

CHAPTER THREE

CORPORATE SOCIAL RESPONSIBILITY (CSR): A THEORETICAL OVERVIEW

3.1 INTRODUCTION

According to Cannon (1994:32), business has between itself and the community in which it operates an implicit or explicit contract: business is expected to create wealth; supply markets; generate employment; innovate and produce a sufficient surplus to sustain its activities and improve its competitiveness while contributing to the maintenance of the community in which it operates (*compare* Kanji & Chopra, 2010:119; Norén, 2004:4). Society is expected to provide an environment in which business can develop and prosper, allowing investors to earn returns while ensuring that the stakeholders and their dependents can enjoy the benefits of their involvement without fear of arbitrary or unjust action (*also see* Greenwood & Van Buren, 2010:426; Fitzgerald & Cormack, 2006:7). As indicated in Chapter One, the need for companies worldwide to be more accountable for the ways in which they conduct their business has grown at a tremendous rate. Especially during the last decade, companies have globally been placed under cumulative pressure from different stakeholder groups to demonstrate and prove their commitments to the idea of Corporate Social Responsibility (CSR) (Davis & MacDonald, 2010:77; Kanji & Chopra, 2010:119; Kolk & Van Tulder, 2009: 119; Pies *et al.*, 2009:376-377; Pomeroy & Dolnicar, 2009:285; Veleva, 2009:40). It is, therefore, an undisputable argument that societal expectations for business are evolving and that the traditional view of *“the sole responsibility of corporations is to maximize shareholder value”* is now much rarer than it used to be. Several factors (SEEP, 2009b:14-15) appear to be driving this process (of the changing role of business in society):

- The **expansion in human rights** has focused attention on businesses' human rights policies and practices. Businesses are increasingly expected to be both protector and promoter of human rights.
- The **growth, reach, and influence of private business** have conferred businesses with new rights and opportunities, but they have also created competitive pressures for corporate responsibility beyond traditional forms of compliance and philanthropy.

- The **failure of governments** to solve many social problems has led to increased expectations of corporations to address social problems - especially those to which they may contribute - such as environmental degradation, human rights, unsafe or unsanitary working conditions, or inadequate product safety.
- The growth in the number, sophistication, and connectivity of **well-informed civil society** organisations calling for increased corporate social responsibility has raised public consciousness and turned the spotlight on corporate social behaviour. The Internet and other global media have greatly expanded the outreach and influence of these civil society organisations.
- Governments and companies are more aware that **social, economic, environmental, and security challenges** are too great and resources too dispersed for the public and private sectors to tackle alone, prompting action by both, collaborative and otherwise.
- **High-profile corporate ethics scandals** during the early 2000s focused world and mass media attention on corporate citizenship issues and corporate governance.
- With increased financial muscle and activism, **institutional investors**, together with **regulators**, have responded to the spate of ethics scandals and governance crises with calls for better corporate governance and accountability, transparency, and legitimacy (see 2.3).

Probably the biggest factor driving the change in society's expectations of business is the growing amounts of power in terms of economic wealth and impact that corporations have accumulated across the globe, specifically in relation to other institutions such as governments. In 2000, **51 of the world's largest economies were corporations and not countries** (Anderson & Cavanagh, 2000). Today, the top 100 companies control 33% of the world's assets, but employ only 1% of the world's workforce. General Motors has a larger financial turnover than Denmark's economy; Wal-Mart, Exxon Mobil and Ford Motor are financially bigger than countries like Poland, Norway, Saudi Arabia and South Africa. The mega-corporations roam freely around the globe, lobbying legislators, sponsoring election campaigns and playing governments against each other to get the best deals (Anderson & Cavanagh, 2000; Lasn & Liacas, 2000).

When considering this state of affairs, one soon realises the importance of society utilising certain 'protection mechanisms' (such as CSR) that will morally and even legally enforce certain obligations and restrictions on corporations' behaviour worldwide. An organisation's performance in relation to the society in which it operates and its impacts on the environment; has become a critical part of measuring its overall performance and its ability to continue operating successfully. This is, in part, a reflection of the growing recognition of the need to ensure healthy ecosystems, social equity and good organisational governance (ISO, 2010:2).

In accordance with objective number one (see *Research Objectives under section 1.3*) this chapter is focussed on highlighting the meaning of the concept *Corporate Social Responsibility (CSR)*. This will be achieved by firstly exploring certain theoretical developments of CSR and its importance for society and companies worldwide, and secondly by investigating the meanings of its different underlying dimensions.

3.2 DEFINING AND DESCRIBING CSR

3.2.1 Overview of CSR

One of the main findings when studying Corporate Social Responsibility (CSR) from the literature, is that there is **no universally accepted definition** for the concept (Jain *et al.*, 2011:619; McGlone *et al.*, 2011:195; Harwood *et al.*, 2011:284; Ludescher & Mahsud, 2010:123; Fifka, 2009:312). As the ensuing segment will show, there is however, much consensus regarding its general meaning, significance and intended outcomes. In general terms, CSR refers to all activities that promote the welfare of any stakeholder (including the physical environment) of a business corporation (Ludescher & Mahsud, 2010:123; Ramachandran, 2010:286). CSR encompasses the adherence to fundamental economic and legal obligations which a business encounters in the environments where it operates, as well as the responsibility to voluntarily contribute to the social development of these environments in an adequate and structured manner that is in accordance with the resources available to each business and the underlying business strategy (Fifka, 2009:320). Put differently, CSR means that a corporation should be accountable for its

actions that affect people, their communities and their environment. It implies that negative business impacts on people and society should be acknowledged and corrected if at all possible (Frederick *et al.*, 1992). The CSR concept further suggests that modern businesses have responsibilities to society that extend beyond their obligations to the shareholders or investors in the firm; to include other stakeholders (see 2.4) such as consumers, employees, the community at large, government, and the natural environment (Carroll, 2007).

In more practical terms (Kanji & Chopra, 2010:120), CSR means operating a business in a socially responsible manner, whereby the business:

- undertakes ethical practices in employment and labour by improving workplaces
- is involved in building local communities and communicates with concerned communities regarding the consequences of its policies and products
- invests in building social infrastructure
- contributes to a cleaner environment, its protection and sustainability
- contributes by way of its corporate governance to economic development at large

The CSR concept applies to **all size** organisations, but discussions tend to focus on large organisations because they are prone to be more visible and have more power (Carroll, 2007). Linking on to this, Ludescher and Mahsud (2010:128) makes the valid and very important argument that institutions of *all sorts*, not just business corporations, need to be socially responsible. When social problems are viewed through the lens of a systems perspective, we see that no single institution bears the entire responsibility for them, yet each participates in shaping the social reality out of which such problems emerge. Consequently, CSR should be broadened to demand **institutional social responsibility** in terms of *Government Social Responsibility (GSR)*, *Academia Social Responsibility (ASR)*, *Media Social Responsibility (MSR)*, and *Religious institutions Social Responsibility (RSR)* (Ludescher & Mahsud, 2010:129). This means that the CSR concept also applies to **all types** of organisations (and not just companies or corporations).

3.2.2 Defining CSR

The following **popular definition** of CSR emerged from an international meeting the WBCSD (World Business Council for Sustainable Development) organised with 60 opinion formers from within and outside business (Holme & Watts, 1999:3):

“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 work-force and their families as well as of the local community and society at large.”

After further feedback and input from the WBCSD participants in 2000, the following definition (Holme & Watts, 2000:10) emerged:

“Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.”

From this definition it becomes clear that CSR of a company also involves the **active engagement** of other stakeholders (employees, their families, local community and society) in its operations (see previous chapter under 2.4.1 for an explanation of the term *Stakeholder Engagement*). There is also a large variety of other definitions and explanations of the CSR concept that can reveal additional characteristics and clarifications of the concept. Some of these definitions are the following:

The ISO 26000 Working Group on Social Responsibility (*quoted in* Hohnen & Potts, 2007:4) defines CSR as:

...the responsibility of an organisation for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that: is consistent with sustainable development and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law; and is consistent with international norms of behaviour that are integrated throughout the organisation.

Bowd *et al.* (in Jones *et al.*, 2006:4) state that CSR refers to:

...corporations being held accountable by explicit or inferred social contract with internal and external stakeholders, obeying the laws and regulations of government and operating in an ethical manner, which exceeds statutory requirements. This “ethical manner” is placed at the core of the entity’s strategy, exemplified by proactive community involvement, philanthropy, corporate governance, corporate citizenship, addressing of social issues, a commitment to the quality of its products and services, human rights, health, safety and the environment and its staff. An accountability whereby its strategy, aims, principles and manifestations are measurable and audited, and the results of which are communicated to the corporation’s stakeholders. While all the time this accountability should ensure a continual emphasis on generating growth, revenue and profit for the corporate entity and its shareholders/owners, facilitating this process either directly or through positive effects on the entity’s intangible assets, such as brands and reputation.

According to the Russian Managers Association (2006:4), CSR is a philosophy of conduct and a concept of doing business applied by the business community, companies and individual businessmen for sustainable development and preservation of resources for future generations, based on the following **principles**:

- Providing quality products and services to consumers
- Creating decent jobs and investing in development of production and human resources
- Strict compliance with laws, whether tax, labour, environmental or otherwise
- Integrity and reciprocity in relationships with all stakeholders
- Doing business efficiently to create economic value added and improve national competitiveness for the benefit of shareholders and the society
- Integrating public expectations and generally accepted ethics into business practice
- Contributing to the evolution of civil society through partnerships and social developmental projects

Against this background, it is clear that the CSR concept can encompass many interpretations for just as many users, but remains clearly fused in unity in terms of overall theme and appeal. As interpretations vary and change over time, organisations' social responsibilities will also be viewed very differently in a few years' time as society's expectations change (WBCSD, 2002:6). Yet, by whatever term, corporations are becoming more and more inclined to engage in the social sector (Sasse & Trahan, 2007:30), whether it is stated as fulfilling their social responsibility, promoting philanthropy, or acting as a responsible 'citizen'. Hediger (2010:524) thus believes that despite the lack of a generally accepted definition of Corporate Social Responsibility (CSR), there is common ground in the different interpretations that it can be comprehended as a program where firms act such as to maximise profits and at the same time to improve the welfare of other stakeholders. In this regard, Panwar and Hansen (2007:86) also assert that in spite of numerous definitions, CSR simply refers to balancing economic, social, and environmental responsibilities of companies (*which places it firmly in the context of SD – see 2.5.3*).

Considering the above-mentioned background and definitions of CSR, the following **working definition** has been developed and applied for the purposes of this research:

Corporate social responsibility refers to the belief that in the same way individual citizens of society are expected to behave in responsible manners, in order for the present and future well-being of society to be sustainably improved; organisations (private or public) need to be conscious of and accountable for their impacts on the social and environmental world within³ and around⁴ them.

Inherently, organisations can have much larger impacts (positive or negative) on the world (social and environmental) than individuals; which make it considerably more important for them to behave in responsible ways and therefore more complicated to be accepted as normal citizens. As organisations are also not functioning from one single mind-set, it is important that specific rules and regulations of conduct are taken up by the whole

³ *Social World within*: employees, customers, visitors, etc.
Environmental World within b) natural environment in workplaces, operation sites, etc.

⁴ *Social World around*: nearby communities, shareholders, suppliers, other stakeholders, etc.
Environmental World around: natural environment on a local, national and international scale.

organisation, to ensure that its activities are taking place within a framework that is guided by society's higher expectations on acceptable behaviour. CSR can therefore also be described as the organisation's **pursuit of living up to** (or exceeding) all the expectations that society and itself have set for the advancement of quality of life for all creation.

It seems logical to assume that not all organisations can follow the same set of rules or guidelines in order to be responsible corporate citizens, as there are many variables that can influence corporate actions such as physical context, business type, environmental factors, politics, culture, etc. Still, the same as for individuals, where there are certain universal laws based on general human rights that must be enforced everywhere; corporations should also be guided by certain universal principles (developed from societal expectations) that actualise corporate responsibility. When balanced CSR is achieved - whereby companies are contributing towards the maximisation of their own, societal and environmental benefit whilst also minimising their own, societal and environmental harm - only positive outcomes will follow.

In order to get a better understanding of the development of the concept CSR in its current form, the following segment will focus on the development of different conceptualisations of CSR over the years.

3.3 THE DEVELOPMENT OF CSR

CSR is a relatively modern concept that over the years has progressively evolved in multiple aspects, which can be broadly termed as the rationalisation of CSR. The level of analysis has moved from the macro-societal level to the organisational level and the ethical orientation has been made more embedded within it (Min-Dong, 2008:54). When studying modern developments of the CSR concept, there is one author, Archie B. Carroll, who can most probably be identified as the greatest contributor to the field of CSR theory. According to Carroll (1999:303), the concept CSR has had a long and diverse history as it is possible to trace evidences of the business community's concern for society for centuries. Formal writing on social responsibility, however, is largely a product of the 20th century, especially the past 50 years. Carroll (1999:304-321) continues by outlining some of the most

prominent developments in the evolution of the CSR concept since its modern origin half a century ago (compare Fifka, 2009:313-314). For the purposes of this study, the focus will only fall on the **most significant definitions** (in terms of a potential link to the idea of *Corporate Personality* – see Chapter 4) that occurred in each decade up until the new millennium. These are the following:

- The publication by **Howard R. Bowen (1953)** of his landmark book *Social Responsibilities of the Businessman* is argued to mark the beginnings of the modern period of literature on this subject. Bowen (1953:6) set forth an initial definition of the social responsibilities of businessmen: *"It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society."* Because of his early and seminal work and because his book and definition represented the most notable literature from the 1950s, Carroll (1999) refers to Bowen as the **"Father of Corporate Social Responsibility"**.
- **McGuire (1963:144)** stated that: *"The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations."* Although he did not clarify what, exactly, these obligations were in his definition, he later elaborated by saying that *"the corporation must take an interest in politics, in the welfare of the community, in education, in the "happiness" of its employees, and, in fact, in the whole social world about it."* Therefore, business must act *"justly,"* as a proper citizen should. This definition alludes to the notions of business ethics and **corporate citizenship** (see 5.4).
- According to **Steiner (1971:164)**, *"Business is and must remain fundamentally an economic institution, but ...it does have responsibilities to help society achieve its basic goals and does, therefore, have social responsibilities... The assumption of social responsibilities is more of an **attitude**, of the way a manager approaches his decision-making task, than a great shift in the economics of decision making. It is a **philosophy** that looks at the social interest and the enlightened self-interest of business over the long run as compared with the old, narrow, unrestrained short-run self-interest.* This definition is definitely noteworthy for this study, because it suggests that CSR has to start from a human type characteristic such as an attitude or philosophy, which may

further be an indication towards the source of a company's "personality" (see *Chapter Five*).

- According to **Sethi (1975:62)** *"...social responsibility implies bringing corporate behaviour up to a level where it is congruent with the prevailing social norms, **values**, and expectations of performance."* The same as the previous one, this definition also implies that organisations are expected to display the characteristics that are usually shown by responsible human citizens.
- **Carroll (1979)** proposed a four-part definition of CSR that was embedded in a conceptual model of CSP (Corporate Social Performance) as *"The social responsibility of business encompasses the **economic, legal, ethical, and discretionary expectations** that society has of organisations at a given point in time."* This definition forms a very important part of this research, because it provides the foundation on which the different personality descriptions are constructed (see 4.5).
- **Jones (1980)** defined CSR: *"Corporate social responsibility is the notion that corporations have an obligation to **constituent groups in society other than stockholders** and beyond that prescribed by law and union contract. Two facets of this definition are critical. First, the obligation must be voluntarily adopted; behaviour influenced by the coercive forces of law or union contract is not voluntary. Second, the obligation is a broad one, extending beyond the traditional duty to shareholders to other societal groups such as customers, employees, suppliers, and neighbouring communities."* Jones also argued *"...that it is very difficult to reach consensus as to what constitutes socially responsible behaviour ...CSR ought to be seen not as a set of outcomes but as a **process**."* Again, this definition implies that good CSR behaviour should come from within the organisation and that it involves interaction with many other role-players in society. In other words, when implementing CSR and dealing with other members of society, corporations are acting in accordance with their own 'personalities.'
- **Carroll (1991)** revisited his four-part CSR definition and was at that time referring to the discretionary component as **philanthropic** and suggesting that it embraced "corporate citizenship" he stated, *"For CSR to be accepted by the conscientious business person,*

*it should be framed in such a way that the entire range of business responsibilities is embraced. It is suggested here that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a **pyramid** (see 3.6.5). To be sure, all of these kinds of responsibilities have always existed to some extent, but it has only been in recent years that ethical and philanthropic functions have taken a significant place.”* The pyramid of CSR depicted the economic category as the base (the foundation upon which all others rest), and then built upward through legal, ethical, and philanthropic categories. Carroll (1991) made it clear that business should not fulfil these in sequential fashion but that each is to be fulfilled **at all times**.

By the late 1990s, the idea of CSR became almost universally sanctioned and promoted by all constituents in society from governments and corporations to nongovernmental organisations and individual consumers. Most of the major international organisations such as the United Nations (UN), World Bank, Organization of Economic Co-operation and Development (OECD) and International Labour Organization (ILO) not only endorse CSR, but have also established guidelines (see *Chapter Four*) and permanently staffed divisions to research and promote CSR (Min-Dong, 2008:53).

In line with these developments, Cochran (2007:450-452) describes the **evolution of CSR** as involving the following changes:

- **From philanthropy to strategic philanthropy:** This notion contends that organisations should find social needs that align with their particular expertise (or core competencies). For example, it would seem to make little sense for a computer manufacturer to spend funds on building homeless shelters. This is not to suggest that the computer manufacturer should not engage in philanthropy, but rather that when it does so, it should engage in an activity or issue closer to its area of expertise. Companies that focus on causes in their area of expertise will almost certainly be more efficient at addressing social needs.
- **From investing to socially responsible investing (SRI):** The central idea behind social investing is that it is possible for groups of individuals to have an impact on the

practices and policies of firms through market mechanisms. By not purchasing or by selling the shares of certain firms that are engaged in practices that the stockholder finds objectionable, he or she can make a small difference. Acting in unison, many stockholders can make a major difference. Today, SRI is a large and sophisticated movement (see 2.3.3).

- **From entrepreneurship to social entrepreneurship:** Social entrepreneurship is the process of applying the principles of business and entrepreneurship to social problems. Social enterprises are enterprises devoted to solving social problems. The reason for their existence is not to maximise return to shareholders, but to make a positive social impact.
- **From venture capital fund to social venture capital fund:** Supporting the growth in social ventures is a new type of venture capitalist. Social venture capitalists not only supply seed money to social ventures, but also engage in a rigorous process of training future social entrepreneurs.
- **From a MBA to a MBA in CSR:** A number of MBA programs have begun to focus on the area of social responsibility and social entrepreneurship. The CSR movement has now reached the point that MBA programmes are starting to grant degrees in the field. Students apply principles of CSR and business ethics through the spectrum of functional courses. Ultimately, the program prepares individuals for careers that will, at least in part, focus on CSR issues.

Consistent with these developments, Visser (2008a) believes that we are shifting from the old concept of CSR - the classic notion of "Corporate Social Responsibility", which he calls CSR 1.0 - to a new, integrated conception - CSR 2.0 (comparing it to the development of software programmes or the Internet), which can be more accurately labelled '**Corporate Sustainability and Responsibility**'. See **Table 3** for a comparison between the older and the more 'modern version' of CSR.

Table 3

Comparing the older and newer versions of CSR

CSR 1.0	CSR 2.0
A vehicle for companies to establish relationships with communities, channel philanthropic contributions and manage their image	Being defined by "global commons", "innovative partnerships" and "stakeholder involvement"
Included many start-up pioneers, but has ultimately turned into a product for large multinationals	Mechanisms include diverse stakeholder panels, real-time transparent reporting and new-wave social entrepreneurship.
Travelled down the road of "one size fits all" standardisation, through codes, standards and guidelines to shape its offering	Is recognising a shift in power from centralised to decentralised; a change in scale from few and big to many and small; and a change in application from single and exclusive to multiple and shared.

Source: Visser (2008a)

What differentiates past and current interest in CSR is that today's calls for greater corporate social responsibility are more broadly based, more specific, and more urgent (SEEP, 2009:13). In this regard, Visser (2008a) predicts that as the world becomes more connected and global challenges like climate change and poverty loom ever larger, businesses that still practice CSR 1.0 will be rapidly left behind. Highly conscientised and networked stakeholders will expose them and gradually withdraw their social licence to operate. By contrast, companies that embrace the CSR 2.0 era will be those that collaboratively find innovative ways to tackle global challenges and be rewarded in the marketplace as a result. Carroll (1999:321) expects that in years to come, attention will increasingly be given to **measurement initiatives** of CSR (such as this research study aims to accomplish) as well as theoretical developments.

Before investigating the different measurement properties of the CSR concept, it is sensible to first take note of some of the most important criticisms as well as potential advantages of applying CSR.

3.4 THE CASE AGAINST AND FOR CSR

As already mentioned in the introduction part of this chapter (see 3.1), financial output is no longer the only public concern of business, as society has certain expectations of how businesses are operating, i.e. how natural resources are consumed, how labour is employed, how business impacts local development and so on. Business continually faces more requirements of society, whether formal or not, as to doing business in a socially acceptable way (Russian Managers Association, 2006:5). However, not all business organisations behave in a socially responsible manner and there are people who would argue that it is not the job of business organisations to be concerned about social issues and problems. Primarily, there are two schools of thought (Anon, 2008b) on this issue:

- In the **free market view**, the job of business is to create wealth with the interests of the shareholders as the guiding principle
- The **corporate social responsibility view** is that business organisation should be concerned with social issues

The following three sections (3.4.1 – 3.4.3) will explain these two schools of thought in more detail.

3.4.1 Attacks on Social Responsibility

Social responsibility has been subjected to attacks from various corners (sometimes on the same grounds). Some of the most controversial reasons (Fifka, 2009:315-319; Mintzberg, 1983) for dismissing the idea of social responsibility are the following:

- As already alluded to above, the most widely used argument is that the **function of business is economic, not social**. Social responsibility often means giving away the shareholders' money: It weakens the firm's competitive position, and it dilutes the efforts of its managers, who are supposed to focus on economic productivity. The most popular argument in this regard came from Milton Friedman (1970) who said: *"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"

- There are also attacks on CSR from those who simply **do not trust the corporation**. These critics view social responsibility as a giant public relations campaign.
- Another, more far-reaching attack is that by the very nature of their training and experience, businessmen are **ill-equipped to deal with social issues**. Critics feel that senior executives of the large corporation are there because they are experts in doing business and have no knowledge of social issues. By devoting so much time to business issues, they are automatically insulated from the rest of society, denying themselves the knowledge and skills needed to deal with social issues.
- Others have a similar complaint by arguing that the **orientation of business organisations** is aimed at efficiency and control which consequently leaves their leaders incompetent at handling complex social concerns, which usually require flexibility and political finesse.
- A related attack claims that social responsibility is not possible in the large corporation, due to the **nature of its environment, structure, and control systems**. According to this attack, corporations, by the nature of their activities, create the social problems. How can they solve them?
- There are also some critics who feel that the corporation has **no right to pursue social goals**. The argument is that corporate managers lack broad public legitimacy; at best they are appointed by private shareholders; or are often self-selected. Hence, they have no right to pursue broad social goals by imposing their interpretation of the public good on society. These critics believe that public functions should not be exercised by private businessmen and should be left to elected representatives.
- Finally, the most pragmatic critics ask: **How are businessmen to determine what is socially responsible?** To whom are they responsible: the whole of society? the customers? the industry? the employees? the managers' families? the corporation itself? What happens when responsibility to one means irresponsibility to another? Clearly, social responsibility involves a host of complex and contradictory needs in a perpetual state of flux.

Despite various reasons for dismissing the idea of CSR, Carroll (2007) points out that although one will always find individual business people who might reject or fight the idea of CSR/CSP, for the most part today, large companies all over the world have accepted and internalised it (also see Kanji & Chopra, 2010:122). This fact may well be evidence for the conviction of Mintzberg (1983) that, regardless of all the different rejections of the notion of CSR, it still represents an **indispensable part of business** today and that it is here to stay.

3.4.2 The Indispensability of Corporate Social Responsibility

Mintzberg (1983) underscores this argument by means of the following two reasons:

- First, the strategic decisions of large organisations **inevitably involve social as well as economic consequences**, inextricably intertwined. The thought of distinguishing between private economic goals and public social goals - the former to be pursued by businessmen and the latter by elected leaders - sounds so good in theory, but simply does not happen in reality. When corporations make important decisions – such as introducing a new product, or deciding where to locate a plant, or to close down a division - it leads to various social consequences. Corporations' size alone makes their economic decisions have social impacts. When a plant employing thousands of workers is opened or closed, the impact on a community and on many lives is direct and consequential. As a result, corporation can never claim neutrality. Hence, there is no such thing as a purely economic strategic decision in big business. Every decision is also social or political.
- A second argument is that there is always some **'zone of discretion' in strategic decision-making**. Company managers have latitude as to *how soon* and in *what way* to respond to social issues. That discretion can be used to subvert social needs, to ignore them in favour of economic ones, or to consider them alongside the economic ones. There is little doubt that social responsibility in large corporations could be a great deal better, but it could also be an awful lot worse. We have no idea of the depths to which we can drop. It is our ethics that keep us from falling any lower. The existence of this 'grey' area alone should be more than enough evidence of the indispensability of CSR within the realm of business. To dismiss the idea of social responsibility will mean the allowing of corporate behaviour to drop to the lowest

common denominator, propped up only by external controls, by regulations, pressures, and the like.

Cannon (1994) also conveys the indispensability of CSR by denoting the **interdependent relationship** that exists between business and society (*also see 3.1*). Cannon (1994) asserts that business is depended for its survival and long-term prosperity on society providing the resources (people, raw materials, services, and infrastructure) to convert inputs into profitable goods or services. Business further relies on society supplying a means of exchange (money), to allow it to convert the goods it produces into assets. Social stability provides a framework for planning and investment in the expectation that the fruits of these efforts will be retained. Therefore, companies and their stakeholders depend on the community in which they operate for their existence and prosperity. In turn, society expects business to make its contribution by providing the means by which the material needs of the community are met. These include the products and services produced by firms. Equally important to the community are the jobs created directly and indirectly (Cannon, 1994).

From this background, it is clear that business needs the approval and support from society to exist. For its survival, it is essential for business to gain and maintain its 'social licence to operate'. Adopting effective CSR policies and practices is the best way for business to accomplish this (the acquiring of the social licence to operate). This leads to the conclusion that CSR is a significant factor which may impact directly or indirectly on the life-span of an organisation.

3.4.3 Benefits of Implementing CSR

According to Frederick *et al.* (1992), being socially responsible does not mean that a company abandons its primary economic mission (*see 3.6.1*); nor does it mean that socially responsible firms cannot be as profitable as others less responsible (some are and some are not). Social responsibility requires companies to balance the benefits to be gained against the costs of achieving those benefits. Proponents of CSR believe that both society and business will gain when business organisations are acting in socially responsible ways. Weber (2008) classifies the business benefits from CSR into **monetary** and **non-monetary**

benefits. Monetary benefits are the direct financial effects as well as benefits that do not directly lead to cash flows but can nevertheless be measured in monetary terms. One example is an increase in brand value due to CSR (*see first point of “key potential benefits of CSR” below*). Non-monetary benefits mean benefits that are not directly measured in monetary terms but may still influence company competitiveness and the financial success of a company. CSR can therefore have many different ways of impacting on a company's financial bottom line.

The following are some **key potential benefits** (Stanaland *et al.*, 2011:49; Weber, 2008; Hohnen & Potts, 2007; Tsoutsoura, 2004) for companies implementing CSR:

- **Improved reputation management:** Organisations that do well in their CSR performance can advance their reputation, while those that perform poorly may damage brand and company value when exposed. An organisation's reputation emerges from personal experiences and displayed characteristics and includes a value judgment by its stakeholders. A company's image can change quickly, but its reputation develops over time and is shaped by steady performance and communication about this performance (to stakeholders) over several years. Both image and reputation can influence company competitiveness. Consumers are often drawn to brands and companies with good reputations in CSR related issues. Reputation is hard to quantify and measure; it is even harder to measure how much it increases a company's value. But since companies have developed methods to measure the benefits of their advertisement campaigns, similar methods (such as the measuring of corporate citizenship) can and should be able to be applied in the case of corporate reputation.
- **Less risk of experiencing rare negative events:** The risks related to CSR can be grouped into three categories: *corporate governance*, *environmental aspects*, and *social aspects*. Socially responsible companies are more transparent and have less risk of bribery and corruption. Although they may implement stricter and, thus, more costly quality and environmental controls, they run less risk of having to recall defective product lines and pay heavy fines for excessive polluting. They also have less risk of negative social events which damage their reputation and cost millions in information and advertising campaigns. Thus, socially responsible businesses should have more stable earnings growth and less downside volatility.

- **Enhanced ability to recruit, develop and retain staff:** This may directly be related to pride in the company's products and practices, or happen as a result of introducing improved human resources practices, such as 'family-friendly' policies. It can also be the indirect result of programs and activities that improve employee morale and loyalty. Companies that have an increased ability to attract and retain employees will experience a decrease in amounts of turnover, recruitment and training costs. Companies that improve working conditions and labour practices also experience increased productivity and reduced error rates.
- **Improved innovation, competitiveness and market positioning:** CSR is not just about avoiding risk as it also involves seizing opportunities. Relying on feedback from various stakeholder groups can be an effective and enduring source of ideas for new products, processes and markets, resulting in competitive advantage. Efficiency gains could also stem from substituting certain materials in the implementation of a sustainability strategy. Another example is that improved contact with certain stakeholders such as regulators should result in time savings which will have a positive effect on production.
- **Enhanced ability to address change:** A company with its 'ear to the ground' through regular stakeholder dialogue is in a better position to anticipate and adapt to regulatory, economic, social or environmental changes. Firms increasingly use CSR as a 'radar device' for detecting evolving market trends.
- **More robust 'social licence' to operate in the community:** Improved stakeholder understanding of the firm, its objectives and activities translates into an improved relationship with society. As a result, more robust and enduring public, private and civil society alliances (all of which relate closely to CSR reputation, discussed above) will be formed. In other words, CSR helps to build social capital.
- **Access to capital:** Financial institutions are increasingly looking at social and environmental criteria when assessing projects. These days, investors are also looking for indicators of effective CSR management when deciding where to place their money (*see an explanation of the SRI concept under 2.2.1*). Subsequently, companies that

implement good CSR will have more funds at their disposal and have less risk in losing donors.

After weighing the pros and cons of CSR, most businesses today embrace the idea. But before totally accepting the idea of CSR, many business practitioners have insisted that the **'business case'** for CSR be further developed (Carroll, 2007). The business case for CSR means that a company can **'do well by doing good.'** This means that a company can perform better financially by attending not only to its core business operations, but also to its responsibilities toward creating a better society (Kurucz *et al.*, 2008:84). There are conflicting views about the link between corporate *social* and corporate *financial* performance. One view is that good financial performance makes available the funds with which to make investments that improve environmental and social performance of the firm. Another view is that good environmental and social performance (as a result of implementing CSR) will lead to good financial performance because of the efficient use of resources and commitment of the workforce and other stakeholders (Scholtens, 2007).

Even if both these views are correct, it might be problematic to consider and debate the issue too much. Although the business case for CSR might be a good way of motivating companies to do CSR, it may also create the risk that some companies might only do CSR to make more profits and therefore not doing it for the right reasons. Consequently, some of the vital ethical components of CSR may get lost along the way and companies that perform CSR out of self-interest may do more harm than good (towards society and itself) in the long run. In the end, widespread evidence suggests that the debate about CSR is shifting. It is less about whether to do CSR and more about **how to do CSR** (SEEP, 2009:17). Subsequently, the following segment will focus on how CSR is currently practised in South Africa.

3.5 CSR IN SOUTH AFRICA

This section is divided into two sub-sections; by firstly presenting an overview of CSR as it is currently applied in South Africa; and secondly by focussing on some of the drivers behind the South African CSR policies and practices.

3.5.1 Overview of CSR in South Africa

Flores-Araoz (2011) indicates that, in South Africa, CSR is not only a frequent topic for conversation and debate, but also a tangible effort by many companies. The social picture of the country after the Apartheid era was one of marked inequalities in terms of education, infrastructure, economic power, and basic services access. The democratic regimes that have governed the country since 1994 have made important efforts in combating those social imbalances through different social programs and various public initiatives, but also through the impulse given to the private sector. Fig (2007:5) found that the leading businesses in the field of CSR in South Africa are those which are perhaps the most globalised. These companies have extensive investments abroad, have placed their major listings abroad, or have signed on to international codes of conduct (*see Chapter Four*). Most of these businesses produce sustainability or social reports, consult with different stakeholders or have implemented quality controls in relation to health, safety and environmental management. South African companies further demonstrate considerable adherence to codes of conduct (e.g. King Codes on Corporate Governance and ISO 14000 series), where these apply. Only a few firms, however, are signatories to the UN Global Compact (*see 4.4*). At the level of environmental, health and safety regulation, South Africa (government departments) is still relatively weak, or, in some cases, unwilling to act decisively against big firms. As a result, some sectors have felt the need for **self-regulatory approaches**. South African firms make considerable donations to social causes, especially in areas where the limitations of the state have been reached. These are areas such as education, HIV/AIDS, conservation and the arts. Sometimes, the philanthropy is linked to the company workforce, or targeted at consumers as a strategy to enhance sales. There is also considerable expenditure on sports sponsorship (Fig, 2007:7).

This is partly because South African firms have much preferred the term **Corporate Social Investment (CSI)** (*see 3.6.4*) to that of CSR. The following two definitions explain the CSI concept:

Corporate Social Investment (CSI) refers to a company's contributions to community upliftment and socio-economic development (SED). Given endemic poverty, inequality and

inadequate skills for a growing economy, CSI should be an imperative for every company doing business in South Africa. CSI programmes reap long-term gains in the form of a stable society, skilled employees, broader markets with rising buying power, more competitive and diverse supply chains, and an absorptive second economy. In the last decade, companies have adopted a more strategic approach to CSI, aligning their activities more closely with core business and evaluating the return on investment (CSI Handbook, 2008).

CSI encompasses projects that are external to the normal business activities of a company and not for purposes of increasing company profit. These projects have a strong developmental approach and utilise company resources to benefit and uplift communities and are not primarily driven as marketing initiatives (CSI Solutions, 2007).

Although many companies are adhering to international standards and trends of CSR in response to both internal and external requirements, there is still plenty of room for growth. Particularly in South Africa, where major problems of economic and social inequality still prevail and where efforts are needed to ensure the equal access to basic goods and services, CSR could still develop and expand. The variety of social needs of the country in areas such as education, health care (HIV/AIDS), entrepreneurial development, among many others offer a wide spectrum for corporations to launch valuable CSR initiatives that not only can help solve pending social issues, but also empower local individuals to be part of their own communities' economic growth (Flores-Araoz, 2011). At the moment, however, the South African business philosophy seems to be one where social and environmental interventions by firms are seen as investments with the likelihood of some kind of return in the form of reputation, enhanced markets or brand recognition. The impacts of migrant labour, forced removals, land confiscation, job reservation and other workplace discrimination are considerable, flow across generations, and have yet to be redressed (Fig, 2007:8). By shifting the meaning of CSR, and dwelling on the more neutral concept of CSI, firms are negating any responsibility for such impacts. Under the concept of CSI, business and socio-economic development are seen as distinct, with development being quite external to business. Development is therefore seen as an add-on option rather than as an integral part of taking responsibility for restitution (Fig, 2007:8).

3.5.2 Drivers of CSR in South Africa

Due to the fact that CSR in South Africa has often been confused with CSI, there is a definite lack of good information regarding *South African CSR*. In this regard, Bezuidenhout *et al.* (2007) probably provides the most comprehensive description currently available on CSR and its drivers specific to South Africa:

- **Globalisation:** As the South African economy continues to liberalise, globalisation affects certain business enterprises, particularly exporting companies, companies with external investments, companies that have relocated offshore, and companies whose supply chains extend beyond national borders (often large, leading corporations). An increasing number of larger South African firms are positioning themselves as global players and thereby gradually transforming from cosmetic, public-relations-type CSR, towards real integration of environmental and social issues into their core activities. A further external influence on the larger players has been increasing pressure to comply with codes of conduct (*see for instance 4.2 and 4.4*). Reintegration into the global economy and liberalisation measures inevitably mean that global influences play an increasing role in local business practices.
- **International organisations and treaties:** Until South Africa became a democratic state in 1994; it was excluded from the UN (United Nations) system and therefore played little role in shaping multilateral agreements. Since then, although some questions could be raised about the coherence of the country's post-apartheid foreign policy, South Africa has begun to play a much more significant international role. It is one of the key economies on the African continent and, therefore, has taken an influential place in sub-regional and regional organisations such as the Southern African Development Community (SADC) and the African Union (AU).
- **The impact of the World Summit on Sustainable Development (WSSD):** The participation of the business sector in the WSSD, held in Johannesburg in August-September 2002, took a number of forms. First, local business in South Africa (such as Eskom) was included in the sponsorship of the Summit. Second, it was estimated that over 700 firms and over 50 company CEOs took part in the summit. Although local companies were not experienced enough to contribute strongly to the workings of the

summit, it presented South African corporations with the opportunity to experience global business lobbies and the UN system at close quarters.

- **Peer pressure:** The behaviours of major CSR performing companies with high public profiles are often very visible and have a demonstration effect on emergent companies in similar sectors. Another factor is that larger (or wealthier) firms' supply chains of products and services have increasingly been outsourced to smaller service providers. The outsourcing agreements often play a part in insisting that the providers adhere to specified social and environmental standards.
- **Civil society pressures:** In some cases, South African firms have reservations about the ability of civil society to influence CSR behaviour in firms. According to these views, churches, NGOs, trade unions and community groups are too weakly organised to constitute any strong lobby in this regard. Critics believe that civil society had played a significant role during the apartheid period, but that this was no longer the case. However, the importance of this driver tends to be stressed by certain businessmen who feel that civil society have an important watchdog role. *(In this regard, the Bench Marks Foundation must be singled out as one of the most important NGOs in terms of exerting real pressure and influence on company behaviour).*
- **Consumers, shareholders and investors:** Although consumer groups in South Africa are not as well organised, their counterparts in the developed countries exercise considerable influence on the CSR behaviour of local firms. This driver played an important role during the early transition phase from apartheid and applied particularly to firms with foreign partnerships, clients, employees or shareholders. Currently, the influence of ethical investment, specifically over employment practices is clearly showing. The listing of South African firms on external bourses has also required high standards of CSR, and it has been important to convince the more significant asset managers of good faith in this regard *(also see 2.3.2)*.
- **Government pressures:** Discrete policy processes have moved from a multi-stakeholder model to one in which the state determines selective participation, usually privileging the business sector. In general, CSR initiatives remain voluntary. However, in recent years there have been statutory initiatives on questions of employment equity

(attempting to redress apartheid-era job reservation) and on corporate ownership. Environmental responsibilities are often legislated, as the voluntary route is seldom effective. But despite fairly comprehensive environmental legislation, the law is seldom implemented effectively due to weak regulatory capacity on the part of the state.

Now that the development and current use of the concept has been highlighted, the succeeding sections will seek to identify and elucidate the different theoretical components of CSR. This is done in order to discover the measurement qualities of the CSR concept, by identifying certain indicators relevant to each of its dimensions.

3.6 THE DIMENSIONS OF CSR

Carroll (1979; 1991; 1998) suggests that CSR is made up of **four types** of social responsibilities, namely: *economic*, *legal*, *ethical* and *philanthropic*. In addition, these four categories or components of CSR might be represented as a **pyramid** (Carroll, 1991). Each of these responsibilities constitutes a separate domain or dimension of the CSR model; however, they are still each interrelated as well as interdependent in some way or another. These four dimensions of CSR can individually be **described** (Carroll, 1979; 1991; 1998) as follows:

3.6.1 Economic Dimension

The primary social responsibility of any business is economic in nature. Above all, business institutions are the basic economic units in society, and as such, have the responsibility to produce goods and services (as needed by society) and to sell them at a profit. One attribute of a good citizen is that he (or she) is able and willing to pull his (or her) own weight. For corporations, this would mean an economic responsibility of **profit-making**. Consequently, profit-making is not in contrast with good citizenship behaviour, and is in fact a requirement thereof. Society expects business organisations to generate income sufficient to pay their bills and reward their investors, just as it expects private individuals to participate by working and earning an income as part of being good citizens. Corporations should therefore make enough money to ensure that their investors receive a strong return

on their investments and that other stakeholders are assured of the continuity of the business, the flow of products, services, jobs, and other benefits provided by the company. According to Kanji and Chopra (2010:125), a business has economic responsibilities to its direct stakeholders – its investors, employees and customers. There are four basic economic responsibilities a business has to its direct stakeholders:

(1) *Profitability*: A business creates profit when it sells products or services that are more valuable than the materials and labour it uses to create them. Put simply, the business creates profit by adding value.

(2) *Transparency*: When a business acts with transparency, it provides as much information as possible about its operations. The company allows direct stakeholders to clearly see its practices, strategies and financial position. Transparency benefits direct stakeholders.

(3) *Non-discrimination*: In an economic sense, non-discrimination doesn't refer to the absence of bias against gender or ethnic groups. It means a business applies the same financial criteria to all of its customers, suppliers and employees.

(4) *Sustainability*: Businesses ensure the sustainability of their operations by improving business processes and developing secure, long-lasting relationships with suppliers and customers (Kanji & Chopra, 2010:125).

Understandably, all the other responsibilities of business rely upon the economic dimension of CSR, because without it the others become doubtful considerations. The following are some of the economic responsibilities that should be executed by business:

- It is important to perform in a manner consistent with maximising earnings per share.
- It is important to be committed to being as profitable as possible.
- It is important to maintain a strong competitive position.
- It is important to maintain a high level of operating efficiency.
- It is important that a successful firm be defined as one that is consistently profitable.

Therefore, the most important function of business is to be an efficient producer of goods and services that are valued by consumers (Kerr, 1992). As Drucker (2006) states: “*There is only one valid definition of business purpose: **to create a customer.***” The customer is a foundation of a business and keeps it in existence, and it is to supply the customer that society entrusts wealth-producing resources to the business enterprise. A company’s ability to invest in other CSR initiatives is reliant upon the economic health of the company and its needs. This is true for all size business organisations (IOE, 2005). For an enterprise to engage in CSR without the economic means required would be to divert resources away from other investments necessary for the well-being of the business. That would not be ‘good business sense’ (IOE, 2005).

3.6.2 Legal Dimension

A *corporation* is an organisation formed with state governmental approval to act as an artificial person (see 5.3) to carry on business (or other activities), which can sue or be sued, and can issue shares of stock to raise funds with which to start a business or increase its capital (Hill & Hill, 2005). A corporation can therefore be seen as an ‘artificial person’ (or *juridical person*) recognised in law as a separate legal entity (Jarvis, 2008). A *juridical person* is an entity other than a natural person (human being) created by law and recognised as a legal entity having distinct identity, legal personality, and duties and rights (Hill & Hill, 2005). The term *Law* refers the activity of subjecting behaviour to the governance of rules. The rule of law is concerned with regulating the use of power. Under the rule of law, everyone is bound by rules, including governments and big corporations (Younkins, 2000).

Consequently, society has laid down certain ground rules (which are the laws and regulations under which business is expected to operate), just as it sanctioned the economic system by permitting business to assume a productive role as partial fulfilment of the ‘social contract’ (or social licence to operate). In doing so, society expects business to fulfil its economic mission **within the framework of legal requirements**. Companies that want to behave as good corporate citizens are expected to obey the law, in the same manner as private individuals. If business ethics is about what is right, good, and just in the commercial realm, law is designed to manifest these standards in terms of businesses’

performance. Legal responsibilities can therefore be viewed as '**codified ethics**', because they represent the basic principles of fair operations as established by lawmakers. If businesses wish to be regarded as good corporate citizens, they have to obey national and international laws and integrate legal compliance into their corporate strategies and operational management. Some of the components (or responsibilities) within the legal dimension, are the following:

- It is important to perform in a manner consistent with expectations of government and the law.
- It is important to comply with various federal, state and local regulations.
- It is important to be a law-biding corporate citizen.
- It is important that as successful firm shall be defined as one that fulfils its legal obligations.
- It is important to provide goods and services that at least meet minimal legal requirements.

3.6.3 Ethical Dimension

Apart from the first two CSR-categories (*economic* and *legal*) which embody ethical norms, there are additional behaviours and activities that are not necessarily codified into law but are still expected of business by society. Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights. Changing ethics or values are in a sense preceding the establishment of law because they are usually the driving force behind the very creation of laws or regulations. For example, ethical responsibilities may be seen as embracing newly emerging values and norms society expects business to meet, even though such values and norms may reflect a higher standard of performance than that currently required by law.

The business ethics movement of the past few decades has firmly established an ethical responsibility as a legitimate CSR component. Beginning in the last half of the 20th Century, the human race has become aware that its economic activities on Earth are causing major threats to our environment, to our health and survival as well as to all life on our planet (see 3.1). Some businesses, although not all, have recognised their ethical duty to take special measures to lead them to sustainable social and economic development in their activities (Baker, 2007). *Business ethics* refers to the development of internal structures in the corporation that help it and its employees act ethically, as opposed to structures that provide incentives to act unethically. These structures may include clear lines of responsibility, a corporate ethics code, an ethics training program, an ombudsman or a corporate ethics officer, a hot or help line, a means of transmitting values within the firm and maintaining a certain **corporate culture** (i.e. Corporate Personality – see *Chapter Five*) (De George, 2005). The ethics of a particular business can be diverse as it applies to how the business interacts with the world at large, as well as also to its one-on-one dealings with a single customer (Crystal, 2008). The fundamental question addressed by any ethical system is not “*Can I?*” but “*Should I?*” History has demonstrated that ethical errors can end careers more quickly and permanently than any mistake in business judgment or other error. Another interesting fact is that those who “do as I was told”, without considering the ethical consequences of their actions often end up the scapegoats when things turn sour, since decision makers frequently lack the detailed knowledge lower level employees have (Mares, 2005).

Ethical rules are verbally conveyed in society through families and schools, sacred texts and church ceremonies, books on philosophy as well as other ways. Ethical principles are also to be found in declarations and other documents. The *Declaration of Human Rights* was signed by members of the United Nations in 1948, based in part on the Bill of Rights in the amendments to the United States Constitution, the French Rights of Man indicated in the preamble to the French Constitution of 1958, and on the French Declaration of the Rights of Man in 1789 (Baker, 2007). Today, there are numerous laws, constitutions, international treaties and other statements of principles (see *Chapter 4*), such as the *Bench Marks* (see 4.11), that contain ethical content on which corporations can base their CSR behaviour. Ethics, honesty and transparency are necessary to insure shareholders and other stakeholders are fairly informed about all relevant operations of a company. In short,

ethical rules are found in various forms, all of which are aspiring to **improve conduct** (Baker, 2007).

Although the ethical dimension is depicted as the next layer of the CSR pyramid, it must be acknowledged that it is in active interaction with the legal responsibility category. In other words, it is continuously pushing the legal responsibility dimension to broaden or expand while at the same time placing ever higher expectations on business to operate at higher levels than is required by law. Many people believe that the law lies at the bottom level of acceptable behaviour. Consequently, a company that seeks to be recognised as a good corporate citizen must function in society **beyond mere compliance with the law**. There are several reasons for this. Firstly, laws and regulations frequently reflect the minimum standards that lawmakers can agree upon in the give-and-take of political manoeuvring. Laws may subsequently not be at a level or standard that is truly needed to protect all stakeholder groups. Another reason is that the law may not address all the social issues that need to be addressed. In more recent days, there are frequent times when certain contentious issues (such as cloning or genetic engineering) arise for which the guidance of law or legal standards has not adequately been developed yet. In these kinds of situations, sound ethics are needed because laws may not yet be in effect in order to state society's judgment on the issue for months or even years to come. It can in other words be stated that laws may lag behind ethical thinking.

Many believe that within the business context, ethical behaviour is synonymous with **moral behaviour**. Therefore, an ethical manager is a moral manager. Managers need to be guided by sound business ethics not only because it will best serve their own interests and the interests of their organisations, but also because they are role models for many subordinates and peers who are constantly watching them to set examples of what is considered to be acceptable or unacceptable behaviour.

Good corporate citizens are more interested in what should be done than what is being done and refrains from falling into the trap of believing that because a practice is being done by many (bribes, kickbacks, pollution, or downsizing) that it is an acceptable practice. Business ethics demand that a practice or policy be justified on the basis of ethical principles, arguments, or rationale before being considered acceptable. Ethics requires a

more meaningful moral anchor than “everyone is doing it.” Just like the two previously mentioned CSR dimensions (economic and legal) the ethical dimension of CSR implies that certain responsibilities are assumed and executed by business. Some of these are:

- to perform in a manner consistent with expectations of societal morals and ethical norms
- to recognise and respect new or evolving ethical / moral norms adopted by society
- to prevent ethical norms from being compromised in order to achieve corporate goals
- that good corporate citizenship be defined as doing what is expected morally or ethically
- to recognise that corporate integrity and ethical behaviour go beyond mere compliance with laws and regulations

Kanji and Chopra (2010:125-126) believe a corporation ought to have in-house ethical training to help employees make appropriate ethical decisions, to meet the environmental and ethical concerns of consumers. A transparent system is needed to examine, in respect of the company itself and the entire supply chain, labour practices such as normal working hours, taking any necessary steps against labour exploitation, harsh and inhumane workforce treatment, ensuring safe and hygienic working conditions, no discrimination on the basis of age, sex or ethnic origin, etc. and the involvement of staff in activities such as payroll giving, fundraising or community volunteering, etc.

3.6.4 Philanthropic Dimension

The word *philanthropy* is derived from the Greek language, meaning “love for mankind”. *Corporate philanthropy* refers to the giving by a for-profit company to a charitable cause, organisation or to individuals in need, with the intention of improving the quality of life. Corporate philanthropy is a key component of a company’s CSR strategy and serves as a major link between the corporation and the communities within which it resides (Parsons, 2004). The philanthropic dimension of CSR refers to those responsibilities about which society has no clear-cut message in terms of expectations from business - even less so

than in the case of ethical responsibilities. They are left to companies' individual judgment and choice. It may even be **inaccurate to call these expectations 'responsibilities'** because they are at business's discretion; however, society does expect businesses to assume certain social roles besides those (economic, legal and ethical) described thus far. Philanthropic roles are **purely voluntary** and the decision to assume them is guided only by a business's desire to engage in social roles not mandated, not required by law, and not even generally expected of businesses in an ethical sense.

Companies that wish to be regarded as good corporate citizens have to 'give back' to the communities in which they reside or maintain offices. Corporate philanthropy usually manifests itself as a direct contribution by a corporation to a charity or cause, most often in the form of cash grants, donations and/or in-kind services. It is often viewed as the most traditional of all corporate social initiatives and has historically been a major source of support for community health and human service agencies, education and the arts, as well as organisations with missions to protect the environment. Philanthropic efforts commonly involve selecting a cause that reflects a priority area for the corporation, determining the type of contribution to be made, and identifying a recipient for contributions, most often an existing non-profit organisation, foundation, or public agency such as a school (Kotler & Lee, 2005). Corporate philanthropy may even bring certain advantages to the business practising it. Some of these are the following: it can connect a corporation with the communities in which it operates; it can create an internal culture that improves recruiting and retention; employees can develop greater pride in their employer, leadership skills and stronger relationships with colleagues; customers can feel that a corporation cares about more than simply fulfilling its legal obligations and making as much profit as possible; suppliers can serve as more than simply a contractually bound provider of a product; and stakeholders, such as the media, may take philanthropy into account when reporting in general and in times of potentially negative news (Cohen, 2007).

The distinguishing feature between philanthropy and ethical responsibilities is that the former are not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities, and employee time to humanitarian programs or purposes, but they do not regard the firms as unethical if they do not deliver on these wishes. Therefore, philanthropy is more discretionary or voluntary on the part of businesses even

though there is always the societal expectation that businesses provide it. The following are some of the components that shape the philanthropic dimension of CSR:

- to perform in a manner consistent with the philanthropic and charitable expectations of society
- to assist the fine and performing arts
- that managers and employees participate in voluntary and charitable activities within their local communities
- to provide assistance to private and public educational institutions
- to assist voluntarily those projects that enhance a community's 'quality of life'

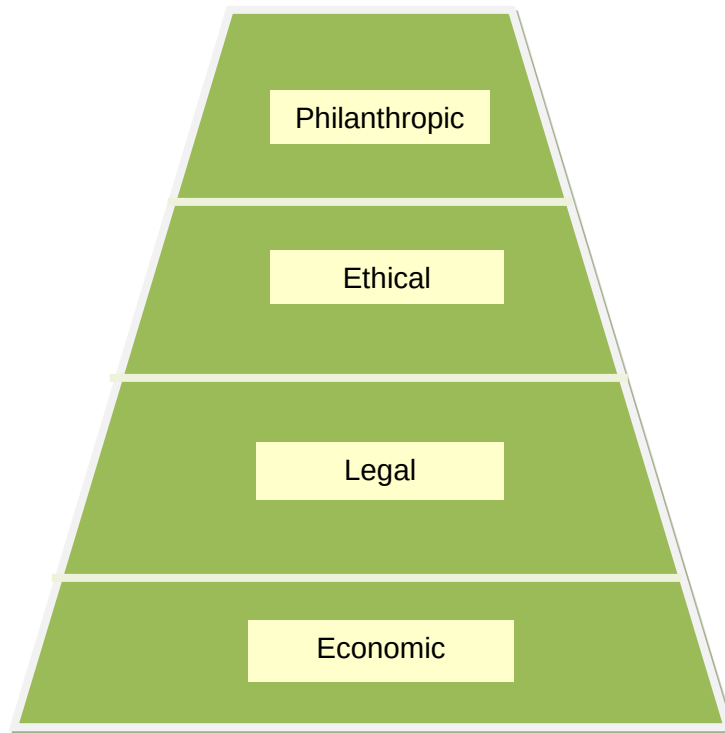
In a more practical sense, corporate philanthropy (or corporate social investment) includes activities that focus on establishing social infrastructure and contributing to the uplifting of communities through the transfer of technology, skills and education with the aim of creating sustainability. An organisation should have transparency and openness regarding its business activities; a system for preventing corruption, financial irresponsibility and underhand dealings; arrangements to produce an overall positive impact for a better society; facilities for socially responsible investment for education, healthcare, etc. Social accountability means to meet the expectations that society has of business in terms of social awareness and education, of holding businesses responsible for their actions and products (Kanji & Chopra, 2010:124).

3.6.5 The CSR Pyramid

As a way of concluding the discussions above, the four CSR-dimensions as it is depicted by a **pyramid** (see **Figure 3**), can be summarised as follows:

Figure 3

The Pyramid of CSR



Source: Carroll (1991)

The CSR pyramid portrays the four components of CSR, starting with the basic building block notion that economic performance underpins all else. While achieving these economic responsibilities, business is expected to obey the law which can be regarded as society's codification of acceptable and unacceptable behaviour. This, in turn, leads to business's responsibility to be ethical which fundamentally refers to an organisation's obligation to do what is right, just, and fair, and to avoid or minimise harm to stakeholders (employees, consumers, the environment, and others). Finally, business is expected to contribute financial and human resources to the community and to improve the quality of life by means of philanthropy (Carroll, 1991).

Carroll (1991) states that although the components have been treated as separate concepts for discussion purposes, they are **not mutually exclusive** and are not intended to contrast a firm's economic responsibilities with its other responsibilities. Nevertheless, a

consideration of the separate components helps the manager see that the different types of obligations are in a **constant but dynamic tension with one another**. The most significant tensions would normally be between economic and legal, economic and ethical, and economic and philanthropic. In summary, the total CSR of business entails the **simultaneous fulfilment** of the firm's economic, legal, ethical, and philanthropic responsibilities. A company that wants to attain the status of 'Corporate Citizenship' must therefore be able to demonstrate a balance between these four dimensions in most of its activities.

3.7 CSR IN AN AFRICAN CONTEXT

According to Frederick *et al.* (1992), in many of the world's developing nations where poverty is widespread or civil strife is frequent, economic goals and military activities tend to be given a higher priority than the pursuit of social goals. Environmental protection, for example, may be considered less critical than having a polluting steel plant that creates jobs. In cases such as this, social responsibility initiatives by business tend to be slow in coming. Accordingly, Visser (2008) believes that, in an African context, all levels of Carroll's four-part CSR pyramid construct play a role, but they have **different significance**, and are furthermore **interlinked in a somewhat different manner**. His contention is that the order of the CSR layers in developing countries differs from Carroll's (1991) classic pyramid. In developing countries, economic responsibilities still get the most emphasis. However, philanthropy is given second highest priority, followed by legal and then ethical responsibilities. Visser (2008) provides the following explanation for each CSR dimension as it manifests within business in developing countries (such as countries on the African continent):

3.7.1 Economic Responsibilities

In general, developing countries suffer from a shortage of foreign direct investment (FDI), as well as from high unemployment and widespread poverty. As a result, it is no surprise that the economic contribution of companies in developing countries is highly prized, by governments and communities alike. It must, however, be warned and emphasised that

economic responsibility has two sides - **economic contribution** on the one side and **economic dependence** on the other. When communities or even countries become overly dependent on multinationals for their economic welfare, there is the risk of governments compromising ethical, social, or environmental standards in order to retain their investment, or suffering huge social disruption if those businesses do decide to disinvest, as is often the case in Africa.

3.7.2 Philanthropic Responsibilities

In developing countries philanthropy generally gets even higher priority as a manifestation of CSR (*also see 3.5.1*). This may partly be a result of strong indigenous traditions of philanthropy in developing countries. However, there are several other reasons as well:

- Firstly, the **socio-economic needs** of the developing countries in which companies operate are so great that philanthropy is an expected norm - it is considered the right thing to do by business.
- Secondly, companies realise that they **cannot succeed in societies that fail**, and philanthropy is seen as the most direct way to improve the prospects of the communities in which their businesses operate. HIV/AIDS is a case in point, where the response by business is essentially philanthropic (it is not an occupational disease), but clearly in companies' own medium- to long-term economic interest.
- Thirdly, over the past 50 years, many developing countries have become **reliant on foreign aid** or donor assistance. Hence, there is often an ingrained culture of philanthropy.
- And a finally, developing countries are generally still at an **early stage of CSR maturity**, sometimes even equating CSR and philanthropy, rather than embracing the more embedded approaches now common in developed countries.

3.7.3 Legal Responsibilities

In developing countries, legal responsibilities generally have a lower priority than in developed countries. In other words, developing societies seem to expect less from companies in terms of the legal dimension of CSR than of the economic and philanthropic dimensions. Companies do not necessarily and purposely violate the law, but there is far less pressure for good conduct. This is because, in many developing countries, the **legal infrastructure is poorly developed** and often lacks independence, resources and administrative efficiency. The legislation of most developing countries is also trailing behind the developed world in terms of human rights expectations and other CSR related issues. In general, African governments' capacity for enforcement remains a serious limitation and reduces the effectiveness of legislation as a driver for CSR. Hence, several scholars argue that **tax avoidance** by companies is one of the most significant examples of irresponsible business behaviour in developing countries, often contradicting their CSR claims of good conduct.

3.7.4 Ethical Responsibilities

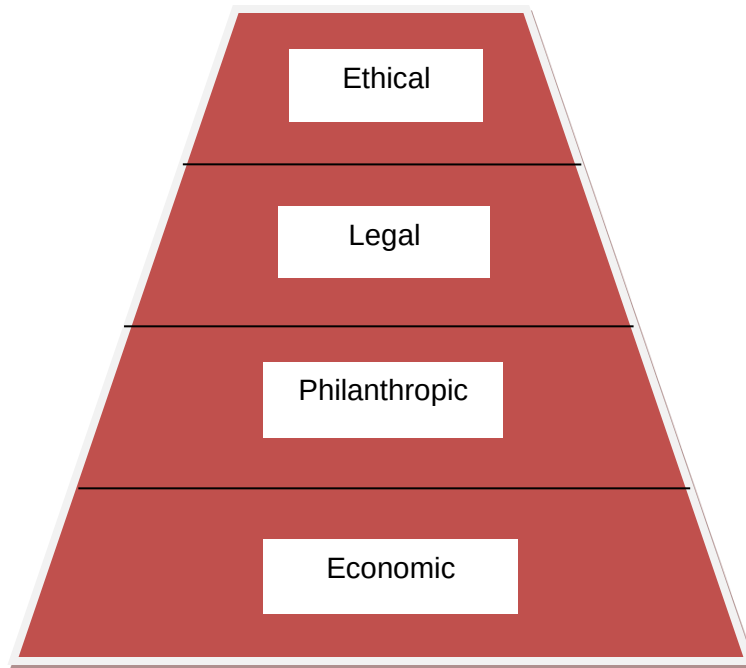
In developing countries such as those in Africa, ethics seems to be lowest priority on the CSR agenda. However, the African continent has still been influenced by the global trend towards improved governance. In fact, the 1992, 2002 and 2009 King Reports on Corporate Governance in South Africa have all led the world in their inclusion of CSR issues. Although this is encouraging progress, in general, it is still the exception rather than the rule. For instance, in most international corruption indexes, developing countries usually make up the bulk of the most poorly ranked countries. Survey respondents from developing countries also generally agree that corruption still affects business to a large extent. On the African continent, there is clearly still a long way to go in embedding ethical responsibilities into business practices.

3.7.5 African CSR Pyramid

In developing countries, a CSR pyramid would be portrayed in a different manner than the one used by Carroll (1991) that symbolises CSR in the developed world (see **Figure 4**).

Figure 4

CSR Pyramid in an African Context



Source: Visser (2008)

The economic dimensions of CSR stands as the foundation of the pyramid as it receives the highest priority; the philanthropic dimension is the second most expected responsibility component; following in terms of significance is the legal responsibilities of business; with the least deemed important CSR dimension being the ethical one.

Visser (2008) emphasises that the description above only serve to illustrate **how CSR actually manifests** in developing countries, rather than presenting an aspirational view of what CSR in developing countries *should* look like. For example, it is not proposed that legal and ethical responsibilities *should* get such a low priority, but rather that they do in practice. Nevertheless, a concluding argument could be made that improved ethical responsibilities and incorporating good governance, *should* be assigned the highest priority in Africa, since this provides the key to improvements in all the other dimensions, including economic development, rule of law and voluntary action.

3.8 THE THREE-DIMENSIONAL MODEL OF CSR

Schwartz and Carrol (2003) argue that although there is considerable value in Carroll's (1991) four-part model, his use of a pyramid framework to depict his CSR domains may be confusing or inappropriate for some applications:

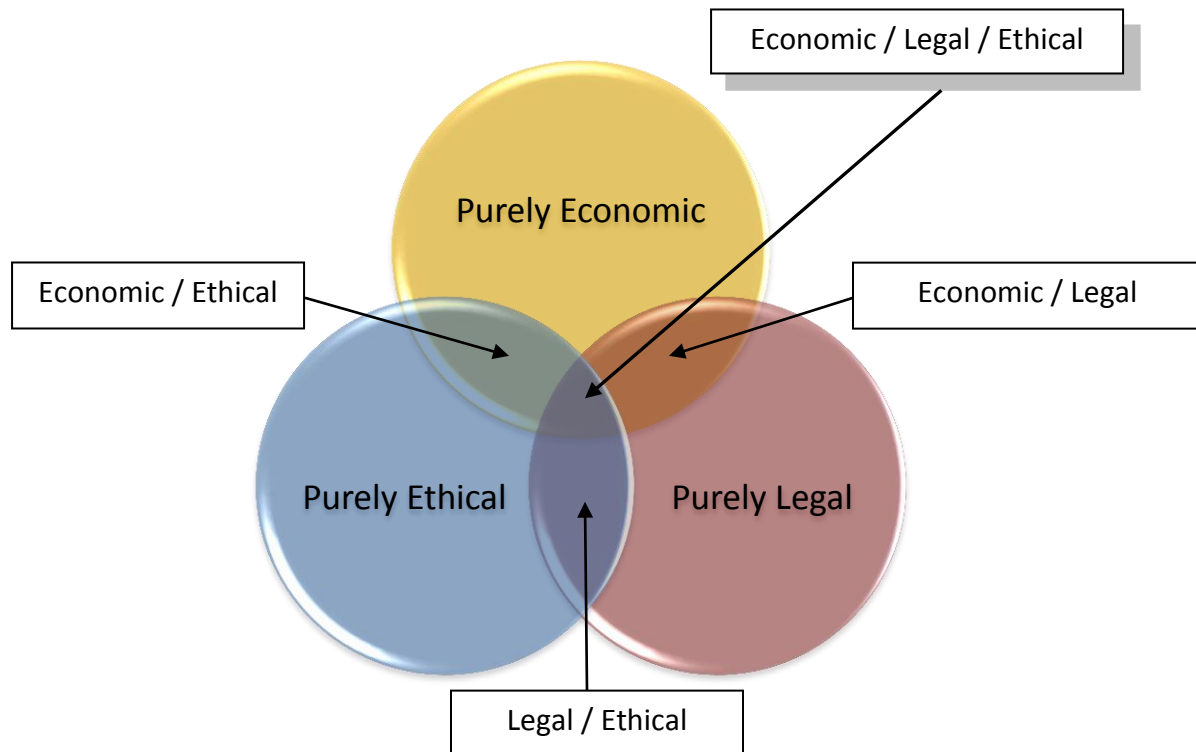
- First, the pyramid image may wrongly suggest a hierarchy which may be interpreted by some that the domain at the top of the pyramid, philanthropic responsibilities, is the most important domain; while the economic domain at the base of the pyramid is the least valued CSR domain. This is clearly not the perspective that Carroll intended, since he specifies that the economic and legal domains are the most important while philanthropic responsibilities are considered less important than the other three domains. Consequently, the pyramid framework could lead one to **misunderstand the priorities** of the four CSR domains.
- Second, a pyramid framework **cannot fully illustrate the overlapping nature** of the CSR domains. This is a vital characteristic of CSR and of such significance that it must be included and clearly depicted in any proposed CSR model.
- Thirdly, Carroll's use of a **'philanthropic/discretionary' category can be confusing** and may be seen as unnecessary to some. Carroll himself acknowledges that it may in fact be 'inaccurate' or a 'misnomer' to call such activities 'responsibilities' due to their voluntary or discretionary nature. Therefore, philanthropy is not believed to be a social responsibility of business, but something that is merely desirable beyond what duty requires.

Consequently, Schwartz and Carrol (2003) propose a three-domain model of CSR which is composed of **three responsibility areas**: economic, legal, and ethical. In general, these domain categories are defined in a manner consistent with Carroll's four-part model, with the exception that the **philanthropic category is subsumed** under the ethical and/or economic domains. The two main reasons for this are, first, because it is sometimes difficult to distinguish between 'philanthropic' and 'ethical' activities; and second, because philanthropic activities might simply be based on economic interests. The domains are also developed more completely both in terms of what each means or implies and in terms of the

overlapping categories that are identified when the three domains are depicted in a **Venn diagram** format (see **Figure 5**). By using a Venn diagram, the model initially suggests that none of the three CSR domains (i.e., economic, legal, or ethical) is *prima facie* more important or significant relative to the others. The **ideal overlap resides at the centre of the model** where economic, legal, and ethical responsibilities are simultaneously fulfilled.

Figure 5

Three-Dimensional Model of CSR



Source: Schwartz and Carroll (2003)

Schwartz and Carrol (2003) describe each of the components of the new framework/model in the following manner:

3.8.1 Purely Economic

These are activities that are purely economic in nature and have a direct or indirect economic benefit; is illegal (criminally or civilly) or passively comply with the law; and would be considered amoral or unethical. Many of the most highly criticised corporate activities would fall into this category and represents CSR in its most incomplete form.

3.8.2 Purely Legal

Corporate actions that are not considered ethical and have no direct or indirect economic benefit fall into this category. The activity must take place because of the legal system and not in spite of it. A response that one of the reasons for the act was "because it's the law" might be enough to support a degree of consideration for the legal system. Very few activities can be considered purely legal as most activities that are considered legal are also considered ethical. In addition, most activities which are legally required also involve economic incentives. Companies that hesitantly place warnings on their products (e.g., tobacco manufacturers), despite financial loss, could conceivably fall into this category.

3.8.3 Purely Ethical

Any purely ethical activity that has no direct or indirect economic or legal implications would fall into this theoretical category. Such activities are performed because they are considered ethical (or based on moral principles) despite their lack of positive economic impact. Other than corporate philanthropic activities that are not based on economic interests, few corporate activities currently fall into this category. The primary reason is that many activities that are considered ethical can somehow be linked to long term, indirect economic benefits.

3.8.4 Economic / Ethical

In this category the corporate activity is not based on legal considerations, but is ethical and economic simultaneously. This category would include many corporate activities motivated by the often repeated maxim, "good ethics is good business." Virtually all activities in this

category will involve passive compliance with the law because almost all illegal activities would be considered unethical. Corporations which give to charity for both economic and ethical reasons would fall within this category.

3.8.5 Economic / Legal

Very few activities which corporations engage in are both economic and legal, while also considered unethical. The reason is that activities which are based on a concern for the legal system would most likely be considered ethical as well. The exception might be those companies that opportunistically comply with the law, searching for and using legislative and administrative loopholes for economic gain. Such opportunistic activities are often considered unethical. For example, some companies operate in third world countries because of lower environmental, worker safety, or product safety standards. By doing so, these companies are opportunistically taking advantage of the law.

3.8.6 Legal / Ethical

Certain corporate activities occur not because of any economic benefit, but because they are both legally required and ethical. Activities that are both ethical and legal often provide indirect economic benefits meaning that few corporate activities will fall into this category. The activity of installing an anti-pollution device because it is legally required and considered ethical even if there is no long term economic benefit would fall within this category.

3.8.7 Economic / Legal / Ethical

An activity which is motivated simultaneously by the bottom line, the legal system, and ethical principles would fall into this category. This category represents systems of *moral management*, where profitability is desired, but only within the confines of obeying the law and being sensitive to ethical standards. This central segment (economic/legal/ethical) is where firms should seek to operate during all their activities and represents CSR in its most complete, balanced or achieved form.

3.9 CONCLUSION

The CSR effort has made considerable strides over the past few years. Since its inception almost six decades ago, the increasingly sophistication of the CSR concept has continued to take place within academic circles, business practices as well as various groups of civil society. For the last ten years, this has also been the case in developing countries, especially on the African continent. But despite the growing awareness of the concept in Africa, this chapter has shown that CSR, as applied in developing countries, take on a very different form in practice than in the developed world. In the African context, more emphasis is being placed on pressurising companies to perform acts of philanthropy – which sometimes leads to confusing the term *CSR* with other terms, such as *Corporate Social Investment (CSI)*. This has especially been the case in South Africa with its high amounts of social inequality.

In terms of the overall aim of this research, the most significant finding of this chapter has been the identification and explanation of four different CSR-domains, namely *economic*, *legal*, *ethical*, and *philanthropic*. Two different models/frameworks, namely the “CSR-Pyramid” and the “Three-Dimensional CSR-model” have been used to accomplish this. These extensive domain-explanations or descriptions are important for two reasons:

- Firstly, because they provide the reader with a thorough overview of different important and highly distinct (although interdependent) facets of CSR that might previously not have been known. For instance, many might have been unfamiliar with the importance (or even existence) of the *economic dimension* of CSR, especially in a country such as South Africa where the CSR concept has often been mistaken for CSI.
- Secondly, because they will form the very important conceptual framework that will be utilised when contextualising a company’s CSR performance according to the measuring instrument developed by this research. More specifically, the different combinations of the CSR dimensions will be the main components used when building or forming the different CSR- ‘personality descriptions’ or ‘personality types’ which corporations/organisations might portray. In more practical terms, this means that the thorough exploration of these dimensions throughout the current chapter, served to form a clear understanding of the nature of those specific measuring instrument items

that will need to be selected (or 'coded' –see 6.6) because of their measurement properties on these dimensions. Complete or balanced CSR requires that all four basic dimensions need to be fulfilled in order to achieve the healthiest CSR-personality.

The following chapter will focus on different available 'tools' (codes/guidelines) which companies may use to facilitate their CSR strategies, in order to better direct corporate behaviour towards healthy personalities.