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A Summary on CSR: When social issues become strategic

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Abstract— **This articles deals with the challenges faced by the corporate in today's world in attending to socio political issues surrounding them and inculcating that in the company's core strategic mission.**

Index Terms—**socio political issue, Mckinsey survey.**

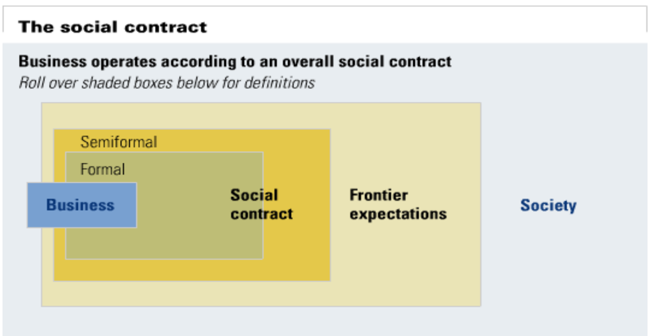
I. INTRODUCTION

This articles deals with the challenges faced by the corporate in today's world in attending to socio political issues surrounding them and inculcating that in the company's core strategic mission. A Mckinsey survey points out that the importance of these issues has increased and that employees are skipping these at their own risk. Executives avoid these issues due to financial paucity, unfamiliarity and the thought that there are other public departments to handle these issues. This article points out various such challenges and provides hint on to collaborate, cooperate and coordinate to tackle these issues and derive the maximum benefit out of it.

II. THE CHALLENGES:

A. THE CHANGING SOCIAL CONTRACT

Companies have formal and semiformal contract with the society. They are responsible towards direct stakeholders as well as a larger set of other stake holders like the community, media, and nonprofit sector. There are rules and regulations which the company has to follow and the formal contract with the society is covered under them. However, there are semiformal contracts which may not be a legal requirement for the company to follow, but if not followed could be detrimental to the company's reputation and in turn may affect the sales of the company. The best example for this is the Nike sweatshop.



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So formal contracts are explicit expectations such as laws, regulations, tax policy, private contacts, IPR etc, where as semiformal contracts are implicit expectations like adhering to global labor standards, fulfilling brand promises etc. Over and above this, there are frontier expectations which are issues that could overtime become expectations of business. An example is the health implications of obesity causing expectations for the food and beverage industry. McDonalds, Coke, Pepsi etc face this kind of an issue.

B. RISING EXPECTATIONS:

It is seen that a company's long term value like brand, talent and relationships are affected by rising megatrends. There are certain megatrends that affect the socio political environment in which the business operates. They are blurring boundaries between responsibilities and laws, technology being present everywhere, rising inequality, change in social norms, increased sensitivity to risk, and growing safety & security concerns.

The boundary between responsibilities and law has been shrinking. What is a responsibility is also being taken under the purview of the law. An example of this is the responsibility for obesity being transferred to the food and beverage companies' rather than the individuals who consume it. The rights to individuals have become stronger with small protest groups growing in numbers over the years. The trust in NGOs and other institutions for individual rights have increased compared to decline in the trust in business world.

III. LETHARGIC REACTION

It is the CEOs of the company who should step out and head towards solving these socio political issues. However, senior executives of the company find it difficult in dealing with NGOs, as compared to hard skills and in depth knowledge. Dealing with NGOs involves trading in emotional arguments and it affects the reputation of the company as well. These aren't what the managers/CEOs are trained for in their MBA education. But it is time that the executives step out to meet the rising tide of expectations and inculcate ways to achieve it through their business strategy.

IV. MANAGING SOCIO POLITICAL FORCES

These forces can be managed in a threefold approach

1) CEOs should take part in the social debates and thus should be able to emulate a stiff set of rules comfortable to them
2) Executives must understand that backlashes from these issues can be severe in terms of finance and hence must act accordingly.

3) Companies can use these socio political issues to come up with new opportunities in product or market development.

Companies can deal with this by being anticipative and proactive. The trends in rise of socio political forces can be sensed beforehand and companies can take advantage of the same. This could help the companies to side with the NGOs and to get an early entry into the debate so that later on it does not go public and affect the stakeholder sentiments at large. The companies should look out for the media for any cases of social issues arising. It could take a big hit if the issue is being supported by some renowned academician.

It is noted that most companies become aware of the issues at a much later stage when the direct stake holders are affected by them. To counter this company should be proactive and do modifications in the activities in value chain and adapt to the situation even before it arises. If not, this may require a legal requirement later on for the company to abide by.

Not only the company needs to be proactive in facing these issues, but also they can use this as an opportunity. The company should devise strategy to make best use of the social conditions. The best example is Toyota Prius. Also, the CEO should be ready to participate in any external debates involving the social issues.

V. COLLABORATE, COOPERATE & COORDINATE

It is difficult for a single company, or even one industry to deal with the social downturns. The best method would be to collaborate and cooperate with the other players. By collaborating, they will cater to the needs of the public together without harming each other's business. Coke and Pepsi are examples for such collaboration, where they do not sell CSDs to children below 12 years of age.

There should be organizational coordination, for the strategy to be built across different divisions and functions. And if the CEO himself show personal commitment towards tackling these issues, that sends positive vibes across the company and the company as a whole works towards attaining strategic advantage, thereby catering to the needs of the broad set of stakeholders.

Is corporate social responsibility responsible?

The concept of corporate social responsibility deserves to be challenged. It seems that political correctness has obfuscated the important business points. It is absolutely correct to expect that corporations should be "responsible" by creating quality products and marketing them in an ethical manner, in compliance with laws and regulations and with financials represented in an honest, transparent way to shareholders. However, the notion that the corporation should apply its assets for social purposes, rather than for the profit of its owners, the shareholders, is irresponsible.

The corporation's goal is to act on behalf of its owners. The company's owners--its shareholders--can certainly donate their own assets to charities that promote causes they believe in. They can buy hybrid cars to cut back on fossil fuel consumption or support organizations that train the hard-core unemployed. But it would be irresponsible for the management and directors of a company, whose stock these investors purchased, to deploy corporate assets for social causes.

It would be very easy to carry out a litmus test of the market for corporate social responsibility. For example, Apple Computer could sell one iPod for $99 and another for $125. The company could announce that the extra $26 from the more expensive iPod would be spent to promote specific social causes, such as education, environmentalism, etc. Such a test would account clearly and honestly for how shareholders' money was being used and would allow the market to drive the outcome. If consumers wanted to pay the extra $26, voting with their wallets for a cause they believe in, they could.

Interestingly, such a litmus test already exists, albeit not in the private sector. Beginning in tax year 2002, the state of Massachusetts gave taxpayers the option of checking a box on their 1040s to pay a higher rate, with the extra funds going to social services. Out of the $16 billion that Massachusetts residents paid in taxes that year, only $100 million came from people who volunteered to pay extra. That's less than 1% of the market--sobering when one considers that Massachusetts is a state with a high degree of social consciousness. In point of fact, when it comes to actually voting with their wallets, consumers prefer not to be directed to do so. They like to contribute individually, to charities they believe in and wish to support as individuals, not as part of a huge pool. They certainly do not expect the for-profit corporations in which they invest to deploy corporate assets for social causes.

Thus, it would be a questionable use of corporate assets for a company to invest its shareholders' money in a "green" headquarters that cost an extra $100 million. The goal of reducing pollution by building an environmentally friendly headquarters may be a worthy one--but the corporation hasn't asked shareholders whether they want their assets spent that way. In fact, it would be not only irresponsible but deceptive. Management is charged with making informed decisions to invest corporate assets for uses that will efficiently achieve corporate goals. These include growth, profitability, product innovation, and anything else that drives the shareholders' return on investment as measured by the stock price. What quantifiable outcome could a green headquarters produce? How could the corporation justify, in a quantifiable way, the use of shareholder assets?

There are practical reasons why corporations should cloak themselves in the politically correct rhetoric of social responsibility. But marketing should not be confused with significant deployments of corporate assets. For example, **British Petroleum**'s marketing campaign, which is all about looking for alternative energy sources, makes the consuming public feel good about purchasing BP products. But if BP had redeployed billions of dollars into environmental investments that yielded no profits, and its stock plummeted, one would certainly expect the investing public to transfer its money to a competitor.

What the investing and consuming public really means by "social responsibility" is:

--Be transparent in your financial reporting.
--Produce a quality product, and don't misrepresent it.
--If you know something about the product that endangers the consumer, be forthright and let the public know.
--Do not use predatory practices in offshore manufacturing, such as child labor.

--Do not pollute your environment or other environments, and adhere to laws and regulations.
--Be respectful, fair and open in your employment practices.

In other words, corporate social responsibility actually refers largely to what the company does not do. This is a clarification that should be understood by all constituencies.

There is no business which can exist in isolation. Even though business is about making money, but the sustainability of a business depends on a lot more factors than just making profit. CSR is about creating long term values, and maintaining them. It is about understanding the way your business impacts the wider society and considering how you can use that effect to grow your business.

It is a known fact that many SMMEs struggle to survive after a year or two. Many small businesses fold over after three years because of competition, inability to access financial support or technical support. There are many factors threatening the continued sustainability of SMMEs.
CSR is one practical initiative which can grow your business both in the short run and in the long run. This is because CSR is all about creating long lasting values. It is more than a compliance requirement. It is about adopting a responsible attitude, which ordinarily goes beyond legal compliance or 'tick the box' attitude.

CSR affects every aspect and to that extent, it can develop into a corporate culture. If the focus of SMMEs is to ensure sustainability of business, then CSR is what every small, or medium or macro enterprise needs to grow that business, just by using what they have to get what they want. SMMEs can begin to play important role in shaping the CSR conversation on local, national and even international levels.

Corporate social responsibility (CSR) cuts across virtually everything your business does and everyone you deal with on a day to day. You need to see CSR as part of a continuing process of building values for your business. Aligning your CSR initiative with your business strategy makes it easy to implement and it becomes a corporate culture every stakeholder in your business drives alongside with you.

An excellent CSR Policy or initiative will ultimately get you noticed, not only by your competitors; But also by everyone in your local community, immediate industry and most times, even by the society at large. That in itself brings you unpaid publicity; the media notices your social contributions and your effort as a company or business gets publicized for all to hear or see as a tool to motivate others to do the same for the general betterment of the local community of larger society. In effect, the good publicity is good for business, and it can be an excellent reputation booster for your business.

As a business owner or manager, you owe it to your business to make considerable effort to run a sustainable business and to improve your business performance. One of the ways you can use to achieve those objectives is to make the most of your corporate social responsibility activities; build values through your CSR initiatives. As you take the bold step to start your own CSR project; remember the following guidelines:

1. Start small
2. Craft your own specially designed CSR program
3. Let the program fit into your business requirements
4. Build on your business strengths and values
5. Be committed to the project
6. Grow your project
7. Reap the benefits

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