Corporate Social Responsibility Practices In The Australian Consumer Goods Industry: Preliminary Findings

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ABSTRACT

The aim of this study was to identify the extent to which Corporate Social Responsibility (CSR) has penetrated practices in the Australian consumer goods industry. Results from a questionnaire survey reveal wide variation in understanding of CSR. Results include that definitions adopted describe what is actually happening as opposed to what should happen; the identity and legitimacy of stakeholder groups is open to question; the focus tends to be tactical rather than strategic; and the motivation to adopt CSR at the organisational level is difficult to identify.

INTRODUCTION

A great deal has been written about Corporate Social Responsibility (CSR). The literature reveals much confusion on how to define the concept, let alone how to effectively implement such practices within a business. This paper investigates what is happening in practice regarding the understanding and scope of CSR practices in the consumer goods industry in Australia.

The term CSR incorporates concepts of both social responsibility and environmental responsibility, and is often used interchangeably with the term ‘corporate citizenship’. Broadly speaking, CSR means conducting business in an ethical and transparent way that adds value to the community and to shareholder returns (Ferguson, 2006).

The extent of a company’s responsibility for its wider effects on society and stakeholders is a controversial issue, creating polarised views. Henderson (2005, 2001) argues that whilst businesses need to act responsibly, that does not mean endorsing the current doctrine of CSR, and that to adopt such practices would cause more harm than good. The primary role of business in a market economy is to act as a vehicle for economic progress, and because the views of anti-business activist groups do not necessarily reflect the views of society as a whole, businesses should not try to accommodate their uninformed views. Another proponent of this view, Milton Friedman (1970) stated that the one and only social responsibility of a business entity such as a corporation was “to use its resources and engage in activities designed to increase profits, so long as it stays within the rules of the game”. Social concerns are the responsibility of governments not business, according to this view. In the 21st century business world, Friedman’s statement increasingly runs counter to popular sentiment and the trend towards companies now wishing to be viewed as good corporate citizens.

In direct contrast, proponents of CSR argue that the social responsibility of a business extends beyond the financial considerations to broader societal and environmental issues, such as those addressed by the ‘triple bottom line’ (Elkington, 1999). Niall Fitzgerald, Chairman of the Unilever Group, stated “Corporate social responsibility has moved from the periphery of business to centre stage. If there is one thing certain about the business world you will face, it is that it will change even faster and corporate social responsibility will be one of the most challenging aspects of business you will encounter.” (Fitzgerald, 2003). The unanswered question is, to which stakeholders is business to be responsible?

An alternative view of CSR describes it as the friendly face of a wicked but redeemable capitalism (The Economist, 2005). Acknowledging that capitalism is the driving force behind economic and social progress, a widespread fear exists that if left unchecked, capitalism would be destructive and exploitative. This fear leads to public anxiety and the call for more accountability on the part of business. Hence, a company cannot afford to ignore the public's perception of its activities as it pursues its ultimate objective of financial sustainability.

For a business to fully realise the benefits of adopting CSR it must align its CSR initiatives with the long-term business strategy. Some businesses are highly successful in doing so, but many are adopting a piece-meal approach by introducing isolated initiatives. At the opposite end of the spectrum, many businesses have not even considered the concept of CSR, or else they perceive it as a costly exercise that is limited to large multi-national corporations. A growing body of opposition to the concept is emerging, supporting the view that a company has no obligation beyond that which it owes to its shareholders. This raises the question of whether companies are proactively deciding not to implement CSR in order to focus purely on the single bottom line – financial performance – or whether they have simply not explored CSR as an option for their business.

Adopting CSR has also been shown to have a positive impact on the financial performance of a business. To act and be seen to be acting in a socially responsible manner can improve a company's financial performance. A study undertaken at the Harvard Business School indicated that stakeholder-oriented companies showed four times the growth rate and eight times the employment growth compared with companies that were purely shareholder-focused (Peters, 2001).

That CSR is on the agenda of business is unquestionable. However, the related theories and models span the whole continuum, from being an add-on in order to pay 'lip-service' to the concept and improve public relations, to being an integral part of a holistic business strategy. The wide ranging interpretations as to what CSR actually means have led to the emergence of a new industry and a vast array of models and theories that attempt to define and clarify such a complex topic.

At the broadest level the concept of CSR has been incorporated into a great deal of management literature and many best practice management models. These include the Australian Business Excellence Framework (ABEF), the widely recognised US-based Malcolm Bainbridge National Quality Award (Business Excellence Australia, 2004) and Avery's (2005) Sustainable Leadership Grid. The ABEF and the Bainbridge awards are similar in principle and practice. Both have moved beyond the realm of operational effectiveness towards the more holistic area of business excellence. Business excellence is an all-encompassing concept and is concerned with the purpose, vision and mission of a business, the extrinsic and intrinsic leadership aspects that guide it, the operational processes that drive it, and the success and sustainability of the performance that results. Avery's (2005) Sustainable Leadership Grid contrasts two distinct models of leadership, the Rhineland and the Anglo/US models, on 19 key leadership elements, including consideration of social and environmental responsibility and a broad range of stakeholders (Avery, 2005). Stakeholders include shareholders, employees, the local community, clients and suppliers. The pressures to ensure that all stakeholders are incorporated into business decisions and strategy leads to the demand for businesses to operate in a socially and environmentally aware manner, in addition to conducting operations in a financially beneficial manner.

Given the many definitions of CSR, it is hardly surprising that there is a plethora of methods for approaching its adoption. Two popular and widely accepted concepts are the balanced scorecard and triple bottom line reporting. The Balanced Scorecard and the triple bottom line quantify the link between social and environmental actions and financial performance. Peters (2001) has identified four broad approaches to CSR: Profit maximization, altruism, enlightened self-interest and corporate citizenship (Peters, 2001). While it is difficult to definitively assign an individual company's approach to CSR to one of Peters' four categories, the CSR initiatives it adopts are likely to depend on the approach it most closely fits, although they may span 'neighbouring' approaches. For example, altruistic companies may focus on philanthropic donations to good causes, whereas a company adopting the enlightened self-interest approach is more likely to improve its community connections and invest in research with the aim of improving the environment or humanitarian projects.

Companies are producing sustainability or CSR reports at an increasing rate. How to report on such issues remains a challenge despite the numerous frameworks and measurement tools available, as many of the issues are subjective. The Australian Government has launched a Framework for Public Environmental Reporting (Environment Australia, 2000) to provide national guidelines compatible with other international reporting standards, and the combined forces of the Business Council of Australia and Environment Australia have conducted a review of environmental reporting requirements (Business Council of Australia, 2000).

Given the confusion in the literature about definitions, the role of CSR in business, frameworks and stakeholder groups, the purpose of this study was to investigate what is happening in practice regarding CSR.

RESEARCH HYPOTHESES

Based on the literature and observations from case studies, it was predicted that a lack of clarity exists around what CSR means, and how best to implement it within business at a strategic and operational level. Specifically, the literature survey highlights the following hypotheses:

1. There is a lack of clarity and understanding about the definition of CSR and how to effectively identify the drivers supporting its adoption; therefore we predict that responses are likely to be equally distributed across the definitions listed.
2. Views about how to effectively implement CSR at the organisational level cover a broad spectrum of opinions; therefore we predict that the views of the responding sample will be similarly broad.
3. A diversity of views is predicted about a) who an organisation's key stakeholders are, and b) the relative importance of the respective groups.
4. The degree of influence that stakeholder groups have on business operations is likely to be subject to large variations;
5. There is likely to be no consensus between businesses as to where the responsibility for CSR should lie; and
6. The majority of CSR activity within the Australian consumer goods industry is occurring at the tactical rather than the strategic level.

METHOD

The research population was identified using the Dun & Bradstreet Online Business Who's Who (<https://bww.dnb.com.au>) that adopts the Australia and New Zealand Standard Industry Classification (ANZSIC) Codes (AusIndustry, 2006). To be eligible for inclusion, a company's primary operations must be in the manufacture and/or distribution of durable, non-durable and healthcare products sold through retail channels to consumers. To satisfy the population requirements, a three step procedure was adopted: firstly organisations needed to be listed in one of the chosen categories on the Dun & Bradstreet Business Who's Who website; secondly they must have either a revenue in excess of \$50 million per annum or employ over 100 people; and finally they must have operations in Australia.

A questionnaire-based approach was adopted to test the research hypotheses. A questionnaire, letter of introduction, information and consent form and reply-paid envelope were mailed to all members of the research population. Participants were assured of confidentiality. Correspondence was addressed mostly to the Chief Executive Officer (CEO), Managing Director or Country/General Manager of the business, and in a small number of cases where this information was unavailable, to the Human Resources Director.

The questionnaire was distributed to 227 companies, followed by a reminder letter posted one calendar month later to the companies that had not yet responded. This provided 19 usable questionnaires, a response rate of 8.4%. Low response rates and non-response bias are ongoing concerns in conducting mail surveys (Greer, Chuchinprakarn and Seshardi, 2000). Research indicates that average response rates to mail surveys fall between 21% (Dennis, 2003) and 25% (Larson and Poist, 2004). Whilst this study achieved a low response rate, comparison statistics suggest that sufficient similarity exists between the characteristics of the population and the responding

sample to conduct some meaningful analysis. However, given the low response rate to this survey, the results are treated as a pilot study.

RESULTS

Of the responses received, 26% were completed by the Managing Director/CEO of the business; 47% by a General Manager; 11% were completed by the Human Resources Director; and the remaining 16% by individuals in national line management roles.

An overwhelming 95% of respondents either strongly agreed or agreed that CSR is the commitment of business to the community in which it operates, with 5% being neutral and no parties disagreeing with the statement. However, the data confirmed that a lack of clarity exists about what CSR means at a conceptual level. As predicted, responses were spread fairly evenly across the multiple definitions offered. The definition of CSR as reflecting the efforts of a business above and beyond regulation to balance the needs of stakeholders with the need to make a profit was supported by 74% of respondents. However, 21% either disagreed or strongly disagreed with this option.

The only statement that provoked strong disagreement was that CSR refers to voluntary community activities organised by a company and undertaken by employees in company time, with only 16% of respondents in support and 44% in disagreement. This may indicate that respondents view CSR either as distinct from a volunteering activity, or as one component of a much broader view of CSR.

Views about how CSR should be governed resulted in a broad spectrum of results as predicted under the second hypothesis. The vast majority of respondents (90%) strongly oppose both the statements that CSR should be set by rules and governments and that it should be subject to mandatory reporting. The data showed that on the subject of CSR reporting, 58% agreed that it should be subject to voluntary reporting.

At the other end of the spectrum 95% agree or strongly agree that CSR should be a natural way of doing business, and 79% agree or strongly agree that CSR should be reflected in every aspect of the business. The view that CSR should create business opportunities was supported by 42%, with 47% neutral and 10% against.

Respondents rated the importance of various factors in driving the company's involvement in CSR over the next few years (see Figure 1). Overall, the data support the hypothesis that organisations face difficulty in effectively identifying the drivers supporting the adoption of CSR. Ethical values are the strongest driver with 90% rating this as a 1 (strongly agree) or 2 (agree) on the five point scale. Close behind this was the personality and/or values of the CEO at 79%, indicating that CSR may be considered a 'top-down' strategy, and that unless the executive team buy-in to the concept it is unlikely to succeed.

Image and brand value were also seen to be strong drivers, with 74% rating this as a 1 or 2, followed by employee attraction/motivation and building credibility with stakeholders at 63%. Just over half (53%) of the respondents strongly agreed or agreed that competitive advantage, resource efficiency and strategic opportunities are major drivers. Using the same rating scale customer awareness and product/service innovation both scored 42%, with anticipating/reducing risk at 26% and legislation at 21%. Little importance was attributed to improving share price (11%) and decreasing operating cost (11%).

Figure 1: Factors driving company involvement in CSR

When asked if the organisation has a clearly defined and published set of values, 90% replied affirmatively (see Figure 2). In all affirmative cases, these had been fully communicated to the Board of Directors and senior management, in 94% of cases that had also been communicated to line management, and in only 65% of cases to employees. Suppliers and customers were communicated with to a much lesser extent at 12% and 18% respectively. This suggests either a perception that suppliers and customers are less important stakeholders, or possibly that the dispersed nature of these stakeholders makes communication more difficult and therefore less effective.

Figure 2: Degree of communication of company values

Results relating to organisational approaches to CSR indicated that in 89% of companies CSR will be incorporated or fully incorporated into the corporate identity via corporate values and principles, corporate codes of conduct and corporate culture. In a smaller but still significant proportion of companies, CSR will be incorporated into in-house communications (74%) and mission/vision statements (63%).

Inspection of the data revealed that CSR will be somewhat less integrated into strategy than into corporate identity, with 63% of respondents integrating or fully integrating CSR in the areas of product policies and market policies, 58% within innovation strategy, 32% within sales objectives and 21% in other areas. These other areas include the corporate PR/communication strategy, reputation and awareness strategy, production and product design strategy and staff engagement strategy. This supports the hypothesis that organisations are likely to be able to clearly articulate an integrated approach to CSR.

Regarding the extent of stakeholder dialogue and the degree of influence of the various stakeholder groups on CSR strategy, one quarter (26%) of respondents agreed that the company had not yet identified its stakeholder groups. Of the 74% who had, the degree of stakeholder influence was almost uniform in its pattern of decline, with all having identified the groups, 58% having determined the nature of their stakeholder relationships, 42% having identified the relevant stakeholder issues and only 26% having confirmed those issues – see Figure 3.

Figure 3: Identification and understanding of stakeholder issues

The hypothesis is supported that a diversity of opinion exists as to the relative importance of stakeholder groups. However the finding that three quarters of responding companies have identified their stakeholders opposes the hypothesis that views about who the key stakeholders are will vary. On a rating scale from 1 (extensive regular dialogue) to 5 (no dialogue), employees emerged as the most consulted group with 84% of respondents choosing a rating of 1 or 2, see Figure 4. Other highly consulted groups include suppliers (74%), customers/consumers (68%), industry associations (63%), unions (53%), and 42% for both environmental and social NGOs rated. Little dialogue is undertaken with government and politicians (21%) and only 5% had consulted to any extent with an independent CSR expert.

Figure 4: Extent of consultation with various stakeholder groups

Just over half (52%) of companies have a formulated and documented CSR policy. Of those with such a policy, in 80% of cases this had been formulated with involvement from some stakeholder groups, and in 20% of cases this had been formulated with involvement with all stakeholder groups. Communication of the policy varied with 90% of companies having communicated this to employees, and 70% having published the policy in the annual report and/or online – see Figure 5. One respondent commented that although the company did have a CSR policy, this had been formulated at global head office level and the local version was still being developed.

Figure 5: Degree of communication of CSR policy

As Figure 6 shows, the potential benefits of CSR are perceived to be much greater than the potential risks. The highest rated benefits of integrating CSR are company trust/credibility and improved corporate reputation, with all respondents rating this as very important (1) or important (2) on a 5-point Likert scale. Using the same rating criteria, customer satisfaction (90%) came close behind, followed by employee retention, stakeholder satisfaction and improved corporate culture, which were all rated at 84%. Brand positioning was rated at 79%, employee attraction at 74% and business expansion/competitive advantage at 63%. Of lesser perceived significance as a potential benefit, with less than half of the respondents rating them as very important (1) or important (2) were development of new partnerships (47%), innovation and increased profitability (37% each).

Figure 6: Perceived benefits associated with integrating CSR

For the majority of businesses CSR is the responsibility of the CEO, with 58% of respondents citing the CEO as currently responsible and with no plans to change this. Current responsibility was attributed by 53% to the Board of Directors and senior management respectively. However an additional 16% of companies planned to give senior management responsibility for CSR. No respondents planned to add this to the Board of Directors' responsibility. One respondent commented that the responsibility for CSR lies solely with the overseas parent company Board of Directors, whilst another commented that the CSR plan has not yet been finalised and therefore where the responsibility lies has not been decided.

The local community appears to be a stakeholder that is well supported by respondents. About 68% of respondents claim that they support the local community and 90% of these encourage employees in this area. Of those companies that encourage community activity about one quarter (26%) offer employees the opportunity to participate in a formal volunteering program in company time, 5% offer a formal volunteering program with employees participating in their own time, and the vast majority (58%) encourage community activity but have no formal program. About 58% of companies provide financial support on a regular organised basis; 21% on an ad hoc basis but via a dedicated budget; 16% provide such support but only if funds are available; and only 5% do not provide any financial support to the local community.

DISCUSSION

The hypotheses were generally supported in this study examining the extent and nature of CSR strategies and practices within a sample of companies operating within the consumer goods industry in Australia. The results showed that overall awareness of the concept of CSR throughout the industry sector is relatively high. However, whilst people generally thought that CSR reflected a positive commitment to the community, no definitive consensus of opinion exists about what the definition of CSR is. This is consistent with the vast array of definitions that exist within the literature.

CSR extends well beyond volunteering. Most respondents agreed to some extent with each statement provided in the list of definitions, with the exception of CSR as voluntary activities by employees undertaken in company time. This demonstrates that whilst volunteering activity is an important aspect of a CSR program in theory and practice, organisations view CSR as a much broader concept than simple volunteering. CSR is however viewed as a voluntary activity on the part of business, supported by the fact that the majority of respondents reject government regulation and mandatory reporting as the appropriate way to administer such activity.

Factors driving a company's involvement in CSR tend to be qualitative, starting with ethical values, and closely followed by CEO personality, attracting and motivating employees, and building credibility with stakeholders. Financial factors were not viewed as being significant drivers of CSR involvement. This shows a trend towards CSR being viewed as a 'soft', or intangible concept, and therefore one that is unlinked to direct effects on financial performance.

CSR is widely accepted as influencing the identity of a business, but is less strongly incorporated into business strategy. This again indicates that CSR is viewed as an intangible concept, worth adopting at the very top level of corporate mission, vision or values, but it is not being disseminated down through the business into the strategic and operational planning process.

The hypothesis that there would be confusion about who the relevant stakeholders are was not supported. The majority of companies consult in dialogue with their various stakeholders to some degree. The relative importance placed on each stakeholder group is reflected in the extent of the dialogue conducted with the respective group. The results show that competitors are not viewed as a legitimate stakeholder, with no respondents consulting with this group – or at least not to the point of liaising with on key issues – which may well indicate a desire to protect corporate intelligence. The degree of influence other stakeholder groups have on CSR strategy varies considerably. Whilst the majority of respondents have already identified their key stakeholders, the numbers diminish with stakeholder distance from the company. Those stakeholder groups close to the company, such as employees and suppliers, tend to be consulted the most and have the most influence.

The research question aimed at identifying where organisational responsibility for CSR lies demonstrated that CSR is viewed predominantly as the domain of the CEO. The Board of Directors and senior management also have considerable responsibility, and human resources play an increasing role. Very few organisations have a separate CSR resource or department, leading to the conclusion that CSR is viewed as the responsibility of the existing personnel within the business. Therefore CSR can be viewed as a multi-faceted concept that needs to be implemented throughout the business in order to be effective, as opposed to being limited to one specific area. In the area of social and community activities, companies are seen to be active and committed, with the vast majority encouraging employees to participate in community volunteering activities. Financial support for community and charitable groups is also widespread with only a small proportion not participating in any philanthropic activity. The degree of philanthropic support ranged widely from organised regular giving programs to ad hoc giving if and when surplus funds are available. Less than half of all respondents offered an organised payroll giving program, and of those that did only a minority used this as a way of aligning themselves with employee interests by matching donations.

In summary the results broadly support the hypotheses derived from the literature review. However, due to the small responding sample size this must be regarded as a preliminary study, with further research required.

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NOTES