - a. Microsoft has a working partnership with American community colleges. The shortage of information technology workers is a significant

constraint on Microsoft's growth. Undergraduates could be a major solution however their technology within the classroom is normally out-dated and there are no systematic professional development programs to keep faculty up to date. Therefore, Microsoft invested \$50 million over 5 years aimed at solving these problems.

3) Nestle Chocolate

- a. Nestles begun its operations in India in 1962, where they invested money in diary cattle in local Indian communities. As their value chain derived in Switzerland depended on establishing local sources of milk from a large, diversified base of small farmers. The quality of the milk was better which lead to a stronger supply for their products whilst also benefiting locals but investing locally and committing to working with small farmers.

4) Dream Works

- a. DreamWorks in LA needed employees and there wasn't a good local supply so they invested in education in local schools.

## 2) The business case for CSR extended to philanthropy

- **Friedman:**

- o Charitable donations should be made by individual shareholders not the company
- o It has to directly benefit the business, with there needing to be a positive NPV (could be argued to be more investment)
- o No philanthropic unless it feeds back to the company

- **Philanthropy:** Altruistic concern for human welfare and advancement, usually manifested by donations of money, property or work to needy persons

- o Some could argue that it is a matter of conscience and not to be adulterated by business objectives whereas others may say it is self-serving. **(Porter & Kramer 2002)**
- o Further, whatever the reason for donating its inevitable that it will better your reputation **(Porter & Kramer 2002)**
- o Benefits many through broad social change **(Porter & Kramer 2002)**
- o Context focused philanthropy is best **(Porter & Kramer 2002)**

### Competitive context of business on where to direct donations:

1) Local demand conditions

- Sophistication of local demand (social value orientated?)
- Demanding regulatory standards (Toyota emissions example)

2) Context for firm strategy and rivalry

- Presence of local policies to encourage investment eg: Intellectual property protection?
- Fair/Open markets (no trade barriers & fair regulations)

3) Factor (input) conditions

- Land, Labour, Capital, Enterprise
- Availability of scientific & technological infrastructure (Nestle example)
- Availability of human resources (Dreamworks example)
- Access to research institutions & technological infrastructure (Microsoft example)

#### 4) Related and supporting local industries

- Are there capable supplies and companies in the related field?

#### Free rider Problem:

- **QUESTION:** Does the ability of other companies to be free riders negate the strategic value of context-focused philanthropy?
- **ANSWER:** NO

#### Benefits to donor-company remain substantial:

- Improving context mainly benefits companies based in a given location.
  - o Not all companies are based in the same area
- Corporate philanthropy is ripe for collective activity.
- Leading companies will be best positioned to make substantial contributions and will in turn reap a major share of the benefits.
  - o Eg: Cisco with a leading market share in networking equipment will benefit most from a larger growing market.
- Not all contextual advantages are of equal value to all competitors.
  - o The more tightly corporate philanthropy is aligned with a company's unique strategy the more it will benefit
- The company that initiates corporate philanthropy in a particular area will often get disproportionate benefits because of the superior reputation and relationships it builds.

#### How to contribute?

- Selecting the best grantees
- Signalling to other funders
  - o A donor can publicise the most effective organisations and promote them to other donors
- Improving the performance of grant recipients
  - o Improving grantee performance can increase the return on the grantee's total budget
- Advancing knowledge and practice
  - o The expertise, research capacity and reach that a company brings to philanthropy can help non-profit organisations create new solutions that they could never afford to develop on their own

### 3) Environmental case for CSR – GEO- 5 for Business (extension Lecture 2):

#### **Drivers:**

- Human population growth
  - o Over the last 100 years, the earth's population has quadrupled to 7 billion people
- Economic development
  - o Global economic output has increased roughly 20-fold over the last 100 years and is expected to continue to increase

**Manifest (obvious) as:**

- Increasing energy consumption
  - Energy consumption is ruining our atmosphere and dropping more CO<sub>2</sub> emissions, which is warming the planet
- Urbanisation
  - More buildings and infrastructure are causing land to be destroyed (trees, soil, ecosystems)
- Globalisation
  - Trade has grown 12% since 1990, as a result of trade barriers dropping
  - WTO agreements formed (bilateral agreement) affecting biodiversity, water polluting for boats travelling
- Demand for Transport
  - More cars, buses, trains are being created to meet growing population needs
  - Chemicals (CO<sub>2</sub> emissions) and waste (tyres) are coming from vehicles