# FUNDAMENTALS OF CSR

## UNIT 1

# CONTENTS

# 1. THE BUSINESS AND SOCIETY RELATIONSHIP

## Society as the macroenvironment

**Society may be defined as a community, a nation, or a broad grouping with common traditions, values, institutions, and collective activities and interests**

**The environment of society is a key concept in analysing business and society relationship**

**The macroenvironment is the complete societal context in which the organization resides**

**The idea of macroenvironment is just another way of thinking about society**

# Society as the macroenvironment

**The macroenvironment is composed of 4 segments:**

- **Social environment:** lifestyle, demographics, social values
- **Economic environment**: gross national product, inflation, interest rates, unemployment rates.
- **Political environment:** business regulation, political process, government
- **Technological environment**: new products, processes and materials, means of communication, knowledge and scientific advances

# Business criticism in social environment

**Certain factors in social environment have create a climate in which criticism of business has taken place:**

- **Affluence and education**
- **Awareness**
- **Rising expectations**
- **Rights movements**

Business criticism

# Business criticism in social environment

**Many criticisms have been directed toward business over the year, such as firms are too big, too powerful, they pollute and exploit…**

- **Levels of power**
- **Spheres of power**
- **Balance of power and responsibility**

Use and abuse of power

# Business criticism in social environment

**LEVELS OF POWER**

- Macro
- Intermediate
- Micro
- Individual

**SPHERES OF POWER**

- Economic
- Political
- Social/cultural
- Individual
- Technological
- Environmental

**Balance of power**

# Business response: concern and changing social contract

Business criticism

Increased concern for societal environment

A changed social contract

business

Rules of the game
Understanding of each other

society

# 2. THE CSR CONCEPT

**EU Green Book:**

**“a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”**

**World Bank:**

**“the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large"**

**European Commission:**

**“should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders"**

# CSR Characteristics

- Being socially responsible means <u>going beyond the fulfilment of</u>:

  - legal requirements
  - financial and commercial responsibilities

- Shareholder expectations

→ stakeholders

→ Business ethics

CSR, well understood, does not consists on how benefits are distributed but on how benefits are created

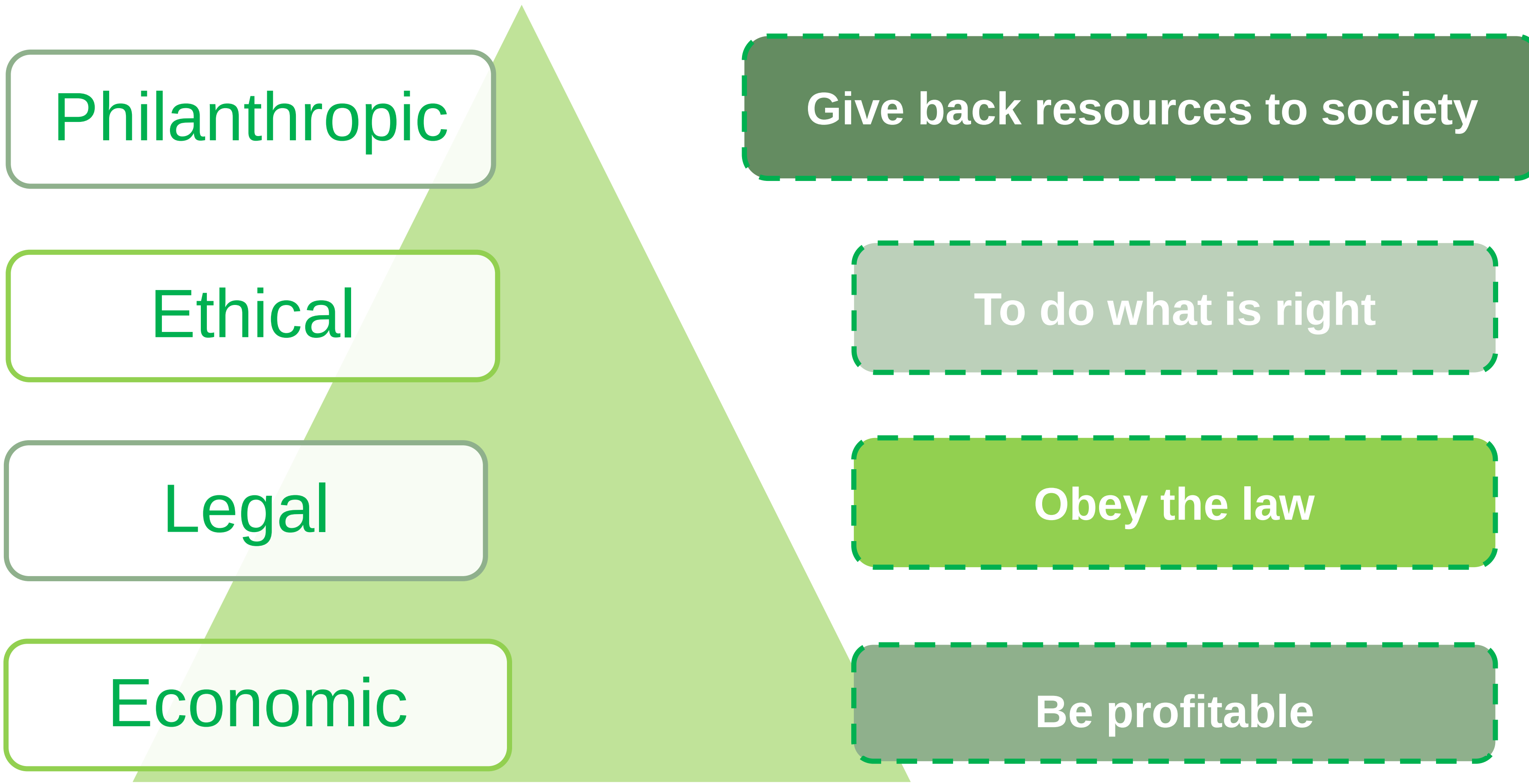
# Differences between CSR and other concepts

| | | | |
|---|---|---|---|
| SOCIAL COMMNITMENT HIGH | Philanthropy | Social economy | CSR |
| | Charity | Traditional firm | Marketing with cause |
| LOW | Fail | Business | Speculative business |
| SELF INTEREST | VERY LOW | | HIGH |

Source: Based on Navarro, 2012

# 3. THE COMPONENTS OF CSR

## The Pyramid of CSR




Source: Based on Carroll (1991)

# Understanding the components of CSR

**Societal expectation**

| Component | Societal expectation |
|---|---|
| Philanthropic | REQUIRED/EXPECTED of business by society |
| Ethical | EXPECTED of business by society |
| Legal | REQUIRED of business by society |
| Economic | REQUIRED of business by society |

Source: Based on Carroll (1991)

# 4. CSR AND CORPORATE CITIZENSHIP

**Businesses´ commitment to social responsibility has led to increased corporate responsiveness toward stakeholders and improved social performance:**

- **Corporate Social Responsibility**
- **Corporate Social Responsiveness**
- **Corporate Social Performance**

Corporate Citinzenship

# Concepts related to corporate citizenship

| | |
|---|---|
| **Social Responsibility** | **Emphasizes obligation, accountability**<br>**PHILOSOPHICAL ORIENTATION**<br>**(principles)** |
| **Social Responsiveness** | **Emphasizes action, activity**<br>**INSTITUTIONAL ORIENTATION**<br>**(processes)** |
| **Social Performance** | **Emphasizes outcomes, results**<br>**ORGANIZATIONAL ORIENTATION**<br>**(policies)** |

**Source: based on Buchholz & Carroll, 2012**

# Corporate Social Responsiveness

| | |
|---|---|
| Proactive | Anticipate CSR strategies beyond society demands |
| Accommodation | CSR is applied because is the correct way to act |
| Defence | As a result of external pressures |
| Reaction | As a consequence of laws and regulations |

# Corporate Social Performance

The CSP focus on the results or outcomes of their acceptance of social responsibility and the adoption of a responsiveness philosophy

Improving CSP means altering corporate behaviour to produce less harm and more beneficial outcomes for society and their people (Wood, 1991)

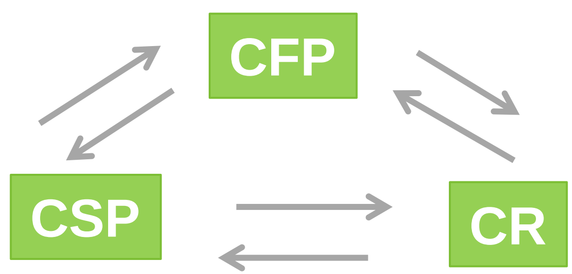
A company will be vulnerable if its performance was contrary to the expectations of those who constitutes the company's social environment (Davis, 1975)

# Relationship among social, financial and reputation performance

**PERSPECTIVE 1: CSP drives the relationship**


**PERSPECTIVE 2: CFP drives the relationship**


**PERSPECTIVE 3: Interactive relationship among CSP, CFP, CR**




**CSP: Corporate Social Performance   CFP: Corporate Financial Performance**
**CR: Corporate Reputation**

# 5. CSR AND CORPORATE GOVERNANCE

**Corporate governance refers to the method by which a firm is being governed, directed, administrated or controlled and to the goals for which it is being governed. It is concerned with the principles, rules and accountability governing the decision-making organs.**

Shareholders

Board of Directors

Management

# Objectives of a good CG

A good Corporate Governance provides the principles which are needed in order to:

- Protect the firm's and shareholders' interests
- Supervise the business generating value
- Achieve an efficient use of resources

# Impulses to promote good CG

## National level

- Olivencia Report 1998
- Aldana Report 2003
- Conthe Report 2006

## International level

- OCDE Principles 1999
- Winter Report 2002

Unified Code of Good CG

# A good corporate governance depends on

**Board of Directors' Composition**

- **Size**
- **Types of director**
- **Diversity**

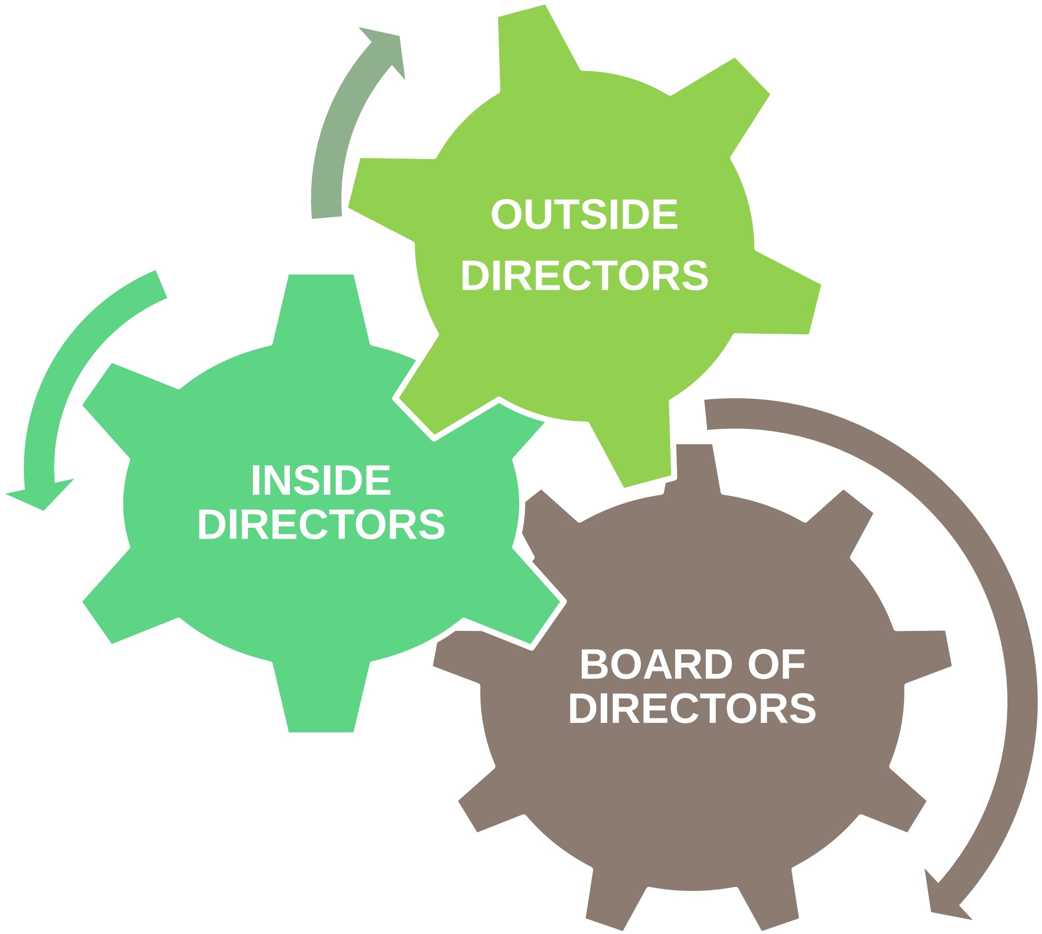
**Functioning**

- **Transparency**
- **Frequency**

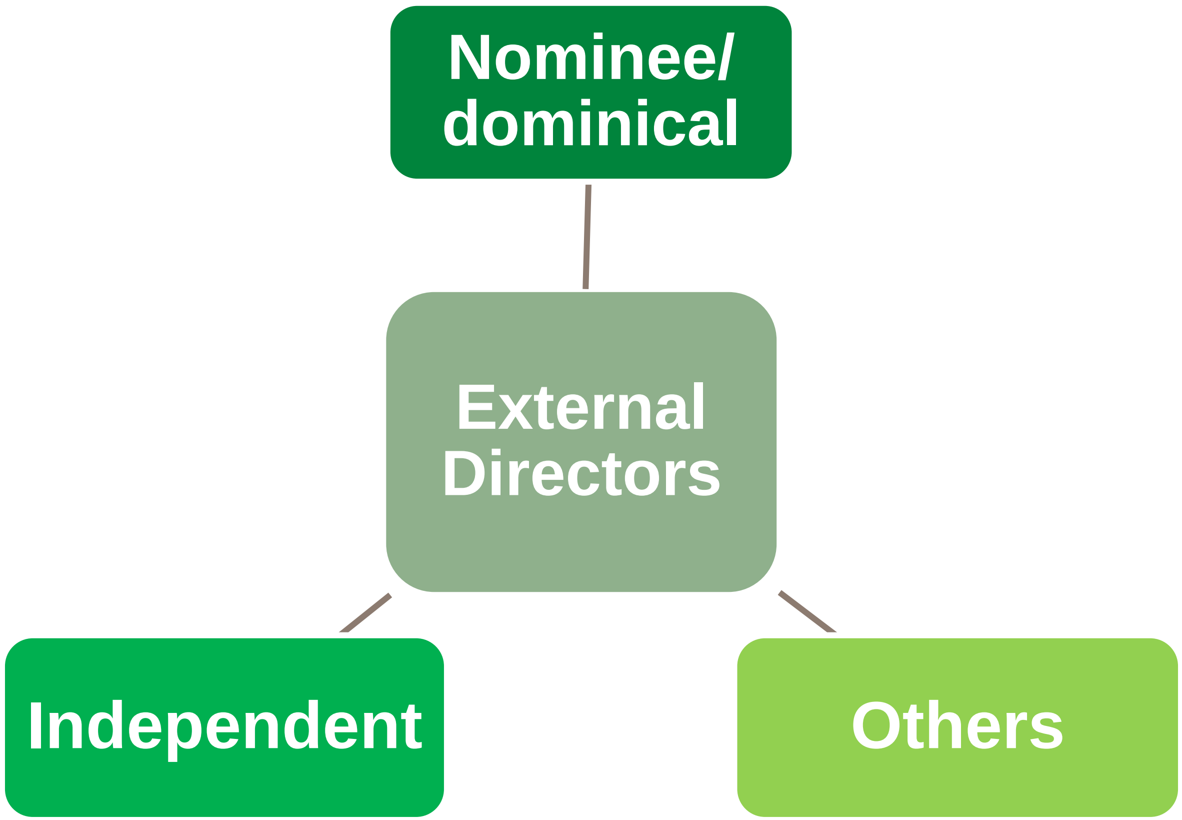
**Structure**

- **Board Committees**
- **CEO**
- **Board's relationship with the CEO**

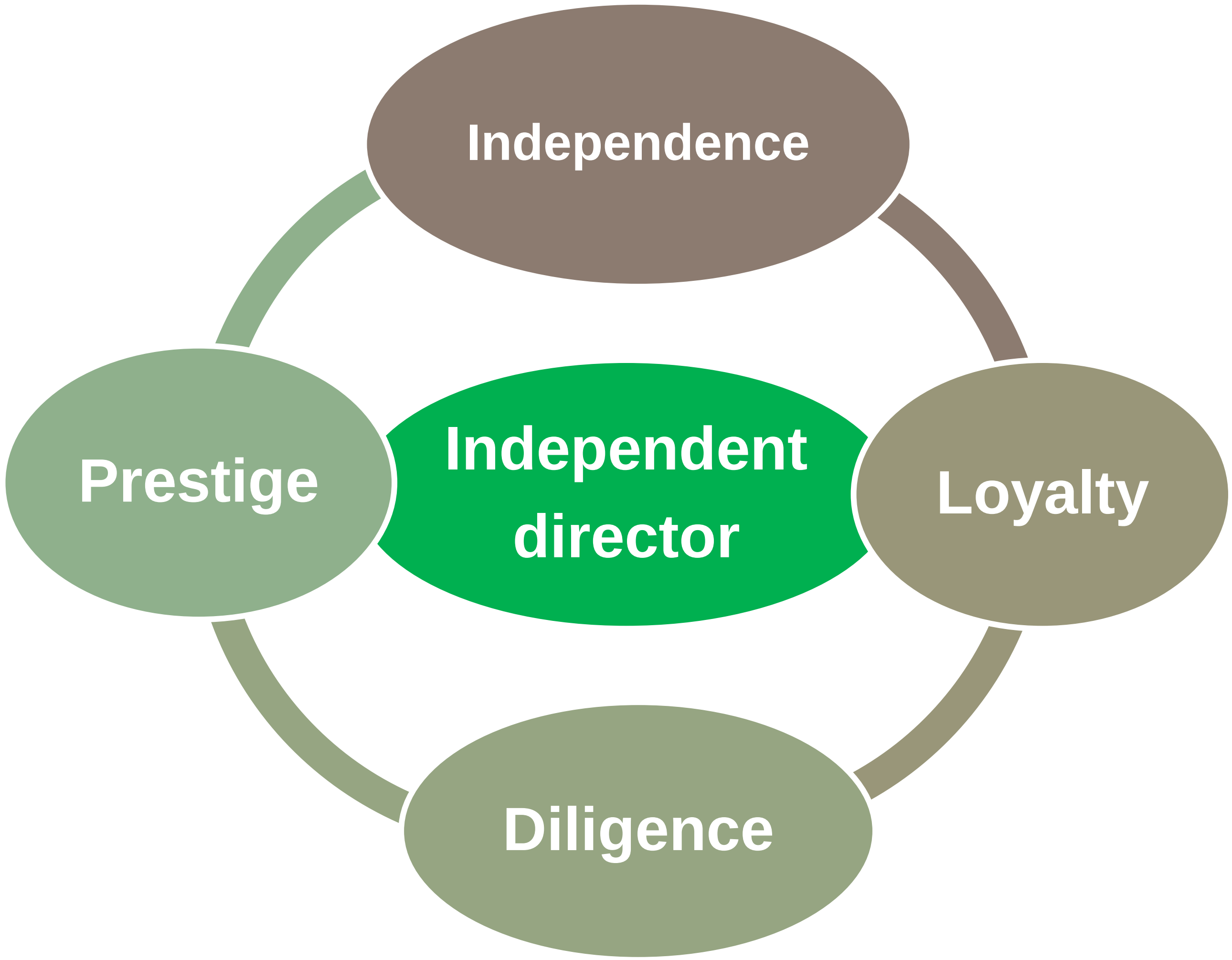
# Board of Directors Composition



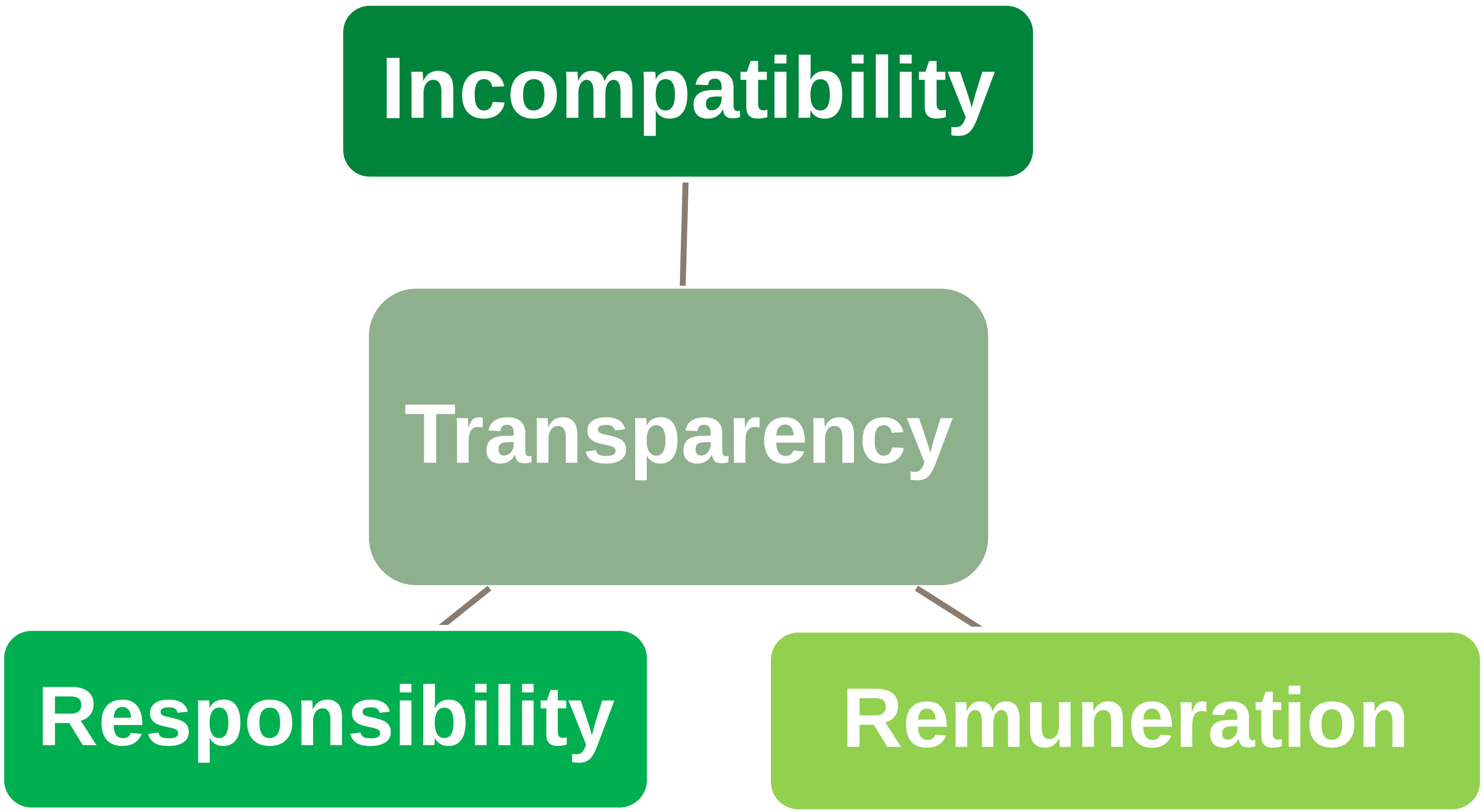
# Types of outside/external directors



# Independent director's characteristics



# About transparency



# Discussion questions

1. In discussions of business and society, why is there a tendency to focus on large-rather than small or medium sized firms?

2. Discuss the major factors in the social environment that create business criticism.

3. Give examples of each of the levels and spheres of business power.

4. Provide examples of each layer of the Pyramid of CSR, and discuss some of the tensions among them.

5. Differentiate between corporate social responsibility, responsiveness and performance. Give an example of each.

6. Revise the major suggestions that have been seen for improving corporate governance and outline the most important.

# Recommended bibliography


- BUCHHOLTZ, A. K. ; CARROLL, A. B. (2012): *Business and Society. Ethics and Stakeholder Management*. South Western (International Edition)
- CARROLL, A. B. (1991): "The Pyramid of Corporate Social Responsibility: Towards the moral management of organizational stakeholders", *Business Horizons*, July-August, pp. 39-48.