**3. Corporate Social Responsibility**

All business firms exist because of their interactions with other people - suppliers, customers, employees and other interested people - local community, and natural environment - competitors, resources, infrastructures and markets inclusive of the supply chains. These are part and parcel of stakeholders.

**Types of stakeholders**:

Primary stakeholders: suppliers, customers, employees and shareholders

Secondary stakeholders: Government, media, trade bodies, competitors and social pressure

groups.

**Dealing with stakeholders by corporations**

1. Stakeholders have different demand/priorities (needs)
2. Most influence on firms - primary stakeholders - they have different power, legitimacy and urgency. E.g. power: employees can have more power than the management in

decision making

legitimacy - contracts from different sources

urgency - economic situations and consumers

**Stakeholder Theories - the importance of stakeholders to organisation’s competitiveness or economic goals**:

1. Normative theory: firms have responsibility to look after the welfare of stakeholders i.e. a duty to them (Kant’s Ethics of Duty Theory) i.e. for the good of society.
2. Descriptive perspective - treat stakeholders well because of their high power, legitimacy and urgency. However, firms do so according to the stages in the life cycle of the business.
3. Instrumental perspective - firms must manage stakeholder relationships well in order to make profit.

**What is Corporate Social Responsibility (CSR)?**

1. To protect and enhance the well-being of stakeholders i.e. looking after their interest.
2. To avoid negative impacts on them i.e. products are of good quality and beneficial to them.
3. To improve/enhance the well-being of stakeholders such as providing financial support for social activities of the local community such as health welfare support for social activities, infrastructure development; support school sports, scholarships; set up nursery to enable mothers to work, housing loans for employees.
4. To show transparency, responsibility and accountability.

**Models for CSR:**

1. Carroll’s Pyramid - 4 levels of SR

Philanthropic

Responsibility Desired by society

Ethical responsibility Expected by society

Legal responsibility Expected by society

Economic responsibility Expected by society

2. Keith Davis Model - SR of firms ensures its long term existence.

Reasons:

1. Society has the power to demand for SR from firms.
2. A business is operated in an open system i.e. related to the society and other subsystems.
3. A business must consider the social costs and benefits to consumers.
4. Consumers are the ones that absorb the social costs of the firm’s activities.
5. Business firms have the responsibility to ensure certain social problems that arise outside their operations e.g. pollution of the environment, poor quality products.

Arguments of CSR:

1. Classical economics: - Milton Friedman (2002) and Hayek (1967) argued that firms have no SR but that is the responsibility of the Government.
2. For CSR:

* Important for long term returns
* Do not face interferences from government or community threats
* Firms have the necessary resources to deal with CSR
* Firms must promote CSR by doing the right thing.

Modern concept of CSR

1. Firms must be proactive to CSR - to protect and create actions to meet expectations of stakeholders
2. Comply with minimum legal requirements to meet SR
3. To satisfy economic, legal and ethical responsibilities in term of social values and norms of the society.

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**3. Case Study: The Conquest of a Giant Retailer**

ABC is the largest retailer in Malaysia, Indonesia, Singapore and Brunei with RM1.5 billion in sales. The company employs 50,000 employees in the four countries and serves about 20 million customers per week. ABC carries an extensive range of products from groceries and household items to home improvement and leisure products. The company has a core of loyal customers who love the fast, friendly service and high quality products with lower prices. The CEO who is also the grandson of ABC’s founder always ensures the company lives up to its credo of supplying consumers with low cost quality goods. Business Week reported that ABC was one of the most profitable companies in South East Asia.

Employees receive good training in customer service. Customers are assured of a pleasant shopping experience where ABC’s employees are friendly and ready to assist whenever they need help. However, this good image is tainted with complaints against the way ABC treats its employees. In Indonesia, for example, employees complained that they were forced to work round the clock without or with only little overtime pay. The backroom employees receive low pay and few or low benefits, mainly because they are immigrant workers. Employees are often asked to sacrifice their rest and meal breaks. In Malaysia, ABC was accused of hiring illegal immigrants with low pay to do menial jobs. These employment practices are clearly against the law, but ABC got away due to weak enforcement of laws.

While customers love ABC, small local sundry shops and merchants complain of unfair competition. Many went out of business because ABC sells similar products, but at lower prices. ABC could afford to offer lower prices due to hefty discounts given by its suppliers for large orders. In addition, in Malaysia, many local suppliers complained that ABC gives priority to foreign products such as those from China and Bangladesh. Some even had to close their business. ABC buys its products from these two countries due to cheaper prices.

In Indonesia, ABC has embarked on an aggressive expansion strategy due to the great market potential. ABC plans to open 20 stores each in East Java and Northern Sumatra next year. Ten new stores are due to be opened in Sulawesi this year. ABC receives severe resistance from local communities in some of the new locations. Their main grouses are traffic congestion, noise and other forms of pollution during and after the construction of the new stores. They do not want ABC’s presence disturbing their daily lives. In Malaysia, ABC gets the same resistance but at a lower scale. The main grievance is the employment of illegal immigrants to construct new stores, which raises security concerns among locals due to a sudden influx of foreign workers in their area.

In spite of its critics, ABC receives wide support and many consider the company to be socially responsible in addition to being a provider of thousands of jobs, low prices and high value and service. ABC also undertakes some initiatives to give back to the society. E.g., ABC awards annual scholarships to secondary school children from poor and underprivileged families in Indonesia and Malaysia. The company is also active in promoting good environmental practices such as recycling and using paper bags. Moreover, it also sponsors educational programmes organised by local environmental groups to educate the public about recycling and other environmental topics.

Questions

1. Assess ABC’s corporate social responsibility using Carroll’s four part CSR model.
2. Has ABC, balanced its economics and social responsibilities through its various programmes? How would you improve ABC’s CSR performance?
3. What should ABC do with regard to the issues raised by its various stakeholders?