Companies in controversial industries management essay

Is it possible for companies in controversial industries to be socially responsible if their products are detrimental to human beings and the environment. Many claim it is impossible for them to be socially responsible because their CSR will always be an inherent contradiction since their business goal is at odds with the aims of public health policies. However as these companies already have a bad reputation, they have no need to be associated with doing good in order to boost sales. Hence when they engage in CSR, it could mean that they are genuine CSR practitioners. This paper examines CSR of firms in alcohol, tobacco and gambling industries and determines whether they can be socially responsible through their CSR implementation by using Porter and Kramer’s concept of “ shared value”. However while assessing any motives companies may have to determine whether they are genuinely interested in CSR, it may be presumptuous or even unjust to these companies to assume their motives based on the consequences of their actions. Also, the approach used to determine whether the companies have been socially responsible may be too narrow. Nonetheless, companies need not have the best intentions for the society to be socially responsible.

Introduction

At the mention of controversial industries such as alcohol and tobacco industries, some may be quick to conclude that these industries cannot be socially responsible since they are producing goods that are detrimental to human beings and the environment. Even when firms in these industries practice Corporate Social Responsibility (CSR), some may still find it difficult to start regarding them as being socially responsible.

The motive behind these companies for practicing CSR is also often disputed over. As these firms already have a bad reputation, they need not be associated with doing good for consumers to demand for their products, unlike inherently good companies. When these firms practice CSR, does it then mean that they genuinely have the society's welfare at heart? Or could they be doing CSR as a way of obscuring their questionable business and gaining social acceptance?

Keeping these arguments in mind, we will now look at specific firms in alcohol, tobacco and gambling industries and their CSR practices in particular to evaluate the possible incentives behind their CSR initiatives as well as to determine whether they can be socially responsible through their CSR implementation. In consideration of the controversies of CSR, in particular, the view that CSR should be conducted in such as a way that it benefits both the society and the owners of the firm, rather than only one side of the parties, we will be using Porter and Kramer's concept of " shared value" to decide whether a company is socially responsible. This requires firms to adopt CSR practices that concurrently benefit the society and the owners of the firm, by addressing societal weaknesses or harms while improving the financial performance of the firm, to be socially responsible.

Alcohol

Alcohol is an important risk factor for disease. It has implications in birth defects, cases of assault and family violence, alcoholism-related abuse, traffic accidents, reduced workplace productivity and lower life expectancy (Collins & Lapsley, 2008; WHO, 2011). Consumption of alcohol is estimated to cost the American society a staggering $223. 5 billion/year in health care, road-related accidents, reduced workplace productivity, violence and crime in 2007 (Centers for Disease Control and Prevention). In comparison, federal alcohol tax revenue only amounted to $9. 3 billion/year in 2007 (Congressional Budget Office).

Case Study

Take Diageo for instance. It is the world's largest producer of spirits and an influential producer of beer and wine. It has 59 brands including Johnnie Walker and Guinness, two of the best-known brands of alcohol, under its portfolio. It generates $25 billion in sales revenue yearly.

Diageo uses public awareness campaigns as part of its CSR initiative. It creates advertisements that educate drinking responsibly, including those aimed at discouraging excessive drinking, drink driving as well as underage drinking. However, these may have been the company's subtle attempts at bypassing regulations to advertise its alcoholic beverages to consumers.

In Diageo's " the choice is yours" campaign in 2008, it has also conveyed the message that overdrinking would inevitably lead to social disapproval, such as the embarrassing consequences of being thrown out of clubs. However, the University of Bath has found that such incidents are actually perceived as ' fun' by youths (EUCAM, 2009), putting the intended effect of the campaign into question. Furthermore, the website of the campaign highlights the logos of Diageo drinks, casting doubts on whether it may have been aimed at advertising the company's alcoholic beverages to the consumers.

The company also has campaigns that are aimed at reaching out to minors in schools. By claiming that they are contributing solutions to alcohol-related problems, the company is able to reach out to a target audience that they would otherwise not be able to reach due to alcohol marketing regulations. By using CSR as marketing gimmicks to make greater profits, the company has failed to manifest itself as a genuine CSR practitioner who does not have the society's best interests at heart when carrying out CSR practices.

However, Diageo is making improvements to its corporate governance and has created a multi-prong strategy to take care of the interests of all its stakeholders. This year, it has reduced 9. 4% of carbon emission in spite of its increased production and has increased water efficiency by 20% in Uganda through its implementation of better water recovery systems. In addition, it has organized internal DRINKiQ workshops to educate employees on responsible drinking. It also conducts independent audits on its suppliers with issues relating to health, safety and hygiene, working hours and wages. It also provides a confidential whistleblowing service, SpeakUp, to allow anyone who has come across a breach of its Code to report it. This ensures that Diageo's Code of Conduct is strictly adhered to.

Looking at the various Diageo's CSR initiatives and going back to Porter and Kramer's concept of " shared value", Diageo would be considered a socially responsible company. Through its public awareness campaigns that concurrently discourage excessive drinking and advertise its brand of alcoholic beverages, the company is able to reduce the societal harm of its products and improve the profitability of the firm at the same time, although the effectiveness and the intended effect of the campaigns may be questionable. The implementation of better water recovery systems could also help the company save cost. These show that Diageo is a socially responsible company.

Tobacco

The health effects of tobacco have long been known. Smoking in particular is a major risk factor for heart attacks, strokes, chronic obstructive pulmonary heart disease, hypertension, peripheral vascular disease and cancer. Each year, 6 million deaths are caused by the inhalation of tobacco smoke. The irony becomes salient when tobacco becomes the single greatest cause of preventable death globally. With products deemed universally harmful allowed for sale, can tobacco companies be socially responsible?

Case Study

Altria Group Inc. is one of the largest tobacco companies in the world. It is a pioneer of the tobacco corporate responsibility movement in the late 1990s. Recently, it has come out tops in social responsibility rankings, placing 15th on CR Magazine’s 100 best corporate citizens list and 4th in Fortune magazine.

Altria has implemented a comprehensive “ corporate responsibility” program targeting nine specific issues: tobacco product management, marketing practices, combating illegal trade, environmental management, sustainable agriculture, supply chain responsibility, employees, investing in companies and governance and compliance. Despite the multi-faceted approach, its CSR practices have been a subject of constant criticism, with critics questioning their motivations behind the acts of responsibility. Most argument centers on tobacco product management and marketing practices.

Over the years, Altria has sought to manage its tobacco product issues and marketing practices as ethically as possible. They voluntarily communicate health effects with transparency, including health warnings on all its packages and websites. They undertake research and development in developing products with lower risks and also actively partner and collaborate with governments in support of cessation. In marketing practices, they voluntarily limit their reach of marketing to unintended audiences. Based on their actions, we can see the moral duty that Altria has undertaken as a company.

Critics however argue against the motivation of their CSR, likening it to the washing of “ blood money”. Some even argue that it is used as a sword and shield against product issues (Friedman, 2009). Yet it can also be seen as an “ atonement of sin”. The term “ blood money” seems to convey a form of coercion or illegal means to gain, yet from how Altria practices its CSR, we can clearly see their admittance to liability, transparency and the absence of coercion. Ironically, Altria has been embarking on initiatives to discourage people from smoking, which is counterintuitive of a profit-oriented business model. This seems to highlight the effort Altria has undertaken as a “ moral duty” to doing right what it has done wrong, clearly fulfilling Kantian and even virtue ethics, and is a display of an ethical practice of social responsibility.

Critics also argue that CSR allows tobacco companies to improve their image, leveraging CSR to add value to the otherwise “ evil” company, thereby concluding that such a motivation may be of a selfish cause. However, unlike other corporations with the freedom of liberal marketing practices, tobacco companies including Altria undergo some of the strictest regulations on advertising and marketing. In fact, the company is creating advertisements that devalue its products, essentially decreasing the company's value further. There seems to be no tangible benefit for their bottom line with the implementation of CSR; instead, a greater amount of losses are being incurred. This thus further support the ethical motivation behind their CSR practices, as not much value can be leveraged off CSR for the benefit of the company's overall bottom-line.

It is evident that a tobacco company's CSR does fulfill Porter and Kramer's concept of " shared value" for both the company and society. However, it is more of a transactional value rather than a transformational one (Palazzo & Richter, 2005), after all if tobacco companies really want to change society, the greatest impact will come from its voluntary demise. Therefore, it is justified for tobacco companies to do CSR, but it will never be able to transform or " make good" itself.

Casino

Casinos, like tobacco and alcohol, have contributed to a range of social and economic harms to the society (Hancock, Schellinck & Schrans, 2008), with the most apparent social impact being the increase in problem gambling. It has been estimated that 1. 2% of U. S. adults are pathological gamblers and another 1. 5% are problem gamblers at some point of their lives, with the likelihood doubling for people living within 50 miles of a casino (Community Research Partners, 2010). Problem gambling impacts people's lives in many negative and consequential ways; this includes unemployment, poor physical and mental health, risked social relationships as well as increased crimes

(Community Research Partners, 2010). Large sums of social costs, including those spent on bankruptcies, imprisonments and divorces; have to be spent every year as a result of these impacts.

Case Study

Caesars Entertainment Corporation is the largest gaming company in the world with $8. 83 billion in revenue in 2011. The company has carried out CSR extensively. It launched its comprehensive sustainability program, the " CodeGreen", in 2004 and has displayed a strong commitment to achieving a broad set of sustainability goals for carbon emissions reduction, energy conservation, water consumption as well as waste recycling. Harrah's Lake Tahoe Casino and Harveys Lake Tahoe Casino, two of the company's casinos, have received the prestigious Gold Certification from Travelife, a certification body that recognizes companies within the tourism industry that adopt sustainable practices. Only four U. S.-based hotels out of 400 worldwide are Gold Certified in 2013 and three of them are Caesars properties (Stevens, 2013).

Besides their commitment to responsible stewardship of the environment, the company also has codes of commitment to treat all their employees with respect and to provide them with good career opportunities, to promote responsible gaming as well as to help make all their communities healthy and vibrant places to live and work. To foster responsible gaming, the company only allows adults to visit their casinos, trains their employees on how to offer help to customers who may need it and provides toll-free helpline numbers for problem gambling. They have also adopted a policy to donate part of the company profits to community and charitable causes (Caesars Entertainment).

As casinos fundamentally offer products that have adverse social and economic consequences, it may be unnecessary or even irrelevant for the company to conduct CSR to appear altruistic to the public. This may therefore imply that any CSR efforts from such companies could only be genuine. However, companies nowadays are increasingly expected to embrace wider responsibilities and roles and adhere to greater ethical, legal and responsible standards. Companies that fail to do so are found to receive weakened public support and less positive views from the media (Yani-de-Soriano, Javed & Yousafzai, 2012). Therefore, it remains unclear as to whether Caesars Entertainment Corporation is a genuine CSR practitioner, or that they have conducted CSR to gain social acceptance.

Caesars Entertainment’s “ CodeGreen” sustainability program is a great example of creating a “ shared value” through CSR. Through committing to responsible stewardship of the environment, the company strives to conserve energy, save water and recycle waste. These are environmental-friendly practices that also bring about cost-savings for the company. While not all the company’s CSR initiatives, such as those targeted at promoting responsible gaming, directly bring about economic benefits to the stockholders of the company, they can help to gain social acceptance of the public, increasing sales and thereby giving rise to indirect economic benefits. Since Caesars Entertainment’s CSR practices create “ shared value” for both the society and the owners of the firm according to the Porter and Kramer’s model, it is a socially responsible company.

Limitations

In evaluating the respective companies on whether they are genuine practitioners of CSR given that there do not seem to be a need for them to appear socially responsible, we have looked at how conducting CSR could benefit them to assess the motives that they might have in executing their CSR initiatives. However, it may be presumptuous or even unjust to these companies to assume their motives based on the consequences of their actions. The companies may indeed have been genuine practitioners of CSR, even if their CSR initiatives turn out to benefit the company as well.

The approach that has been used to establish whether the specific companies have been socially responsible may also have been too narrow. In applying Porter and Kramer's concept of " shared value", our criteria for determining whether the companies are socially responsible only lies on whether the company's CSR initiatives benefit both the stockholders and the other stakeholders of the firm; however, we did not apply the model to take into account the inherent nature of the company – that their products are detrimental to the society – in determining whether they are socially responsible. As a result, all the three firms examined can easily be classified as being socially responsible. On the other hand, to take into consideration the inherent nature of the company, which could only create value for the owners of the firms at best, would mean that these companies could never be socially responsible so long as they continue to operate, according to Porter and Kramer's model of " shared value".

Conclusion

Corporate social responsibility is a complex and contentious subject that many businesses have to address and commit their resources to implement. When companies whose products are detrimental to the society practice CSR, their motives are often questioned and their ability to be socially responsible may still be contested. However, as have been discussed and elaborated on above, companies do not need to have the best intentions for the society to be socially responsible. In fact, companies who are not genuine practitioners of CSR, but have both the firm and the society at heart when practicing CSR are the ones who are the most socially responsible. Finally, we conclude that companies whose products are detrimental to the society can be socially responsible companies.