

# Essay on a global perspective on corporate social responsibility

[Business](#), [Company](#)



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## **INTRODUCTION**

Corporate social responsibility is a form of business self regulation that is incorporated into the business model. CSR policies are built into business operations to ensure compliance with ethical standards, laws and established international norms (Crane, Matten & Spence, 2008a, p. 5). Most CRS activities extend to the customers, communities, environment, shareholders and all members of the public who may be count as stakeholders.

The rationale for CSR is that to become sustainable, businesses need to create and operate in healthy economies, friendly communities and clean environments. The key drivers of CRS are enlightened self interest, social investment, transparency and trust together with increased public expectations on the business. CSR create synergies between the society and corporate companies within ethical and sustainable economies (Crane, Mc Williams, Matten & Siegel, 2008b, p 7).

The proponents of CSR argue that corporations stand to gain in the long term by operating within the principles of CSR. On the other hand, the opponents argue that CSR distracts the company from its economic goals thereby affecting its ability to deliver benefits to shareholders (Friedman, 1970; Crane et al, 2008a, p 10). Others have also argued that CSR attempts to preempt government in its role to oversee the operations of huge companies such as transnational corporations.

Transnational corporations (TNC) are large firms that own or control production in several countries using direct foreign investments (Boddy, 2009, p 145). The term multinational corporation (MNC) is often used interchangeably with TNC although they mean different things. TNCs differ from MNC in that TNC establish themselves in their countries of operation and have no global headquarters which is usually the case with MNCs. In recent years, TNC have grown in number to account for more than half of all global industrial output.

In this paper we will examine the advantages and disadvantages of corporate social responsibility on two TNCs, Microsoft and Nike. We will examine CSR examples from the two companies and how they have contributed to their overall performance in their respective markets. This paper theorizes that CRS strategies are essential to business success as long as businesses are able to meet the expectations of stakeholders in the short and long term.

Managing businesses in a global economic setting has become an increasingly complex endeavor. TNA have to grapple with rapid technological advancement, the speed of information flow, volatile capital markets and

dynamic consumer needs and preferences (Boddy, 2009, p 148). At the same time companies have to focus on their core business function which is to provide a product or service at a profit. To achieve sustainable profitability, companies have to work with an array of stakeholders who form the society or community within which the company operates (Henderson, 2001). A company's profitability, reputation and longevity largely depend on how it is able to meet the expectations of the society. For TNC this involves an intricate balancing act of company objective and societal expectations. Successful TNC strive to align their objectives with the global society.

The question begs, to what extent is CRS responsible for company success? To answer this question, there is need to examine the level of stakeholder interest and influence on the activities of a corporation. In 1996, allegations emerged that Nike was operating sweatshops in China, Indonesia, Mexico and Vietnam. These reports from labor watch groups indicated that the factories outsourced by Nike to manufacture their products violated many labor laws. The sweat shops were said to employ children, overwork staff and pay them rates which were below minimum wage. The ensuing public boycott and criticism forced Nike to create and enforce a code of conduct. Presently, Nike performs random audits on all the factories that produce for the company. Those that do not meet their standard are suspended from production until they meet the expected factory working conditions. Nike reports on the conditions of the conditions of their outsourced factories and their level of compliance in their annual Corporate Responsibility Report (Nike inc. 2013). Nike's reaction was motivated by the need to maintain profitability by mending the company's tainted public image.

Robinson (2002) advises corporate companies not to wait for laws and other legislation before implementing appropriate CSR programs because the environment and human rights issues are too important to ignore. Good intentions are not enough when it comes to CSR. Companies, especially TNC, need to combine CSR policy creation with implementation. Corporations have been known to use contributions to non-profit organizations to “window dress” their non-intention to participate in meaningful societal change. Robinson (2002) suggests that governments stimulate good corporate citizenship by avoiding legislative pressure. She also suggest that global organizations such as the United Nations should reign in on the complicity of corporations by holding companies responsible for their actions, or inaction, as far as the violation of human rights is concerned.

## **ADVANTAGES OF CORPORATE SOCIAL RESPONSIBILITY**

Different schools of thought exist concerning CSR for businesses. There is growing consensus that the public expects businesses to play a pivotal role in making the world a better place. Since businesses cannot operate in isolation, CSR becomes a crucial component in business strategy. Effective CSR is strategic rather than tactical. Managers have to weave CSR goals into the long term goals of the organizations. This is because implementation of CSR advances company commitment to ethical operation within the economy. The first advantage of CSR is that it improves the quality of the working environment for employees. It impacts on the quality of life of the families of the employees (Crane et al, 2008b, p 51; Robinson 2002).

Microsoft was ranked as the best multinational work place in the world. This

ranking boosted the company's image both as a desirable employer and as a conscious participant in societal improvement. This means that Microsoft's policies on recruitment, retention and remuneration are attractive (Microsoft Corp, 2013).

Secondly, CSR focuses on the relationship between corporations and other publics such as customers, communities, government, investors and suppliers. In the global market, consumers are bombarded by a wide variety of products and services at competitive prices. More potential customers are basing their final purchasing decision on factors other than price and quality. The Nike sweatshop saga led to product boycotts across the world. The government plays an important regulatory role in the business environment. Regulatory tools such as taxes and licenses are used by governments to compel companies to comply with operational regulations. Only compliant companies are allowed to operate within the specific jurisdictions. Suppliers are very important to TNC especially since they work with vendors in different geographical locations. TNCs have the responsibility of giving their suppliers fair prices for delivered products and services. This is because the efficiency of TNC operations is affected by weak supply chains. TNCs should ensure that they only associate with approved suppliers who comply with environmental laws, labor laws. Nike learnt the importance of ensuring supplier compliance the hard way.

Thirdly, CSR allows TNC to meet the expectations of their investors in the long run. CSR strategies are employed by companies to build a good corporate image and to guard against any risks that may arise in operation. Company profitability, and therefore the interests of investors, can be

safeguarded in the long run if the company builds a genuine ethical business environment (Crane et al 2008a, p 463). Managers should start by ensuring that employees perform their daily duties appropriately. This creates a healthy organizational culture which reduces the risk of corporate corruption and internal scandals.

Henderson (2001) summarizes the CSR agenda as an enlarged responsibility on businesses to contribute to the wellbeing of society and the natural environment. The Triple Bottom Line highlights the importance of people, planet and profit in the overall organizational effort. Organizations should consider people by engaging in legal and beneficial business activities. Each organization should align its goals toward the needs of the community in which the business operates. The planet refers to the environment in which the company operates. A triple bottom line organization protects the environment by disposing its waste materials safely, preserving natural resources and producing environmentally friendly products and services. Lastly, triple bottom compliant companies are expected to create economic value without jeopardizing the people or the planet.

CRS makes corporate aware of the environmental impact of their activities. Traditionally, TNC diversify into other countries to increase profitability and market share. The expansion agenda is usually driven by the presence of cheaper raw materials, labor and untapped markets in the destination country. Globalization and increased public awareness of unscrupulous corporate practices have forced corporate organizations to mitigate the environmental impact of their activities (Crane et al 2008b, p 8).

When Nike sweatshop allegations emerged, the company's attention was

drawn to the health and environmental impact of some of the chemicals used in the manufacture of its products. Nike replaced its toxic petroleum based solvents with safer water based solvents. Additionally, the company trained personnel to identify and correct any outstanding health and safety concerns. Microsoft is currently committed to phasing out brominated flame retardants (BFR) which are used in the manufacture of their products. Both Nike and Microsoft actively engage in the recycling of their products to reduce wastage. The Reuse-A-Shoe program was launched by Nike in 1993 and continues to run to date. Microsoft installed solar panels on its buildings in the Silicon Valley making the building greener.

## **DISADVANTAGES OF CORPORATE SOCIAL RESPONSIBILITY**

The critics of CSR often base their arguments on the corporate motives behind CSR activities. Many argue that the very nature of businesses does not allow corporations to engage in sincere socially uplifting activities. Instead some have argued that what corporations do in the name of CSR tantamount to hypocrisy.

Leading the pack of critics is Milton Friedman (1970) who argued that corporations only have a responsibility to their shareholders and not the society. Companies employ managers to manage the resources of the company to create profits in the short run and long run. This means that managers have a moral obligation to act in the best interests of shareholders. Therefore any attempts by companies to engage in CSR should only be as far as the activities further the interests of shareholders.

According to Friedman (1970), the only motivation for corporate to engage in



CSR is to increase the wealth of their shareholders in the long run.

Furthermore, Friedman argues that free markets and not corporations are the best solutions to social problems. The economic growth that accompanies free enterprises produces revenues which can be used to improve the quality of life for citizens.

CSR has been termed as hypocrisy in the sense that most corporations give back small percentage of what they gain from the community. TNC such as Nike operate in third world economies where there is limited implementation of human rights and international labor laws. Nike has saved billion in production costs yet it has not managed to fully impose acceptable working conditions in all its production sites. The company may report that it is making efforts to correct the conditions while in reality it benefits from the continued existence of sweatshops. There are other concerns of the motive behind many CSR activities. Since many TNCs are driven by maximizing profitability in all its operations, CSR activities are used as publicity stunts (Crane et al, 2008a, p 479; Crane et al, 2008b, p 13). Corporations use CSR projects as opportunities for media attention. Nike's marketing strategy involves the use of accomplishes athletes and teams through endorsements and advertising. The company only pays top athletes to endorse their products. This shows that the company's primary focus is on success and profitability.

## **EVALUATION OF THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY**

TNCs occupy a pivotal position in the emerging global economy. The companies influence the economic destinies of several countries at the same

time. They provide revenues to governments, employment opportunities and profits to shareholders. Due to their relative power in the economy, it is important that the activities of TNCs are monitored closely. There should be global frameworks for ensuring that the corporations conform to the values of the communities within which they operate. CSR is just one of the tools available to companies to voluntarily conform to the expectations of the society (Crane et al, 2008a, 467).

All businesses operate within communities. The principles of CSR provide the economic, ethical, discretionary and legal aspects of the interaction between corporate and communities (Crane et al, 2008b, p 15). Corporations are created to generate profit but they have to comply with various legal requirements such as licensing and taxes. At the same time, companies need to enforce ethical practices and exercise discretion in all business decisions. In the absence of such frameworks, large and powerful multinational corporations would exploit their hosts, especially developing countries, and reap all profits without giving back to the communities.

CSR has been used by companies to increase competitive advantage in the market (Henderson, 2001). This is because CSR is a strategic tool that can be employed to set a company apart from competitors in the public eye. In the same way that companies develop their supply chains to suit external demands, CSR is used to set the corporate image to suit societal expectations. According to Crane et al, (2008b, 15) firms will always adapt to the external environment, and social expectations, to maximize profits.

Corporate philanthropy is therefore aligned to internal competencies and presented in a manner that earns the company competitive advantage. In

2012, Nike joined the RED campaign which fights for an AIDS free generation by financing efforts towards the prevention of mother to child infection. HIV/AIDS has been at the fore of many corporate campaigns. Corporate contributions towards such causes are often publicized to increase public good will and hopefully increase sales and profitability.

## **SUMMARY**

Corporate social responsibility is an internal form of business self regulation. For transnational corporations such as Nike and Microsoft, self regulation is crucial to profitability especially in the long run. Different stakeholders have varying expectations on businesses. According to Friedman, shareholders are the most important stakeholders. All corporations engage in various activities, including CSR, for the ultimate goal of meeting shareholder expectations. Corporations use CSR as a strategy to gain comparative advantage against competitors. CSR is also used to align the organization to the expectations of the community in which the company operates. The emphasis on shareholder needs has generated criticism regarding the motivation for CSR. It is possible that companies are motivated by profitability and not the need to become good corporate citizens.

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