

Social responsibility is critical in long term business success, critically evaluate the statement.

Abstract

Recently, a lot of multinational companies have been in the news for practices that are considered to be unethical, and those that would not occur in their parent countries. This has led to views that multinational companies are taking advantage of the lack of key legislation to protect workers and communities for the purposes of profit, instead of striving to raise social and environmental standards (Fox 2004, Reed and Reed 2006). Social responsibility is critical in the long term business success as it forms the basis for sustainability and it improves relations with the local community and non-shareholders. A review was undertaken of two situations where the lack of social responsibility was used to demonstrate its importance to organizations, and this review found in both cases had a social responsibility been followed, the social and environmental risk would have been mitigated and contributed to the long term development of that particular region or area.

Introduction

The importance of social responsibility and the need for its adoption has largely risen out of increasing globalization and its effects on local communities (Vives 2004). Recently, a lot of multinational companies have been in the news for practices that are considered to be unethical, and those that would not occur in their parent countries. This has led to views that multinational companies are taking advantage of the lack of key legislation to protect workers and communities for the purposes of profit, instead of striving to raise social and environmental standards (Fox 2004, Reed and Reed 2006). Social responsibility has been

defined by Fox (2004) as a concept where companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis. Social responsibility is critical in the long term business success as it forms the basis for sustainability and it improves relations with the local community and non-shareholders. The reasons for this include the following (Fox 2004, CEC 2006, Reed and Reed 2006): there is a responsibility to the community/communities that will be affected and it is vital that companies understand their concerns and respect their values/cultures/traditions so as to gain future support and reduce hostilities and resentment; there is a responsibility to look after the environment as this will ultimately affect the long term profitability of the company, by guaranteeing the availability of resources and ensuring their renewal; and there is also a responsibility to ensure that the welfare of employees is not sacrificed for profits through paying below-average wages and enforcing unreasonable work conditions.

Body

There is a responsibility to the community/communities that will be affected and it is vital that companies understand their concerns and respect their values/cultures/traditions so as to gain future support and reduce hostilities and resentment. The evidence of the damaging effects of social responsibility are visible, and examples include the sweat-shops in China where workers are paid meager wages, work under poor conditions and are still supposed to be loyal; a situation which when exposed can lead to a boycott on products and a negative disassociation with the company. For instance, Nike attracted media attention when it was discovered that their employees in China and other parts of Southeast Asia were being exploited through the payment of low wages; they were being abused by their managers and

some were also being sexually humiliated (Biscaccianti 2003, Fox 2004, Sachs 2005, CEC 2006). This led to very unfavourable media attention as consumers in the developed world were appalled by the conditions as they were not aware of what the production process entailed. Nike did argue by stating that the abuse took place in facilities that were subcontracted (Biscaccianti 2003, Fox 2004, Sachs 2005, CEC 2006), however social responsibility could have been exercised by ensuring that their subcontractors worked to similar standards as those found in the developing country. If social responsibility had been exercised, Nike would have ensured that working conditions were humane, and that their wages sufficient to sustain their families and communities. This failure to exercise social responsibility has resulted in a constant negative association with Nike up to current times, so the damage done to the company's brand and image is very long lasting and could be potentially damaging.

There is a responsibility to look after the environment as this will ultimately affect the long term profitability of the company, by guaranteeing the availability of resources and ensuring their renewal. For instance, there is concern over logging in the Amazon forest, and in Indonesia, and in both the cases the need for profit has resulted in the displacement of wildlife and communities which changes the social landscape almost indefinitely (TED 2006). In Indonesia, the destruction of the rainforest is damaging not just the local communities, but the environment as a whole. So whilst no one single company has been singled out as an example, this demonstrates the lack of social responsibility. Multi-national corporations are undertaking logging activities and this has resulted in the reduction of agriculture, the migration of the local community and the endangering of the wildlife population (Biscaccianti 2003, Fox 2004, Sachs 2005, CEC 2006). The reduction of agriculture results

in the loss of ability of a community to sustain itself. It also becomes more dependent on others for support, which in turn will create a cycle of poverty (Ruf et al 2001, Verschoor 2002, Utting 2005). The reduction in agriculture has also probably resulted in the mass migration of the local communities from the area, as they look for employment in urban areas to sustain their families. This in turn puts pressure on government services which means that the development of an underclass occurs in the Indonesian society. In addition to this the orangutan population is dwindling and this has put these animals on the endangered list. Therefore, social responsibility in this situation would have a huge positive impact, especially if organizations considered whether the need for logging could be substituted with another product, or actually look at ways of resource renewal. The protection of local communities is also vital to this environment as they contribute to the protection of natural resources.

There is also a responsibility to ensure that the welfare of employees is not sacrificed for profits through paying below-average wages and enforcing unreasonable work conditions. This means that when companies operate in different geographical areas, which do not have similar employee or other protection laws, the company, should make the effort to improve and sustain the local community and environment by not exploiting the gaps. An example is the Bhopal incident in India where a significant proportion of the community lost their lives due to the lack of sufficient health and safety standards at a manufacturing plant (Fox 2004, CEC 2006, Reed and Reed 2006). A company called Union Carbide set up its plant in India, but failed to enforce safety standards in India. These safety standards were lower than those that were present in the United States, and as a result toxic gases leaked which killed over 3800 people and disabled a further 11000 (Fox 2004, CEC 2006, Reed and Reed 2006). This illustrates how sometimes, large companies take shortcuts when setting up branches

abroad, particularly in developing countries where certain laws and regulations are not as strict as in home countries. In this case the social responsibility was not present, especially when the scope for damage is large. The surviving individuals have also not received compensation, which sends a message that people in developing countries are not important, and that their lives are disposable. One can argue that the other reason for multinational companies setting shop abroad is to share knowledge and skills; if this is the case then it should fall on an organisation's social responsibility to ensure that all relevant knowledge and skills are shared.

Conclusion

Social responsibility is one which demonstrates wide focus on a business, and it also demonstrates that a business has identified the resources that a vital to its longevity. Such business will normally succeed as they are not solely profit-driven and they understand the implications of conducting their business. This observation ties in with ensuring the long term success of the business, and it only makes sense that businesses take on social responsibility. The limitations of this essay are that it does not involve a full quantitative and/or qualitative analysis which would make the findings generalisable. In terms of implications for future development of this essay, it does provide a starting point for future research in this area, examples of organizations not following social responsibility are abundant, however such practices are still happening which does the raise of question of whether organizations themselves perceive social responsibility to be vital to the long term success of the business.

References

Biscaccianti, A. (2003). "Business ethics and profit - The impact of corporate social responsibility programs on corporate strategic planning." CEREN –Management Department – Groupe ESC Dijon Bourgogne – BP 50 608 – 21006 Dijon cedex

Commission of the European Communities (2006). "Implementing the partnership for growth and jobs." Making Europe a Pole of Excellence on Corporate Social Responsibility; Communication From the Commission to the European Parliament, The Council and The European Economic and Social Committee.

Fox, T. (2004) "Corporate Social Responsibility and Development: In quest of an agenda" *Development* 2004 47(3) 32

Sachs, J. (2005.) "The End of Poverty: Economic Possibilities for Our Time." New York. Penguin.

TED Case Studies (2006) "Deforestation in Indonesia and the Orangutan Population" <http://www.american.edu/TED/orang.htm> (page last accessed 02 June 2007).

Reed, AM, and Reed, D. (2006). "Corporate Social Responsibility, Public-Private Partnerships and Human Development: Towards a New Agenda (and Beyond)" Paper presented at the Conference "Public Private Partnerships in the Post-WSSD Context" Copenhagen Business School

Ruf, B.M, Muralidhar, K., Brown, R.M., Janney,J.J., Paule, K. (2001). "An Empirical Investigation of the Relationship Between Change in Corporate Social Performance and Financial Performance: A Stakeholder Theory Perspective." Journal of Business Ethics, 32(2), July 2001, p.143-156

Verschoor, C.C., Murphy, E.A.; (2002) "The Financial Performance of Large US Firms and Those with Global Prominence: How Do the Best Corporate Citizens Rate?;" Business and Society Review, 2002, 107:3; p.371-380

Utting, P. (2005). "Corporate responsibility and the movement of business", Development in Practice, 15 (3-4), June, 375-388.

Vives, A. (2004) "The Role of Multilateral Development Institutions in Fostering Corporate Social Responsibility" Development 47 (3) 45-52