Case Studies on

Corporate Social Responsibility

Edited by

Vara Vasanthi

Icfai Business School Case Development Centre

Icfai Books

71, Nagarjuna Hills, Punjagutta, Hyderabad – 500082

Icfai Books
71, Nagarjuna Hills,
Punjagutta, Hyderabad – 500082
Andhra Pradesh, INDIA
Phone: 91 - 40 - 23435387/91, Fax: 91 - 40 - 23435386
e-mail: icfaibooks@icfai.org, ibscdc@icfai.org
Website: www.icfaipress.org/books, www.ibscdc.org

Case studies are intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

Copies of individual case studies are available for purchase from www.ibscdc.org

ISBN: 81-314-0693-8

Editorial Team: Amjad Khan and Radhika Nair M.K
Visualiser: Ch. Yugandhar Rao
Designer: P. Damodara Siva Prasad

OVERVIEW

Bill Ford, the great-grandson of Henry Ford, once remarked, "A good company delivers excellent products and services, and a great company does all that and strives to make the world a better place."[1] Bill Ford has captured in this remark the true essence of what corporate social responsibility (CSR) strives to achieve. The initial belief that companies were created for the sole purpose of profit no longer holds true. Organisations now operate in an environment, that involves larger political and social entities including employees, citizens and political authorities, who seek to enhance the environment they live in. With globalisation blurring boundaries across countries, organisations have multiple responsibilities. They not only have to operate in an environment that requires them to act responsibly, but also stay competitive to increase shareholder returns.

CSR, in the past, was considered to be confined as a part of corporate philanthropy, but today, the actual definition of CSR has changed. CSR now not only includes the company's contribution towards the general public, but also towards its employees and the environment. CSR encompasses the way in which a company integrates its social, environmental and economic concerns into its values, culture, decision-making, strategy and operations in a transparent and accountable manner, thereby, establishing better practices within the firm, creating wealth and improving society.[2] Companies like Shell and British Petroleum have a direct impact on the environment due to the nature of their operations. Therefore, the importance of organisations to become socially responsible has grown. Instances of corporate scandals like those at Enron not only rocked the corporate world, but also highlighted the various responsibilities that a company carries with itself. CSR has therefore come to encompass a company's responsibility towards the environment in which it operates, as well as the ethical responsibilities it has towards society. The need to manage a company's reputation, including its profitability in the global arena, has become a priority.

So, CSR helps a company better manage its risks, defend and maintain its public image. A clean ethical image in public helps a company attract investors. In 2003, 86% of investors across Europe believed that social and environmental risk management would have a significantly positive impact on a company's long-term market value.[3] In addition to this, CSR is also essential for companies that operate in environments, which carry significant political and social risks. Oil companies like BP and Shell need to maintain a positive image to ensure that they do not jeopardise their operations.

Management guru, Michael Porter remarks, "Today, companies ought to invest in corporate social responsibility as part of their business strategy to become more competitive. Corporate success depends on the local environment: an appropriate

[1] Pearce II John A. and Doh Jonathan P., "The high impact of collaborative social initiatives", *MIT Sloan Management Review*, 2005 [ECCH Ref. No. 46309]

[2] "An overview of corporate social responsibility", http://strategis.ic.gc.ca/epic/internet/incsr-rse.nsf/print-en/rs00129e.html

[3] Little Arthur D., "The Business Case for Corporate Responsibility", http://www.adlittle.com/services/environmentrisk/publications/Business_Case_for_Corporate_Responsibility_03.pdf, 2003

infrastructure, the right types and quality of education to future employees, co-operation with local suppliers, quality of institutions, local legislation, and so on. In this corporate competitive context, the company's social initiatives or its philanthropy can have a great impact. Not only for the company but also for the local society."[4] Investors have become wary of companies blamed for anti-social practices, putting ethics on par with their personal gain. A socially responsible investment movement has emerged, placing equal importance on social, environmental as well as financial criteria.

Non-profit organisations and institutional investors like Teachers Insurance Annuity Association-College Retirement Equities Fund (TIAA-CREF) and California Public Employees' Retirement System (CalPERS) have considerable financial clout and the power to influence investors' decisions. CalPERS, for example, maintains a yearly list of the worst-managed companies, holds shareholder meetings and makes investment decisions based on criteria, which include human and workers' rights compliance. Several companies in the banking sector have also adopted CSR policies and guidelines to review lending terms to various companies. Bank of America, Citigroup and JP Morgan Chase, for example, had collectively agreed to reject those financing projects which endanger forests or promote illegal logging.

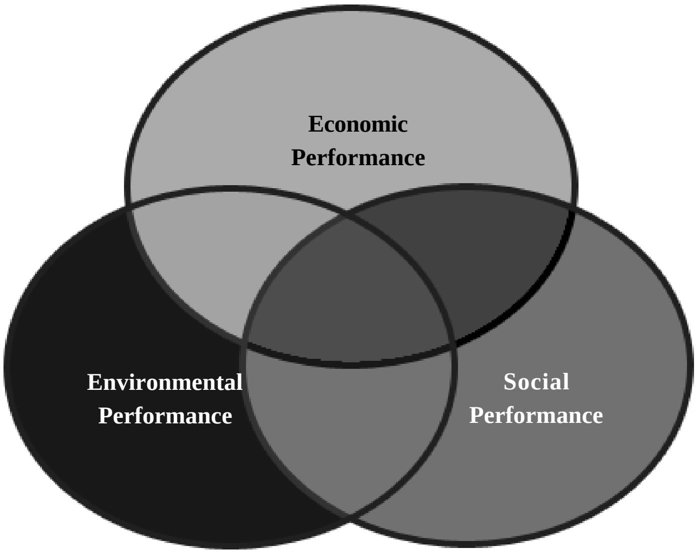
Market indexes and professional firms now provide information about mutual funds, private equity funds etc., based on a wide range of corporate characteristics. These include governance, human resource management, health and safety, environmental protection and community development. For example, the FTSE in the UK and Dow Jones in the US, both publish a list of companies based on certain social and environmental factors. These lists are called the FTSE4Good global index and the Dow Jones Sustainability index respectively. These market ratings not only help companies maintain their reputation but also attract investors.

The triple bottom line (TBL) approach is often synonymous with CSR. The financial, social and environmental reporting or the triple bottom line reporting, is one way of measuring the commitment of any company towards CSR. TBL reporting focuses on the company's commitment towards factors such as pollution, health and safety, human rights, child labour and other social and environmental factors. Focus on TBL ensures the sustainability of not only the company, but also the environment the company operates in (Exhibit I). TBL reporting has come into focus in recent times, as it helps companies meet the demands of investors and also gain recognition for its actions. Companies like Shell and Nike have used TBL reporting to rebuild their reputation which was soiled by their operations in Nigeria and Asia.

[4] "CSR – a religion with too many priests", www.eabis.org/ebf15porteronly_pdf_media_public.aspx, 2003

Exhibit I

The Triple Bottom Line



Source: "Triple Bottom Line Reporting", http://www.dnv.com/software/all/environmentalEPS/tripleBottomLine3BL/tripleBottomLine3BL.asp

Involvement in CSR activities helps a company address any potential problems that might attract legal attention. There are several laws in place to ensure that companies act in a responsible manner. Although no standard measures have been established that require a company to comply with CSR, it has become inevitable for companies. In the UK, for example, the Alien Tort Claims Act helps establish corporate liability through transnational civil litigation. The passing of the Sarbanes-Oxley Act in 2002 in the US has also increased obligations on executives to certify and report on public corporations' activities.

Businesses, therefore, have an active responsibility towards their shareholders as well as the environment and people within that environment. Even if the nature of organisations is such that they might not directly influence TBL in a negative manner, there are some examples too, of how companies can indirectly harm TBL. Companies in the oil industry, for example, have an underlying responsibility to conserve and protect the environment. But other companies also have responsibilities to ensure that their business practices do not affect TBL. This book discusses how various companies adopted CSR initiatives as part of their corporate strategy. The case *Shell's Global Social Responsibility Initiatives*, for example, explains how due to its oil operations, the company was criticised for destroying the once rich and fertile land in Niger Delta and its subsequent adoption of CSR principles. The case *Philip Morris' Social Responsibility Initiatives: For Whose Good?,* on the other hand, elucidates how Philip Morris promoted cigarette smoking in young adults and what measures the company took to allay those concerns. Similarly, the case of *'Cleaning' the Diamond: De Beers' Fifth 'C'*, discusses how, as a result of its operations in countries like Africa, De Beers was criticised for indirectly supporting rebel groups. Although De Beers was not directly involved, the nature of its operations violated CSR principles. The case explains how the company changed its corporate strategy to prevent violation of CSR principles in future.