CHAPTER I

CORPORATE SOCIAL RESPONSIBILITY AND BUSINESS SUSTAINABILITY

1. Business and society in an interdependent world

"For us in business, I can see only one sure course to follow. Call it common sense, call it policy, call it anything you like. To my mind, industry must aim for, exist for and everlastingly operate for the good of the community. The community cannot ride one track and business another. The two are inseparable, interactive and interdependent."

Cleo F. Craig
President, AT&T, 1951-1956

In September 1970, Nobel laureate economist Milton Friedman ignited a serious controversy with his *New York Times* article "The Social Responsibility of Business is to Increase its Profits".[1] His main argument is summarized as follows: "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 ..." While one might agree with him that a primary purpose of business is about making a profit without violation of laws and regulations, this argument is unlikely to remain valid in today's world. Businesses must consider not only on their profits but also the effects of their activities on society. The main reason is that business and society are deeply and dynamically interdependent.

Businesses are crucial members of society, in fact, many are also significant social institutions. The decisions they make and the actions they take reverberate throughout society. Society depends on businesses in their provision of jobs, investment, goods and services produced, and development of new technologies. Thus, business has become a profound driver of employment, investment and wealth creation within society. In addition, business may also impact society beyond its obvious economic influence. Consider the case of Nestlé's experience with the milk business in India.[2] In 1962, Nestlé's received permission from the Indian government to build a dairy in the northern district of Moga. The region suffered from severe poverty; people were without electricity, transportation, telephones, and medical care. Sixty per cent of calves died when they were born, and a farmer generally owned less than five acres of infertile soil. Since the Nestlé value chain depended on establishing local sources of milk from a large, diversified base of small farmers, it had to build refrigerated diaries as collection points for milk in each town.

---

[1] Friedman, Milton (1970). "The Social Responsibility of Business is to Increase its Profits". *New York Times Magazine*, 13 September, pp. 32-33, 122, 126. Retrieved from http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html on 10 July 2009.

[2] Retrieved from http://www.nestle.in/AnOverview.aspx?nesindia=1 on 1 July 2009.

Transportation routes were developed for milk collection. Medicine and nutritional supplements were provided for sick animals and farmers. Monthly agricultural training sessions were held for local farmers. With financing and technical assistance from Nestlé, farmers began to improve irrigation, which not only helped to feed cows but also increased crop yields. Today, Moga has a significantly higher standard of living than other communities in the surrounding region. Ninety per cent of the homes have electricity, and most have telephones. All villages have primary schools and many have secondary schools. Moga has five times the number of doctors as neighbouring regions. It is difficult to deny the positive social impact of Nestlé's business operations in Moga, where mutual benefits were created for both the company and the society.

Conversely, misconduct by business can lead to tragedy for society. Enron was one of the world's leading electricity, natural gas, pulp and paper, and communications companies, claiming revenues of nearly US$101 billion in 2000. It employed approximately 22,000 staff. *Fortune* magazine had named Enron "America's Most Innovative Company" for six consecutive years from 1996 to 2001. Unfortunately, at the end of 2001, it was revealed that Enron's financial situation was sustained in large part by a complex and well-planned system of accounting fraud. A series of revelations pointing to irregular accounting procedures bordering on fraud perpetrated throughout the 1990s involving Enron and its accounting firm Arthur Andersen. Enron ultimately filed for bankruptcy in December 2001. In addition, the scandal led to the dissolution of Arthur Andersen, which at the time was one of the world's top accounting firms. The firm was found guilty of obstruction of justice in 2002 for destroying documents related to the Enron audit and was forced to stop auditing public companies. Social consequences of the bankruptcy were catastrophic.[3] Enron employees lost their jobs and nearly all of their retirement savings, with many being left with nothing except their social security funds. Arthur Andersen sold most of its American operations to KPMG, Deloitte & Touche, Ernst & Young and Grant Thornton LLP. From a high of 28,000 employees in the United States and 85,000 worldwide, the firm is now down to around 200, primarily based in Chicago.[4] This case clearly illustrates that responsible business is a very necessary condition for sustained social progress.

By the same token, no business operates in a vacuum. It interacts with a variety of societal forces such as employees, customers, communities, business partners, investors, governments, media, universities, and many more. Companies depend on support and resources from these groups throughout society. They supply business with labour, access to natural resources, revenue generation when they purchase products and/or services produced by the business, along with a host of other types of support. For example, education, healthcare and equal opportunity are essential to a productive workforce. Efficient utilization of land, water, energy and other natural resources makes business more productive. Good government and rule of law, and property rights are essential for efficiency and innovation. Ultimately, a healthy society leads to expanding demand for business, as

---

[3] Retrieved from http://www.bsu.edu/mcobwin/majb/?p=199 on 7 July 2009.

[4] Retrieved from http://en.wikipedia.org/wiki/Arthur_Andersen on 21 December 2009.

more human needs are met and aspirations grow. Without positive support from society, it would be very difficult for businesses to operate smoothly or even survive. Any business that pursues its ends at the expense of the society in which it operates will find its success to be ultimately temporary.

Many companies become aware of this only after public pressure in response to actions they had taken but not previously been aware of. In the 1990s, Nike faced an extensive consumer boycott after the *New York Times* and other media outlets uncovered abusive child labour practices at some of its suppliers in Indonesia, Pakistan and Cambodia. In 2001, Nike was exposed by a BBC documentary as having employed child labour and poor working conditions in a Cambodian factory contracted by Nike. Nike finally pledged to raise the minimum age for hiring new workers at shoe factories to 18 and the minimum for new workers at other plants to 16, in countries where it is common for 14-year-olds to hold such jobs.[5] However, it was too late as its reputation had been seriously damaged globally already. A global boycott campaign was raised against the company and Nike was forced to invest a large sum of money in public communication and brand recovery to regain its competitive position.

Another example is Shell Oil's decision to sink the *Brent Spar*, an obsolete oil rig, in the North Sea in 1995. Although the plan was approved by the authorities concerned, the decision led to Greenpeace protests and international headlines highlighting that the plan would severely and negatively impact the environment. Greenpeace organized a worldwide, high-profile media campaign that influenced public opinion against Shell's plan. The call for a boycott of Shell products and Shell service stations was being heeded across much of continental northern Europe, damaging Shell's profitability as well as brand image. Protesters in Germany threatened to damage 200 Shell service stations. German Chancellor Helmut Kohl even protested to the British Prime Minister, John Major, at a G7 conference in Halifax, Nova Scotia. In the face of public and political opposition in northern Europe, accompanied by falling sales and a drop in share price, Shell ultimately decided to abandon its plans to dispose of the *Brent Spar* at sea. Shell's reputation was seriously damaged by the events that unfolded, as the demolition plan resulted in a myriad of costs on the company's goodwill. In the end, it took Shell many years to recover the public trust.

As these examples clearly illustrate, a great outcome for good businesses is often achieved when there is an improvement in the quality of life and standard of living for people where businesses operate. Business has the power to transform society and in the process, to make a profit. At the same time, business may cause society to suffer greatly from its poor conduct. Society is aware of this reality, thus many social groups have begun to closely monitor business operations and are ready to take action against any business they consider a "threat to society" in whatever aspect. As society also has the power to generate a positive or negative impact on business, society can punish businesses

---

[5] Retrieved from http://www.nytimes.com/1998/05/13/business/international-business-nike-pledges-to-end-child-labor-and-apply-us-rules-abroad.html on 10 July 2009.

that cause harm to society. Therefore, no party can live alone in separation, business depends on society and *vice versa*. Particularly in our increasingly interconnected world, where the forces of globalization and technological innovation are bringing massive change, the linkages between business and society will only continue to grow stronger, tighter and even more vital to both corporate success and social prosperity. Businesses can sustain their growth only if society is generally satisfied with their overall contribution to societal well-being. Michael E. Porter, a Harvard strategy guru, believes there is a "symbiotic relationship" between social progress and competitive advancement. This relationship "implies that both business decisions and social policies must follow the principle of *shared value*".[6]

Business and society are inseparable and interdependent. The best business leaders know this truth and act with vision, courage and passion to create real and lasting contributions to society. This becomes a way for companies to advance social progress while also making a profit, and ultimately becomes a way for many businesses to effectively sustain themselves over the long-term. It suggests that corporate social responsibility (CSR), therefore, has become an essential part of any successful company's business strategy.

2. Global demands for responsible business

Business is presently facing an uncertain competitive environment with multiple demands and pressures from customers and numerous stakeholders. Many of these demands and pressures are converging into one theme: corporate responsibility.

2.1 Rise in stakeholder consciousness

Increasingly, corporations are motivated to become more socially responsible because their most important stakeholders (customers, employees, shareholders and investors, community, etc.) expect business to understand and address relevant social and community issues. Without appropriate actions in response to these demands, stakeholders may react negatively to business. Taking suitable actions, thus, often leads to a positive contribution to business success.

Understanding what causes are important to employees is often a priority because of the many interrelated business benefits that can be derived from increased employee engagement in terms of more loyalty, improved recruitment, increased retention, higher productivity, and so on. Shareholders and investors (particularly institutional investors) themselves, through socially responsible investing (SRI) are exerting pressure on corporations to behave responsibly and ethically. They are not only concerned for their financial returns but also for the practices that ensure business continuity. The marketplace is developing both social and environmental information and criteria to supplement the traditional financial

---

[6] Porter, Michael and Kramer, Mark R. (2006) "Strategy & Society: The link between competitive advantage and corporate social responsibility", *Harvard Business Review* (December), p. 7 (1-15).

criteria used to make investment decisions. Market indexes and professional firms now provide information for mutual funds, private equity funds, venture capital funds, commercial banks and other financial market investors about a wide range of corporate characteristics, including governance, human resource management, health and safety, environmental protection and community development. Some examples of SRI indexes are the Dow Jones Sustainability Index in the United States, the FTSE4GOOD 100 Index in the United Kingdom, the Jantzi Social Index in Canada, Innovest, the Calvert Social Index, and the KLD Domini 400 Index.

Key external stakeholders including consumers, regulators, community organizations, academics, and the media have also injected their social concerns into business operations. Consumers are showing increased interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues. Non-governmental organizations are also taking an increased role, leveraging the power of the media to increase their scrutiny and collective activism around corporate behaviour. The action of Greenpeace on the Shell's *Brent Spar* was such a case. Through education and dialogue, academia is raising awareness and preparing future generations to hold businesses responsible for their actions. Advances in information and communication technologies, such as the internet and mobile phones, assist external stakeholders in more effectively tracking and discussing corporate activities, along with quickly assessing and profiling business practices they view as either problematic or exemplary. A sound CSR approach can ensure better business responsiveness to these diverse stakeholder groups.

2.2 Ethics and moral concerns

There are three currents of ethics and moral concerns that have led to a high demand for responsible business. Firstly, a number of serious and high-profile breaches of corporate ethics resulting in damage to employees, shareholders, communities, and the environment—as well as share price—have contributed to elevated public mistrust of corporations. The case of Enron, explained previously, is a clear illustration of this point. Therefore, demand for companies that are ethically governed is up. Stakeholders demand good corporate governance principles to be exercised thoroughly in any business, including things like honesty, trust and integrity, openness, responsibility and accountability, mutual respect, and commitment to the organization. In particular, ethical and responsible decision making has become a major concern for investors and shareholders for reasons not only related to a sound business operation, but also for risk management. Some companies have developed a code of conduct for their directors and executives that promotes ethical and responsible decision-making. Shareholders also demand that companies clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. Procedures to independently verify and safeguard the integrity of a company's financial reporting have become essential parts of responsible business. All in all, the most direct rationale is to reduce the likelihood of being fined and avoid any damage to their reputations for breaching laws or moral norms. A CSR approach can help improve corporate governance, transparency, accountability and ethical procedure of the business.

Secondly, ethical consumerism[7] is the intentional movement encouraging the purchase of products and services that the customer considers to be made ethically. This may mean with minimal harm to or exploitation of people, animals and/or the natural environment. The rise in ethical consumerism and "green" brands that identify themselves as ethical, has led to a rise in ethic-based decisions in the mass market, enabled by increased understanding and information about socially-concerned businesses practices. Ethical consumerism is practiced through four means:

- *Positive Buying:* Favouring particular ethical products, be they fair trade, cruelty free, organic, recycled, re-used, or produced locally;
- *Negative Purchasing:* Avoiding products that consumers disapprove of, such as battery eggs[8] or gas-guzzling cars;
- *Company-Based Purchasing:* Targeting a business as a whole and avoiding all the products made by one company. For example, a boycott of Nestlé products was launched in 1977 in a bid to get the company to change the way it marketed its baby milk formula around the world;
- *Fully-Screened Approach:* Looking both at companies and at products and evaluating which product is the most ethical overall. Ethical Consumer, the United Kingdom's leading alternative consumer organization, collects and categorizes information from more than 30,000 companies according to their performance in five main areas—the environment, human rights, animals rights, politics, and product sustainability—to determine their *Ethiscore* which is then used to recommend the most ethical, "fully-screened" products.

A study of consumer beliefs in five developed countries in Europe about the ethics of large companies concluded that approximately one third of respondents reported they would pay higher prices for ethical brands, though perception of various companies' ethical or unethical status varied considerably from country to country.[9] These results are consistent with a survey conducted by the Global Market Insite[10] which gauged the opinions of more than 15,000 consumers in the United States and 16 other countries about socially conscious business practices. It found that 42 per cent of all Americans are willing to spend more for products branded as organic, environmentally friendly, or fair trade, whereas a large majority of consumers in China (91 per cent) and India (71 per cent) will pay more for socially

---

7 Ethical Consumer (2008). "*Why Buy Ethically*?" Retrieved from http://www.ethicalconsumer.org/home.aspx on 25 July 2009.

8 See http://www.chickenout.ca/battery_egg_farms.php and http://www.hsus.org/farm/camp/nbe/

9 Financial Times (2007). *Ethical consumption makes mark on branding*, 20 February. Retrieved from http://www.ft.com/cms/s/2/d54c45ec-c086-11db-995a-000b5df10621.html on 19 July 2009.

10 Global Market Insite (2005). *GMI Poll Finds Doing Good Is Good For Business.* Retrieved from http://www.gmi-mr.com/about-us/news/archive.php?p=20050919 on 26 July 2009.

responsible products. American consumers between the ages of 18-29 were more likely to spend more on organic, environmentally preferable or fair trade products than other age groups. While consumers in India, Canada, Australia, Germany, China and Japan selected environmentally friendly practices like recycling or using biodegradable products as their top factor for determining if a business is socially responsible, consumers in the United States selected firms that supported community activities such as sponsorships, grants, or employee volunteer programmes. Other countries, including France, Denmark, and Italy selected the use of child labour as the main factor in making them think a corporation is socially irresponsible. The results of these two surveys validate the notion that consumers expect companies to have sustainable policies. It therefore makes good business sense for companies to develop such policies, as they can expect to subsequently be "rewarded" or "punished" by their consumers if they fail to embrace socially responsible practices.

Finally, in addition, advocates of ethical companies believe that, in general, the goal of any economic actor should not be limited to only economic gain, but should also aim to further the general social welfare. In advanced economies, the purpose of business has been called to extend beyond the maximization of efficiency and profit. Advocates believe that businesses, without exception, have an obligation to contribute and give back to the community. In this sense, society has increasingly begun to expect businesses to have an obligation to the society in which they are located, to the people they employ, and customers they serve, beyond their traditional single bottom-line and narrow shareholder concerns. Corporates are seen more and more as 'citizens' in society — 'citizens' that hold both rights and responsibilities towards the local community and society in which they reside. As citizens, corporates can contribute to the common good in different ways, such as creating wealth and providing goods and services in an efficient and fair way, while at the same time respecting the dignity and the inalienable and fundamental rights of the individual. Furthermore, corporates can contribute to the social well-being and a harmonic way of living together in just, peaceful and friendly conditions, both currently and in the future, by effectively integrating CSR into their practice.

2.3 Cries for sustainable development

Sustainable development is defined by the United Nations as the development that "meets the needs of the present without compromising the ability of future generations to meet their own needs".[11] A number of studies have found that humankind is consuming natural resources at a much faster rate than they are being replaced. In many cases, we are doing much more than just consuming, we are destroying nature. If this continues, future generations will not have the resources they need for their development. In this sense, much of the current development is unsustainable. Other issues related to sustainable development include the need for greater attention to poverty alleviation and respect for human and community rights. All of these concerns have led to an increased demand for

[11] United Nations (1987). *Report of the World Commission on Environment and Development*. General Assembly Resolution 42/187, 11 December 1987. Retrieved from http://www.un.org/documents/ga/res/42/ares42-187.htm on 28 July 2009.

sustainable practices by individuals, corporations, and communities. The rise in popularity of ethical consumerism over the last two decades can be linked to this concern as well. Consumers are becoming increasingly aware of the environmental and social implications of their day-to-day consumer decisions and are beginning to make purchasing decisions related to their environmental and social concerns. The boycotts against Nike and Shell explained in the first section point to this issue. Although this practice is far from consistent or universal, the concerns for contribution to sustainable development can serve to direct businesses to attend to issues that may not be directly related to their short-term profit generation but would be strongly influential their long-term success. CSR serves as an entry point for businesses to understand sustainable development issues and respond to them in a more effective manner though their business strategy. Recently, Wal-Mart launched *Sustainability 360*,[12] a company-wide programme that aims to engage Wal-Mart associates, suppliers, communities and customers to the sustainability agenda. By requiring suppliers to reduce product packaging by five per cent by 2013, Wal-Mart expects to realize savings equal to removing 213,000 trucks from the road and saving 324,000 tons of coal and 67 million gallons of diesel fuel per year.

2.4 Pressures of global market forces

With attendant focus on cross-border trade and global supply chains, corporations pursuing growth within the global market inevitably encounter new challenges that can limit their growth and potential profits if they lack competency in handling these challenges. Non-tariff barriers, environmental restrictions, food standards, safety and varying understandings of labour exploitation and hygienic risks are just some of the conditions which challenge businesses in the global marketplace. These conditions are imposed as consumers increasingly demand high standards of product quality. They can be especially important for export-oriented businesses in emerging economies to successfully enter markets in more developed countries. Since all such issues are directly related to various components of socially responsible practices, CSR has increasingly been identified as a top concern for international businesses. Moreover, such concerns place particular pressure on multinational businesses to examine not only their own internal practices, but also those of their entire supply chain. As explained previously, Nike's mistake in failing to notice the misconduct of its suppliers in Cambodia, Indonesia and Pakistan led to serious damage to its reputation around the world. These global market conditions have introduced problems for which business was previously unprepared. Businesses are pressed to comply with these market standards and demands. There is very little room for avoidance if they still want to remain competitive globally.

2.5 International instruments

Intergovernmental bodies, such as the United Nations, the Organisation for Economic Co-operation and Development (OECD), the International Labour Organization (ILO), and

[12] H. Lee Scott, Jr. (2007). *Sustainability 360: Doing Good, Better, Together*. Retrieved from http://walmartstores.com/FactsNews/NewsRoom/6238.aspx on 19 July 2009.

the International Organization for Standardization (ISO), have developed various compacts, declarations, guidelines, principles and other standards that outline norms for what they consider to be acceptable business conduct. Agenda 21, United Nations Global Compact, OECD Guidelines for Multinational Enterprises, ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and ISO 26000 are some examples of these types of initiatives. They involve components aimed to orient business practices to be more socially concerned regarding human rights, environmental preservation, corporate governance, transparency and anti-corruption, and so on. Some of these initiatives, or components thereof, are deployed at the national level once governments voluntarily decide to adopt them into the national regulatory framework. As cross-country collaboration is increasingly significant, some initiatives have been integrated into international cooperation frameworks in which state members are obligated to comply and, as a result, domestic laws and regulations need to be amended to be consistent with international standards. The end result is that domestic businesses will eventually orient their operations and practices in more social-friendly manners.

2.6 Crises and consequences

Often attention to CSR precipitates after a crisis. One of the most active stands against environmental mismanagement is the Coalition for Environmentally Responsible Economies (CERES) Principles,[13] a ten-point code of corporate environmental conduct which was publicly endorsed by CERES member companies, and resulted from the *Exxon Valdez* oil spill in Alaska in 1989. Approximately 11 million gallons, or the equivalent of 38,800 metric tons, were spilled. Around 1,300 miles of shoreline were contaminated, with 200 miles being heavily or moderately damaged, and 1,100 miles lightly or very lightly damaged. The spill region contained more than 9,000 miles of shoreline, and clean-up took more than four summers and cost US$2.1 billion. Even with this enormous investment in clean-up, not all affected beaches were cleaned, and some remain contaminated with oil to this day.

Other examples include an incident with Mattel, the world's largest toy company, in 2007. Potential hazards from parts of the toys coloured with lead-based paint led to a recall of 19 million toy products globally and caused the company to initiate new risk management and quality control processes. As a result, a Mattel toy boycott was organized in both the United States and Europe. The world federation of consumer organizations, Consumers International (CI), announced the winners of the International Bad Product Awards be presented to Mattel. *Fortune* magazine rated the recall of Mattel's products as one of the 'Dumbest Moments' in business for 2007. This crisis effectively ruined Mattel's sixty-year reputation in just a few short months because Mattel's main supplier, *Lee Der*, had subcontracted out the painting to another Chinese company. While the subcontractor was supposed to use paint supplied by *Lee Der*, it instead used paint that contained potentially poisonous lead. Following the incident, Mattel appointed Geoff Massingberd as

[13] Retrieved from http://www.ceres.org/principles on 1 August 2009.

Vice President of Corporate Responsibility to lead development and implementation of programmes related to business integrity.

Another more recent crisis was the milk scandal in 2008. Several companies in China were implicated in a scandal involving milk and infant formula which had been contaminated with melamine, leading to kidney stones and other renal failure, especially in young children. By 22 September 2008, nearly 300,000 people had become ill, with more than 12,800 hospitalizations and four infant deaths.[14] The consequences of the scandal extensively went beyond China.[15] Cases were diagnosed in Hong Kong, China; Macau, China; and Taiwan Province of China as result of imported products. Tokyo-headquartered Lotte Group recalled its *Koala's March* cookies in Hong Kong, China and Macau, China because of contamination. British confectionery group Cadbury withdrew all of its 11 chocolate products made in its three Beijing factories, on suspicion of melamine contamination. Unilever recalled its *Lipton* milk tea powder after the company's internal checks found traces of melamine in the Chinese milk powder used as an ingredient. Heinz recalled cases of baby cereal in Hong Kong, China after discovering they contained melamine. As a result, Nestlé sent 20 specialists from Switzerland to five of its Chinese plants to strengthen chemical testing and later opened a US$10.2 million Beijing Research and Development Centre to serve as a base and reference in food safety for Nestlé in Greater China.

The issue raised concerns about the food safety of Chinese products. It damaged the reputation of and consumer trust in China's food exports, with at least 25 countries stopping all imports of mainland Chinese dairy products. The EU announced a ban on imports of baby food containing Chinese milk. The World Health Organization (WHO) referred to the incident as one of the largest food safety events it has had to deal with in recent years, and that the crisis of confidence among Chinese consumers would be hard to overcome.[16] Decline in consumer confidence resulting from the contaminated milk has lessened demand for dairy products, causing hardship to more than 2 million Chinese farmers who have nowhere to sell their milk. The scale of the problem proved that it was clearly not an isolated incident, but rather, a large-scale intentional crisis.

This section highlights key global demands pressing for more responsible business practices. Some of the pressures have become inevitable options for business to embark on, with CSR providing a comprehensive approach to help businesses in managing the multiple challenges and pressures. CSR has become a means of matching corporate operations with stakeholder values and demands. An effective CSR policy will bring together all aspects of operations within a corporation as a way of adequately considering

---

[14] McDonald, Scott (2008). "Nearly 53,000 Chinese children sick from milk". *The Associated Press* (22 September).

[15] International Herald Tribune (2008). "Tainted milk crisis hits more global companies". *The Associated Press* (26 September).

[16] Schlein, Lisa (2008). "China's Melamine Milk Crisis Creates Crisis Of Confidence". *Voice of America* (26 September).

the needs of all constituent groups. The actions corporations take today to incorporate CSR throughout their organizations represent a real point of differentiation and competitive market advantage on which future success can hinge. The next section will elaborate on key business advantages corporations gain from undertaking CSR practices.

3. CSR and business advantages

There are clear and identifiable benefits associated with CSR when it comes to adding value to human capital, corporate identity and products. The scale and nature of the benefits of CSR for a company may vary depending on the nature of the enterprise and the CSR measures it undertakes. Although the business advantages gained from CSR are often difficult to quantify in an exact way, there is a large body literature available which highlights key business advantages of CSR and urges businesses to adopt socially-concerned measures beyond financial gains.

3.1 Brand and reputation advantage

In competitive markets, companies strive for a unique selling proposition that can separate them from their competitors in the minds of customers. Ultimately the value of a company depends largely on how much faith customers have in the business. That faith is fostered by an ineffable and scarce element: reputation. Reputation, or brand equity, is founded on values such as trust, credibility, reliability, quality and consistency that customers perceive the company and its products to have. For many of the brand name companies, their brand is the core and backbone of their business.

CSR can play a role in building good brand perception and company reputation based on distinctive ethical values. Several famous brands, e.g. the Body Shop, Whole Foods Market, and American Apparel, have built their enterprises on ethical values such as members' ownership, human dignity, ecologically sustainable operations and socially responsible practices. They have been able to differentiate their brands by making a socially-responsible commitment which also shows their positive response to the global demand for sustainable development. Through the reputation development of delivering sustainable products and services, they have attracted socially, environmentally conscious customers. This approach, sometimes called "green marketing", has been employed by companies as a marketing strategy, like when Home Depot developed a line of furniture produced entirely from sustainably harvested wood. In 2000, the green market was estimated to be 10 to 12 per cent of the United States consumers.[17] The overall ethical market in the United Kingdom, measured by market size and growth of a basket of ethical products and services, was reported to be worth £35.5 billion in 2007, up 15 per cent from £31 billion in 2006.[18]

---

[17] Lawrence, AnneT., Weber, James and Post, James E. (2005). *Business and Society: Stakeholders, Ethics, Public Policy*.

[18] The Co-operative Bank (2008). *Ethical Consumerism Report 2008*. Retrieved from http://www.goodwithmoney.co.uk/ethical-consumerism-report-08/ on 6 August 2009.

Organizations that perform well with regard to CSR practices can build their reputation, whereas those that perform poorly can damage brand and company value when malpractices are exposed. The cases of Nike and Shell mentioned earlier emphasize and illustrate this. The loss of a positive image and reputation impacting brands is simply too high to ignore. This is particularly important for organizations with high-value retail brands, which are often the focus of media, activist and consumer pressure. Good CSR practices can be part of a process to help companies avoid being attacked from media and other opponents. Even for companies that do not have direct retail exposure through brands, their reputation as a supply chain partner for addressing CSR issues can make a difference when the larger business opportunity is positively realized.

Many companies in the supply chain can also benefit from developing a positive image and reputation. As large buyers move to consolidating supply chains, smaller companies need to differentiate themselves to gain and retain business while competing with larger counterparts. Small and medium-sized enterprises (SMEs) can benefit from improving their image and reputation as some large companies are interested in promoting business within the small business sector and are looking to identify smaller enterprises that have established a reputation for good quality and well priced products produced in a way that is seen as socially responsible.[19] Developing a brand and good reputation which is seen as socially and environmentally responsible is therefore highly beneficial for businesses, either large or SMEs, in a global and competitive world.

3.2 Human resources advantage

The increased pressure on growing competition and globalization have introduced businesses to pressure to increase productivity, streamline operations, contain costs and deliver maximum shareholder value and profit. Many companies have come to realize the importance of attracting and retaining "the best and the brightest", highly skilled, quality employees as a necessary condition to accomplish these challenges. Furthermore, the key to firm success is now associated with a firm's ability to create, manage, and transfer "knowledge assets", which also stresses the importance of quality employees as a key to a firm's competitive advantage. A firm will be successful in this endeavour if it has a quality workforce which takes advantage of and manages such knowledge. The ability of firms to succeed in the future is now often linked to how well a firm can capture value from these knowledge assets. Competent human resources thus have become a key to sustained corporate success. There is growing evidence that a company's CSR practices play an increasingly important role in improving recruitment and retention of quality employees, particularly within the competitive market of technical specialists.

A systematic study conducted with junior- and senior-level students in the United States found that firms with more CSR practices were perceived as more attractive employers than firms lower in CSR, and that prospective applicants' job pursuit, probability to interview,

---

[19] ESCAP (2005). *Maximizing the benefits of corporate social responsibility for small and medium-sized enterprises participating in regional and global supply chains* (ST/ESCAP/2394).

and probability to accept a job offer are positively associated with a firm's CSR.[20] Results of an employee survey by Good Search[21] indicate that 44 per cent of employees want to work for a company that is environmentally responsible, that has stated CSR policies (38 per cent), that makes socially responsible products (37 per cent), and that conducts Ethical Sourcing and Supply Chain (35 per cent). A recent survey conducted by British Telecom (BT) stated that more than one-third of respondents indicated that working for a caring and responsible employer was more important than the salary they earned and nearly half would turn away from an employer that lacked good corporate social responsibility policies.[22] Alison Garner, head of global CSR for BT, said that, "young professionals are increasingly looking at corporate social responsibility when considering which companies and brands they might work for".[23] Among their most recent graduate recruits, 30 per cent identified BT's social responsibility as a reason for them to join BT – up from previous years.[24] This is something many would consider to be common sense: employees will not choose to work for companies with factories that are dirty and unsafe or where poor wages are paid late. Therefore, good CSR practices tend to increase a company's ability to attract quality workers.

Employing quality staff cannot guarantee business success, however, if a company is unable to keep them. Employee turnover harms a business as it creates huge amounts of uncertainty over production schedules and the ability to meet orders. Losing qualify staff means a business has to pay costs associated with recruitment, training and lost productivity whilst the worker is new to the job and learning the required skills. Good internal CSR practices (such as fair employment practices, diversity initiatives, giving employees a voice, bonus schemes, and the like) can increase morale, reduce absenteeism, increase the commitment of workers to the organization and increase productivity; all of these results subsequently increase retention.[25] Some research has concluded that there

---

[20] Greening, Daniel W. and Turban, Daniel B. (2000). "Corporate social performance as a competitive advantage in attracting a quality workforce", *Business and Society*. Vol. 39, No. 3, pp. 254-280.

[21] University of Cambridge Programme for Industry (2007). *Cambridge Sustainability Research Digest – February 2007*, Retrieved from http://www.cpi.cam.ac.uk/pdf/Feb%202007.pdf on 15 August 2009.

[22] Vorster, Gareth (2007). *Corporate social responsibility is more important than salary when choosing a job*. Retrieved from http://www.personneltoday.com/articles/2007/08/02/41767/corporate-social-responsibility-is-more-important-than-salary-when-choosing-a-job.html on 30 July 2009.

[23] Murray, Norm E. (2008). *Corporate Social Responsibility is the Number One Criteria for Job Hunters Today*. Retrieved from http://normmurray.org/wp-content/uploads/nma-articles-csa.pdf on 30 July 2009.

[24] Blake, Janet (2006). *Building the CSR agenda at BT*. Retrieved from http://www.humanresources magazine.com.au/articles/16/0C03CD16.asp?Type=60&Category=1223 on 8 August 2009.

[25] Massachusetts Business Roundtable (MBR) (2009). *Corporate social responsibility and employee recruitment and retention: A primer*. Retrieved from http://www.maroundtable.com/doc_reports/0905_MBR_CSRreport.pdf on 13 August 2009.

is evidence to suggest that good CSR practices actually reduce employee turnover.[26] Human resource benefits can be quite considerable when one considers the costs of training new staff and with recruitment costs in labour markets becoming increasingly high. A company can improve employee morale and loyalty through CSR practices, programmes and activities. This can be achieved through establishing pride in the company's products and practices, or introducing improved human resources practices such as "family-friendly" policies, fair-pay, health and safety systems. CSR can also help to improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering.

3.3 Cost advantage

The cost advantage of CSR appears to be related to two aspects: business operations and human resources management.

There are hundreds of examples which show that cost reductions can be achieved though good CSR practices.[27] Many of these reductions are related to the environmental management of operations. Most companies that reduce pollution and hazardous waste, reuse or recycle materials, and operate with greater energy efficiency and more efficient use of water can reap significant cost savings.[28] DuPont, for example, has saved over US$2 billion from reductions in energy use from 1990 to 2005. McDonald's changed the materials used to wrap its food and reduced its solid waste by 30 per cent.

Cost advantage is achieved specifically from improved efficiencies as identified through a systematic approach to management that includes continuous improvement. For instance, in assessing the environmental and energy aspects of an operation, a company can reveal opportunities for turning waste streams into revenue streams (wood chips into particle board, for example), as well as identify areas for system-wide reductions in energy use, and costs. Herman Miller Inc.,[29] an office furniture company in the United States, goes to great lengths to avoid wasting material. It sells fabric scraps to the auto industry for use as car linings; leather trim to luggage makers; vinyl to the supplier to be re-extruded into new edging; and burnable solids are used in a specialized boiler that generates all the heating and cooling for the company's main complex in Zeeland, Michigan. Herman Miller Inc. ultimately makes money from "waste" that it previously had to pay to dispose of.

From the human resource management aspect, the benefits of CSR can be largely considerable when recruitment costs and costs of training new staff are considered. Increase in staff retention would indeed reduce all of these costs. CSR contributes to staff retention

---

[26] ESCAP (2005).

[27] Gege M. (2004). *Reducing Costs through Environmental Management*. Hamburg: German Environmental Management Association (BAUM).

[28] Lawrence, AnneT., Weber, James and Post, James E. (2005).

[29] See http://www.hermanmiller.com/

as explained in the former section. Some SMEs use good CSR practices to develop a sense of family within the organization, as opposed to a workforce divided into management and workers.[30] The SME sector may be well suited to cooperative forms of ownership that also tends to increase retention rates and boosts loyalty and productivity. In addition, SMEs in the supply chain can also benefit from some of the direct costs savings though good environmental management as discussed previously.

3.4 Risk management

Although globalization offers many opportunities to companies in terms of market expansion and extensive supply chains, it also poses novel sources of business risks. Network-based operating models of business across different countries, regulatory regimes and cultures highlight the growing importance of the extended enterprises by enhancing the efficiency of companies while improving their global competitive position. However, network-based models have resulted in much more complex relationships, both within the corporate domains and between companies and their stakeholders, and produce some business risks as consequences. Thus managing risk must be a central part of any corporate strategy.

Global supply chains often stretch across multiple companies, suppliers and wide geographic areas. As the numbers of connection grows, the interdependent relationship among participants along the chains also grows. A change in any one partner can ripple throughout the value chain and cause positive or negative consequences to a company. Malpractice by one supplier can create unanticipated harms to a company’s reputation and brand image. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or labour rights transgression. Misconduct by Nike’s suppliers in using child labour, as discussed earlier, is a good example. Business therefore needs a tool to help them mitigate this kind of risk along its supply chains. Building a genuine culture of ‘doing the right thing’ within a corporation and its suppliers can offset this kind of risk and CSR offers a safeguard solution.

In the supply chain, engaging in CSR may also lead to continuity of buyer-supplier relationships (and perhaps strengthening the relationship in some cases), fewer audits and inspections, and less likelihood of losing contracts.[31] This is not to say that these outcomes will flow on to all SMEs in the supply chain, but for those doing CSR it appears to be the case. Companies can stimulate smaller enterprises in their supply chain to implement a CSR approach. Some large automakers insist their suppliers be certified in environmental management systems standards. Similarly, some large apparel retailers require their suppliers to comply with worker codes and standards. A major benefit in carrying out risk reduction strategies also relates to access to finance for companies of all sizes. Where environmental and social issues are perceived a risk by the financial sector there will be hesitating in providing finance unless potential risks are identified and mitigated.

---

30 ESCAP (2005).

31 Ibid.

In addition, the power of other stakeholders like communities, employees, regulators, suppliers, NGOs, and media, has been increased in the globalized age. Globalization has expanded the range and reach of corporate stakeholders by "exerting a democratizing and empowering influence worldwide".[32] Such groups of stakeholders can form coalitions to challenge government policy as well as corporate behaviour. Any number of stakeholders may transmit a risk to various components within a company. For instance, customers may request changes in a company's environmental policies; employees may raise concerns about outsourcing of jobs overseas; suppliers may request coverage in a company's safety plan; and so on. This condition introduces some "social risks" to irresponsible business.[33] Social risk may arise from what appears to be a sound business decision. A quest for cheaper labour to drive down costs may appear to make a good business sense on the basis of garnering competitive advantage. However, a decision to employ workers in a developing country without fully abiding by national laws or adhering to international labour standards could cause a company to run afoul of labour rights watchdogs and resulting in public criticism and reputation damage. In particular to those companies with recognized brands, they are vulnerable to charges by some of these stakeholders if they are seen as violating their own self-professed standards or international community norms in such areas as human rights, labour practices or environmental preservation. Stakeholder relationship must be maintained to minimize business risks. CSR practices are an effective means to provide strategic actions for managing these risks.

CSR contributes to social risk mitigation and better risk management through two means: by providing intelligence which identifies those risks, and by offering an effective means to respond to risks with an emphasis on managing relationships with stakeholders.[34] Stakeholder groups can provide strategic intelligence regarding the company's risks around particular economic, social or environmental issues by giving signals, warnings, or inside information. However, the business intelligence through this channel is accessed only if good relationships and trust are established between business and stakeholders. The CSR approach aims to engage stakeholders in the business operation thus allowing good stakeholder relationships to be developed and strengthened. Gaining knowledge of social expectations from better connections with stakeholder groups, increased understanding of international standards/norms by which a company should abide, and smarter allocation of resources are all enabled though linking a CSR programme with a risk management programme. At the same time, by partnering with other social actors, including civil society groups, companies can also work to improve the contextual conditions that pose emerging risks for them in the first place.

---

[32] Holliday, Charles O., Schmidheiny, Stephan and Watts, Phillips (2002). *Walking the talk: The Business case for sustainable development*. San Francisco: Greenleaf Publishing, p. 5.

[33] Kytle, Beth and Ruggie, John Gerard. (2005). *Corporate social responsibility as risk management: A model for multinationals*. Working paper No. 10. Corporate Social Responsibility Initiative, Harvard University.

[34] Kytle and Ruggie (2005).

Nike is a good example of integrating CSR into its risk management[35] In response to its child labour crisis identified in section 1, Nike developed its first department for managing its supply chain partner's compliance with labour standards. In 1998, Nike developed a CSR programme linked with its core business functions with plans to address the labour issue and the associated stakeholders. In 1999, CSR was integrated into one of five business performance objectives for the corporation. Interviews were conducted with some 9,000 young workers with their Indonesian suppliers about the workers' needs. Nike supported the launch of multilateral initiatives like the Fair Labour Association, SA8000 Standards which focused on the development of compliance with labour standards. By fostering multilateral forums, Nike has developed means to effectively engage stakeholders to share information, thereby addressing the danger of ignoring larger context of stakeholder activism and recognizing CSR must be linked strategically to core business.

3.5 Innovation

CSR can also improve business advantage though innovation. Many opportunities to pioneer innovations which benefit both society and a company's own competitiveness can emerge during the process of CSR development. Soliciting feedback from diverse stakeholders can also be a rich source of ideas for new product differentiation or process development; which can lead to better access to new markets; and ultimately result in competitive advantages. For example, a firm may become certified in environmental and social standards to become a supplier to particular retailers. Toyota's response to concerns over automobile emissions is another example. The Toyota's Prius, a hybrid electric/gasoline vehicle, is the first in a series of innovative car models that have produced a competitive advantage with environment benefits. The Prius was awarded the 2004 Car of the Year Award[36] by *Motor Trend* magazine, the world's number one automotive authority, which gave Toyota a unique position in customer's minds. Urbi,[37] a Mexican construction company, has prospered by building housing for disadvantaged buyers using novel financing vehicles such as flexible mortgage payments made through payroll deductions. Crédit Agricole, France's largest retail banking group, has differentiated itself from competitors by offering specialized financial products related to the environment, such as financing package for energy-saving home improvements and audits to certify farms as organic. Innovation through CSR has been coined a "Strategic CSR" which Michael Porter argued that it will truly strengthen long-term competitiveness of a company.[38]

---

[35] Zadek, Simon. (2004). "The path to corporate responsibility". *Harvard Business Review,* Vol. 82, No. 12 (December), pp. 125-132.

[36] Retrieved from http://www.motortrend.com/roadtests/alternative/112_031120_coty_winner_2004_toyota_prius/index.html on 20 August 2009.

[37] See http://www.urbi.com/eng/su/su_lp.asp.

[38] Porter, Michael and Kramer, Mark R. (2006).

3.6 Access to capital

Financial institutions are increasingly incorporating social and environmental criteria into their project assessments. When making decisions about where to place their money, investors are looking for indicators of effective CSR management. A business plan incorporating a good CSR approach is often seen as a proxy for good management. Based on a 2007 Report on Socially Responsible Investing (SRI) Trends in the United States,[39] SRI is growing at a faster pace than all other investment assets under professional management. Roughly 11 per cent of assets under professional management in the United States – nearly one out of every nine dollars – were involved in SRI. SRI assets rose more than 324 per cent from US$639 billion in 1995 to US$2.71 trillion in 2007. From 2005-2007 alone, SRI assets increased more than 18 per cent while other types of professionally managed assets increased less than 3 per cent. No doubt, the trend will be growing and socially-responsible companies will gain a strong position in attracting funding.

As this section suggests, businesses must truly recognise that their corporate advantage is closely linked with how well they consider the effects of their activities on those with whom they interact. Brands and reputation are invaluable, albeit largely intangible corporate assets that must be managed as carefully as any of its production function. Firms that implement a CSR approach for more than economic reasons will gain an advantage beyond just its reputation. CSR builds human capital of a company through recruitment and retention. Costs saving, innovation and access to finance are other advantages a company may derive from CSR. Finally an integration of CSR into core business is a key strategy in aiding a company in managing economic, environmental, and social risks. The next section will briefly explain how CSR can be used as a significant strategy for business to adopt in order to achieve long-term sustainability.

4. CSR as a strategy for corporate sustainability

> *"Strong economic performance and good social and environmental performance are not mutually exclusive. In fact, I believe that good corporate citizenship improves our bottom line... Firms with social citizenship records and a real commitment to corporate responsibility are arguably more sustainable, better managed and, therefore, better long-term investments."*

Ed Zander,
Chairman and Chief Executive Officer of Motorola, 2004[40]

---

[39] Social Investment Forum (2007). *2007 Report on Socially Responsible Investing Trends in the United States*. Retrieved from http://www.socialinvest.org/pdf/SRI_Trends_ExecSummary_2007.pdf on 5 August 2009.

[40] Motorola (2004). *2004 Motorola Global Corporate Citizen Report*. Retrieved from http://www.motorola.com/mot/doc/5/5477_MotDoc.pdf on 18 July 2009.

In their widely acclaimed book entitled *Built to Last: Successful Habits of Visionary Companies*,[41] Jerry Porras and Jim Collins outlined an insightful blueprint for organizations based on a six-year study of the development of some of the most successful corporations. They focused their research on 18 bona fide, "visionary" companies, which included 3M, Boeing, Disney, Hewlett Packard, Motorola, IBM, Johnson & Johnson, Marriott, Merck & Co., Proctor & Gamble, Sony and Wal-Mart. A visionary company was defined as one that was a premier institution in its industry, was widely admired by businesspeople, made an imprint on the world, has stood the test of time, has had multiple product/service life cycles, and was founded before 1950 (some even before 1900). The list of visionary companies was determined based on the results of a survey of 1,000 CEOs. From 1926 through 1990 the visionary companies outperformed the general stock market by 15 times. During the six year research process, their findings contrasted with their expectation that large corporations' successes would be linked with profits. In fact, their results showed that maximizing profits was not the dominant goal for visionary companies.

They found 17 of the 18 visionary companies were guided more by a core ideology – core values and a sense of purpose beyond just making money. One example is that of Motorola's core ideology which is to "honourably serve the community by providing products and services of superior quality at a fair price to our customers". A deeply held core ideology gives a company both a strong sense of identity and a thread of continuity that holds the organization together in the face of change. Core ideologies define the company's reason for existence: who we are, what we stand for, and what we are all about. Examples of these effective core ideologies include:

- Procter & Gamble: product excellence, continuous self-improvement, honesty and respect and concern for the individual;
- Wal-Mart: provide value to customers, buck conventional wisdom, work with passion and commitment, run lean and pursue ever-higher goals;
- 3M: dedication to innovation;
- Hewlett Packard: respect for the individual staff;
- Disney: make people happy;
- Sony: elevation of the Japanese national culture and status. Being a pioneer – not following others, but doing the impossible. Respect and encourage individual ability and creativity;
- Merck & Co.: medicine is for patients not for profits. The profits follow; and,
- Marriott: to make people who are away from home feel like they are among friends and really wanted.

These cases illustrated how companies had been able to sustain their businesses on the basis of a company ideology which was not primarily focused on economic returns. Some focused on customer satisfaction, while others focused on employees, product

---

[41] Collins, Jim and Porras, Jerry I. (2004). *Built to Last: Successful Habits of Visionary Companies*. (New York, HarperCollins Publishers).

development, or innovation. The research identified a key issue in the discussion of business sustainability in that a business can be sustained if it shifts its focus from *profit* maximization to *value-creation* maximization for stakeholders. Corporate sustainability can accordingly be defined as meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities and so on), without compromising its ability to meet the needs of future stakeholders.[42] The concept of corporate sustainability has departed from orthodox management theory and lies in the realization that economic sustainability alone is not a sufficient condition for the overall sustainability of a corporation.[43] A single-minded focus on economic sustainability can only succeed in the short-term. Social and environmental sustainability must be satisfied simultaneously to ensure a smooth continuity of business in the long-term. These three components of corporate sustainability are presented as follows.[44]

Economic sustainability: A company's operation mainly relies on fixed assets (such as buildings, land, equipment, machinery) and current capital (for instance bank accounts, merchandise, accounts receivable) to run the business. Recently, intangible assets/capital (for example knowledge, business know-how, reputation, trust) have become increasingly significant, and are no less important than their tangible counterparts. Economic sustainability requires firms to manage all types of assets in such a way so as to ensure business continuity. A company will not survive if it no longer has adequate cash flow to meet its financial commitments to suppliers and lenders. In addition, a firm that generates a return to shareholders below industry average runs a risk of being terminated as shareholders will move their money to other companies that offer a higher return. Therefore, economically sustainable companies must guarantee sufficient cash flow at all times to ensure liquidity, while producing persistent, above average returns for their shareholders.

Environmental sustainability: A firm's production process requires resources. These may be natural resources, which can either be renewable (such as wood, fish, and rice) or non-renewable (such as fossil fuels, biodiversity, and quality soil). These natural resources can also take the form of ecosystems, for instance climate stabilization, water, purification, and/or reproduction of plants and animals. Economic value is derived from the consumption and utilization of national resources and the maintenance of ecosystems. If the natural resources are completely consumed, business will eventually become unsustainable. Hence, ecologically sustainable companies use only natural resources that are consumed at a rate below the natural reproduction, or at a rate below the development of substitutes. They do not cause emissions that accumulate in the environment at a rate beyond the capacity of the natural system to absorb and assimilate these emissions. In addition, they do not engage in activity that degrades ecosystems.

---

[42] Dyllick, Thomas and Hockerts, Kai (2002). "Beyond the business case for corporate sustainability", *Business Strategy and the Environment*, Vol. 11, pp. 130-141.

[43] Gladwin, Thomas N., Kennelly, James G. and Krause, Tara-Shelomith. (1995). "Shifting paradigms for sustainable development: implications for management theory and research". *Academy of Management Review*. Vol. 20, No. 4, pp. 874-907.

[44] Dyllick and Hockerts (2002).

Social sustainability: A company's operation not only depends on financial and natural resources but also on social resources, namely human capital and social capital. Human capital is primarily concerned with aspects like skills, motivation and loyalty of employees and business partners. Social capital, on the other hand, includes the quality of public services, such as a good education system, infrastructure or a culture supportive of entrepreneurship. Socially sustainable companies add value to the communities within which they operate by increasing the human capital of individual partners as well as furthering the social capital of these communities. As human and social capital is concerned with the needs of different stakeholders, a company may not be able to meet the expectations of all stakeholder groups simultaneously. From this perspective, a sustainable company manages social capital in such a way that stakeholders can understand its motivations and can broadly agree with the company's value system.[45]

Many executives tend to hold the misconception that their companies can further their economic sustainability by simply paying more attention to social and environmental issues, such as increasing their eco-friendly technologies or encouraging more employee contribution to community philanthropic activities. Although such an approach is an important step towards corporate sustainability, it is not enough. For a corporation to become truly sustainable, it has to effectively integrate the environmental and social dimensions of sustainability into its operations, and CSR holds high legitimacy in addressing them.

The contribution of CSR to help a company achieve its sustainability is a five-fold process. First, CSR helps set out areas that a company should focus on for the three components of corporate sustainability. For example, the United Nations Global Compact has set ten core principles of business practices in the areas human rights, labour standards, environment and anti-corruption. These areas comprehensively address natural resources, human capital, societal capital and financial sustainability, respectively.

Second, in addition to setting up areas of focus, CSR also provides a guideline of practice for business to work towards corporate sustainability. For example, Principle 7 of the United Nations Global Compact advises that business should support a precautionary approach to environmental challenges. This principle is based on the idea that it is more cost-effective for a company to take early action to ensure that irreversible environmental damage does not occur, as remediating environmental harm after it has occurred can cost much more to business and society. In additional to this guiding principle, the United Nations Global Compact further provides key steps that a company may take in the application of this approach (see details in Chapter II). With guidelines and steps being provided, a company can easily pursue a CSR route towards corporate sustainability.

Third, CSR contributes to corporate sustainability by providing moral arguments as to why socially and environmentally responsible behaviours of business should be integrated into business practice, hence ensuring the company's legitimacy to adopt a sustainability

---

[45] Zadek, Simon, Pruzan, Peter and Evans Richard. (1997). *Building Corporate Accountability: Emerging Practices in Social and Ethical Accounting, Auditing and Reporting*, (London, Earthscan).

approach.[46] CSR is grounded on three fundamental theories: social justice theory, rights theory and deontological theory. Social justice proponents advocate for a fair society in which the needs of all members of society are considered, not just those with power and wealth. As a result, corporate managers need to consider how their goods can be most appropriately distributed in society. Rights theory is concerned with the meaning of rights, including basic human rights and property rights. One argument in rights theory is that property rights should not override human rights. From a CSR perspective, this would mean that while shareholders of a corporation have certain property rights, this does not give them licence to override the basic human rights of employees, local community members, and other stakeholders. Deontological theory deals with the belief that everyone, including corporate managers, has a moral duty to treat everyone with respect, including listening and considering others' needs.

Fourth, CSR aims to encompass stakeholder engagement, thus strengthening the relationship between a company and its internal and external stakeholder groups, as it attempts to address the diversified needs of each group of stakeholders: a safe workplace for employees, quality goods and services at a fair price for clients, job creation for local communities, and so on.

Fifth, CSR encourages more accountability in business practice, thus helping to define the nature of the relationship between corporations and the rest of society. Companies enter into contractual relationships (both explicit and implicit) with other stakeholder groups as a matter of everyday business, and these contractual arrangements can serve as the basis for accountability relationships. For example, companies that receive environmental permits and approvals from regulators to operate facilities are often held accountable by the regulators for whether the terms of the approval are being met. Proponents of social contract theory often argue that corporations are given a 'licence to operate' by society in exchange for good behaviour, and as such the corporations should be accountable to society for their performance.

A number of studies have been conducted which provide empirical evidence and have established an argument for the positive relationship between corporate responsibility and corporate sustainability. Examples include:

- A global study examining the relationship between CSR and company stock valuation across three regions of the world over a 10 year period (1995-2005) revealed that socially responsible firms in the United States, Europe and Asia outperformed their long-term financial performance expectations;[47] and,

---

[46] Wilson, Mel (2003) "Corporate sustainability: What is it and where does it come from?", *Ivey Business Journal*, (March/April), pp. 1-5.

[47] Hill, Ronald P., Ainscough, Thomas, Shank, Todd and Manullang, Daryl (2007) "Corporate social responsibility and socially responsible investing: A global perspective", *Journal of Business Ethics*, Vol. 70, pp. 165-174.

- A meta-analysis of 52 studies yielding a total sample size of 33,878 observations suggested that corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off.[48] The analysis found that corporate social performance[49] and financial performance are generally positively related across a wide variety of industry and study contexts. It also confirmed that social performance helps firms to build a positive reputation and goodwill with their external stakeholders.

In conclusion, for a business to be sustained long-term, a company needs to replace a single-financial bottom line with a more balanced triple-bottom line encompassing economic, social and environmental objectives into its business practices (also referred to as "people, planet, profit"). The CSR approach outlines key areas of focus and guidance for its implementation which ultimately seek to achieve these three objectives. The next chapter introduces in detail the world's largest CSR initiative, which will be employed as a main consideration in this report: the United Nations Global Compact.

---

[48] Orlitzky, Marc, Schmidt, Frank L., and Rynes, Sara L. (2003). "Corporate Social and Financial Performance: A Meta-analysis" *Organization Studies*, Vol. 24, No. 3, pp. 403–441.

[49] Defined as 'a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programmes, and observable outcomes as they relate to the firm's societal relationships'.