

Corporate Social Responsibility

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Table of Content		Page
1.	Definition of CSR	1
2.	Development of CSR	1
3.	Drivers	2
	A Ethical Consumerism	
	B Globalization	
	C Social Awareness and Education	
	D Ethics Training	
	E Laws and Regulation	
	F Crises and Consequences	
4.	Roles of Different Parties in Promoting CSR	5
	A Role of NGOs	
	B Role of the Government	
	C Role of Companies	
5.	Potential Business Benefits	7
	A Human resources	
	B Risk management	
	C Brand differentiation	
	D License to operate	
6.	Social Entrepreneurship	9
7.	Quantitative Measures of CSR	10
8.	Criticism Against CSR	11
9.	Case Study	12
	A Starbucks	
	B HSBC	
	C Women's Worker Cooperative	
10.	Appendix	17

1. Definition of CSR

While the concept of Corporate Social Responsibility is widely accepted, there is no single, universally accepted definition. United Nations defines CSR as how business companies relate to and impact upon a society's needs and goals.

We want to focus in the interest of the society as a whole instead of judging whether a company is doing right or wrong.

2. Development of CSR

In the 1970s the emergence of corporate social responsibility was, among other things, manifested in three major events: the UN negotiations on a code of conduct for transnational corporations, efforts within the anti-apartheid movement and in the Nestlé boycott on the marketing practices for breast-milk substitutes.

With apartheid later dismantled, the Nestlé boycott proving successful in the adoption of an international code of conduct, the UN negotiations unsuccessful when negotiations terminated, as well as the coming of the era of economic liberalization in the 1980s, the once vibrant CSR activities of the 1970s faded. However, parallel to these events a new wave of CSR initiatives began to gain momentum in the 1980s, contributing to a further development in CSR in the 90s.

In the 1990s, organizations and initiatives emerging under the label of CSR

include non-governmental organizations as the main proponents, as well as TNCs and the Governments. These organizations and initiatives became international in mid 1990's.

3. Drivers

A. Ethical Consumerism

Ethical consumerism is buying products that cause minimal harm to humans, animals or the natural environment during production. The rise of CSR is closely linked to Ethical consumerism. Because of the rapid technological advance, consumers have access to more details of various products and their production processes, and are beginning to make purchasing decisions related to their environmental and ethical concerns.

Ethical Consumerism can be practiced through Positive buying, or moral boycotting.

The definition of trust criteria includes creditworthiness, implied warranty and non-price criteria that consider the moral, but not functional, liabilities of the entire production process.

B. Globalization

Three trends related to globalization are driving the rise of "corporate social

responsibility": protest against globalization, the "war on terrorism", and recent corporate scandals.

Corporate social responsibility is important as a vehicle for reassuring "anti-globalization" protestors that corporate globalization is a good thing, that there is a positive correlation between social responsibility and profitability, and there exists a profit motive.

C. Social Awareness and Education

Social awareness is said to have the function of increasing scrutiny around corporate behavior. For example, Friends of the Earth (HK) used the power of mass media awareness to draw attention to corporate misbehavior in one case. The Windsor House in Causeway is elected the Most Ridiculous Lighting by the public. Near 30 citizens echoed Friends of the Earth (HK)'s call on the gathering of a 5-minute flash mob at the light pollution landmark. The participant got to hide under umbrella and wore sunglasses. It was widely reported to the public through the internet, TV news and newspaper and the lights were switched off finally.

D. Ethics Training

Nowadays, corporations stress on executive ethics training. For example, Stanford Graduate School of Business offers a program in which executives are expected to gain various skills and knowledge concerning the handling of ethics issue

after taking this program. For example, they can learn

- Skills and concepts to grow as corporate directors of CSR or related areas
- Application of concepts to the organization's particular situation (participants will be asked to work on the link to their business practice during the course)

For some professionals, some ethics standards and guidelines are issued and reviewed regularly to ensure the ethical standard of the industry. For example, HKICPA issued the Code of ethics for professional accountants, which emphasizes on the followings:

- Integrity
- Objectivity
- Professional Competence and Due Care
- Confidentiality
- Professional Behaviour

E. Laws and Regulations

The HKSAR Government has launched the Wage Protection Movement in October 2006 for cleaning workers and security guards. Under which, workers are protected with wages not lower than the relevant market rates. Since then, there has been a gradual shift in the community's attitude towards a minimum wage, marked by a greater empathy and appreciation of wage protection for grassroots workers and

corporate social responsibility.

For the aspect of the environment, The HKSAR Government has taken bold steps and practical measures to tackle air pollution, such as replacing diesel light buses with cleaner fuel ones, and tighten motor fuel standards etc.

There are also global inter-governmental bodies for example the United Nations, the International Labor Organization and Organization for Economic Co-operation and Development, which have articulated soft laws in defining social expectations globally.

F. Crisis and Consequences

Often it takes a crisis to precipitate attention to CSR. One example includes the lead poisoning paint used by toy giant Mattel, which required a recall of millions of toys globally and caused the company to initiate new risk management and quality control processes. This incident has seriously damaged the company's image, as parents may no longer want to purchase toys from Mattel anymore for their kids despite its long history.

4. Roles of Different Parties in Promoting CSR

The NGO, the government and companies play an important role to bring about social benefits. A tripartite partnership of the three parties can bring benefits to the

society more effectively. They can have better utilization of resources and they can work together in a synergetic manner to foster the development of economy in Hong Kong.

A. Role of NGOs

They are mission-driven and altruism, that means they're not taking their own interests into account. Their aim is only to increase well-being of the society and protect peoples' right. It is trustworthy if an NGO is involved in a CSR programme. They have expertise in social problem resolution and have strong connections with community groups. This makes it easier to implement CSR programmes.

B. Role of the Government

Government aims at providing welfare to the society, it should enforce the practice of CSR as well. Government is actually the representative of citizen, therefore, if the CSR programme involves the Government department, it will receive more support from the Citizen. The government can have the right to command the public resources and preserve public order. She can tailor-made policies to support and encourage tripartite partnerships and CSR programmes. Government can also provide funding support for necessary services and facilities.

C. Role of Companies

Companies have management expertise. They are effective and competitive. They

are experienced in marketing and advertising. This is helpful for fund-raising activities. They are creative and resourceful because they have research and development expertise. They can contribute to CSR programmes by mobilizing their employees and resources.

5. Potential Business Benefits

A. Human resources

A CSR programme can be seen as an aid to recruitment and retention. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help to have a better understanding of a company among its staff. It can be achieved through payroll giving, fundraising activities or community volunteering.

B. Risk management

Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents. Therefore, we should have better management of the risks so as to minimize the impact. Social risks are pressure points on business by civil society and stakeholders. The social pressure may come from citizens who ask for minimum wage protection or from those who strive for benefits of handicapped. By pursuing socially responsible policies, a company can

reduces risks arising from boycotts and loss of corporate reputation.

C. Brand differentiation

Every hardworking CEO will try their best to help their company to be a distinctive and unique company among the competitors in the same industry. One of the methods is by being corporate social responsibility. Being CSR can separate the company from the competition in the consumers' mindset. CSR can help a corporate build a customer loyalty due to its meaningful, ethical values. In long term, CSR can build a precious reputation and brand name for the company.

D. License to operate

Interference from government and/or the public may greatly hinder the rapid growth of a company. So, every company will do their utmost to avoid any unnecessary interference from these two parties. By taking CSR steps, the can show to the government and the public that they are taking serious attention on the social welfare, and so they could have a more reasonable "excuse" to avoid too much intervention. This concept is applicable to local companies and even overseas companies. For those operating overseas, they need to take different measures so as to stay welcome in the foreign country. Those measures are probably related to CSR. Then, they become a good citizen in the foreign country and could avoid much intervention.

6. Social Entrepreneurship

Social entrepreneurs use their creativity and cleverness to grasp opportunities in order to provide practical solutions to society problems. Furthermore, they make a promise to generate social benefit, and by using profit-making corporations for non-profit aims, they seek to maintain and improve the society members' quality of life.

As a social entrepreneur, they always face different obstacles. They are planners of the modern society, and always hope to work for a better future. They always want to initiate a change for the better, and therefore work against conservative forces in the society. By going opposite ways with the majority, they place themselves at risk, and often find themselves in precarious situations. Yet social entrepreneurs have the courage to face risk and uncertainty, and continue to strive for change.

Social enterprises is related with social entrepreneurs with the sole purpose of promoting social renovation and providing funds for public welfare bodies to help those in need. The aim of the social enterprises is to transport goods and provide services to offer assistance in times of crisis and to change the current state of the problematic society.

7. Quantitative Measures of CSR

DJSI

The Dow Jones Sustainability World Index is a world's leading index on sustainability launched in 1999. The index tracks the financial performance of companies. Corporate sustainability can be views in five areas which include strategy, financial, customer & product, governance & stakeholder and human.

FTSE4Good Index Series

FTSE4Good Index Series aims at measuring the performance of companies that meet globally recognized corporate responsibility standards. It is well-known of it transparent management and criteria.

CDP

CDP is an independent organization which acts as an agent between corporations and shareholders on all climate change related issues. CDP sends out Information Requests each to ask mainly four areas, including management views on the climate change, greenhouse gas emission accounting, company's strategy on those issue and corporate governance with regard to climate change.

8. Criticism against CSR

Criticism

Apart from the positive issues of CSR, there are criticism, mainly from the perspective of the motive and the effectiveness of CSR in making a better society.

To discuss CSR, we need to define corporate role. According to the theory of Milton Friedman, a corporation exists to provide products and/or services that produce profits for their shareholders. Therefore, any resources allocated to the development of CSR would reduce the benefits and earnings to shareholders. Therefore, complying CSR is basically against the principle of a corporate, according to some criticizer.

Effect

Issuing CSR policies is a way for a lot of companies to show their caring to the society as a whole to gain support from the public. Some people criticize that companies abuse CSR as marketing promotion instead of complied to build a better society. For example, McDonald has Ronald Mcdonald house charities and No Straw Day to help children and save environment respectively but is paying low wages to frontline employees. It is criticized that McDonald is using CSR policies for branding purpose only but is actually exploiting its employees. These CSR policies are not effectively carried out. The effect is not significant in bringing a better society.

9. Case Study

A. Starbucks

Starbucks has done a lot in promoting CSR especially in the aspect of people and environment.

For the aspect of people, Starbucks has signed the United Nations Global Compact, supporting internationally accepted principles and standards regarding workers rights. It seeks to operate business in a manner consistent with international standards; hence, Starbucks began purchasing Fair Trade Certified coffee in 2000. The Starbucks Foundation was also founded in 1997 with a mission to create hope, discovery and opportunity.

For the aspect of the environment, Starbucks purchases renewable wind energy in the amount that represents 20 percent of the total energy it used, offsetting 153 million pounds of carbon dioxide, equivalent to removing 15,042 cars from the road for one year.

Hence, Starbucks was awarded the Green Power Partner of the year award by the EPA in 2006. Starbucks policy for operating stores is also to recycle whenever possible. The rate of recycling maintains at a rate of more than 70% from 2005 to 2007.

However, all these data are gathered from the Starbucks CSR report, are they

really objective enough to reflect the real situation?

In fact, though Starbucks claimed it sells fair-trade coffee in their chains, they sell even more non-fair-trade coffee. Of the approximately 300 million pounds of coffee Starbucks purchased in 2006, only 6 percent was certified as fair trade. The percentage is so small we can argue that Starbucks only made the decision as a marketing move, not born out of true concern for the people who grow their coffee. Another problem is its profit-driven principle. To maximize profit, cost is usually cut by paying employee less. Underpaid and overworked employees joined hands to form the Starbucks Baristas Union.

Concerning the environment, Starbucks is criticized for wasting China's water resources, around 23 million litres of water per day, by allowing tap water at its stores to flow continuously. Starbucks is also criticized for failing to adhere to its Environmental Mission Statement by slipping from industry leader to laggard on Fair Trade.

What do all these criticisms imply? Is Starbucks doing the right thing or is it an evil company trying to trick its customers? You'd be the judge.

HSBC

Hong Kong and Shanghai Banking Corporation is a multinational corporate dedicated to corporate social responsibility. By analyzing HSBC's CSR policy, we can

know what companies may do for CSR; and understand the limitation of CSR policies practiced by companies.

HSBC has a wide range of stakeholders; policies are carried out for the interest of different stakeholders.

Employees

2007 Global People Survey is carried out to gauge the employee engagement level and to find out the expectation of employees. According to Appendix 1, group strategies programmes are offered to raise their working skills. HIV/ AIDS policy is issued for the health of employees.

Clients

In the Sub-prime mortgage crisis in the U.S., HSBC offered counselling on debt restructuring, refinancing and reduced payment terms. More than 4,000 of adjustable-rate mortgage were refinanced into fixed rate mortgages to relieve the burden of the mortgage customers.

Business Partners

HSBC choose socially responsible vendors and purchase green products like recycled papers and sustainable energy, such as purchasing 15% Electricity from green power generated from wind energy in Alberta, Canada in 2007.

Public

Community investment is made to meet the expectation of the public to be a socially responsible corporate. According to Appendix 2, direct donations and involvement of our employees are of significant amount, totaling 117.5 million US dollar in 2007.

Conclusion

To conclude, by developing CSR policies, positive image and high performing employees, two valuable assets, could be obtained by HSBC. HSBC is one of the leading companies around the world.

However, recently, HSBC is cutting down the workforce due to the financial downturn. Also, the sale of Lehman Brothers minibonds shaded shadow on HSBC's image. We can observe the limitation of a company carrying out CSR is still profits. HSBC needs to cut down budget on employees to keep good financial reports. Also, selling minibonds is an act for earning profits from customers. So, we can see that companies can do a lot in CSR as a way to build the two valuable assets mentioned for profits making but on the other hand the practice of CSR is limited to profits making purpose.

B. Women's Worker Cooperative

Not only large scaled companies can help implement ideas of CSR in daily operations, but also the small-scaled. CSR can be commonly found in small-scaled

organizations and interest groups. To cite an example that most of the CUHK staff and students are familiar with, Women's Worker Cooperative is a good example. For a cooperative in general, membership requirements are that a person should be voluntary, no matter what age, sex, religious background, social status, education background, as long as he/she is committed to the responsibilities of being a member.

It has certain operative principles:

- Decision making authority: MEMBER

Democratic system, members are the ones who decide on the objectives and strategies of development, on a "one vote per head" basis.

- Property right: communism

Members receive an amount of wages, after that, the net revenue is added to a fund.

- Prospect and training

The cooperative provides members with education and training, who will, in return, contribute more to the cooperative.

- Mission: Caring for the community

The cooperative is committed to the sustainable development of the community.

Appendix 1 (from 2007 HSBC Sustainability Report, pp28)

Group strategic programmes	Number of participants trained on sustainability 2007
Chairman's Strategic Forum	80
Senior Management Induction Programme	80
Integrated People Management	170
Group Graduate Development Programme	520
Next Generation Development Programme	80
Senior Risk Management Workshop	75
Managing Risk for Growth Workshop	240
Asset and Liability Management Programme	60
Structured Analysis Programme and Advanced Analysis Programme	285
Total	1,620

Appendix 2 (from 2007 HSBC Sustainability Report, pp30)

Breakdown of HSBC's contributions	US\$m
Cash donations	100.9
Employee hours in work time	9.5
Management costs	7.1
Total community investments	117.5