# Corporate Social Responsibility(CSR) and Sustainability

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# 1. Overview of the Course

- Overview of the Conceptual Foundations of the Course
    - Social contract
    - Property rights
    - Power

and associated concepts:
    - Business ethics
    - Sustainability

# Analytical Tools for CSR

- Analytical Tools and Steps of the Course
  - Societal value analysis—property rights and social contract
  - Environmental monitoring—gathering information
  - Power analysis—who has power over whom
  - Public policy process analysis—models describe how governmental entities make decisions
  - Environmental forecasting---what the future might look like
  - Scenario building—assessing probabilities to different futures
  - Strategy formulation
  - Ethical dilemma analysis in implementation stage

# Managerial Perspective

The Corporate, Managerial, and Profe...
Decision Making Perspective of the C...

- the corporation as decision maker
- the line manager as decision make...
- the functional area professional as ...
  maker
  - The IT professional
  - The finance professional
  - The marketing professional

# Social Contract
# in Early (Classical) Capitalism

The internal consistency of contracts
with traditional "Stakeholders" and
their "Economic Contracts" (+
Suppliers & Banks) when assuming
pure competition and market function

Goods and Services for Customers

Profit for Share-holders

Wages for Employees
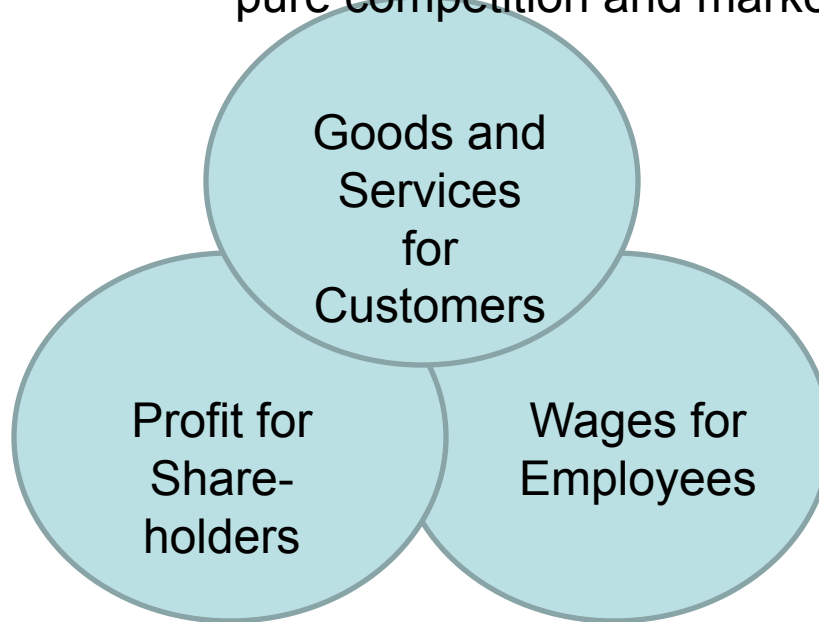
# 2. CSR in Historical Perspective

- The Early Intellectual Critique: Marx and Socialist writers focus on the labor contract
- The Political Challenge: Socialism in Europe and America in the 20th century expands the focus to all market relationships
- In the 1960s, "Corporate Social Responsibility" (CSR) emerges as an issue focused on corporate *irresponsibility*
- CSR is debated, defined and redefined and achieves legitimacy in the West over the next half century
- 21st century: CSR comes to Central and Eastern Europe where previously CSR was defined for the corporation by socialist planners and policy makers

# 3. Business Ethics

- CSR focuses on the Firm
- Ethics focuses on the Individual Business Decision maker
- Ethics: Deciding What's Right:
    -Philosophical Approaches
    -Prescriptive Approaches
    -Cultural differences

- Resolving Ethical Dilemmas
    -multiple competing pressures on the decision-maker from inside and outside firm

- Managing for Ethical Conduct
    -Human behavior in organizations raises constant ethical dilemmas
    -Designing away ethical dilemmas for subordinates is upper management's job

# 4. Sustainability

- Definition: "meeting the needs of business while simultaneously contributing to the possibilities that humans and other life will flourish on the earth for a long time."
- Broadly defined, Sustainability is added to Business Responsibilities in the 1990s
- Sustainabilty is broadly embraced in the Global Political Culture in the 21st Century
- CSR ~= Sustainability for the enterprise, but acknowledges corporate self-interest

# 5a. Traditional Property Rights: the Foundationfor Defining a Social Contract

- Historical Rights, granted & accepted for all members of a society

- Political rights of citizens

- "Contractual" economic rights as
  - a. Consumers
  - b. Employees
  - c. Shareholders

# New "Bundle" of Rights for Traditional Economic Contract Holders

- Worker's rights to
    - a. a safe and healthy work environment
    - b. leave for maternity or paternity
- Customer's right to
    - a. product information
    - b. safe
    - c. Warranties of quality and performance
- Shareholder's right to
    - a. accurate and timely information about company performance
    - b. ethical and socially responsible company behavior

# New "Bundle" of Rights for New „Stakeholders"-I

- Ordinary citizen's right to
  - a. clean air
  - b. clear water
- Community's right to
  - a. set community standards for
    - i. aesthetics
    - ii. morality
    - iii. community sustainability

# Rights of Other New "Stakeholders": "Unprotected Groups"

- 1. children
- 2. farm animals
- 3. wildlife
- 4. future generations

- generally protected by
- a. governments and
- b. NGOs
- c. media

# 5b. Social Contract

Social Contract defined:

- the relationship between a social organization, and its members, defining mutual expectations, rights and duties.

- extended to business:

  the origin, power and legitimacy of expectations <u>based on property rights claims</u> and being demanded of business by external actors.

# Property, Power and Social Contract

- Property analysis->expectations on the firm

- Power analysis->ability of external actors to force a "social contract" definition on the firm

- Social Contract analysis: the firm balances external demands with internal capacity and financial constraints

# Steps in Social Contract Analysis

- Recognition of a firm's social contract-> appropriate, self-interested corporate response
- Formally the core of the corporate social contract is still the economic contracts of a market society in capitalism.
- Social contract has evolved into written (laws and regulation) and unwritten (culture) terms
- Social contract is defined in the formal and informal bargaining process in the public domain, involving
  - The marketplace behavior of stakeholders
  - The media
  - Public policy making
  - Intellectual circles—books, journals and the universities
- New "Stakeholders" influence social contract changes

# 6a. Stakeholders

- Stakeholder Theory: other parties than shareholders have a legitimate "stake" in business decisions, including
    - Traditional stakeholders: employees, customers + banks, suppliers.
    - Communities and their governmental bodies where the firm operates
    - NGOs and other community groups speaking for unprotected groups
    - Unions speaking for employees
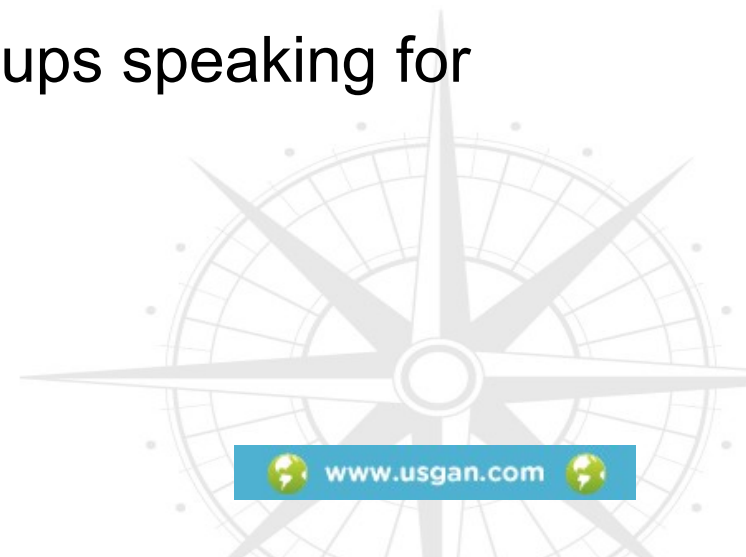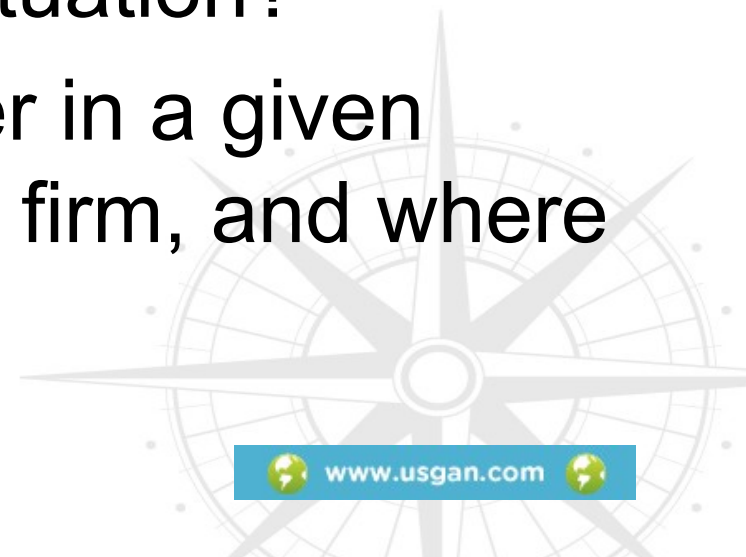
# Stakeholder Identity, Power and Legitimacy

- What is their "mission"?
- What is the source of their legitimacy?
- What are their goals?
- What is the source of their power over various actors in a case situation?
- Will they to use that power in a given situation for or against our firm, and where will they use it?

# 6b. Non-governmental Organizations (NGOs)-a New Stakeholder

NGO formation and rationale:

-to advance some political objective

-to advance the interests of a stakeholder group

-to protect the rights of groups who cannot act to protect their own rights

# Where NGOS Exercise Power
## (often not directly on the firm)

- In the popular media
- In opinion-forming media
- In "think tanks" research
- In intellectual opinion
- In legislative bodies
- In regulatory bodies
- In governmental ministries

# 7. Environmental Monitoring

- Environmental information collection--reading "environmental signals" so as to plan future strategy
- Environmental Monitoring precedes Environmental Forecasting and Scenario-building
- Bringing environmental information into the organization in a systematic way.
- Choosing an environmental monitoring system, balancing
  - informational needs
  - analytical capabilities, and
  - cost.

# Reading Environmental Signals

- "strength" of the signal--the probability that the event it portends will in fact occur.

- "timing" of a signaled event--if it does occur, will it occur in 1month, 1year, or 5-10 years.

- potential "impact" of the signaled event on the organization--its significance in terms of the economic "threat" or "opportunity" it presents.

- The "threat--opportunity continuum"
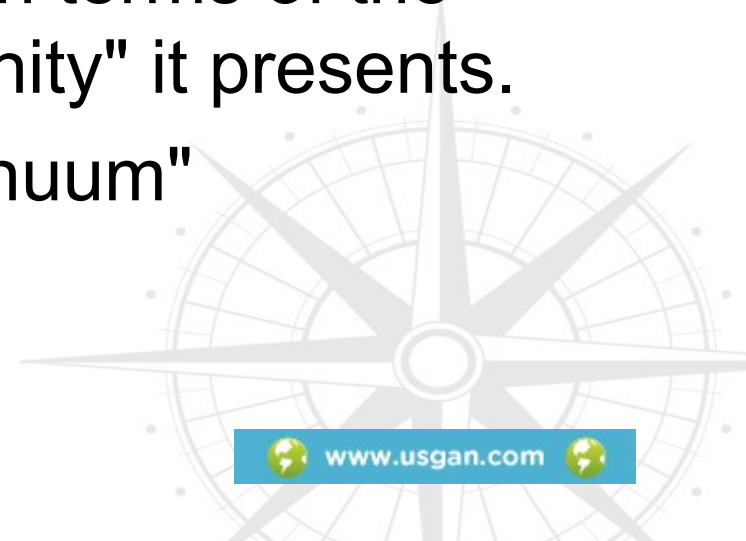
# 8. Assessing the Power Relationships among Environmental Actors and the Firm

- Power: **"the ability of one actor to get another actor to do what the second actor would not otherwise do."**

- Power is a relationship: Actor A→Actor B

- Who is in the "constellation" of actors around a particular issue?

- Mapping the interrelationship between the firm and the major environmental actors.

- Identifying (a) predisposition, (b) potential power, and (c) "inclination to act" of these actors

# Sources of Power

1. Social Status

2. Expertise

3. Information

4. Formal organization or legal authority

5. Capacity for coercion

6. Contracted power

7. Wealth (can also buy 1,2&3)
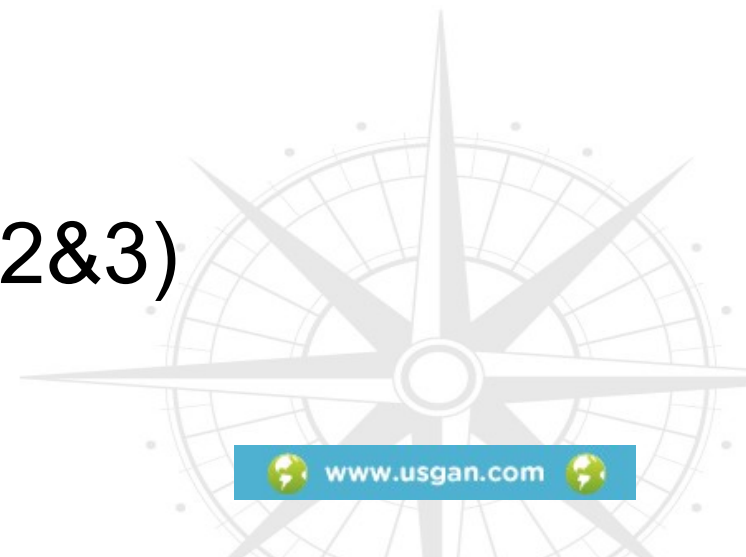
# Using Power

- Power is not necessarily renewable

  --one may have only a single favor owed

  --it may take a long time and scarce resources to recreate a power relationship

- An actor may not wish to expose the full amount of power one has, preferring to keep it in reserve

- An actor may not wish to expose <u>little</u> power one has.

- An Actor may fear a backlash against excess use of power.

- An actor may want to get its allies to use their power.

# Efficiency in Use of Power

How experienced is an actor in using its power?

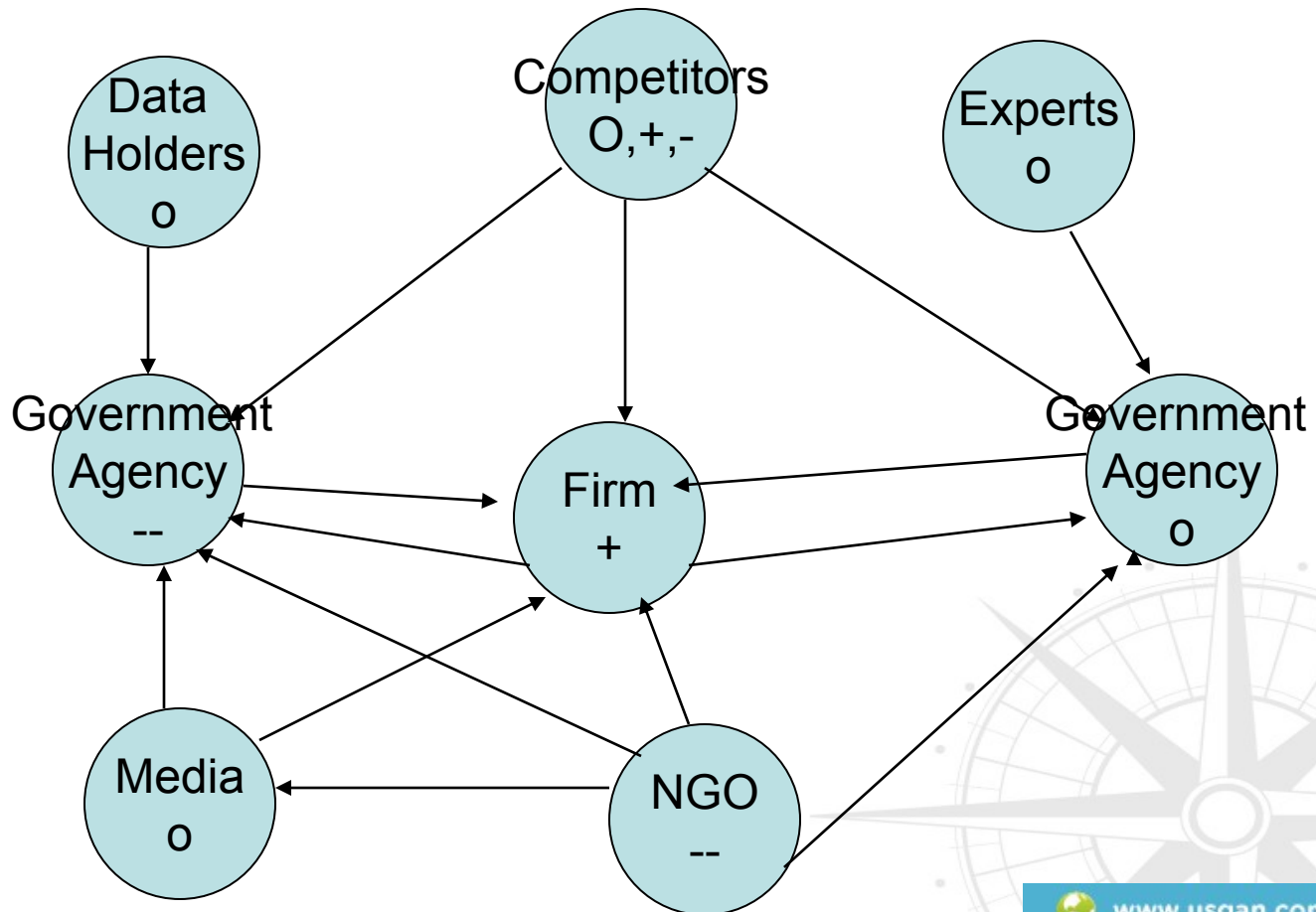How familiar is the actor with the "target?"

# Power Diagrams

- Constructing power diagrams
- Summarizing what a power diagram tells you in a few words.
- Developing strategy based on your power diagram

# MAPPING POWER RELATIONSHIPS
**(showing possible predispositions:**

**(+) for us, (-) against us, and (o) neutral**

# Weighing the Strength of Power Relationships

- Note the power relationships in the power diagram. Each needs to be "weighted, i.e., showing the potential power of one actor over another, the power that actor is likely to use and how efficiently it will use it, and the net actual power to be exercised.

- If Actor A has high, medium or low power over Actor B, we would represent it as follows:

A>hi>B              A>med>B              A>lo>B

- However, if we speculate that A will for some reason not use all of its power over B, or will use it inefficiently because of inexperience or lack of knowledge as to how B makes decisions, we might represent the power relationship as follows:

A>hi/med>B      A>med/lo>B          A>lo/0>B
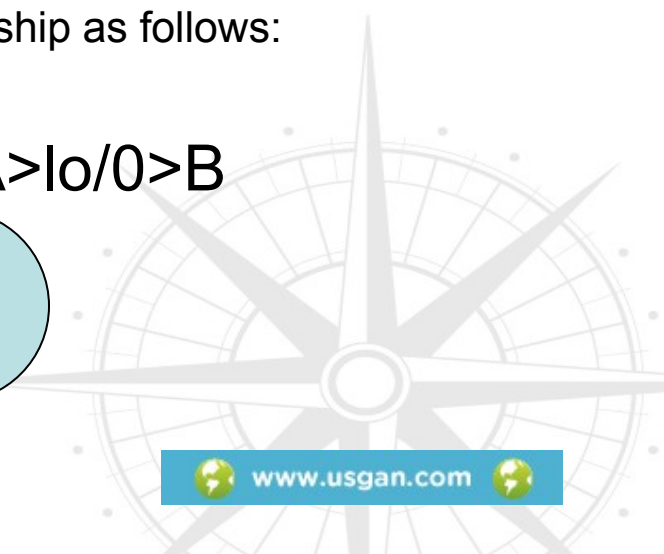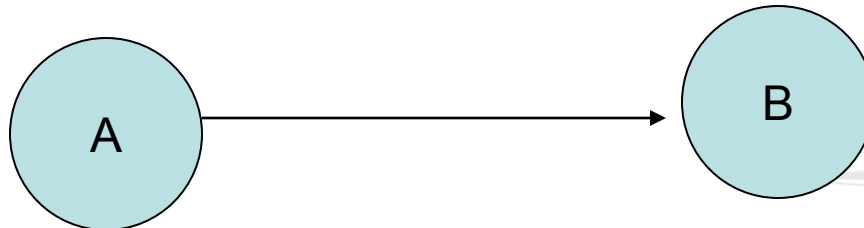
# Scenario-Building: speculative forecasts of the future
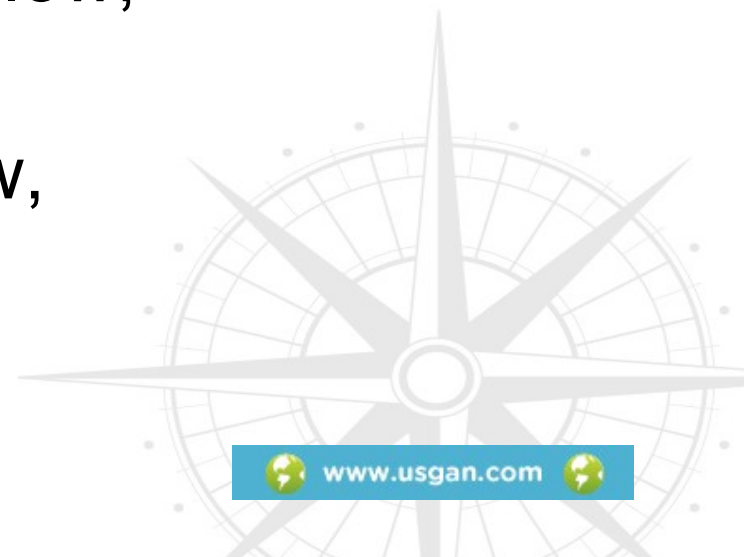
Scenario building a series of "What if?" statements

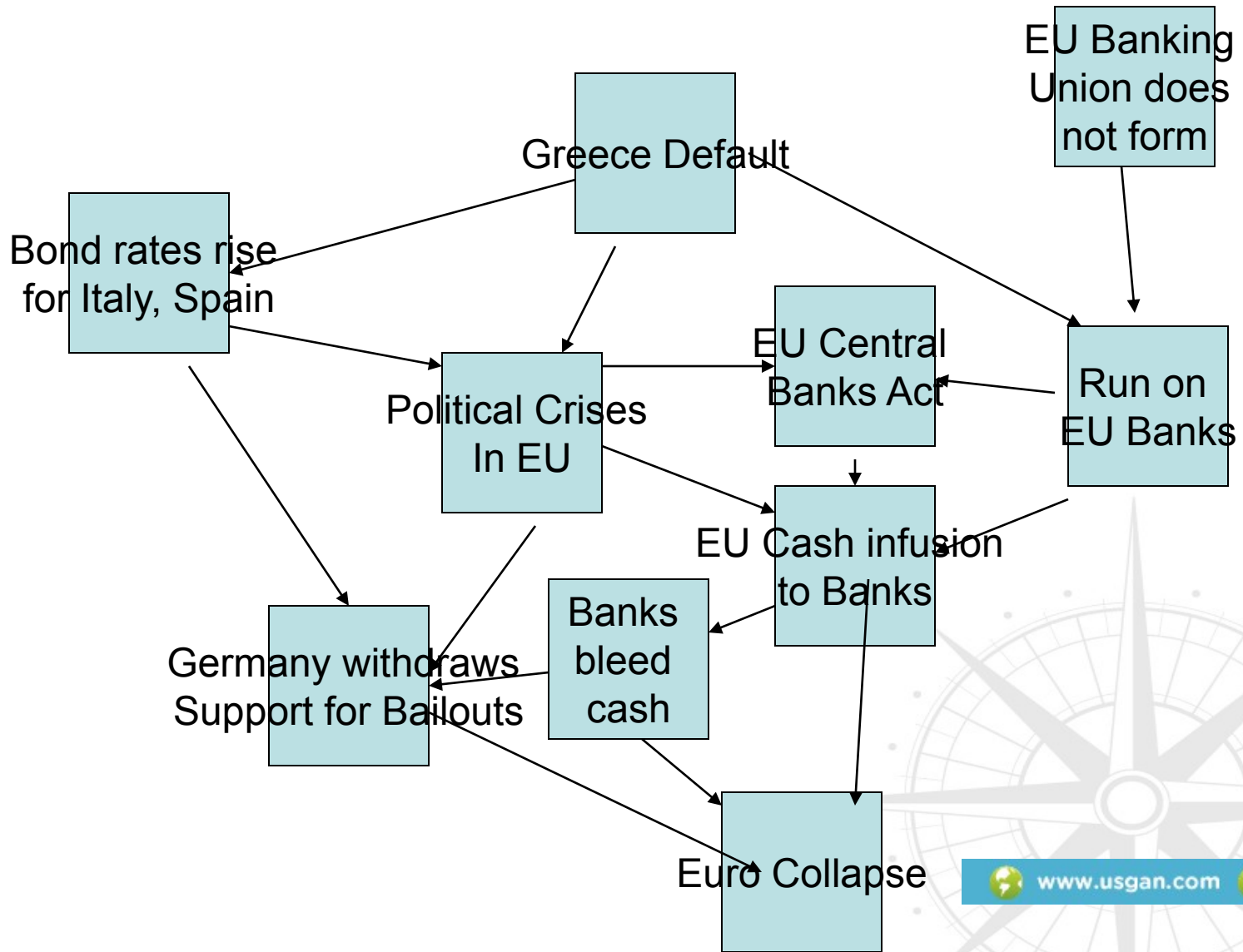--"What if this decision was made?"

--"What if that event occurred?"

then…

--this decision will likely follow,

then

--this event will likely follow,

etc.

# A Scenario for Collapse of the Euro Zone

# Environmental Forecasting

- Scenario-building shows what "might" occur.

- Environmental forecasting focuses on probabilities of that might occur actually occurring

  --most probable scenario
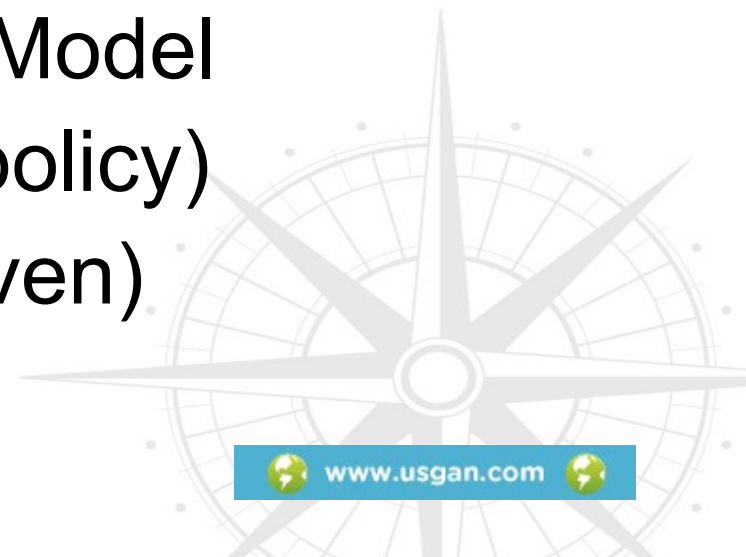
  --worst case scenario

  --best case scenario

# 10. Models of the Public Policy Process

The Public Policy Process: How Governments Make Decisions

- Classical Democratic Model (rare)
- Group Equilibrium Model (frequent)
- Official Elite Model (bureaucratic power)
- Dominant External Elite Model
- Expert Model (complex policy)
- Rational Model (data-driven)

# 11. Developing Political Strategy in a CSR Case

- Starting Point: What is the Likely Public Policy Model of the Government Decision Maker?
- Mapping Power Relations—who has power over whom and will they use it?
- What are the implicit or explicit property and social contract issues?
- Scenarios—what do they tell us about how the future might unfold?
- Strategy: given the above, what should our strategy be?
- Implementation: as we implement our strategy and the future unfolds, can we make adjustment to our strategy?
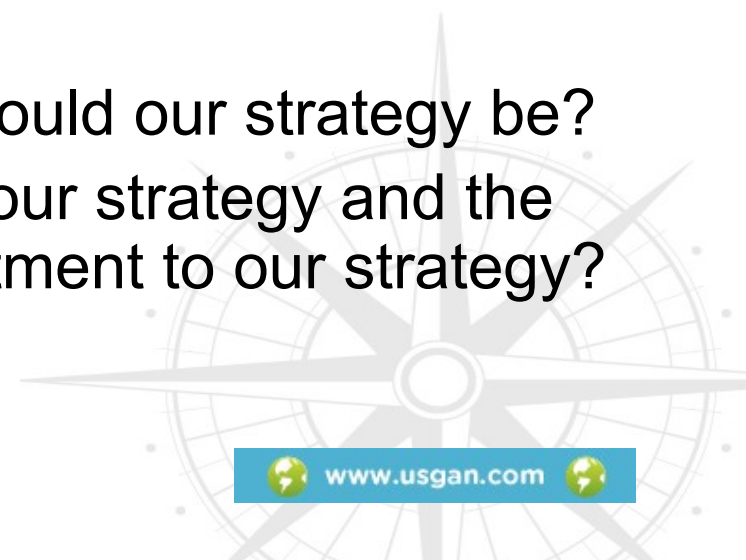
# Summation: Social Contract for the Corporate Enterprise Today

- CSR is formally still structured on the limited economic contract of early capitalism.

- CSR has evolved into complex written (laws and regulation) and unwritten (culture) terms

- CSR evolves through the formal and informal bargaining process in the public domain, involving
    - The marketplace and economic conditions
    - The media
    - Changing values
    - Public policy making
    - NGO actions
    - Scientific and technological progress
    - Intellectual circles—books, journals and the universities

- The parties to the process– the power of "stakeholders"-- and the terms of the contract, are constantly changing.

# The End

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