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# Corporate social responsibility – a PR invention?

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## Abstract

Considers the paradoxes inherent in the phrase “corporate social responsibility”. These include procedures of corporate governance, the market’s view of organizations’ ethical stances, the lack of clear definition, acceptance or denial, the lack of formal mechanisms for taking responsibility and the placing and priority that most organizations give to social responsibility. The article concludes that until these paradoxes are properly addressed, corporate social responsibility can legitimately be branded an invention of PR. It can only have real substance if it embraces all the stakeholders of a company, if it is reinforced by changes in company law relating to governance, if it is rewarded by financial markets, if its definition relates to the goals of social and ecological sustainability, if its implementation is benchmarked and audited, if it is open to public scrutiny, if the compliance mechanisms are in place, and if it is embedded across the organization horizontally and vertically.

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The first source of inspiration for approaching this question comes from Mahatma Gandhi’s response to the question “What do you think of Western civilisation” on his first visit to Britain. He replied, “It would be a good idea”.

The second source of inspiration comes from the response of the former Chinese Prime Minister, Chou En-Lai, to a question asking him about the impact of the French Revolution. He replied “It is too early to tell”. Corporate social responsibility goes back almost as far as the French Revolution, at least to the corporate philanthropy of Joseph Rowntree who provided housing and education to the poor in the area of his chocolate factories. But it is too early to make a judgement about its wider impact.

The third source of inspiration is an extra-terrestrial one. Many years ago I saw a very short film produced on behalf of one of the aid agencies about a Martian visiting Planet Earth for the first time. It found itself in a pub talking to someone who tried to explain the concept of “hunger”, a notion that it found difficult to understand. How can one-third of earth’s population be undernourished, with millions dying of starvation every year, when there is more than enough food to feed everyone on this planet? The Martian was clearly a highly intelligent alien, but failed to grasp this concept, which is, after all, the outcome of a complex set of relationships. Hunger cannot be explained merely in physiological terms with regard to a human being’s need to ingest nutrients. It is a political phenomenon relating to systems of power, a sociological phenomenon relating to social structures, and an economic phenomenon relating to laws of supply and demand and the behaviour of markets.

The purpose of this film was to encourage people to think about hunger from a different mindset. Likewise, in considering the question “Is corporate social responsibility an invention of PR?”, perhaps we need the antennae of a Martian in order to appreciate some of the paradoxes.

## Paradoxes behind corporate social responsibility

### Governance of companies

The governance of companies reflects the interests of shareholders but not of other

stakeholders. UK Company Law, for example, offers legal protection for shareholders, but not for any other groups affected by a company's decisions, such as consumers, employees, or communities impacted upon by a company's operations. Corporate social responsibility, however one chooses to define the term, implies that a company is responsible for its wider impact on society. Yet these wider responsibilities are not reflected in the accountabilities of companies with regard to UK Company Law. A number of commissions have been set up during the 1990s to review the governance of companies – The Hampel Commission (Committee on Corporate Governance, 1998) rejected the idea of multiple accountabilities on the basis that “accountability to many is accountability to none”. But so long as the governance of companies reflects the interests of shareholders and not of any other groups in society, how can businesses be socially responsible (apart from a few that occupy niche markets)? A different legal framework would need to be established to accommodate the socially responsible company.

There is some movement in this direction. The DTI have initiated a fundamental review of UK Company Law, but the stakeholder concept is unlikely to be embodied in the new formulation. In fact, for this very reason one of the members of the government-appointed Steering Group set up to oversee this process resigned.

The most recent committee to report on corporate governance was the Turnbull committee, which offered guidance on implementing the Combined Code of the Committee on Corporate Governance (Institute of Chartered Accountants Internal Control Working Party, 1998). The report recommends that companies take into account “environmental, reputation and business probity issues” when considering internal controls. The report has been endorsed by the London Stock Exchange which has written to company secretaries of all listed companies asking them to incorporate reputational issues into their risk management frameworks. This will also be a condition for any company seeking future listing on the London Stock Exchange.

### **Markets do not reward ethical companies**

Companies are driven by market forces and competitive pressures. They are judged by markets primarily according to financial indicators – profits, earnings per share, etc. Board members receive incentives based on these performance indicators. There is no overwhelming evidence that a company's share price is affected by a lack of social responsibility, even when this results in reputational damage. Stock markets are not unduly concerned when a company suffers a reputational crisis, because it is assumed that the crisis will blow over and that the company's underlying profitability will not be affected. If socially responsible behaviour does not feed into a company share price or its profits, what is the incentive for a company's leadership to pursue socially responsible policies? Corporate social responsibility (CSR) can only take root when it is rewarded by the financial markets.

One way to ensure that markets reward ethical companies is to change accounting systems so that companies are audited not just according to their financial performance, but also according to a wide range of environmental and social indicators. When we use the term “bottom line” in relation to the performance of companies, we are referring to financial profit. But imagine that every company was audited according to three bottom lines: financial, environmental and social, so that the auditing system took account of the full impact of a company on society, including its impact on human rights. This is not the realms of fantasy. A well known environmental consultant, John Elkington (1997), has written a book on the subject of the triple bottom line.

Methodologies are now being developed to measure the environmental and social performance of companies. The auditing industry would welcome an accounting system based on three bottom lines – a multi-billion pound industry in the making.

The significance of the triple bottom line is that if companies are audited according to their environmental and social impact, and penalised if they do not perform, along the principle of “the polluter pays”, then financial markets will begin to judge companies according to their wider impact on society. Share prices will then positively reflect the ethical dimensions of a company's operations.

Without a triple bottom line, corporate social responsibility cannot be reinforced by market mechanisms, which means that it simply cannot happen.

### **Lack of clear definition of CSR**

CSR is a vague and intangible term, which can mean anything to anybody, and therefore is effectively without meaning. If CSR was not just an invention of PR then it would have certain characteristics:

- a commonly understood definition (within and across companies);
- a common set of benchmarks to measure the attainment of corporate social responsibility;
- established processes in place to achieve these benchmarks;
- a system of internal auditing;
- a system of external verification by accredited bodies.

Of course the lack of a precise definition reflects the fact that CSR, or corporate citizenship as it is increasingly referred to these days, is an evolving concept, which emerged originally in the Victorian era in the form of paternalistic gestures to consolidate company relationships with particular communities. Some of these gestures, such as Joseph Rowntree's, were genuinely philanthropic. Most CSR is motivated by a desire for an eventual return: a more compliant workforce, the smoother granting of planning permission, more amenable customers, or in the jargon of today's corporate affairs manager "gaining a licence to operate" or "reputational assurance". Contemporary concepts of CSR have moved a long way from genuine philanthropy.

There have been recent attempts to develop benchmarks with regard to certain aspects of CSR. PricewaterhouseCoopers (2000) have developed a "reputational assurance framework", which according to its literature "enables companies to identify, measure and manage their corporate responsibility and accountability processes". The framework includes performance indicators relating to a company's impact on different stakeholders across different fields of activity including human rights. It is available as a self-assessment software package. Shell's Social Accountability Team are currently benchmarking the Universal Declaration of Human Rights, considering which rights

different aspects of their operations might impinge upon and attaching appropriate performance metrics.

A turning point in the recent evolution of CSR has been Shell's partial metamorphosis in this area, following its sobering clash with civil society in 1994–1995. First foiled by Greenpeace in its plans to dispose of the Brent Spar oil platform at sea, then criticised internationally for its oil operations in Nigeria and apparently cosy relations with the military junta, Shell has been forced to rethink its strategy and has diverted enormous resources into responding to non-governmental organisational (NGO) concerns. Shell (2000) was one of the first major UK corporations to produce a social report illustrating its impact on society across a range of dimensions.

A number of other companies are now committed to producing annual social reports. This is a reflection of the inexorable movement towards greater transparency and disclosure. Of course these reports have been widely dismissed by NGOs as "window dressing", "greenwash", a "PR exercise". But the fact that companies are beginning to accept that they have to account in some form for their wider impact on society is a significant step. The methodologies behind these social reports may be poor and their terms of reference self-serving for the company, but the commitment is an important one. As the goalposts of corporate social responsibility continue to move, companies will become more sophisticated in their social reporting. The terms of reference will be more comprehensive, standard methodologies will be developed (e.g. AA1000), and issues of definition, measurement, monitoring and verification will gradually be addressed.

### **Systematic denial of wrongdoing**

A paradox related to the problem of definition is one of "denial". No corporate affairs manager will admit that their company is not socially responsible. Yet social responsibility requires a critical faculty on the part of companies. Any company that aspires to be socially responsible must be prepared to admit to its shortcomings and mistakes. A company that cannot accept that anything it does ever falls short of good corporate citizenship, that does not own up when it breaches its own codes of conduct, cannot have the mechanisms in place to learn and

improve. Yet so many major corporations fall into this category. The way in which companies respond to reputational risks and crises relating to their social and environmental impact is central to the question of whether CSR is an invention of PR or whether it has real substance.

When it comes to putting human rights on the corporate agenda, breaking the barriers of denial that companies have put up becomes a fundamental problem. Denial may take a number of forms:

- Lack of conception of what human rights is.
- Lack of acknowledgement of their responsibility for the human rights impact of their operations.
- Lack of analysis as to how their operations might impinge on human rights, and how they could use their legitimate influence actively to further human rights.

If we were to interview the corporate affairs managers of all the FTSE 100 companies, asking them for their definition of human rights, we would get some wide-ranging answers. Companies tend to subsume human rights within a number of areas:

- (1) Environmental policy.
- (2) Health and safety.
- (3) EOP.
- (4) Community relations.
- (5) Anti-corruption measures.

What most companies appear to be ignoring in adopting entirely self-serving definitions of human rights is the whole development of human rights architecture that has taken place within the United Nations system over the past 50 years. Yet, this architecture embodies widely accepted principles and definitions. Most UN conventions and protocols have been ratified by an overwhelming majority of member states. In the case of ILO conventions, companies have been involved in their drafting. UN declarations, conventions, and protocols are the fundamental building blocks of human rights. There are at least a dozen international treaties, with human rights at their core, which have direct relevance to the operations of companies (Frankental, 2000).

A second aspect of denial on the part of companies is their lack of acknowledgement of responsibility for the human rights impact of their operations. A good example of such

denial is that of a UK-based oil company which operates in Burma. There is documented evidence that forced labour has been used in Burma in the construction of oil pipelines. There is further evidence that communities in the vicinity of the oilfields were forcibly relocated. There is also evidence that on some occasions the wages of workers under contract to oil companies have been sequestered by the Burmese military. Yet this particular oil company claims in its annual report that it is politically neutral. This same company also claims in its annual report that it is a guest in countries where it operates, implying that it has a duty not to offend its host. By perceiving itself to be politically neutral, and a guest, the company is creating a rationale for washing its hands of any responsibility for human rights.

There are many other cases, where companies may have a very negative footprint on society and appear to be doing nothing about it, in the expectation that nobody will notice, especially in remote parts of the world where they may hope that their operations will remain invisible. However, businesses are operating in an increasingly critical world, where their actions are under constant scrutiny by the media and by NGOs. Silence, inaction and denial are likely to be viewed as complicity.

It is when operating in countries where there is a repressive regime or in situations of conflict that companies are often most vulnerable. For example, oil companies operating in Angola are channelling huge payments, known as “signature revenues”, to the Angolan Government, much of which is used to prosecute their war against Unita, the armed opposition. At the same time, the diamond industry, located in Unita-held territory, is channelling funds to Unita in contravention of a UN embargo on the sale of Angolan diamonds. The interests of the diamond and the oil industries in Angola are inextricably linked to opposing political forces in the conflict. The net effect of their investments in Angola is almost certainly a diminution of social capital, in so far as any social benefits resulting from their investment are likely to be offset by their role in providing the warring factions with the resources to maintain their armed conflict. The examples of companies operating in Burma and Angola illustrate that many companies are simply not prepared to acknowledge the human rights

context of their operations when they are operating in areas of conflict and vulnerable to accusations of complicity. The Niger Delta and the Casanare Province of Colombia are further examples of areas of conflict where the role of transnational corporations is widely perceived as contributing to human rights violations.

Another example of denial closer to home is Marks & Spencer. Some three years ago Marks & Spencer were accused in a Granada TV documentary of knowingly benefiting from child labour in Morocco. Their response to these allegations was to sue Granada. They won their case on a technicality. While it was clearly established that child labour was being used in the manufacture of their products, Granada could not prove that Marks & Spencer knew about it (McCann-Fitzgerald, 1988). Marks & Spencer spend tens of millions of pounds each year on management information and quality control systems. If a faulty product was returned to them, they could no doubt trace the source of that fault right the way down their supply chain. Therefore, how can they justify not being able to monitor the working conditions under which their products are manufactured? I simply do not believe it is credible.

The point I am trying to make is that “denial” is a function of crisis management, news management and public relations. It serves as a barrier to corporate social responsibility, which requires openness, transparency, a critical faculty and a willingness to learn lessons from past mistakes.

### **Lack of compliance mechanisms with regard to human rights**

The self-serving notion of the neutrality of companies (in their relationships with repressive regimes and when operating in areas of conflict) is underpinned by the view that states, and states alone, have responsibility for furthering human rights. According to this perspective, the responsibility of companies is limited to compliance with regulations to which they are bound in law. This gives rise to a paradox. The human rights architecture of the United Nations (UN) is part of international law. However, it is states, not companies, which ratify UN conventions and protocols, and which are accountable for compliance. Companies are not legally bound by

international human rights instruments, and therefore, from a legal perspective, companies cannot violate human rights. It is this lack of accountability for the human rights impact of their operations which lets companies off the hook.

In most spheres other than human rights, companies are legally accountable for their activities, and have put into place a strong compliance framework which cuts across many functions. The commitment of companies to complying with laws and regulatory systems is underpinned by the role of the company secretary, the company solicitor, the equal opportunities officer, and internal auditors.

The key point here is that companies are accustomed to setting up compliance mechanisms in relation to a whole raft of regulatory requirements. But there are certain aspects of corporate social responsibility where there is no compliance framework in place because there are no laws that companies are bound to comply with. Will companies begin to set up compliance frameworks to comply with international standards which are not the subject of national law? It could be argued that this is the function of the voluntary codes of conduct which many companies are adopting.

### **Location of CSR on the periphery of the corporate structure**

An indicator of the real value that companies attach to CSR is where they locate this function within the organisational structure. It is usually located within external affairs, corporate affairs or community affairs. In other words, it is seen as an adjunct of PR, a function of a company's external relationships, a peripheral activity, not something that needs to be embedded across the organisation horizontally and vertically.

If we consider what it is that community affairs departments actually do, we are left with a model of social responsibility that is limited to participating in social and economic regeneration initiatives and supporting the work of charities and voluntary bodies operating within the LTK and overseas. The purpose of PR in this context is to ensure that companies receive recognition for their involvements in the community and for their role as “good corporate citizens”. It is not a coincidence that the concept of “cause-related marketing” has taken off in recent

years as companies realise that there is mileage in linking their name to a good cause. While it is legitimate for companies to use “cause-related marketing” as a means of improving their branding and positioning, does this amount to corporate social responsibility? Not in my view because CSR is about a company’s long-term footprint on society. It is about the extent to which a company is prepared to examine and improve its impact on all those affected by its activities and to view its long-term reputation within the context of the social and ecological sustainability of its operations.

So in answer to our original question, “Is corporate social responsibility an invention of PR?”, my conclusion is that corporate social responsibility is an invention of PR, and will remain so, until the paradoxes which I have outlined are addressed. This means that CSR can only have real substance if it embraces all the stakeholders of a company, if it is reinforced by changes in company law relating to governance, if it is rewarded by financial markets, if its definition relates to the goals of social and ecological sustainability, if

its implementation is benchmarked and audited, if it is open to public scrutiny, if the compliance mechanisms are in place, and if it is embedded across the organisation horizontally and vertically.

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