



## CENTRE FOR INTERNATIONAL AND DEFENCE POLICY

### BRIEFING NOTE

### FOR INFORMATION

**SUBJECT:** Defining Corporate Social Responsibility

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#### **PART I: Definitions**

##### Three Dimensional Aspects of Corporate Social Responsibility<sup>1</sup>

1. Economic
  - Understanding the economic impacts of the company's operations
  - Consider the direct and indirect economic impacts that the organization's operations have on the surrounding communities and stakeholders
2. Social
  - Being accountable for the social effects the company has on people, both directly and indirectly
  - Management's obligation to make choices and take actions that will contribute to the well-fare and interests of society as well as those of the organization
3. Environmental/Ecological aspects
  - Environmental and ecological issues create a new business reality in which corporations must act within
  - To act sustainably and not further damage or harm the environment in its business

##### Types of Corporate Social Responsibility<sup>2</sup>

This four-part framework provides the various responsibilities that society expects businesses to assume. Each responsibility is but one part of the total social responsibility of business, giving us a definition that more completely describes what it is that society expects of business. This model is intended for academic aid to perceive the distinction among definitions of social responsibility. For a definition of social responsibility to address the obligation business has to society, it must embody: economic, legal, ethical, and philanthropic categories of business performance.

*Economic Responsibilities:* the economic nature of a business puts profit-making to shareholders as its first priority in order to pay employees, taxes, and etc. The corporation is the economic unit of society to produce goods and services that society wants, all other roles are predicated on this fundamental assumption

*Legal Responsibilities:* the corporation must adhere to labour, tax, and other

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<sup>1</sup> Uddin, Mohammed Belal Uddin, Md. Riad Hassan and Kazi Md. Marique. "Three Aspects of Corporate Social Responsibility", *Daffodil International University Journal of Business and Economic*, 3, no. 1 (2008): 199-212. Retrieved from <http://www.kantakji.com/media/3450/z111.pdf>.

<sup>2</sup> Carroll, Archie. "A Three-Dimensional Conceptual Model of Corporate Performance", *Academy of Management Review*, 4 (4): 497-505. Retrieved from: <http://www.jstor.org/stable/257850>.

applicable laws and regulations

*Ethical Responsibilities:* after meeting legal responsibilities, it has ethical responsibilities such as higher wages, better benefits, avoiding trade with unscrupulous companies, and etc.

*Philanthropic Responsibilities:* After economic, legal, and ethical responsibilities - ex. donating to charity, building children's hospital, etc.

## **PART II: Cases<sup>3</sup>**

There are two models of conducting CSR: the "American" or "European" way. The latter focuses on "people, profit, and planet, combined with a multi-stakeholder dialogue". The former focuses on corporate branding and philanthropy. To better understand these two models, South Africa can be looked at as a case that practices the American way. While, the Netherland's can better understand the European way.

### South Africa: The American Way

The South African government regulates CSR-related activities. The 'mining charter' is a way to ensure that when mining companies do not comply with legislation, they lose their mining permits and will have to shut down. The mining charter states, "the mining industry must promote employment and advance social and economic welfare of mining community and the major sending areas".<sup>4</sup>

The Black Economic Empowerment (BEE) Institute is an organization that consults companies on CSR implementation policies and legislation in business strategies. They are seen as one of the main CSR drivers in South Africa. The BEE approach embraces two distinct contents within the concept of CSR (an umbrella approach) that consists of both CSI and SED.

- 1st. **Corporate Social Responsibility (CSR)** is the deliberate inclusion of public interest into corporate decision-making;
- 2nd. **Corporate Social Investment (CSI)** is the investment into sustainable social projects or schemes with the aim of realizing a return on investments, including branding and community health;
- 3rd. **Socio-Economic Development (SED)** creates sustainable access to the economy for benefits. This includes skill development and workplace readiness programs.

Institutions mention their involvement in CSI using third party initiatives, thus making use of the 'American' CSR approach. Companies that manufacture their products in South Africa and own plants themselves are highly active in the CSI sector. Their CSR practices put emphasis on social investments. Mentioned examples of CSI-investments are HIV/AIDS-projects, houses and schools, and projects aimed at increasing living circumstances in the communities that are surrounding the companies, typically in underdeveloped areas.

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<sup>3</sup> Jelle, Postma. "Making Business Sustainable: Corporate Social Responsibility in South Africa: A research on the promotion of CSR in South African business life" *The Royal Embassy of the Netherlands* (2011): 3. Retrieved from [http://essay.utwente.nl/61793/1/BSc\\_J\\_Postma.pdf](http://essay.utwente.nl/61793/1/BSc_J_Postma.pdf).

<sup>4</sup> Mlungiseleli Shakespeare James. "Impact Study of Impala Platinum Corporate Social Responsibility (CSR) Programme: Marula Chrome Project." Dissertation Submitted to Stellenbosch University's Master of Business Administration. (2012). Retrieved from <http://scholar.sun.ac.za/handle/10019.1/95585>.

Organizations that represent the CSR consultancy sector underlined the grave importance of the shift from CSI towards SED. It is argued that CSI investments are often made in a non-sustainable way and are quite often used as window dressing in order to comply with legal requirements. Companies should be aware that in order to create a sustainable South African market with wealthy consumers, sustainable access to the economy should be created for the historically disadvantaged. Skill development and workplace access are the most important practices in order to create this economical access.<sup>5</sup>

#### Netherlands: The European Way

The European approach aims at sustainable operations in the core of the business, combined with community investment and a two-way stakeholder dialogue. The definition given by the European Commission in the Green Paper defines CSR as: “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis”. From this definition, CSR is functioning as a voluntary intermediating factor between business and society.<sup>6</sup> An institutional analysis is presented by Welford and shows that when comparing the USA to Europe, the USA uses a model with more focus on philanthropy, whereas European companies generally aim more at sustainable operations in the core of the business combined with community investment and stakeholder dialogue.<sup>7</sup>

CSR Netherlands is an organization and knowledge center that uses an approach towards CSR for business life, society, and government institutions. CSR is described in the 2010 coalition agreement by government states that companies themselves are responsible for CSR – European approach here focuses on embedding CSR in the business core and stakeholder management, with little attention to corporate philanthropy. Companies that embrace the ‘European’ way of CSR are found in the mining, governmental, trade and educational sectors. When using this ‘approach in business, companies do not only invest money in third party activities, but also try to make their own business sustainable by paying attention to ‘people, profit, and planet’. This approach does not only try to meet legal requirements, but also tries to create sustainability by using a multi-stakeholder dialogue. Employee development is often mentioned as an example of CSR. Furthermore, most companies support skill development programs and education.

#### The American model v. The European model

The most important similarities between both countries are the policy focus points and governmental CSR awareness. Both governments have developed and updated CSR policies over the last decade and are trying to support economic sustainability through CSR. The institutional contexts differ highly from each other. The most important differences for the governments are the actual approaches towards CSR. Where the South African government is highly involved in developing CSR policies and legislation, the Dutch fulfills a more supporting role. Dutch business life focuses mostly on CSR in business processes and business sustainability, whereas

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<sup>5</sup> Jelle, Postma. “Making Business Sustainable: Corporate Social Responsibility in South Africa: A research on the promotion of CSR in South African business life”, 22-23.

<sup>6</sup> Ibid., 10-11.

<sup>7</sup> Ibid., 14.

South African companies tend to invest in CSI and make use of CSR for marketing purposes. There are many differences between both countries in the institutional context: the Netherlands scores higher on all social CSR-related aspects. The level of public-private cooperation is also higher in the Netherlands. South African companies often support public sectors where the government has capacity gaps.<sup>8</sup>

### **PART III: Security Dimension**

Under the three aspects of CSR, security falls under the ‘Social’ characteristic, meaning the company is accountable for its direct or indirect effects on people and society. Additionally, under the types of CSR, security falls under the ‘Legal’ and/or ‘Ethical’ responsibilities. Applicable laws and regulations may bind the company and oblige them to ensure a person’s security. Furthermore, ethical responsibility is taken on by the company through initiatives to avoid or increase the well-being of society, especially ones operating in complex environments, so they do not contribute to human insecurity of the region.

One of the three pillars of the “protect, respect, and remedy” framework relies on “the corporate responsibility to respect human rights, which in essence means to act with due diligence to avoid infringing on the rights of others”.<sup>9</sup> Conversely, issues surrounding the clash between security and human rights are concrete. The Business Leaders Initiative on Human Rights<sup>10</sup> has developed a Human Rights Matrix covering the following areas:

- a) General Obligations
- b) Right to equal opportunity and non-discriminatory treatment
- c) *Right to security in persons*
- d) Rights of workers
- e) Respect for national sovereignty and human rights
- f) Obligations with regard to consumer protection
- g) Obligations with regard to environmental protection
- h) General provisions of implementation

The official position of Foreign Affairs Canada (2006) is that Canadian corporate social responsibility abroad, with respect to human security, is to work with private and non-governmental sectors to promote and reflect international norms and standards in overseas operations.<sup>11</sup> However, relying on corporations to self-regulate generates a deficit in accountability that could have consequences for the human security agenda and national

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<sup>8</sup> Jelle, Postma. “Making Business Sustainable: Corporate Social Responsibility in South Africa: A research on the promotion of CSR in South African business life”, 24-27.

<sup>9</sup> John Ruggie, “Business and human rights: Towards operationalizing the ‘protect, respect and remedy’ framework” *Report to the Human Rights Council* (2009): 3.

<sup>10</sup> UN Global Compact, “A Guide for Integrating Human Rights into Business Management” *UN Business Leaders Initiatives on Human Rights*. Retrieved from <http://www.ohchr.org/Documents/Publications/GuideHRBusinessen.pdf>.

<sup>11</sup> Kyle Grayson, “Promoting Responsibility and Accountability: Human Security and Canadian Corporate Conduct,” *International Journal* 61, no. 2 (2006): 479. Retrieved from <http://www.jstor.org/stable/pdf/40204170.pdf>.

interests. Corporate activities that contribute to human security may not yet register as an enduring issue with the Canadian public.<sup>12</sup>

Ultimately, the meaning behind CSR is complex. There are many diverging understandings of what it means for a corporation to be socially responsible. Depending on what the company does and what its products and services are, its interests and priorities may differ. Looking at the two models, American and European, it sheds light on how companies incorporate CSR, trying to benefit society and themselves. Moreover, security is an important issue that further adds to CSR's complex nature. The security dimension includes primarily human security, human rights, and being free from threat of danger by a company's direct or indirect influence.

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<sup>12</sup> Kyle Grayson, "Promoting Responsibility and Accountability: Human Security and Canadian Corporate Conduct," 480.