References and Readings


Community-Based Social Marketing

- Corporate Social Marketing

Company Directors and CSR

Ahmed El-Masry¹ and Nahla Kamal²
¹ Plymouth Business School, Devon, Plymouth, UK
² ALROWAD, Dokki, Giza, Egypt

Synonyms

Corporate control; Corporate governance; Director’s duties

Definition

It is quite difficult to find a universally accepted definition for CSR; each author provides a definition according to his field of research, preferences, and understanding of CSR. When there are different views concerning the meaning of CSR, debate on its significance in strategy formulation and stockholder management will be complicated and turn on the assumptions about and around the nature and significance of CSR. The words of Idowu and Filho seem important to remember, “What falls under the umbrella of CSR in one country may perhaps be of little or no significance in another” (Idowu and Filho 2010).
A broader definition refers to it as a means by which companies can manage and influence the attitudes and perceptions of their stakeholders, building their trust and enabling the benefits of positive relationships to deliver business advantage and more effective management of risk, helping companies to reduce avoidable losses, identify new emerging issues, and use positions of leadership as a means to gain competitive advantage by influencing new regulation to strengthen competitive advantage. CSR could be done on a voluntary or mandatory action. Usually, it is cited as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Within such a broad definition, the discussion of how company directors should understand CSR is not about whether CSR activities should be voluntary or not; the debate should be about where on the legislation scale the indicator should be set, should it be more toward no legislation or more toward total legislation.

As Philip Jennings, the General Secretary of Union Network international, noted:

Companies and governments overwhelmingly want the public both to believe in the ethical corporation and at the same time do not want to provide new legal backing for tighter ethical behaviour. But the ethics genie is out of the bottle and its operational principles are providing difficult to control. Another big change is that workers and citizens as stakeholders can now be involves directly with powerful corporations. (Hopkins 2007, p.27)

Introduction

Since the beginning of 1990s, corporate social responsibility has gained an importance as a concept. A lot of corporations have focused their attention on CSR’s triple bottom line: people, planet, and profit. Corporation’s success and influence on its customers as well as the world depends on these economic, social, and ecological principles. A recent study by KPMG showed that CSR reporting has changed from purely environmental to concentrating on sustainability; in addition, the top 250 companies of fortune 500 has adopted CSR as a mainstream practice (Mitra 2011). The codes of contract governing social, environmental, and ethical practices were also signed or developed by more than 1,000 corporations in UK and Europe. Such companies understand that understanding and reporting on CSR is a key component in reducing risks. Karen Bergin, the Senior Director of Corporate Affairs and Citizenship, at Microsoft Corporation states that corporations (Transparency International 2009) have accountability toward their societies in which they work due to the following reasons: First, the corporation’s most vital asset is its people, all of whom are part of that society; second, the key stakeholders of the corporation such as customers, partners, and investors who expect responsible leadership and active participation. And lastly, corporations can vigorously learn through CSR, for instance, gathering direct feedback from people in societies around the world about the corporate products.

Because the world had witnessed chaotic stock markets, credit crisis, and a global economic recession, as a result, climate change and wider issues of CSR were starting to climb the corporate agenda. This was clear, at least in a European context, in the supplement accompanying the Observer and Guardian newspapers’ in March 2004 conference on “Business and Society” (one of a growing number of sophisticated conferences supporting the CSR cause). That supplement highlighted that boards of directors should be capable of demonstrating that any voluntary action they support will eventually improve shareholder value; in addition, they have to recognize how their social and environmental influences can improve or jeopardize shareholder value.

In 2005, a CSR salary survey illustrated that many corporations are assigning specialists officers to develop and implement clear CSR strategies, due to the significant growth of the importance of issues such as governance, environmental management, social equity, and employee and community (Sullivan and Sambunaris 2005). According to Tom Leather
the director of Acre Resources, “CSR has gone from something that was a bit fashionable to something that is much more broadly accepted. Some companies have whole teams doing this now—we have just been working with Sky, which has a team of 20–30 people dedicated to it” (Hanson 2008). According to Leathes, CSR cannot only be found in large companies such as BT, the Body Shop, and Marks & Spencer, who have been hiring CSR specialists for a number of years, but also there have been a growing number of smaller companies taking them on.

The chief executive of Business in the Community (BITC), Stephen Howard, has also observed that there has been an increase in the number of businesses working with that organization. BITC gives support and advice to help corporations enhance the impression they have on society and the environment. According to Howard “CSR is getting more boardroom attention; universities now run degree courses in CSR” and “like the evolution of the HR professional, we are seeing the evolution of the CSR professional” (Hanson 2008).

In addition to climate-change agenda, there are other factors which are accountable for the rise of CSR as a boardroom issue, for instance, the financial scandals at Enron and WorldCom and lately Societe Generale, as well as so-called labor abuses at Nike and Gap (Hanson 2008). Corporations are increasingly using CSR as an instrument to deal with risk and reputation: Questions about how companies are fulfilling their environmental and social responsibilities are asked by wider stakeholder groups such as local authorities, public bodies, customers, and prospective staff. Howard states that “It is an issue that is here and now, so businesses need to look at how they are going to respond.” However, Leathes highlighted that areas like marketing, HR, finance, and IT are considered to be more entrenched compared to CSR budgets and team sizes which are still relatively underdeveloped. In addition, most of CSR heads do not report directly to the chief executive or other main board director, although that position seems to be changing (see – reference to “Chief Sustainability Officer” (Bhattacharya et al. 2011).

Even though corporations should watch costs and spending during a recession, a recession might not be the time to limit corporate CSR budget. According to Howard, corporations should put into consideration how they are going to keep their staff and their customers. Identifying the position of the corporation is even more relevant in a recession, because such CSR can create long- and short-term value for companies. CSR offers an opportunity for corporations of all sizes. According to Leathes, corporations gain competitive advantage through developing a strong CSR program and incorporating it into their brand and marketing. Customers are much more conscious of environmental and social issues. They are searching for corporations who can make this easy for them. However, Leathes emphasizes that assigning a CSR officer is more relevant for some companies than others. According to him, it is inexperienced to state that any company which does this is likely to notice a huge increase in sales. Several oil and tobacco corporations have an enormous social and environmental influence. In particular, corporations with bad reputations like oil and tobacco companies showed an interest in carrying CSR activities to change their negative images. Some corporations such as BP and Shell were able to successfully alter their image through emphasizing their environmental and social initiatives, while the same strategy has backfired for others such as Monsanto and Exxon. According to Karen Bergin, Senior Director of Corporate Affairs and Citizenship, Microsoft Corporation, the solution lies in making sure that CSR activities are aligned with the corporation, which will guarantee its effectiveness and sustainability (Hanson 2008).

The responsibility for corporate governance and the company’s CSR policies and objective should probably fall in the hands of someone with full knowledge of the company’s positive and negative influences on society as well as having a proper understanding of present and potential risks faced by the company. We can argue that such person should be capable of influencing the company’s strategic planning, which ultimately
indicates that the participation of the board is essential for a successful establishment of the CSR function in corporations. CSR issues are immediately placed at the core of business strategy, as a result of, having the board administering the incorporation and execution of CSR in a corporation. In addition, legislation in many countries holds the same belief, in which directors hold the responsibility for the environmental and social consequences of corporate decision.

The combined code on corporate governance makes it obvious that CSR is crucial. It states that directors “should set the values and standards of the company and ensure that it meets its obligations to shareholders and others” (Financial Reporting Council 2003). The board must be in charge of the establishment of corporate values and standards, looking at corporate responsibility in a strategic way, being constructive about regulations, aligning performance management, establishing a culture of integrity, and making use of internal control to ensure accountability. On the other hand, a board’s role is to administer rather than managing; therefore, they have to delegate. Assigning the CSR accountability to an existing board member and devoting a committee completely to CSR, or the entire board can be included in CSR decisions, are examples of various techniques used by corporations to place CSR role in the board. The same techniques could be applied at the executive level, for instance, the executive committee members could be accountable for CSR supervision, a new member could be assigned to the executive committee with CSR responsibilities and expertise, or engaging the whole executive committee on CSR decisions. The same foundation can be applied to the whole corporation through centralizing or decentralizing, directing one department with CSR responsibilities, or allocating them according to different criteria such as geographic locations and business divisions and deciding on whether to use cross-functional interaction or not. No matter what structure the corporation choice, the dedication from the board should be accompanied by responsibilities down the hierarchy. To achieve this, a set of correct incentives must be established. Culturally, that means corporations should focus on long-term sustainable performance rather than short-term cost cutting views. The corporation should consider the set of incentives, which will provide with the best coordination between profit maximization and CSR performance. To ensure success, corporations should imply the same techniques it uses when it deals with any other strategic component of a business; measuring and assessing the performance are handled according to a well-known formal strategy (Financial Reporting Council 2003).

**Key Issues**

**The Role of Directors**

A company director is a member of the Board of Directors whose responsibility is to add value to the corporation through both performance (direction) and conformance (control). Performance involves establishing the mission, values, and strategic direction of the corporation; the influence of these on both stakeholders and the natural environment should be considered by a socially responsible director. Conformance involves, firstly, accountability through establishing internal policy and procedures and devoting to both internal and external rules and procedures such as laws and, secondly, transparency through reporting to stakeholders; high levels of each should be supported by a socially responsible director. Ensuring that the corporate’s purpose and values are consistent with or support CSR might be an active responsibility played by the company director. Also, the company director can guarantee that a socially responsible manner is used in strategy creation through establishing policies and procedures and the implementation of that strategy. There is an agreement that the stakeholders should be taken into consideration when company directors make decisions. According to the International Corporate Governance Network (ICGN 1999), “it concurs in the view that active corporation between corporations and stakeholders is essential in creating wealth.
employment and financially sound enterprises over time.” An executive (or inside) director and a nonexecutive (or outside) director are the two categories usually used for company director. The first refers to an employee of the corporation such as the chief executive officer (CEO), while the latter refers to an employee from outside the corporation. A nonexecutive director is hired to add an external opinion on issues of strategy, performance, resources, and standards of conduct and evaluation of performance to the board. Nonexecutive director is hired based on his/her courage, wisdom, and independence. The nonexecutive director is divided also in two categories: independent directors and nonindependent directors. The board is an ongoing body that creates a series of decisions. “The directors’ perceptions of the success or otherwise of a decision will feedback into the decision-making process, and as such will form part of the information or experience that is used in making later decisions.” There are two specific characteristics of board decision making: Firstly, acting as agents, the decision makers are making a decision on behalf of the principles (owners of the corporations) rather than making a personal decision. Secondly, two stage processes are used to reach a decision: The board papers are read by individuals before meetings and make an early decision, and then, the group decision-making processes are used by the board to make last decision through consensus or majority vote. As such, both individual and group decision-making philosophies are pertinent to the directors’ perception of CSR. It is crucial that pathologies do not affect the group decision-making process, such as group thinking. That is why the board should have a various group of people to expand the range of experiences, values, and risk perception that will be carried to the meeting and inform the discussion. Board demographics and CSR research have been done extensively. For instance, male board members are less likely than female board members to encourage charitable community service and cultural activities (ICGN 1999).

Company directors’ roles and responsibilities are highly codified and extensively researched, and therefore, the directors’ perspective of the place of the CSR within their professional duties might be developed from a number of sources such as legislation and case law; international, regional, and national guidelines; reports on CSR and corporate governance; professional associations (Institutes of Directors); corporate constitutions and codes of conduct; and professional and academic literature. The legislative frameworks within which the corporation works are the main influences on how those opinions are formed. Such frameworks not only differ from one country to another, but also they differ between states of the same country. Other influences include the boardroom demographics and culture, the corporations’ history of CSR, and the persons’ values and experiences. Therefore, a director might have, to some extent, a different perception of CSR when the director acts on multiple board positions. The company directors’ perception of CSR is a broad one; the perception of one director could fall somewhere inside the whole array of possibilities from seeing CSR inappropriate through to a passionate obligation to community and the environment. It is persistent that executive directors perceive CSR differently than nonexecutive directors. However, academics did not reach an agreement on what they perceive differently. For instance, Ibrahim et al. states that “overall, outsiders are less economically driven and more philanthropically oriented than insiders,” while Wang and Coffee found in their study that “increasing the number of outsiders on the board may actually have little effect on philanthropic behaviour” (Idowu and Filho 2010).

Establishing a CSR Strategy
At times, executives find it difficult to establish a CSR strategy; however, social media platforms can be essential resources for corporations looking to contribute to their societies and develop into better corporate citizens. Discovery Communications, for instance, are relying more on social media in their CSR efforts, in which they use social
works such as Facebook and Twitter; they also
enchanced Discovery Blog a short time ago to raise
blic awareness about their CSR efforts through
erating discussions and providing community
those who want to get involved.
Anne Charles, the founder and CEO of
RANDfog, provides three crucial guidelines
at corporations should do for better CSR
Bennett 2010). First, commit and lead; this
means that executives should share their vision
through social media channels, which is crucial
that followers can feel connected to the brand,
ive feedback, and become evangelists. Second,
isten and learn; through this step, executives will
be able to find out the greatest areas of need and
valuate the societies where they do business; this
enables them to decide which social issues to
address. This can humanize the brand while
supporting the society, and lastly, communicate;
CEOs can comment or post updates about their
CSR initiatives and tell people what they are
doing with CSR through social media channels.
CEOs can discuss it in board meetings, staff
meetings, and press conference or even broadcast
it through all marketing channels.

Karen Bergin, Senior Director of Corporate
Affairs and Citizenship, Microsoft Corporation,
agrees that exciting new opportunities for
connecting and engaging with people are presented
with social media (Jacques 2010). In particular, it is
applicable to CSR as people love to have direct
dialogue with the corporation. It allows corporation
to inform exciting and convincing stories in new
ways. On the other hand, corporations should
closely incorporate social media with traditional
communications and directly align it with core
objectives, rather than dealing with social media
as a separate activity; corporations should think
about it holistically.

Future Directions

One of the issues that need to be clarified in future
research is the roles and responsibilities of
various members in corporations in attaining
a social responsible behavior especially the
company directors.

Cross-References

- Business Ethics
- Corporate Governance
- Corporate Responsibility
- Socially Responsible Investment

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Definition

Competition according to the classical ideas of Adam Smith is the invisible hand that ensures the efficient and fair allocation of goods and services, i.e., each individual's self-interested actions will lead, on aggregate, to society's good (Frank 2004). The invisible hand maximizes the welfare of buyers and sellers when all participants have complete and perfect knowledge so that consumers make choices and firms strive to meet their requirements; in this way, the market allocates goods for the benefit of all. In the real world, these conditions do not exist. Also, all members of society do not have perfect knowledge or power, so the major question is: To what extent can we rely on competitive markets to sustain behavior that maximizes the welfare of all in society in the long run?

Economists recognize that the pursuit of individual short-term goals can be detrimental to the long-term benefit of the community as a whole. It is for these reasons that acts which individuals would pursue for their own benefit are constrained by laws; for example, the burning or dumping of rubbish would be cheaper to the individual than the cost of legally sanctioned disposal but more detrimental to the community as a whole.

Frank (2004) compares the competitive behavior of firms to that of natural species; it is the survival of the fittest. The argument is that firms who come closest to profit maximization are more likely to survive in the long run than those that do not. All firms are not necessarily maximizing profit at any given time because their managers, for example, may be lazy or incompetent. This may happen with or without the knowledge of owners. If managers are not striving for profit maximization, and their competitors are, they risk the survival of their firm. The important question for firms' owners and managers is: If they seek to pursue socially responsible ventures beyond the requirements of regulation, will they risk the long-term prosperity of the firm, or can such actions lead to competitive advantage? The important question for any firm is how can it ensure that firms behave in