Impact of csr on smes

The Effect of Corporate SocialResponsibilityon Business Operations and PerformanceCase Study: Vision Group and Uganda Clays Limited Jimmy Mugisa 2009-M102-20049 Uganda Martyrs University, Nkozi September, 2011. The Effect of Corporate Social Responsibility on Business Operations and Performance Case Study: Vision Group and Uganda Clays Limited A postgraduate dissertation presented to Faculty of Business Administration and Management In partial fulfillment of the requirements for the award of the degree Master of Business Administration

Uganda Martyrs University, Nkozi Jimmy Mugisa 2009 – M102 – 20049 September, 2011. UGANDA MARTYRS UNIVERSITY SCHOOL OF POSTGRADUATE STUDIES Master's Dissertation Declaration I have read the rules of Uganda Martyrs University on plagiarism and hereby state that this work is my own. It has not been submitted to any other institution for another degree or qualification, either in full or in part. Throughout the work I have acknowledged all sources in its compilation. Name of researcher: ____

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DEDICATION I dedicate this report to my fiancee, Patience, my son Jotham and my parents who both have provided me with inspiration and encouragement over this long journey.

Special appreciation is given to Patience for the many weekends that she spent alone as most of the time I was at school or on the computer finishing coursework and working on this dissertation. Many thanks to Mum and Dad who have brought me a long way and always asked how school was going, stating their pride in my efforts. Without their support, this course may not have been completed. Mum and Dad, may you draw inspiration from this report to do great. b AKNOWLEDGEMENTS Research, an absolutely difficult and time consuming undertaking, is one adventure that can only be done with maximum support.

My thanks go to my classmates and discussion group; Perusi, Hilda, Stella, Agnes, Florence, Godfrey, Andrew and Powell and the authors that are listed in the reference section of this work whose works have served as an important input to this particular research study. I also wish to thank my managers at the office for their ongoing support, encouragement and allowing me the time needed to complete this research. Finally, I wish to thank Uganda Martyrs University, particularly my supervisor, Ass. Prof. Simeon Wanyama for the tireless effort and professional guidance accorded to me throughout the research period.

The lecturers and school of postgraduate studies administrators who became my friends and supporters over the last two years shall remain friends and colleagues for life. c ACRONYMS AND ABBREVIATIONS ACCA – Association of Chartered Certified Accountants AGM – Annual General Meeting AIDS – Acquired Immunodeficiency Syndrome CC – Corporate Citizenship CEO – Chief Executive Officer CG – Corporate Governance CMA – Capital Markets Authority CSR – Corporate Social Responsibility EBITDA – Earnings Before

Interest, Tax, Depreciation and Amortization EC – European Commission EMS – Environmental Management System EPS – Earnings Per Share ERA Environmental Reporting Award EVA – Economic Value Added FY – Financial Year GRI – Global Reporting Initiative HIV – Human Immunodeficiency Virus IAS – International Accounting Standards IFRS – International Financial Reporting Standards ISO – International Standards Organization KPMG – Klynveld Peat Marwick Goerdeler MDG – Millennium Development Goal NEMA – National Environmental Management Authority NP – Net Profit d PPE – Property, Plant and Equipment ROA – Return on Assets ROCE – Return on Capital Employed ROSF – Return on Shareholders' Fund SCOUL – Sugar Corporation of Uganda Limited SD – Standard Deviation SHS – Shillings SPSS Statistical Package for the Social Sciences TV – Television UCCSRI – Uganda Chapter for Corporate Social Responsibility Initiatives Ltd. UCL – Uganda Clays Limited UGX – Uganda Shillings UK – United Kingdom UNBS – Uganda National Bureau of Standards UNEP – United NationsEnvironmentProgram USC – United States Congress USE – Uganda Securities Exchange VG – Vision Group e ABSTRACT In recent years, Corporate Social Responsibility has been attracting heightened attention throughout the world. Stakeholder expectations of the business have increasingly ranged from maximum profits to strong levels of Corporate Social Responsibility (CSR).

Previous research into effects of CSR on Business Operations and Performance has yielded mixed results. Research on CSR in the Ugandan context has however been minimal. Business managers in Ugandan Corporations have actively embraced CSR in recent years, but there are still questions on how CSR affects the business operations and performance. This descriptive research study sought to answer the question and provide information to various stakeholders on the effect of CSR, on business operations and performance with a focus on Uganda firms. A survey uestionnaire was used to collect primary data on factors that influence CSR practice, and approaches embraced by Ugandan corporations in their practice of CSR. Archival documents and analysis of financial results from 2007 – 2010 of two publicly listed corporations was collected and analyzed against CSR expenditure for the four year period. Trend analysis indicated CSR has a positive effect on internal business processes and the non – financial measures of performance notably corporate image, goodwill and market share. A positive effect of CSR was further observed on sales revenue.

CSR practices were however found to have a negative effect on financial performance measures. Results of the study indicated that CSR is just one of the myriad factors that affect business operations and performance as there are many other factors that business managers need to take into consideration regarding operations and performance. The insights obtained in the study are of relevance to stakeholders and managers of an organization small or big in nature. f TABLE OF CONTENTS

 k CHAPTER ONE 1. 0 INTRODUCTION In this chapter, special attention is given to the background in section 1. 1 and the statement of the problem in section 1. 2.

It also comprises the objectives of the study, research questions, significance and expected contribution to knowledge of the study. The chapter also highlights the research methods used and the conceptual framework. It concludes with the summary of the other chapters. 1. 1 BACKGROUND Corporate Social Responsibility (CSR) is a 'hot' area in the developed world (i. e. Europe, America, Canada and recently Asia and South America). The next place to pick a lot of interest in this will be Africa. Many entities engage in CSR and spend huge amounts ofmoneyin their commitments to the community, workplace and the marketplace.

Some companies operating in Uganda are practicing CSR a lot more than their competitors, even when they operate in the same industry. The Government is also picking up interest in CSR by recognizing investors on the basis of their CSR initiatives. Scholars like Nkiko and Katamba (2010) and Gisch-Boie (2008) have carried out research on CSR in Uganda especially on what it entails. However, the volume of published research in the area of CSR in Uganda is still extremely low, with most research focusing on business ethics.

There is great scope for expanding the amount of research on CSR in Uganda and Africa, as well as improving on the diversity of its content and its geographic reach (Visser, 2006). 1 The researcher picked interest in the topic after having been a direct beneficiary of some CSR initiatives by leading companies in Uganda and also having been part of an entity's management that was keen on implementing CSR activities. The formation of the CSR consultative group, a network of major Corporate Social Responsibility stakeholders and players in Uganda, also made the researcher have a keen interest in the issue of CSR.

Institutions like Uganda Chapter for Corporate Social Responsibility Initiatives Ltd (UCCSRI) have undertaken research on CSR in Ugandan entities focusing on the perceptions, approaches and needs of companies. Nkiko and Katamba (2010), and Gisch-Boie (2008) have in the same line also highlighted the various CSR activities that companies are engaged in including environmental responsibility, practices concerned with labour, workerhealthand safety as well as quality of life of the community. Other scholars like Wanyama et al (2006) have linked CSR to Corporate Governance (CG).

The area defined by advocates of CSR increasingly covers a wide range of issues such as plant closures, employee relations, human rights, corporate ethics, community relations and the environment. Areas looked at more importantly are; workplace (employees), market place (customers, suppliers), environment, ethics and human rights. Important to note is that whilst the primary role of business is to produce goods and services that society needs, there is also necessity for interdependence between business and society for a stable environment.

The forms of social responsibility that a firm undertakes depend on its economic perspective. In Uganda, several companies have realized the need for CSR and are linked by a CSR consultative group. 2 Much as there have been researches carried out on CSR in the Country, scholars have tended to focus on what CSR is, the trend of CSR in Uganda, public perceptions and the relevancy of established CSR models on Uganda. To the researcher's knowledge, no study has focused on CSR effect on business operations and performance in Uganda.

This is the gap the researcher focused on using Vision Group and Uganda Clays Limited as case studies. 1. 2 STATEMENT OF THE PROBLEM A socially responsible company should supersede its main objective of maximizing its shareholders' wealth. It extends its mandate by undertaking social and environmental activities in society within which it carries out its operations through initiatives such as environment conservation, improving the quality of life of its employees and society in general and also being transparent in its business operations.

More and more stakeholders are being drawn towards socially responsible companies because of these initiatives. This in turn has led to improved business performance for some and not for others. Companies practicing CSR, such as Uganda's Vision Group continue to post impressive financial results and noticeably enjoy huge and increasing market share while others like Uganda Clays Limited are loss making and losing market share. In FY 2009/10 for example, Vision Group's overall business value grew by 8. 3% from 55. 1billion to 59. billion whereas UCL's value declined by 30. 3% from 57. 5billion to 40. 1billion, all with noticeable increases in CSR expenditure

(Annual Report, 2009/10). Whereas this performance can be attributed to a host of factors, including CSR activities that have been reported overtime, the effect of CSR on this performance is not clear. Moreover, there is no Ugandan study linking CSR's effect on a business' operations and performance leaving this area plausible for research. 3 The question is, has CSR an effect on business operations and performance?

This study sought to answer the above question. 1. 3 GENERAL OBJECTIVE OF THE STUDY The main aim of the study was to determine the effect of Corporate Social Responsibility on Business Operations and Performance. 1. 4 OBJECTIVES OF THE STUDY • To find out the factors which influence the practice of CSR in Ugandan Corporations. • To identify the different approaches used by Corporations in their practice of CSR • To establish the trend of Business Operations and Performance of the Corporations under study over the last four years •

To determine the effect of Corporate Social Responsibility on Business Operations and Performance. 1. 5 RESEARCH QUESTIONS To achieve the objectives stated above, the following study questions were posed: • What factors influence the practice of CSR in Ugandan Corporations? • What are the different approaches used by Corporations in their practice of CSR? • What has been the trend of Business Operations and Performance of Corporations under study over the last four years? • What is the effect of Corporate Social Responsibility on Business Operations and Performance? 1. 6 SIGNIFICANCE OF THE STUDY Given the infancy of Corporate Social Responsibility in Uganda, the study will avail the following benefits to the various stakeholders: 1. 6. 1 Shareholders The investors will know how senior management takes into consideration the interests of consumers, regulators, employees and other important groups that are affected by the company's activities. 1. 6. 2 Company's management The study will help management learn how to forge stronger relationships with key suppliers, customers and the community. 1. 6. 3 General public

The general public will be informed of the various approaches in which an entity can undertake social and environmental activities aimed at improving on the quality of life in the community, workplace, market place and generally giving back to society. This will lead to increased human benefit and satisfaction through quality services and goods. 1. 7 EXPECTED CONTRIBUTION TO KNOWLEDGE The study will add knowledge to the existing body of research literature relating to Corporate Social Responsibility and Business Performance in Uganda and other similar developing economies in Africa.

It’s also anticipated that a number of stakeholders will use results from this study to further their knowledge and understanding of Corporate Social Responsibility and how it affects the business performance of a socially responsible entity. 5 1. 8 RESEARCH METHODS USED Bothprimary and secondarydata sources were used. The research used semistructured questionnaires, interview guides and desk research as research methods for this study. Structured questionnaires and interview guides were used on primary sources while desk research was used on secondary sources.

Data sought was both quantitative and qualitative. The semi-structured questionnaires and interview guides targeted management and staff as stakeholders. The questionnaires were simple worded and relatively short but comprehensive. Control questions were included to cross check and ensure correctness and consistency of the respondents. Open ended and " state reasons for your response" queries were used in the interview guide to generate additional information, helpful comments and suggestions that were deemed helpful in the analysis of data. The desk research method was used on secondary data.

This encompassed reading at length existing literature on Corporate Social Responsibility and business performance evaluation. Journals, magazines, newspapers, textbooks, entity annual reports are some of the documents that were reviewed. 1. 9 THE CONCEPTUAL FRAMEWORK The theory of CSR encourages corporations to take notice not only of the economic and financial dealings in a company, but also the social and environmental consequences at business places on its shareholders and society. The Model of CSR advises companies to seek the maximum profits while obeying a moral minimum. This concept of the corporation is viewed to have " placed the community in a position to demand that the modern corporation serve not only the owners or the control but all society" (Berle and Means, 1932). This idea is effectively today's stakeholder theory and thus in responding to stakeholder expectations of CSR, the chief executive sets the tone and priorities for the firm's actions (Sirsly, 2009). According to this theory, the satisfaction of various stakeholder groups is instrumental for organizational performance (Donaldson and Preston 1995; Jones 1995).

Stakeholder – agency theory argues that the implicit and explicit negotiation and contracting processes entailed by reciprocal, bilateral stakeholder – management relationships serve as monitoring and enforcement mechanisms that prevent managers from diverting attention from broad organizational financialgoals(Hill and Thomas 1992; Jones 1995). Furthermore, by addressing and balancing the claims of multiple stakeholders (Freeman and Evan, 1990), managers can increase the efficiency of their organization’s adaptation to external demands. CSR may be an organizational resource that provides internal benefits.

That is, investments in CSR may help firms develop new competencies, resources, and capabilities, which are manifested in a firm’sculture, technology, structure, and human resources (Barney 1991; Russo and Fouts 1997). CSR can help management develop better scanning skills, processes, and information systems, which increase the organization’s preparedness for external changes, turbulence, and crises (Russo and Fouts 1997). These competencies which are acquired internally through the CSR process, would then lead to more efficient utilization of resources and organizational efficiency (Majumdar and Marcus, 2001).

The conceptual framework is presented in Figure 1 below; 7 Figure 1: Conceptual Framework Dependent Variable Business Performance Independent Variable Corporate Social Responsibility • • • • • • • • Customer satisfaction Profitability Wealth creation Competitiveness Sales Growth Enhance Corporate image Good customer relations Quality service/product service delivery • New products • Community acceptance • Company growth Social • Labour practices • Community relations • Customer relations • Legal – laws & regulations • Stakeholder participation •Social justiceEconomic • Innovation and Learning Corporateleadership• Multiplier effect • Corporate actions and trust • Contribution through taxes

Environment • Resource use – land, water, air, energy & minerals • Biodiversity • Emissions, effluent & waste • Products & services Moderating Variable: Business Operations • • • • • • • Internal business processes Innovation and learning Accounting and conversion process Information Technology Government policies Corporation leadership Statutory Laws and Regulations Adopted from: Elkington 1998, p. 73, Labuschange et al 2006, p. 3, Elliot 2006, p. 13, modified by the researcher on review of Literature 8 1. 0 SUMMARY OF THE CHAPTERS This research consists of five chapters providing all the relevant information regarding this study. Chapter one is the introduction highlighting previous research carried out on CSR in Uganda. It throws more light on the gaps not researched about and tackles the statement of the problem, objectives of the study, research questions, significance of the study and expected contribution to knowledge as well as a snapshot of the research methods used. The conceptual framework is the last section for this chapter. This chapter as such, represents the basis of the rest of this study.

Chapter two is a review of related literature concerning Corporate Social Responsibility, Business Operations and Performance. Main focus is the concept of CSR, theories that explain CSR and the various CSR commitments. Other sections in this chapter centre on establishing and managing CSR programs, management accounting and ways of evaluating business performance. The last section is the contextual analysis of the quoted relevant authorities and the relationship of the research variables. Chapter three is a narration of the research methodology and methods adopted for this study.

It highlights the research paradigms, methodology, methods, study population, sample size selection, data analysis, and validity/reliability of the study instrument and wraps up with the ethical considerations. 9 Chapter four presents and analyzes the study findings. It attempts to summarize the views from the questionnaires and interview guides, interpret them and then present them as findings of the research. Chapter five is a summary and discussion of results. It further puts the conclusions and recommendations straight. The last section for chapter five highlights the implications of the study.

The researcher at the end has attached references and appendices used in undertaking this study. 10 CHAPTER TWO LITERATURE REVIEW 2. 0 INTRODUCTION The purpose of this literature review is to examine the issues, viewpoints and research associated with the effect of Corporate Social Responsibility on Business Operations and Performance. Chapter one describes the context for this study and the research gaps the study wishes to address. This literature delves substantially into the state of research related to the variables of this study and provides sufficient context of the significance of this research.

Business has long been guided by and pursued the profit motive. From the days of European and Colonial America shopkeepers to the modern world of global multinational corporations, the interests of the owners and shareholders had traditionally guided business decision making and strategy. Appeals for business to assume responsibility for the diseases and suffering of the world has always fueled the debate into the proper role of business and the purpose of the firm (Margolis & Walsh, 2003).

Shareholders, investors and stakeholders at large make most of their investment decisions basing greatly on the business performance of an entity (Boron, 2000). For decades since the early 70's, there is a protracted debate about the legitimacy and value of corporate responses to CSR concerns. For example, Murphy (2005) described CSR as being ' little more than a cosmetic treatment,' and Santiago (2004) reports advantages of practicing CSR. On the other hand, Waddock and Graves (1997), Hillman and Keim (2001), Verschoor and Murphy (2002), find that increased CSR leads to enhanced business performance. 1 2. 1 CORPORATE SOCIAL RESPONSIBILITY 2. 1. 1 The case for CSR CSR is the continuing commitment by a business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large (Moir, 2001). Businesses need to integrate the economic, social and environmental effect in their operations. The concept of CSR means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law.

However, corporate executives have struggled with the issue of the firm's responsibility to its society. It has been argued by Friedman (1970) that the Corporation's sole responsibility is to provide maximum financial return to share holders while others are of the belief that business owes responsibility to a wide range of groups in the society. This has led to a number of theories attempting to explain CSR namely; shareholders' theory, stakeholders' theory and social contracts theory. 2. 1. 2 Theories to explain Corporate Social Responsibility

Shareholders’ Theory The shareholders’ theory stipulates that management has a fiduciary duty to the owners or stockholders of a corporation and thus this duty takes priority over any other responsibilities and obligates it to focus on profit maximization alone. The belief of researchers in this group stems from the traditional neoclassical paradigm of the firm (Moir, 2001), a theory which reflects Adam Smith’s notion of economic man, whose goal is to maximize the wealth of the firm, based on his contractual duties to the owners (Brenner and Cochran, 1991).

This model of the firm was further 12 popularized by Friedman (1970), who argued that in a free economy, there is only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to engage in open and free competition, without deception or fraud. Milton Friedman contends that diverting corporations from the pursuit of profit makes the economic system less efficient. Business’s only social responsibility is to make money within the rules of the game.

Private enterprises, therefore, should not be forced to undertake public responsibilities that properly belong to government (Friedman, 1970). The rules of the game that Friedman refers to are the elementary morality rules against deception, force, and fraud which are intended to promote open and free competition. Friedman believes that by allowing the market to operate with only the minimal restrictions necessary to prevent fraud and force, society maximizes its overall economic wellbeing. Pursuit of profits is what makes the free economy vibrant.

Anything that dampens this kind of incentive or inhibits its operations weakens the ability of Adam Smith's invisible hand to deliver the economic goods (Shaw, 2008). The CSR theory that upholds this view has also been regarded as the ‘‘ stockholders model’’ (Bruno and Nichols, 1990). This model identified that, based on the contractual agreement signed with the owners, management's responsibility is a legal one, and it equates with ethical and social responsibility. However, this only-profit-oriented-business approach has been heavily criticized by many researchers and has given way to the Stakeholder view.

Shareholder's critics claim that businesses have other obligations besides making a profit. 13 Stakeholders Theory Johnson (1971) in his definition of CSR, conceives a socially responsible firm as being one that balances a multiplicity of interests, such that while striving for larger profits for its stockholders, it also takes into account, employees, suppliers, dealers, local communities and the nation. This definition draws from stakeholder theory as developed by Freeman (1984). According to Freeman (1984), the firm can be described as a series of connections of stakeholders that the managers of the firm attempt to manage.

Stakeholder, according to Bruno & Nichols (1990: 171) is a term which denotes any identifiable group or individual who can affect or be affected by organizational performance in terms of its products, policies, and work processes. Davis (1975) argues that modern business is intimately integrated with the rest of society. It is not some self-enclosed world, like a small study group. Rather, business activities have profound ramifications throughout society, and their influence on peoples' lives is hard to escape.

Therefore, corporations have responsibilities that go beyond making money because of their great social and economic power.

Stakeholders are typically analyzed into primary and secondary stakeholders. Clarkson (1995) defines a primary stakeholder group as ''one without whose continuing participation the corporation cannot survive as a going concern'' - with the primary group including ''shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group; the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations may be due''.

The secondary groups are defined as ''those who influence or affect, or are influenced or affected by the corporation, but they are not engaged in transactions with the 14 corporation and are not essential for its survival''. Mitchell et al. (1997) developed a model of stakeholder identification and salience based on stakeholders possessing one or more of the attributes of power, legitimacy and urgency. Thus, it is anticipated that firms would pay most attention to those legitimate stakeholder groups who have power and urgency.

In practice this might mean that firms with problems over employee retention would attend to employee issues and those in consumer markets would have regard to matters that affect reputation. Stakeholder groups may also become more or less urgent; so environmental groups and issues became more urgent to oil firms following the Exxon Valdez oil spill (Patten, 1992). The stakeholder theory surfaced the question central to this research, which is whether organizations can be socially responsible and have good performance (profitable) while still satisfying investors and shareholders by providing acceptable levels of return on those investments.

Social contracts theory Gray et al. (1996) describe society as ''a series of social contracts between members of society and society itself''. In the context of CSR, an alternative possibility is not that business might act in a responsible manner because it is in its commercial interest, but because it is part of how society implicitly expects business to operate. Donaldson and Dunfee (1999) developed integrated social contracts theory as a way for managers to take decisions in an ethical context. They differentiate between macro social contracts and micro social contracts.

Thus a macro social contract in the context of communities, for example, would be an expectation that business provides some support to its local community and the specific form of involvement would be the micro social contract. Hence companies who adopt a view of social contracts would 15 describe their involvement as part of ''societal expectation'' - however, whilst this could explain the initialmotivation, it might not explain the totality of their involvement. Corporate Citizenship Companies’ role or responsibilities towards society has come to be known as Corporate Citizenship (CC).

Carroll (1991: 42) sums up CC as ‘ being actively engaged in acts or programs to promote human welfare or goodwill’. CC looks at expectations of society that business will engage in social activities that are not mandated by law nor generally expected of business in an ethical sense. It’s actually a different way of understanding the role of business in society. CC has frequently been used as equivalent to CSR (Wood and Logsdon, 2002).

Logsdon and Wood believe CSR is more concerned with social responsibilities as an external affair while CC suggests that business is a part of the society.

This linguistic change (from corporate social responsibility to corporate citizenship) contains a profound change in normative understanding of how business organizations should act inrespectto stakeholders (Wood and Logsdon, 2002). Corporate Citizenship is a metaphor for business participation in society (Moon et al, 2005). Theories on and approaches to ' corporate citizenship' are focused on rights, but even more on duties, responsibilities, and possible partnerships of business with societal groups and institutions.

Much as corporate citizenship is sometimes related to social expectations, it is mostly adopted from an ethical perspective. Solomon states: The first principle of business ethics is that the corporation itself is a citizen, a member of the larger community and inconceivable without it … Corporations like individuals are part and parcel of the communities 16 that created them, and the responsibilities they bear are not the products of argument or implicit contracts, but intrinsic to their very existence as social entities (1992: 184).

Concern for communities where companies operate has extended progressively to a global concern due to intense protests againstglobalization, mainly since the end of the 1990s. Facing this challenge, 34 CEOs of the world's largest multinational corporations signed a document during the World Economic Forum in New York in 2002: Global Corporate Citizenship: The leadership Challenge for CEOs and Boards. For the World Economic Forum, ' Corporate Citizenship' is about the contribution a company makes to society through its core business activities, its social investment and philanthropy programs, and its engagement in public policy1. . 1. 3 Corporate Social Responsibility commitments Carroll (1991) came up with the pyramid of CSR in his book Business Horizons (1991) and suggested that there are four kinds of social responsibilities that constitute a total range of CSR business activities. These are: economic, legal, ethical and philanthropic responsibilities. Carroll further emphasized that, for CSR to be accepted by a conscientious business person, it should be framed in such a way that the entire range of business responsibilities is embraced. Carroll (1991) explains thus; Economic Responsibilities

Historically, business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. Before it was anything else, business 1 See http://www. weforum. org/en/initiatives/corporatecitizenship/index/htm. Accessed on 01/08/2011. 17 organization was the basic economic unit in our society. As such, its principal role was to produce goods and services that consumers needed and wanted and to make an acceptable profit in the process.

At some point the idea of the profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations. A summary of some important statements characterizing economic responsibilities may be as follows. o It is important to perform in a manner consistent with maximizing earnings per share. o It is important to be committed to being as profitable as possible. o It is important to maintain a strong competitive position. It is important to maintain a high level of operating efficiency. o It is important that a successful firm be defined as one that is consistently profitable. Legal Responsibilities Society has not only sanctioned business to operate according to the profit motive; at the same time business is expected to comply with the laws and regulations promulgated by Government as the ground rules under which business must operate. As a partial fulfillment of the " social contract" between business and society, firms are expected to pursue their economic missions within the framework of the law.

Legal responsibilities reflect a view of " codified ethics" in the sense that they embody basic notions of fair operations as established by the lawmakers. Legal responsibilities are appropriately seen as co-existing with economic responsibilities as fundamental 18 precepts of the free enterprise system. A summary of some important statements characterizing legal responsibilities may be as follows. o It is important to perform in a manner consistent with expectations of Government and the law. o It is important to comply with various regulations. It is important to be a law-abiding corporate citizen. o It is important that a successful firm be defined as one that fulfills its legal obligations. o It is important to provide goods and services that at least meet minimal legal requirements. Ethical Responsibilities Although economic and legal responsibilities embody ethical norms about fairness and justice, ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law.

Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights. In one sense, changing ethics or values precede the establishment of law because they become the driving force behind the very creation of laws or regulations. For example, the environmental, civil rights, and consumer movements reflect basic alterations in societal values and thus may be seen as ethical bellwethers foreshadowing and resulting in legislation.

In another sense, ethical responsibilities 19 may be seen as embracing newly emerging values and norms society expects business to meet, even though such values and norms may reflect a higher standard of performance than that currently required by law. Ethical responsibilities in this sense are often ill-defined or continually under public debate as to their legitimacy, and thus are frequently difficult for business to deal with. The business ethics movement of the past decade has firmly established an ethical responsibility as a legitimate CSR component.

A summary of some important statements characterizing ethical responsibilities may be as follows. o It is important to perform in a manner consistent with expectations of societal mores and ethical norms. o It is important to recognize and respect new or evolving ethical moral norms adopted by society. o It is important to prevent ethical norms from being compromised in order to achieve corporate goals. o It is important that good corporate citizenship be defined as doing what is expected morally or ethically. It is important to recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations. Philanthropic responsibilities Philanthropy encompasses those corporate actions that are in response to society's expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill. Examples of 20 philanthropy include business contributions to financial resources or executive time, such as contributions to the arts, education, or the community.

The distinguishing feature between philanthropy and ethical responsibilities is that the former are not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities, and employee time to humanitarian programs or purposes, but they do not regard the firms as unethical if they do not provide the desired level. Therefore, philanthropy is more discretionary or voluntary on the part of businesses even though there is always the societal expectation that businesses provide it.

One notable reason for making the distinction between philanthropic and ethical responsibilities is that some firms feel they are being socially responsible if they are just good citizens in the community. This distinction brings home the vital point that CSR includes philanthropic contributions but is not limited to them. In fact, it would be argued here that philanthropy is highly desired and prized but actually less important than the other three categories of social responsibility, in a sense, philanthropy is icing on the cake.

A summary of some important statements characterizing philanthropic responsibilities may be as follows. o It is important to perform in a manner consistent with the philanthropic and charitable expectations of society. o It is important to assist the fine and performing arts. o It is important that managers and employees participate in voluntary and charitable activities within their local communities. o It is important to provide assistance to private and public educational institutions. o It is important to assist voluntarily those projects that enhance a community's " quality of life. " 21

Economic, legal, ethical and philanthropic responsibilities can be transformed into responsibility towards customers, employees, investors, suppliers, community and the environment. Responsibility towards customers A company has a duty to act responsibly towards its customers or else it might ultimately lose business. This could be through providing goods and services hallmarked by integrity, quality and care. Customer rights like rights to safe products, rights to all relevant information about the product should be left to prevail. Ethical advertising should also be put into consideration (Carly, 2002).

Businesses in Uganda have to follow guidelines set by the Uganda National Bureau of Standards (UNBS) in as far as products are concerned. The set standards are meant to protect consumers from counterfeits, hazardous and substandard products (Standards Act 1983). Responsibility towards employees Equal opportunities for rewards and advancement should be provided to all employees for a company to be socially responsible. Responsible employment practices with well-trained, well-managed and motivated employees, who are fairly rewarded – sharing in the Company's successes should be instituted.

A company that ignores this responsibility may likely face a risk of losing productive, highly motivated employees as well as lawsuits, a case in point being Del Monte (Litan, 2004). A company should ensure that the workplace is safe, both physically and socially and should aim to be the employer of choice in all areas of operation (Carly, 2002). In Uganda, a number of laws are in place to help guide companies in aspects of 22 employees and the workplace; examples include the Employment Act (2006), and the Occupational Health and Safety Act (2006). Responsibility towards investors

Managers have a responsibility to ensure that they do not act irresponsibly towards shareholders by denying them their due earnings or misrepresenting company resources. Financial management should be proper and finances should be correctly reported. Conformation to IFRS's and IAS's is a unilateral requirement (International Federation of Accountants, 1998). Wanyama (2006) cites previous studies on the importance accounting information plays in enabling relevant parties to monitor the performance of an organization as well as holding management accountable for the stewardship of resources.

Sound accounting principles should enable investors to make a fair assessment of the performance of companies and guide the decisions of those investors in making investment decisions, holding management accountable and in CSR considerations (Wanyama, 2006). Responsibility towards suppliers Socially responsible companies should regard suppliers as partners and work with them in order to achieve their policy aspirations in the delivery of products and services. Responsibility towards community

Companies should strive to be good corporate citizens by contributing to community well being, and be able to recognize their responsibility to work in partnership with the communities in which they operate. In their research on CSR in Uganda, Katamba 23 and Gisch-Boie (2008) identified the 5 top CSR activities in the community in Uganda as education, sponsorship of events related to the company's marketing strategy, health, HIV/AIDS related issues, and employee volunteerism.

They concluded that community initiatives contribute to sustainable business development and shape the economic future especially if people are healthy and educated. Responsibility to environment Socially responsible companies should have a committed program of management, continuous improvement and reporting of their direct and indirect effects on the environment which marks their contribution to improving the world in which they live (Caspin, 2002).

In Uganda, it is a requirement for organizations of a manufacturing nature to follow guidelines set out in the National Environmental Statute (1995) in their pursuit of environmental management. Organizational managers and employees are expected to support implementation of an environmental management system in accordance with their roles and responsibilities. Among other things, the Environmental Management System (EMS) as guided by the National Environmental Statute (1995) concerns: •

Product stewardship by designing products and services that are safe to use, minimize use of hazardous materials, energy and other resources, and enable recycling or reuse. •Pollutionprevention through conducting operations in a manner that prevents pollution, conserves resources, and proactively addresses past environmental contamination. 24 • Continual improvement by integrating environmental management into business and decision making processes, regularly measuring performance, and practicing continual improvement. Legal compliance through ensuring that products and operations comply with applicable environmental regulations and requirements. • Stakeholder involvement which concerns the provision of clear and candid environmental information about products, services, and operations to all stakeholders, informing suppliers about the organization’s environmental requirements, fostering environmental responsibility among employees and contributing constructively to environmental public policy. . 1. 4 Establishing and managing social responsibility programs Socially responsible companies require a carefully organized and managed program to that effect. Top management has to take a strong stand on social responsibility and develop a policy statement outlining that commitment. A designated executive should have the responsibility of monitoring the CSR program and he/she should ensure that implementation is consistent with the firm's policy statement and strategic plan.

He/she should issue compliance statements to confirm whether the business is operating in accordance with the principles of the CSR policies. 2. 1. 5 Corporate Social Responsibility Reporting and Disclosure Proper accounting and financial reporting is one of the critical and important responsibilities of management, especially in public-quoted companies. The need for a sound financial reporting system is essential so that the performance of an organization is accurately reported in a timely manner for the information of all 5 stakeholders of the company. Needless to say, inaccurate information affects all those who refer to the financial statements of an organization for business or personal reasons. In this regard, producing unreliable financial statements has a significant economic and social effect on the business environment (Davis, 2002). Social disclosure within the medium of corporate reports is far from being a recent phenomenon, and can indeed be traced back to the beginning of the twentieth century (Owen et al. 1997). However, the issue first achieved prominence in the 1970s, largely as a consequence of the debate then raging concerning the role of the corporation in society at a time or rising social expectations and emerging environmental awareness. More perceptive managements speedily grasped the public relations benefits of producing, at least rudimentary social reports which attempted to convey a picture of corporate responsiveness to key social concerns (Owen et al. , 1997).

In the 1970’s alone, the US Congress (USC), for example, enacted legislation to benefit the environment (FederalWater PollutionControl Act, The Clean Air Act Amendments), employees and the workplace (The Occupational Safety and Health Act, The Equal Employment Opportunity Act) and the protection for consumers (The Consumer Product Safety Act, the Federal Hazardous Substance Act) in typical command and control fashion, indicating business could not be trusted to be socially responsible without oversight of law (Hess, 2007).

However, shortcomings noted include a lack of consumer access to such information and results, highlighting the need for greater disclosure by firms to stakeholders. Such disclosure efforts did not occur in earnest until the 1990’s. 26 Recent years have witnessed a remarkable growth in the number of companies in industrialized nations across the globe reporting publicly on various aspects of their social and environmental performance (Davis, 2004).

Whilst this, for many, has entailed providing rudimentary, generally qualitative information on policies and performance within the annual financial report, an increasing number of ‘ leading edge’ reporters have gone much further. For this latter group, predominantly, but not exclusively, large companies operating in ‘ sensitive’ industrial sectors, the preferred means of dissemination has become the production on an annual basis of substantial ‘ stand alone’ report, either paper and/or (increasingly) web-based, featuring copious quantitative, as well as qualitative, data.

Additionally, the reliability of the data presented is increasingly likely to be attested to by an independent assurance provider (O’Dwyer and Owen, 2005). KPMG’s 2005 triennial international survey of corporate responsibility reporting practice on the part of the world’s largest corporations, namely the top 250 of the Fortune 500 together with the top 100 companies in 16 leading industrialized countries, bears witness to this rising reporting trend.

For the former group, 52% issued separate reports in 2005, compared with