Corporate Social Responsibility and Business Ethics

Professor Ming Sun
School of Energy, Geoscience, Infrastructure & Society
Heriot-Watt University
MULTIPLE STAKEHOLDERS AND MULTIPLE RESPONSIBILITIES
Organisations Need to Satisfy Multiple Stakeholders

- Customers
- Suppliers
- Employees
- Managers
- Organization
- Creditors
- Government
- Owners
- Community
Pyramid of Corporate Social Responsibility

Carroll’s CSR Pyramid
Economic Responsibilities

• A company needs to be primarily concerned with turning a profit. This is for the simple fact that if a company does not make money, it won't last, employees will lose jobs and the company will not even be able to think about taking care of its social responsibilities. Before a company thinks about being a good corporate citizen, it first needs to make sure that it can be profitable.
Legal Responsibilities

• A company's legal responsibilities are the requirements that are placed on it by the law. Next to ensuring that company is profitable, ensuring that it obeys all laws is the most important responsibility, according to the theory of corporate social responsibility. Legal responsibilities can range from securities regulations to labour law, environmental law and even criminal law.
Ethical Responsibilities

• Ethical responsibilities are responsibilities that a company puts on itself because its owners believe it's the right thing to do -- not because they have an obligation to do so. Ethical responsibilities could include being environmentally friendly, paying fair wages or refusing to do business with oppressive countries, for example.
Philanthropic Responsibilities

- Philanthropic Responsibilities refer to actions a company taken to meet or exceed the expectations of stakeholders beyond such measures as revenue, profit and legal obligations. It covers community investment, donations to charity, employee relations, environmental practice and ethical conduct.
CORPORATE SOCIAL RESPONSIBILITY
Corporate Social Responsibility

• Corporate social responsibility (CSR) is the process by which businesses negotiate their role in society.
• The comprehensive approach organisations take to meet or exceed the expectations of stakeholders beyond such measures as revenue, profit and legal obligations. It covers community investment, human right and employee relations, environmental practice and ethical conduct.
Two Different Types of CSR

- To provide funding and resources for worthwhile social causes, such as donating money or employee time to charities.
- To produce products or provide services that are in the best interests of society, e.g. things like using safe materials in design and manufacture, corporate environmental initiatives, and other factors such as job creation and economic development.
Specific Examples of CSR Initiatives

- Working in partnership with local communities
- Socially responsible investment (SRI)
- Making donation to charities
- Developing relationships with employees and customers
- Environmental protection and sustainability
- Adopt fair trade sourcing
In 2014, the UK Consultant firm, Grant Thornton, surveyed 2,500 businesses across 34 economies and revealed the main drivers for their corporate social responsibility activity.

<table>
<thead>
<tr>
<th>Key drivers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost management</td>
<td>67%</td>
</tr>
<tr>
<td>Customer demand</td>
<td>64%</td>
</tr>
<tr>
<td>‘Right thing to do’</td>
<td>62%</td>
</tr>
<tr>
<td>Brand building</td>
<td>59%</td>
</tr>
<tr>
<td>Staff recruitment/retention</td>
<td>58%</td>
</tr>
<tr>
<td>Tax relief</td>
<td>42%</td>
</tr>
</tbody>
</table>

The full report can be downloaded from:
The survey also found the main CSR initiatives and the percentage of businesses adopting them.

Key initiatives

- Donated money to community causes/charities: 68%
- Participated in community/charity activities: 65%
- Improved energy efficiency or waste management: 65%
- Donated products/services to a charitable organisation: 53%
- Changed products/services to reduce their environmental impact: 39%
- Calculated your carbon footprint: 31%

Source: Grant Thornton IBR 2014
Let’s Look at an Example: Starbucks

**Being a Responsible Company**
We’ve always believed that businesses can – and should – have a positive impact on the communities they serve.

**Business Ethics and Compliance**
Starbucks believes that conducting business ethically and striving to do the right thing are vital to the success of the company.
A Good Example of Socially Responsible Corporate?

<table>
<thead>
<tr>
<th>Community</th>
<th>Ethical Sourcing</th>
<th>Environment</th>
<th>Diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backing Youth</td>
<td>Coffee</td>
<td>Recycling &amp; Reducing</td>
<td></td>
</tr>
<tr>
<td>Good Neighbours</td>
<td>Farmer Support</td>
<td>Waste</td>
<td></td>
</tr>
<tr>
<td>Youth Action 2013</td>
<td>Tea</td>
<td>Energy</td>
<td></td>
</tr>
<tr>
<td>Youth Action 2012</td>
<td>Cocoa</td>
<td>Water</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Store Products</td>
<td>Green Building</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Climate Change</td>
<td></td>
</tr>
</tbody>
</table>
UK Blasts Starbucks, Google for 'Immoral' Tax Evasion

Starbucks 'paid just £8.6m UK tax in 14 years'

US coffee giant Starbucks reportedly paid just £8.6m in corporation tax in the UK over 14 years.

The four-month investigation by news agency Reuters also found the firm had paid nothing in the last three years.

Starbucks UK reported losses so did not have to pay corporation tax, but told investors that it was "profitable".
• Is Starbucks a good Socially Responsible company?
Importance of CSR – Society Perspective

- Globalisation and emergence of large-scale business result in increasingly important role of business in people’s lives.
- Such power and influence need to be tempered by an attitude of responsibility by management and other means.
Importance of CSR – Business Perspective

- CSR is an important way to increase a business’ competitive advantage, protect and raise brand awareness and build trust with customers and employees.
- CSR encourages companies to think long term changes not only in technology or the needs of the customers, but also in social, environmental and governance issues.
- CSR can help businesses to attract more investors, reduced their risks and addressed stakeholder concerns.
Benefits of CSR for Businesses

• Stronger performance and profitability
• Improved relations with the investment community and access to capital
• Enhanced employee relations and company culture
• Risk management and access to social opportunities
• Stronger relationships with communities and legal regulators
Role of Legislations

• In recognition of the importance of corporate social responsibilities, government has been introducing a series of legislations on:
  – Employment protection
  – Equal opportunities and diversity
  – Companies Acts
  – Consumer Law
  – Product liability
  – Safeguarding environment
  – etc
UN Global Compact (UNGC)

- United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.

- [www.unglobalcompact.org](http://www.unglobalcompact.org)
10 UNGC Principles

Human Rights
- 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2: Make sure that they are not complicit in human rights abuses.

Labour Standards
- 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4: the elimination of all forms of forced and compulsory labour;
- 5: the effective abolition of child labour; and
- 6: the elimination of discrimination in employment and occupation.

Environment
- 7: Businesses should support a precautionary approach to environmental challenges;
- 8: undertake initiatives to promote environmental responsibility; and
- 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption
- 10: Businesses should work against corruption in all its forms, including extortion and bribery.
Uptake of UNGC

• Since its official launch on 26 July 2000, the initiative has grown to more than 10,000 participants, including over 7,000 businesses in 145 countries around the world.

• “The UN Global Compact has expelled 99 companies in the first half of 2013 for failure to communicate progress for at least two consecutive years.”
BUSINESS ETHICS
What are Ethics?

- **Ethics** are moral guidelines, which govern good behaviour. So behaving ethically is doing what is morally right.

- **Ethics** are about what is right and what is wrong. Law is about what is lawful and what is unlawful.
What are Business Ethics?

• **Business ethics** are moral principles that guide the way a business behaves.
• Many companies create Codes of Practice to regulate the behaviours of the organisations and their employees.
Scope of Business Ethics

- Behaviour towards customers, suppliers, distributors and competitors.
- Treatment of employees.
- Treatment of other stakeholder groups.
- Effect on the natural environment.
- Conduct in international operations.
Business Ethics and CSR

• The two concepts are closely linked:
  – A socially responsible firm should be an ethical firm
  – An ethical firm should be socially responsible

• However there is also a distinction between the two:
  – CSR is about responsibility to all stakeholders and not just shareholders
  – Ethics is about morally correct behaviour
Benefits of Ethical Business Conducts

- Help to ensure consistent conduct and reduces risk
- Improve the reputation of an organisation and help to attract more customers.
- Improves trust and morale internally.
- Attract more talented employees to work for the business.
- Make employees want to stay with the business, reduce labour turnover and therefore increase productivity.
- Attract investors and keep the company's share price high.
10 Most Significant Risks and Costs from Unethical Behaviour

1. Increased risk of doing business and the possibility of bankruptcy and severely damaged company brand and image.
2. Decreased productivity.
3. Increased misconduct and conflict internally.
4. Decreased performance levels of employees.
5. Increased employee turnover and more challenging employee recruitment.
6. Decreased success of retention and recruitment of employees.
7. Increased absenteeism and “presenteeism” (the tendency to stay at work beyond the time needed for effective performance on the job).
8. Decreased probability of reporting misconduct and unethical behaviour of others.
9. Increased dysfunctional behaviours such as not paying attention to details, scapegoating, withholding information, under delivering and overpromising, not giving credit to others, lowering goals, misrepresenting results, etc.
10. Decreased value of the company.
BUSINESS ETHICS IN THE CONSTRUCTION INDUSTRY
Construction professional bodies, such as RICS and CIOB, have Rules (Codes) of Conduct that govern the behaviours of their members.
Many companies have their own Code of Conduct, which sets out how their employees should behave in their work.
UK Contractors Group (UKCG) is the primary association for contractors in the UK. Its members adopt a voluntary “Code of Business Ethics and Conduct”, which sets out the overarching general principles of ethical standards and business behaviour in the following areas:

- Bribery and Corruption
- Competition
- Health, Safety and Welfare
- Environment
- Employment Practices
- Pre-employment checks
- Supporting our Supply chain and fair payment

---

**UK Contractors Group**

**Code of Business Ethics and Conduct**

1. **Introduction**

The UK Contractors Group (UKCG) is the primary association for contractors operating in the UK. UKCG’s vision is to provide leadership for a healthy construction industry.

The UKCG and its members are committed to the UKCG member values which include adopting the highest ethical standards and behaving fairly.

This Code of Business Ethics and Conduct ("the Code") sets out the overarching general principles of ethical standards and business behaviour in the UK construction industry to which all UKCG members commit.

Each UKCG member shall endeavour to promote an understanding of and compliance with this Code’s general principles of ethical standards and business behaviour throughout their supply chains, including with their sub-contractors.

2. **The Code of Ethical Standards and Business Conduct**

UKCG members will conduct their businesses honestly and fairly at all times, complying with all applicable laws and UKCG or UKCG-approved industry codes, standards and guidance, including:

- **Bribery and Corruption**

  In accordance with the UKCG Bribery and Corruption Code of Conduct, UKCG members are committed to ensuring that their businesses operate with the utmost integrity and that they and their employees will not offer, promise or pay bribes to anyone, or request, agree to accept or receive bribes or otherwise breach applicable laws on bribery and corruption.

- **Competition**

  In accordance with the principles of the UKCG Competition Law Code of Conduct, UKCG members are committed to ensuring the highest standards...
Unethical Practices are Still Common in UK Construction Industry

- A CIOB survey in 2013 found that 49% of respondents believe corruption is common and that 50% believe companies are not doing enough to prevent corruption.
- Institute of Loss Adjusters in 2011 estimating that fraud in construction in the UK amounted to 10 per cent of revenue and another published in 2012 by the Association of Certified Fraud Examiners which estimated that globally 5 per cent of construction revenue is lost to fraud.
- The National Fraud Office’s Annual Fraud Indicator (AFI) reported losses to private construction companies resulting from fraud in 2012 at £3 billion.
Prevalence of Different Types of Fraud in the UK Construction Industry

<table>
<thead>
<tr>
<th>Type</th>
<th>Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billing fraud</td>
<td>Med</td>
</tr>
<tr>
<td>Bid/contract rigging – market collusion</td>
<td>High</td>
</tr>
<tr>
<td>Bribery/corruption</td>
<td>Low</td>
</tr>
<tr>
<td>Fictitious vendors – falsifying payment apps</td>
<td>Med</td>
</tr>
<tr>
<td>Change order manipulation</td>
<td>High</td>
</tr>
<tr>
<td>Theft or substitution of materials</td>
<td>Med</td>
</tr>
<tr>
<td>False representation</td>
<td>High</td>
</tr>
<tr>
<td>Money laundering</td>
<td>Low</td>
</tr>
</tbody>
</table>
Expected Learning Outcomes

- Students should know what Corporate Social Responsibility (CSR) is about and why CSR is important;
- Students should understand the different levels of corporate responsibilities, as suggested by the Carroll’s CSR Pyramid;
- Students should know the main drivers for CSR engagement;
- Students should know about business ethics and its importance;
- Students should know the main benefits for a company to behave to a high ethical standard and the dangers for failing to do so.