

Workshop Proposal

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Sustainability and CSR

What is the role of a corporation or a company? The actual word “company” comes from latin – *cum* and *panis* that mean ‘breaking bread together’ (Arndt, 2003). Given that this terminology suggests some synergistic role, what are some of the views on the role of a company in the present age?

Let us consider two opposing views. Milton Friedman, a Nobel Laureate argued against CSR since it distracted business leaders from making money. Indeed, in an article entitled “*The social responsibility of business is to increase its profits*,” he emphatically states:

‘there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits’

and, furthermore:

‘Few trends could so undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible’ (Friedman, 1962)

Another quote from David Packard, HP (Lesson #2, 2012):

‘Why are we here? Many people assume, wrongly, that a company exists solely to make money. People get together and exist as a company so that they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society.’

Hence, whereas Milton Friedman stated that the main responsibility for a company was to make money and increase profits, David Packard is of the view that a company needs to do more than just make money, the company needs to contribute to society. It is the latter viewpoint that is becoming more prevalent, in that companies need to provide value to society, one that goes beyond the company’s bottom line.

CSR is derived from the three title words; ‘corporate,’ ‘social,’ and ‘responsibility.’ Hence, in very general terms, CSR stands for the social role or responsibility that a corporation has towards the society that it operates within. CSR is also known by some other terms, some of which are: ‘corporate or business’ responsibility; ‘business or corporate’ citizenship; community relations, corporate stewardship, social responsibility, or strategic philosophy (Werther and Chandler, 2011). Sustainable business and CSR are part of a cluster of terms that include

sustainable development, socially responsible business, green management, corporate citizenship, and ethical business.

CSR has been defined in terms of sustainability and sustainability has been defined in terms of CSR. Corporate social responsibility is commonly promoted as a means to achieve sustainability. This view is held both by researchers (Young, 2004) and practitioners (Frame, 2005). Some researchers see CSR and sustainable business as being synonymous (Laine, 2004) while others (Foot and Ross, 2004) state that sustainability can be viewed as a broader concept compared to CSR and that sustainability “embraces a wider, time-dependent definition of a benefit to society and focuses on results rather than standards of behavior (pp. 113).” At the simplest level, it calls for corporations to behave responsibly and pursue sustainable development goals.

In general terms, the case of CSR can be made on moral grounds. The point to be made is that since the corporation exists within society, it needs the infrastructure, the employees, and the consumer base from this very society. However, not everyone can be convinced on the moral ground alone. How can the upper management of companies, the C-suite, be convinced that adoption of CSR would be good for their company? Porter and Kramer (2006) make four arguments to support their case: moral obligation, sustainability, license to operate, and reputation.

The first argument, one of moral obligation, states that companies ought to ‘do the right thing.’ Specifically, the message is that businesses ‘achieve commercial success in ways that honor ethical values and respect people, communities, and the natural environment.’ In areas of financial reporting, moral obligations are easy to understand and apply. However, most corporate social choices involve balancing competing values, interests and costs. For example, Google’s entry into China has resulted in a conflict between censorship and Chinese government mandates. A pharmaceutical company has no direct way of knowing how to allocate its revenues between subsidizing care, developing cures for future or providing investor dividends (Porter and Kramer, 2006).

The second argument is derived from sustainability and it places importance on environmental and community stewardship. Going back to the Brundtland Commission’s definition of sustainability “meeting the needs of the present without compromising the ability of future generations to meet their own needs” usually invokes the triple-bottom-line approach of economic, social and environmental performance. In this approach, companies ought to operate in ways that improve their long term performance while avoiding short term pitfalls arising from environmental or societal concerns. For example, DuPont saved over \$2 billion from energy use reductions since 1990, McDonald’s reduced its solid waste by 30% from changes to materials used to wrap its food. However, in some other areas, sustainability is used in vague terms – transparency is more ‘sustainable’ than corruption or philanthropy leading to ‘sustainability’ of a society (Porter and Kramer, 2006).

The third argument comes into play since every company needs tacit or explicit permission from the government, communities or stakeholders to do business. The company identifies a set of social issues pertinent to the stakeholders, engages in a dialogue with the

community and makes decisions. This thinking is prevalent in the companies that depend on government approval, such as mining or other extractive industries, and in companies whose operations, by nature, are hazardous, such as chemical manufacturing. The inherent challenge is that companies that seek to placate stakeholders run the risk of ceding the control of their CSR agendas to external parties (Porter and Kramer, 2006).

The fourth argument concerns the reputation of the company and also seeks to appease external stakeholders. In industries, like chemical and energy, this strategy is pursued like an insurance policy with a hope that the positive reputation will temper public criticism in case of a crisis. Some companies like Ben and Jerry's, Patagonia, the Body Shop, stand out due to their long-term commitment to social issues. However, the social impact is tough to determine and there is no way to quantify the benefits of social investment (Porter and Kramer, 2006). The important point to note is that there needs to be integration between business and society. A healthy society needs successful companies since these companies in turn create jobs, wealth and innovation, that lead to an increase in the standard of living. In turn, a successful company needs a healthy society since education, health care and equal opportunity are essential to having a productive workforce. In coming up with corporate social agenda, a company needs to be responsive to its stakeholders and, furthermore, look for ways to achieve social and economic benefits in a strategic manner (Porter and Kramer, 2006).

Porter and Kramer (2006) also classify CSR in two main categories: responsive and strategic. **Responsive CSR** companies act as a good citizen and mitigate harmful value chain impacts. An example of the former role is GE's program to adopt under-performing public high schools near several of its US facilities. GE helps financially with donations and the GE managers mentor students. An example of the latter role is B&Q, a chain of home supply centers based in England that has begun to analyze its entire product line against a list of social issues in order to determine which products might pose a social responsibility risk and how the company might respond before any incident transpires (Porter and Kramer, 2006).

Strategic CSR aims to identify initiatives whose social and business benefits stand out in scope. It also taps shared value by investing in social aspects that strengthen the competitive advantage for the company. For example, Toyota's Prius is a car model that has produced competitive advantage and environmental benefits. Nestle works directly with small farmers in developing countries to source basic commodities such as milk, coffee and cocoa. Another good example is Whole Foods Market that emphasizes purchasing from local farmers, screening out foods that contain any of 100 common ingredients considered to be environmentally damaging, constructing stores using minimum amount of virgin raw materials, purchasing wind credits and offsetting all the electricity consumption. Examples also include initiatives from large companies - Sysco aims to preserve small family farms and offer local produce to customers, GE aims to focus on developing water purification technology, Unilever aims to meet the needs of the poorest populations worldwide (Porter and Kramer, 2006).

The main advantages of a well executed CSR is that it builds business value in many ways: by enhancing brand image, establishing a co-operative relationship with government or regulatory agencies, and attracting investors who are interested in sustainability. In addition a company can attract and retain motivated employees, enter new markets, position the company

as good partner for peers, governments, and NGOs, and improve risk recognition and avoidance (Smalheiser, 2006). The following examples illustrate how companies are building business value and gaining strategic advantage.

Examples:

Business Strategy: How does a company serve global markets in various stages of development in order to secure goodwill and support that would protect its investments and secure a broad credibility? Marathon Oil Corporation started a malaria eradication and treatment program in Equatorial Guinea in conjunction with the local government and NGOs that led to a massive drop in new incident cases of malaria. In addition, the company is implementing a workforce integration program that will enable the local people to acquire skills necessary to gain employment at the company.

Overcoming Obstacles: BD (Becton, Dickinson and Co.), a New Jersey-based medical technology company also focuses on global health issues. The company has the relationships, resources, and expertise to work closely with local governments and organizations to overcome obstacles in the prevention, diagnosis, and treatment of diseases such as HIV/AIDS and tuberculosis. It collaborated with the Catholic Medical Mission Board to provide training to workers in Zambia in order to improve laboratory procedures. BD also manufactures single use syringes that minimize the rate of infections caused by reusing these syringes.

Fertile Ground: In areas of environmental innovation, GE's "Ecomagination" works in areas of product and packaging design, water stewardship, greenhouse gas mitigation, new ecosystem market, and product life-cycle analysis. Canada's Dotmar Corporation had a long history of licensing timber rights from public lands. As a company committed to sustainable forestry, its operations are based on rigorous sustainable forestry standards. Many of the company's partners are also considering using certified paper products to communicate their commitment to conservation and sustainable forestry.

Brand Building: As consumers become sensitive to environmental issues, companies attempt to develop new products. Waste Management is the largest trash-removal company in the US but it is also the largest recycler. The company is a leading producer of waste to energy and it operates 17 plants that process 24,000 tons of solid waste per day. In addition, it has more than 100 landfill gas to energy projects that convert methane into clean energy. The company converts its landfill areas to wildlife habitats, thus providing more than 17,000 acres of land devoted to wetlands and wildlife (Smalheiser, 2006).

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