CHAPTER 10: Corporate Responsibility

Key Revision Points

Introduction

There are philosophical and pragmatic reasons why organisations should act in a socially responsible manner.

Philosophically, models of a responsible society would have companies doing their bit to contribute towards a just and fair society.

Pragmatically, commercial organisations need to take account of society's values because if they don't, they may end up isolated from the values of the customers they seek to attract.

The Stakeholders of Organisations

Stakeholders are those organisations and individuals who may not necessarily have any direct dealings with a company, but who are nevertheless affected by its actions.

The following principal stakeholders in business organisations can be identified:

- Customers
- Employees
- Local Communities
- Government
- Intermediaries
- Suppliers
- The financial community

Philosophical underpinnings of corporate social responsibility

There are essentially two views about why companies should act in a socially responsible manner.

1 In models of 'good' societies, organisations have a duty to think about the interests of society, and not just their own narrow interests.

2 More pragmatically, companies often go out of their way to be seen acting in a socially responsible way because it is a cheap way of gaining attention and a unique selling proposition.

In practice, reasons for organisations acting in a socially responsible manner are a combination of the two.

Any discussion of **corporate social responsibility** should recognise that organisations typically produce a wide range of **external costs**. These represent resources that are used in the organisation's production processes, but the costs of which are borne not by the company, but by somebody else.

The opposite of external costs produced by organisations are external benefits. These are benefits that the organisation produces, but for which it does not get any direct income benefit.

Social pressure combined with legislation has had the effect of making organisations bear a higher proportion of their external costs, so that they become conventional internal costs.

Many consumers expect that companies act in the best public interest towards the suppliers of private-sector goods. If they do not feel the company is acting in the public interest, their goods will not be purchased. In taking on this role, some have suggested that private sector companies are becoming more important than governments in setting the agenda for ecological reform.

Corporate Governance

In the UK, a number of attempts to develop blueprints for corporate governance have been developed (e.g. those by the Cadbury and Greenbury committees).

Good corporate governance is culturally conditioned and what may constitute bad governance in one culture may be accepted as normal in others, reflecting economic, political, social and legal traditions in each country. Despite convergence, differences still predominate, for example in attitudes towards the disclosure of directors' salaries.

Ethics

Ethics is essentially about the definition of what is right and wrong. However, a difficulty occurs in trying to agree just what is right and wrong. No two people have precisely the same opinions, so critics would argue that ethical considerations are of little interest to business.

Culture has a great effect in defining ethics and what is considered unethical in one society may be considered perfectly acceptable in another.

There are many documented cases to show that acting ethically need not conflict with a company's profit objectives, and indeed can add to profitability. For example, good safety standards and employment policies can improve productivity.

Ecological Responsibility

Business is often seen as being in conflict with the need to protect the natural ecology.

There is argument about whether ecological problems are *actually* getting worse, or whether our perceptions and expectations are changing.

A market led company cannot ignore threats to the natural ecology. Commercial organisations' concern with the ecological environment has resulted from two principal factors:

- There has been growing pressure on natural resources, including those that directly or indirectly are used in firms' production processes.
- The general public has become increasingly aware of ecological issues, and more importantly, has shown a greater willingness and ability to spend money to alleviate the problems associated with ecologically harmful practices.

At a macro-environmental level, support for the ecological environment has sometimes been seen as a ‘luxury’ which societies cannot afford as they struggle to satisfy the essentials of life.

Many poorer countries tolerate poor environmental conditions in order to gain a competitive cost advantage over their more regulated western competitors.

- **Assessing ecological impacts**

Consumers may be confounded by alternative arguments about the consequences of their purchase decisions, with goods which were once considered to be environmentally ‘friendly’ suddenly becoming seen as enemies of the environment.

Most members of the public are not experts on the technical aspects of ecological impacts of business activities. They may therefore be easily persuaded by the most compellingly promoted argument, regardless of the technical merit of the case.

- **How business can capitalise on ‘green consumerism’**

The green consumer movement can present businesses with opportunities as well as problems. These are some examples of how firms have adapted to the green movement:

- Many customers are prepared to pay a premium price for a product that has been produced in an ecologically sound manner.
- Being ‘green’ may actually save a company money.

A company which adopts environmentally sensitive production methods ahead of compulsion can gain experience to competitive advantage ahead of other companies.