Key operations questions

Chapter 21

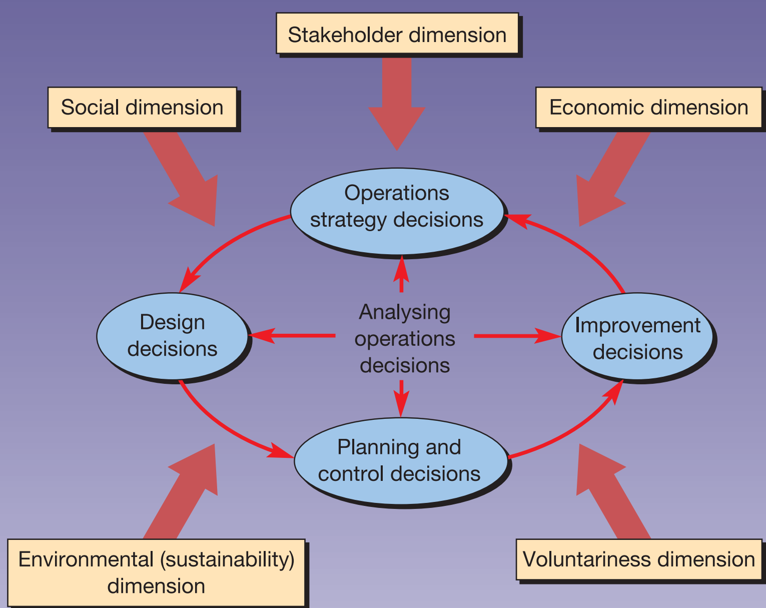
Operations and corporate social responsibility (CSR)

- What is corporate social responsibility?
- How does the wider view of corporate social responsibility influence operations management?
- How can operations managers analyse CSR issues?

Part Five

CORPORATE SOCIAL RESPONSIBILITY

The ultimate test for any operations manager is whether he or she can develop an operation which meets the challenges and decisions that lie ahead for the organization. In the preceding 20 chapters, we have outlined many of these challenges and decisions, and placed them in the context of the nature and purpose of operations management. In this final part of the book we examine an issue that is far wider than operations management, but with which operations management is intimately connected – corporate social responsibility (CSR). It is important to operations management because, of all the functions of any organization, it is operations management which can have the most practical impact on its CSR performance.



Chapter 21 Operations and corporate social responsibility (CSR)

Key questions

- ➤ What is corporate social responsibility?
- ➤ How does the wider view of corporate social responsibility influence operations management?
- ➤ How can operations managers analyse CSR issues?

Introduction

Operations managers make many decisions, some seemingly trivial, others more long-term and strategic. They also face many new challenges as the economic, social, political and technological environment changes. Many of these decisions and challenges seem largely economic in nature. What will be the impact on our costs of adding a new product or service feature? Can we generate an acceptable return if we invest in new technology? Other decisions have more of a 'social' aspect. How do we make sure that all our suppliers treat their staff fairly? Are we doing enough to reduce our carbon footprint? Yet the 'economic' decisions also have a 'social' aspect to them. Will a new product feature make end-of-life recycling more difficult? Will the new technology increase pollution? Similarly the 'social' decisions must be made in the context of their economic consequences. Sure, we want suppliers to treat staff well and, OK, we want to reduce our environmental impact, but we also need to make a profit. And this is the great dilemma of CSR. How do operations managers try to be, simultaneously, economically viable and socially responsible? It is a huge and, arguably, unsolvable issue, and in this chapter we can only skim some of the issues. Yet it is an important (some would say the most important) issue, and no treatment of operations management should ignore it. Figure 21.1 illustrates the CSR issues covered in this chapter.

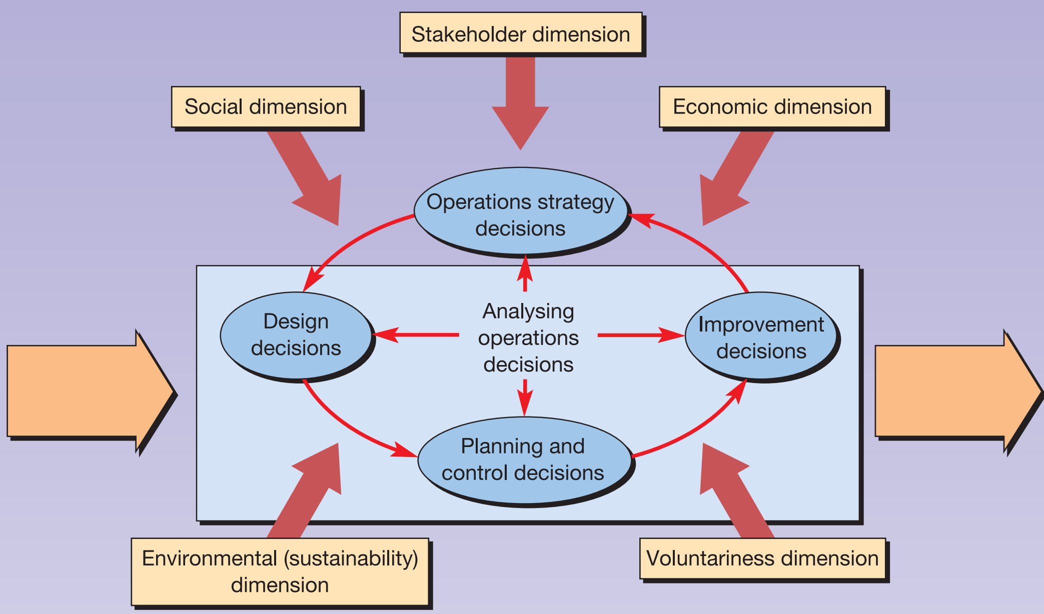


Figure 21.1 The five 'dimensions' of CSR for operations managers

What is corporate social responsibility?


Source: Rex Features

Although operations management is seen by some as being concerned largely with the routine aspects of business, it is in fact at the very forefront of almost all the new challenges to business practice. This is because whether it is new technologies, new approaches to organizing resources, changing market and environmental circumstances, changing regulatory frameworks, or shifts in how society views business practices, operations will have to understand the consequences of these changes and respond to them. That is why it is useful to reflect on current and future trends and how they will impact on operations management in practice. Of course, we could pick any number of issues that may become more important in the future and examine how operations management will have to respond. By definition, the future is unknown, so who knows what will be important in the future? However, one issue in particular has risen to the top of the list of things that concern many, if not most, businesses, regulatory authorities, governments and citizens generally. That issue is 'how should the relationship between business and wider society be viewed, assessed and (if possible) managed?' This issue is generally referred to as **corporate social responsibility** or simply CSR.

Corporate social responsibility

Defining CSR

Surprisingly, for such an important topic, there is no universally accepted definition of CSR. Here are just some that give a flavour of how CSR is seen.

> *'CSR is the business contribution to our sustainable development goals. Essentially it is about how business takes account of its economic, social and environmental impacts in the way it operates – maximizing the benefits and minimizing the downsides. Specifically, we see CSR as the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society.'* (UK Government)

> *'Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.'*[1]

> *'Corporate Social Responsibility . . . is listening and responding to the needs of a company's stakeholders. This includes the requirements of sustainable development. We believe that building good relationships with employees, suppliers and wider society is the best guarantee of long-term success. This is the backbone of our approach to CSR.'*[2]

> *'CSR is a company's commitment to operating in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders.'*[3]

> *'[Our vision is to] . . . enable the profitable and responsible growth of our airports. One of our six strategies to achieve that purpose is to earn the trust of our stakeholders. Corporate*

Table 21.1 The five dimensions and example phrases

The 'dimensions' of CSR	*What the definition refers to*	*Typical phrases used in the definition*
The environmental dimension	The natural environment and 'sustainability' of business practice	'a cleaner environment' 'environmental stewardship' 'environmental concerns in business operations'
The social dimension	The relationship between business and society in general	'contribute to a better society' 'integrate social concerns in their business operations' 'consider the full scope of their impact on communities'
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of its impact on the business operation	'preserving the profitability' 'contribute to economic development'
The stakeholder dimension	Considering all stakeholders or stakeholder groups	'interaction with their stakeholders' 'how organizations interact with their employees, suppliers, customers and communities' 'treating the stakeholders of the firm'
The voluntariness dimension	Actions not prescribed by law. Doing more that you have to.	'based on ethical values' 'beyond legal obligations' 'voluntary'

responsibility is about how we manage our social and environmental impacts as part of our day to day business, in order to earn that trust.'[4]

'CSR is about how companies manage the business processes to produce an overall positive impact on society.'[5]

'Corporate social responsibility is the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development.'[6]

'CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.'[7]

Although there are so many definitions, according to Alexander Dahlsrud of the Norwegian University of Science and Technology[8] almost all of them involve five 'dimensions' of CSR, as shown in Table 21.1. We will use these dimensions, first to explore CSR in general and, second, to explore the role of operations management specifically in CSR.

The whole topic of CSR is also rising up the corporate agenda. Figure 21.2 shows how one survey of executives saw the progressive prioritization of CSR issues.

The environmental (sustainability) dimension of CSR

Environmental sustainability (according to the World Bank) means 'ensuring that the overall productivity of accumulated human and physical capital resulting from development actions more than compensates for the direct or indirect loss or degradation of the environment', or (according to the Brundtland Report from the United Nations) it is 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'. Put more directly, it is generally taken to mean the extent to which business activity negatively impacts on the natural environment. It is clearly an important issue, not only because of the obvious impact on the immediate environment of hazardous waste, air and even noise pollution, but also because of the less obvious, but potentially far more damaging issues around global warming.

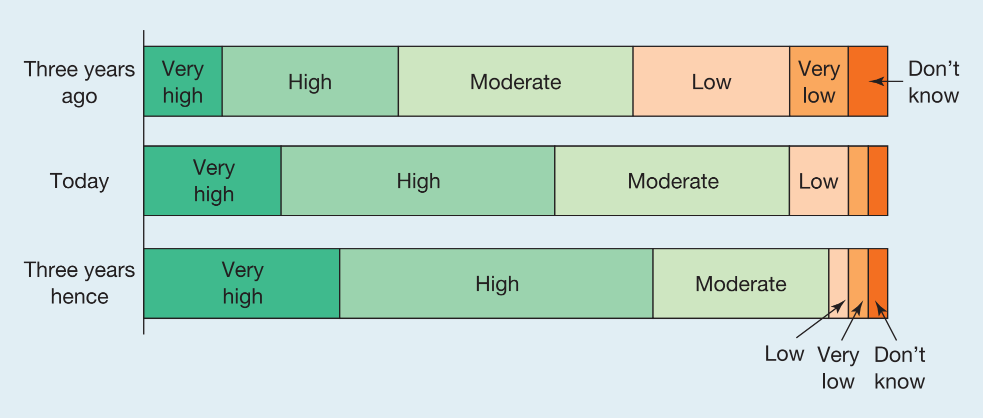


Figure 21.2 How executives view the importance (degree of priority) of corporate responsibility

Data from the Economist Intelligence Unit, Global Business Barometer, Nov–Dec 2007

From the perspective of individual organizations, the challenging issues of dealing with sustainability are connected with the scale of the problem and the general perception of 'green' issues. First, the scale issue is that cause and effect in the environmental sustainability area are judged at different levels. The effects of, and arguments for, environmentally sustainable activities are felt at a global level, while those activities themselves are essentially local. It has been argued that it is difficult to use the concept at a corporate or even at the regional level. Second, there is a paradox with sustainability-based decisions. It is that the more the public becomes sensitized to the benefits of firms acting in an environmentally sensitive way, the more those firms are tempted to exaggerate their environmental credentials, the so-called 'greenwashing' effect.

One way of demonstrating that operations, in a fundamental way, is at the heart of environmental management is to consider the total environmental burden (EB) created by the totality of operations activities:[9]

$$\mathrm{EB} = P \times A \times T$$

where

P = the size of the population
A = the affluence of the population (a proxy measure for consumption)
T = technology (in its broadest sense, the way products and services are made and delivered, in other words operations management)

Achieving sustainability means reducing, or at least stabilizing, the environmental burden. Considering the above formula, this can only be done by decreasing the human population, lowering the level of affluence and therefore consumption, or changing the technology used to create products and services. Decreasing population is not feasible. Decreasing the level of affluence would not only be somewhat unpopular, but would also make the problem worse because low levels of affluence are correlated with high levels of birth rate. The only option left is to change the way goods and services are created.

Short case
Ecological footprints[10]

To supply the average person's basic needs in the United States, it takes 12.2 acres of land. In the Netherlands it takes 8 acres, and in India it takes 1 acre. Calculated this way, the Dutch ecological footprint covers 15 times the area of the Netherlands. India's ecological footprint is 1.35 of its area. Most dramatically, if the entire world lived like North Americans, it would take three planet earths to support the present world population.

The social dimension of CSR

The fundamental idea behind the social dimension of CSR is not simply that there is a connection between businesses and the society in which they operate (defined broadly) – that is self-evident. Rather it is that businesses should accept that they bear some responsibility for the impact they have on society and balance the external 'societal' consequences of their actions with the more direct internal consequences, such as profit.

Society is made up of organizations, groups and individuals. Each is more than a simple unit of economic exchange. Organizations have responsibility for the general well-being of society beyond short-term economic self-interest. At the level of the individual, this means devising jobs and work patterns which allow individuals to contribute their talents without undue stress. At a group level, it means recognizing and dealing honestly with employee representatives. This principle also extends beyond the boundaries of the organization. Any business has a responsibility to ensure that it does not knowingly disadvantage individuals in its suppliers or trading partners. Businesses are also a part of the larger community, often integrated into the economic and social fabric of an area. Increasingly, organizations are recognizing their responsibility to local communities by helping to promote their economic and social well-being. And of the many issues that affect society at large, arguably the one that has had the most profound effect on the way business has developed over the last few decades has been the globalization of business activity.

Globalization

The International Monetary Fund defines globalization as 'the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free international capital flows, and more rapid and widespread diffusion of technology'. It reflects the idea that the world is a smaller place to do business in. Even many medium-sized companies are sourcing and selling their products and services on a global basis. Considerable opportunities have emerged for operations managers to develop both supplier and customer relationships in new parts of the world. All of this is exciting but it also poses many problems. **Globalization** of trade is considered by some to be the root cause of exploitation and corruption in many developing countries. Others see it as the only way of spreading the levels of prosperity enjoyed by developed countries throughout the world.

Globalization

The ethical globalization movement seeks to reconcile the globalization trend with how it can impact on societies. Typical aims include the following:

- Acknowledging shared responsibilities for addressing global challenges and affirming that our common humanity doesn't stop at national borders.
- Recognizing that all individuals are equal in dignity and have the right to certain entitlements, rather than viewing them as objects of benevolence or charity.
- Embracing the importance of gender and the need for attention to the often different impacts of economic and social policies on women and men.
- Affirming that a world connected by technology and trade must also be connected by shared values, norms of behaviour and systems of accountability.

The economic dimension of CSR

If business could easily adopt a more CSR-friendly position without any economic consequences, there would be no debate. But there are economic consequences to taking socially responsible decisions. Some of these will be positive, even in the short term. Others will be negative in the sense that managers believe that there is a real cost in the short term (to their companies specifically). Investment in CSR is a short-term issue, whereas payback from the investment may (possibly) be well into the future, although this is no different from other business investment, except for the uncertain payback and timescale. But also, investment is made largely by the individual business, whereas benefits are enjoyed by everyone (including competitors). Yet the direct business benefits of adopting a CSR philosophy are becoming more obvious as public opinion is more sensitized to business's CSR behaviour. Similarly, stock market investors are starting to pay more attention. According to Geoffrey Heal of Columbia Business School, some stock market analysts, who research the investment potential of companies' shares, have started to include environmental, social and governance issues into their stock valuations. Further, $1 out of every $9 under professional management in America now involves an element of '**socially responsible investment**'.[11]

Socially responsible investment

The stakeholder dimension of CSR

In Chapter 2 we looked at the various stakeholder groups from whose perspective operations performance could be judged. The groups included shareholders, directors and top management, staff, staff representative bodies (e.g. trade unions), suppliers (of materials, services, equipment, etc.), regulators (e.g. financial regulators), government (local, national, regional), lobby groups (e.g. environmental lobby groups), and society in general. In Chapter 16 we took this idea further in the context of project management (although the ideas work throughout operations management) and examined how different stakeholders could be managed in different ways. However, two further points should be made here. The first is that a basic tenet of CSR is that a broad range of stakeholders should be considered when making business decisions. In effect, this means that purely economic criteria are insufficient for a socially acceptable outcome. The second is that such judgements are not straightforward. While the various stakeholder groups will obviously take different perspectives on decisions, their perspective is a function not only of their stakeholder classification, but also of their cultural background. What might be unremarkable in one country's or company's ethical framework could be regarded as highly dubious in another's. Nevertheless, there is an emerging agenda of ethical issues to which, at the very least, all managers should be sensitive.

The voluntary dimension of CSR

In most of the world's economies, regulation requires organizations to conform to CSR standards. So, should simply conforming to regulatory requirements be regarded as CSR? Or should social responsibility go beyond merely complying with legally established regulations? In fact most authorities on CSR emphasize its voluntary nature. But this idea is not uncontested. Certainly some do not view CSR as *only* a voluntary activity. They stress the need for a mixture of voluntary and regulatory approaches. Globally, companies, they say, have, in practice, significant power and influence, yet 'their socially responsible behaviour does not reflect the accountability they have as a result of their size. Fifty-one of the largest 100 global economies are corporations . . . so . . . corporate power is significantly greater than those of most national governments and plays a dominant role in sectors that are of significance for national economies, especially of developing countries, which may be dependent on a few key sectors.'[12]

How does the wider view of corporate social responsibility influence operations management?

The concept of corporate social responsibility permeates operations management. Almost every decision taken by operations managers and every issue discussed in this book influences, and is influenced by, the various dimensions of CSR. In this section we identify and illustrate just some of the operations topics that have a significant relationship with CSR. We shall again use the five 'dimensions' of CSR.

Operations and the environmental dimension of CSR

Environmental protection

Operations managers cannot avoid responsibility for **environmental protection** generally, or their organization's environmental performance more specifically. It is often operational failures which are at the root of pollution disasters and operations decisions (such as product design) which impact on longer-term environmental issues. The pollution-causing disasters which make the headlines seem to be the result of a whole variety of causes – oil tankers run aground, nuclear waste is misclassified, chemicals leak into a river, or gas clouds drift over industrial towns. But in fact they all have something in common. They were all the result of an operational failure. Somehow operations procedures were inadequate. Less dramatic in the short term, but perhaps more important in the long term, is the environmental impact of products which cannot be recycled and processes which consume large amounts of energy – again, both issues which are part of the operations management's broader responsibilities.

Short case
HP's recycling program[13]

HP (Hewlett-Packard) provides technology solutions to consumers and businesses all over the world. Its recycling program seeks to reduce the environmental impact of its products, minimize waste going to landfills by helping customers discard products conveniently in an environmentally sound manner. Recovered materials, after recycling, have been used to make products, including auto body parts, clothes hangers, plastic toys, fence posts, and roof tiles. In 2005 it proudly announced that it had boosted its recycling rate by 17% in 2005, to a total of 63.5 million kilograms globally, the equivalent weight of 280 jumbo airliners. *'HP's commitment to environmental responsibility includes our efforts to limit the environmental impact of products throughout their life cycles'*, said David Lear, vice president, Corporate, Social and Environmental Responsibility, HP. *'One way we achieve this is through developing and investing in product return and recycling programs and technologies globally, giving our customers choices and control over how their products are managed at end of life.'*

But HP's interest in environmental issues goes back some way. It opened its first recycling facility in Roseville, California, in 1997, when it was the only major computer manufacturer to operate its own recycling facility. Now the company's recycling program goal is to expand its product return and recycling program and create new ways for customers to return and recycle their electronic equipment and print cartridges. As well as being environmentally responsible, all initiatives have to be convenient for customers if they are to be effective. For example, HP began a free hardware recycling service for commercial customers in EU countries who purchase replacement HP products, in advance. Partly, this reflects the EU Waste Electrical and Electronic Equipment Directive. A similar offer exists for HP commercial customers in the Asia Pacific region. In some parts of the world, HP has developed partnerships with retailers to offer free recycling at drop-off events.

Source: Awe Inspiring Images/Photographers Direct

Again, it is important to understand that broad issues such as environmental responsibility are intimately connected with the day-to-day decisions of operations managers. Many of these are concerned with waste. Operations management decisions in product and service design significantly affect the utilization of materials both in the short term and in long-term recyclability. Process design influences the proportion of energy and labour that is wasted as well as materials wastage. Planning and control may affect material wastage (packaging being wasted by mistakes in purchasing, for example), but also affects energy and labour wastage. Improvement, of course, is dedicated largely to reducing wastage. Here environmental responsibility and the conventional concerns of operations management coincide. Reducing waste, in all it forms, may be environmentally sound but it also saves cost for the organization.

At other times, decisions can be more difficult. Process technologies may be efficient from the operations point of view but may cause pollution, the economic and social consequences of which are borne by society at large. Such conflicts are usually resolved through regulation and legislation. Not that such mechanisms are always effective – there is evidence that just-in-time principles applied in Japan may have produced significant economic gains for the companies which adopted them, but at the price of an overcrowded and polluted road system. Table 21.2 identifies some of the issues concerned with environmental responsibility in each of the operations management decision areas. Figure 21.3 illustrates how one set of operations managers studied the reduction in the wastage of materials and energy, as well as the external environmental impact of their packaging policies.

Table 21.2 Some environmental considerations of operations management decisions

Decision area	*Some environmental issues*
Product/service design	Recyclability of materials Energy consumption Waste material generation
Network design	Environmental impact of location Development of suppliers in environmental practice Reducing transport-related energy
Layout of facilities	Energy efficiency
Process technology	Waste and product disposal Noise pollution Fume and emission pollution Energy efficiency
Job design	Transportation of staff to/from work Development in environmental education
Planning and control (including MRP, JIT and project planning and control)	Material utilization and wastage Environmental impact of project management Transport pollution of frequent JIT supply
Capacity planning and control	Over-production waste of poor planning Local impact of extended operating hours
Inventory planning and control	Energy management of replenishment transportation Obsolescence and wastage
Supply chain planning and control	Minimizing energy consumption in distribution Recyclability of transportation consumables
Quality planning and control and TQM	Scrap and wastage of materials Waste in energy consumption
Failure prevention and recovery	Environmental impact of process failures Recovery to minimize impact of failures

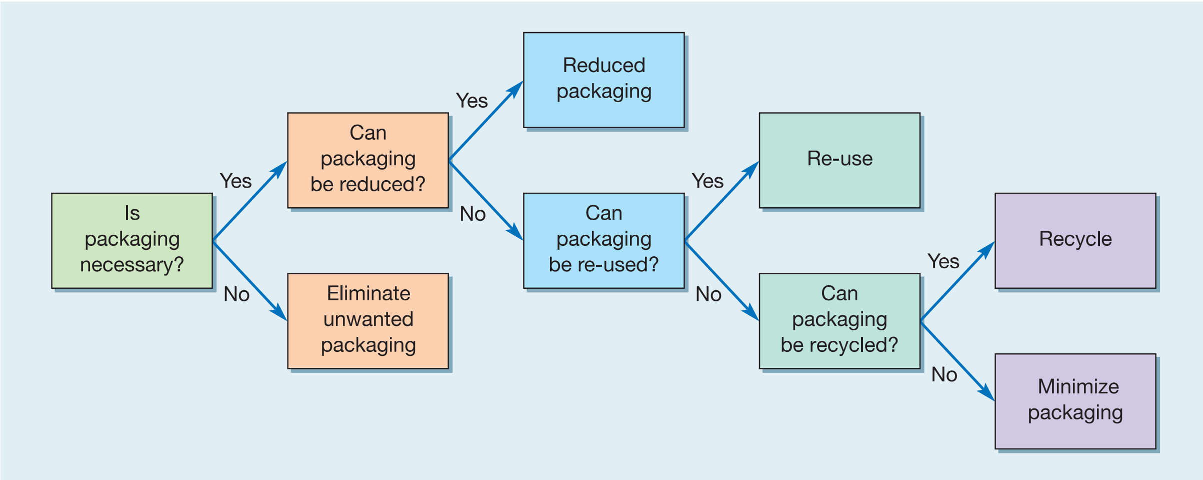


Figure 21.3 Identifying waste minimization in packaging

Green reporting[14]

Environmental reporting

Until recently, relatively few companies around the world provided information on their environmental practices and performance. Now **environmental reporting** is increasingly common. One estimate is that around 35 per cent of the world's largest corporations publish reports on their environmental policies and performance. Partly, this may be motivated by an altruistic desire to cause less damage to the planet. However, what is also becoming accepted is that green reporting makes good business sense.

ISO 14000

ISO 14000

Another emerging issue in recent years has been the introduction of the **ISO 14000** standard. It has a three-section environmental management system which covers initial planning, implementation and objective assessment. Although it has had some impact, it is largely limited to Europe.

ISO 14000 makes a number of specific requirements, including the following:

- a commitment by top-level management to environmental management;
- the development and communication of an environmental policy;
- the establishment of relevant and legal and regulatory requirements;
- the setting of environmental objectives and targets;
- the establishment and updating of a specific environmental programme, or programmes, geared to achieving the objectives and targets;
- the implementation of supporting systems such as training, operational control and emergency planning;
- regular monitoring and measurement of all operational activities;
- a full audit procedure to review the working and suitability of the system.

The ISO 14000 group of standards covers the following areas:

- Environmental Management Systems (14001, 14002, 14004)
- Environmental Auditing (14010, 14011, 14012)
- Evaluation of Environmental Performance (14031)
- Environmental Labelling (14020, 14021, 14022, 14023, 14024, 14025)
- Life-cycle Assessment (14040, 14041, 14042, 14043).

Critical commentary

The similarity of ISO 14000 to the quality procedures of ISO 9000 is a bit of a giveaway. ISO 14000 can contain all the problems of ISO 9000 (management by manual, obsession with procedures rather than results, a major expense to implement it, and, at its worst, the formalization of what was bad practice in the first place). But ISO 14000 also has some further problems. The main one is that it can become a 'badge for the smug'. It can be seen as 'all there is to do to be a good environmentally sensitive company'. At least with quality standards like ISO 9000 there are real customers continually reminding the business that quality does matter. Pressures to improve environmental standards are far more diffuse. Customers are not likely to be as energetic in forcing good environmental standards on suppliers as they are in forcing the good-quality standards from which they benefit directly. Instead of this type of procedure-based system, surely the only way to influence a practice which has an effect on a societal level is through society's normal mechanism – legal regulation. If quality suffers, individuals suffer and have the sanction of not purchasing goods and services again from the offending company. With bad environmental management, we all suffer. Because of this, the only workable way to ensure environmentally sensitive business policies is by insisting that our governments protect us. Legislation, therefore, is the only safe way forward.

Operations and the social dimension of CSR

The way in which an operation is managed has a significant impact on its customers, the individuals who work for it, the individuals who work for its suppliers and the local community in which the operation is located. The dilemma is how can operations be managed to be profitable, responsible employers and be good neighbours? As in the previous section we will look particularly at globalization, primarily because the world is a smaller place: very few operations do not either source from or sell to foreign markets. So, how do operations managers cope with this expanded set of opportunities?

Globalization and operations decisions

Most of the decision areas we have covered in this book have an international dimension to them. Often this is simply because different parts of the world with different cultures have different views on the nature of work. So, for example, highly repetitive work on an assembly line may be unpopular in parts of Europe, but it is welcome as a source of employment in other parts of the world. Does this mean that operations should be designed to accommodate the cultural reactions of people in different parts of the world? Probably. Does this mean that we are imposing lower standards on less wealthy parts of the world? Well, it depends on your point of view. The issue, however, is that cultural and economic differences do impact on the day-to-day activities of operations management decision-making.

Ethical globalization

If all this seems at too high a level for a humble subject like operations management, look at Table 21.3 and consider how many of these issues have an impact on day-to-day decision-making. If a company decides to import some of its components from a Third World country, where wages are substantially cheaper, is this a good or a bad thing? Local trade unions might oppose the 'export of jobs'. Shareholders would, presumably, like the higher profits. Environmentalists would want to ensure that natural resources were not harmed. Everyone with a social conscience would want to ensure that workers from a Third World country were not exploited (although one person's exploitation is another's very welcome employment opportunity). Such decisions are made every day by operations managers throughout the world. Table 21.3 identifies just some of the social responsibility issues for each of the major decision areas covered in this book.

Table 21.3 Some social considerations of operations management decisions

Decision area	*Some social issues*
Product/service design	Customer safety Social impact of product
Network design	Employment implications of location Employment implications of plant closure Employment implications of vertical integration
Layout of facilities	Staff safety Disabled access
Process technology	Staff safety Noise damage Repetitive/alienating work
Job design	Staff safety Workplace stress Repetitive/alienating work Unsocial working hours Customer safety (in high-contact operations)
Planning and control (including MRP, lean and project planning and control)	What priority to give customers waiting to be served Unsocial staff working hours Workplace stress Restrictive organizational cultures
Capacity planning and control	'Hire and fire' employment policies Working hours fluctuations Unsocial working hours Service cover in emergencies Relationships with subcontractors 'Dumping' of products below cost
Inventory planning and control	Price manipulation in restricted markets Warehouse safety
Supply chain planning and control	Honesty in supplier relationships Transparency of cost data Non-exploitation of developing-country suppliers Prompt payment to suppliers
Quality planning and control and TQM	Customer safety Staff safety Workplace stress
Failure prevention and recovery	Customer safety Staff safety

Short case
The Gap between perception, reality and intention[15]

Source: Alamy Images

It is expensive to manufacture garments in developed countries where wages, transport and infrastructure costs are high. It is also a competitive market. As customers, most of us look to secure a good deal when we shop. This is why most garments sold in developed countries are actually made in less developed countries. Large retail chains such as Gap select suppliers that can deliver acceptable quality at a cost that allows both them and the chain to make a profit. But what if the supplier achieves this by adopting practices that, while not unusual in the supplier's country are unacceptable to consumers? Then, in addition to any harm to the victims of the practice, the danger to the retail chain is one of 'reputational risk'. This is what happened to the garment retailer Gap when a British newspaper ran a story under the headline, '*Gap Child Labour Shame*'. The story went on, *'An Observer investigation into children making clothes has shocked the retail giant and may cause it to withdraw apparel ordered for Christmas. Amitosh concentrates as he pulls the loops of thread through tiny plastic beads and sequins on the toddler's blouse he is making. Dripping with sweat, his hair is thinly coated in dust. In Hindi his name means 'happiness'. The hand-embroidered garment on which his tiny needle is working bears the distinctive logo of international fashion chain Gap. Amitosh is 10.*

Within two days Gap responded as follows. '*Earlier this week . . . an allegation of child labor at a facility in India. An investigation was immediately launched. . . . a very small portion of one order . . . was apparently subcontracted to an unauthorized subcontractor without the company's knowledge . . . in direct violation of [our] agreement under [our] Code of Vendor Conduct. 'We strictly prohibit the use of child labor. This is a non-negotiable for us – and we are deeply concerned and upset by this allegation. As we've demonstrated in the past, Gap has a history of addressing challenges like this head-on. In 2006, Gap Inc. ceased business with 23 factories due to code violations. We have 90 people located around the world whose job is to ensure compliance with our Code of Vendor Conduct.*'

Operations and the economic dimension of CSR

Operations managers are at the forefront of trying to balance any costs of CSR with any benefits. In a practical sense this means attempting to understand where extra expenditure will be necessary in order to adopt socially responsible practices against the savings and/or benefits that will accrue from these same practices. Here it is useful to divide operations-related costs into input, transformation (or processing) and output costs.

Input costs – CSR-related costs are often associated with the nature of the relationship between an operation and its suppliers. As in the example of Gap above, socially responsible behaviour involves careful monitoring of all suppliers so as to ensure that their practices conform with what is generally accepted as good practice (although this does vary in different parts of the world) and does not involve dealing with ethically questionable sources. All this requires extra costs of monitoring, setting up audit procedures, and so on. The benefits of doing this are related to the avoidance of reputational risk. Good audit procedures allow firms to take advantage of lower input costs while avoiding the promotion of exploitative practices. In addition, from an ethical viewpoint, one could also argue that it provides employment and promotes good practice in developing parts of the world.

Transformation (processing) costs – Many operations' processes are significant consumers of energy and produce (potentially) significant amounts of waste. It is these two aspects of processing that may require investment, for example, in new energy-saving processes, but will generate a return, in the form of lower costs, in the longer term. Also in this category could be included staff-related costs such as those that promote staff well-being, work–life balance, diversity, etc. Again, although promoting these staff-related issues may have a cost, it will also generate economic benefits associated with committed staff and the multi-perspective benefits associated with diversity. In addition, of course, there are ethical benefits of reducing energy consumption, promoting social equality, and so on.

End-of-life responsibility

Output costs – Two issues are interesting here. First is that of **'end-of-life' responsibility**. Either through legislation or consumer pressure, businesses are having to invest in processes that recycle or reuse their products after disposal. Second, there is a broader issue of businesses being expected to try and substitute services in place of products. A service that hires or leases equipment for example, is deemed to be a more efficient user of resources than one that produces and sells the same equipment, leaving it to customers to use the equipment efficiently. This issue is close to that of servitization mentioned in Chapter 1. While both of these trends involve costs to the operation, they can also generate revenue. Taking responsibility for end-of-life collection and disposal allows companies to better understand how their products have been used. Substituting services for products can be more problematic, but offers the possibility of generating revenue through the services themselves. In addition, ethically, both these trends could result in a more effective and efficient use of global resources.

Operations and the stakeholder dimension of CSR

As we discussed in Chapter 2, almost all stakeholder groups will, in some way or other, be affected by operations decisions. Here we summarize just some of these effects.

Customers' welfare is directly affected by many operations decisions. The most obvious is that their safety might be compromised. If a product is badly assembled or if the equipment used in a service (such as a rail transport system) is not maintained, customers can come to harm. But customer safety is influenced by more than good manufacturing or maintenance practice; it could also be affected by the degree to which an operation discloses the details of its activities. When should an airline admit that it has received bomb threats? At a less serious level, the ethical framework of operations decisions can affect the fairness with which customers are treated. For example, should a bank discriminate between different customers in order to give priority to those from whom they can make more profit?

Staff are constantly exposed to the ethical framework of the organization throughout their working lives. Organizations have a duty to their staff to prevent their exposure to hazards at work. This means more than preventing catastrophic physical injuries; it means that organizations must take into account the longer-term threat to staff health from, say, repetitive strain injury (RSI) due to short-cycle, repetitive work motions. A more subtle ethical duty to staff is the operation's responsibility to avoid undue workplace stress. Stress could be caused through not providing employees with the information which allows them to understand the rationale and consequences of operations decisions, or expecting staff to take decisions for which they are not equipped. Again, many staff-related ethical decisions are not straightforward. Should an operation be totally honest with its staff regarding future employment changes when doing so might provoke a labour dispute, or signal the company's intentions to its competitors?

Suppliers are always a source of ethical dilemma for the operation. Is it legitimate to put suppliers under pressure not to trade with other organizations, either to ensure that you get focused service from them or to deny competitors this source of supply? Also, do you have any right to impose your own ethical standards on your suppliers, for example, because you would not wish to exploit workers in developing countries? How much effort should you put into making sure that your suppliers are operating as you would? More significantly, would you be prepared to pay a higher price for their product or service if it meant them abandoning what you regard as unethical practice?

The community also has a right to expect its organizations to adopt a responsible attitude. Yet there are often difficult trade-offs between commercial and societal objectives. However, businesses could claim that prospering commercially is also a very valuable contribution to society, as is stated by Rolls-Royce in this extract from their CSR policy. 'The most significant contribution Rolls-Royce makes in the field of Corporate Social Responsibility comes from the wealth created by maintaining the 35,000 highly-skilled jobs which arise from our business activities, mainly in the UK, North America, Germany and the Nordic Countries. In 2004 our global wage bill was £1.5 billion. In addition, the company's activities support thousands of jobs throughout our global supply chain.'

Operations and the voluntary dimension of CSR

Some critics of corporate behaviour claim that CSR is meaningless if it involves nothing more than what is required by legislation, or even simple good management. Unless it hurts, they seem to be saying, it does not count as true CSR. So, how should operations managers view

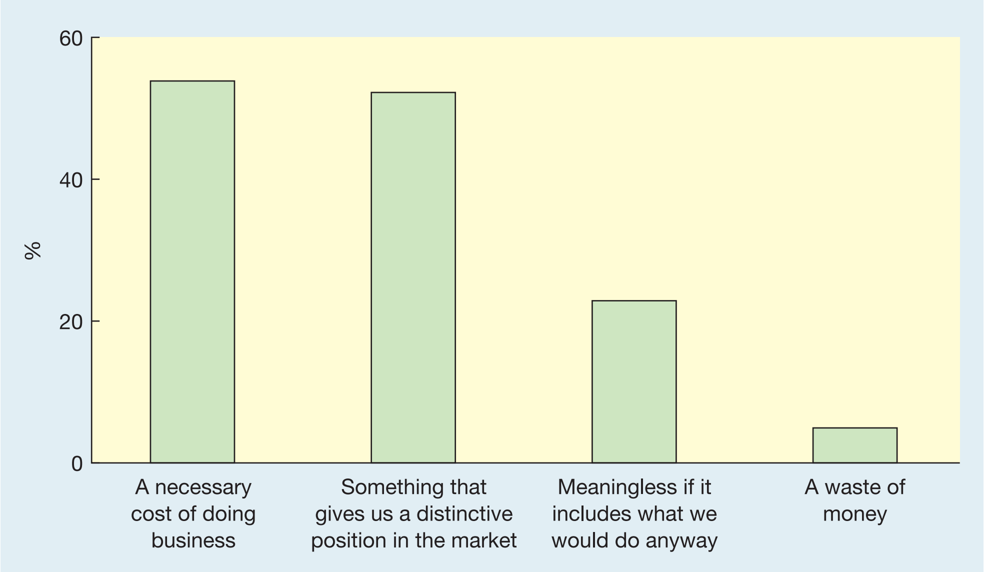


Figure 21.4 Survey results. Which of the following do you agree with? Corporate responsibility is . . .

Data from Economist Intelligence Unit, January 2008.

CSR? Figure 21.4 shows the result of one survey. The most popular response was that CSR was 'A necessary cost of doing business'. In other words, operations managers see it as something that has to be done because it is required either by legislation or through company policy. There is very little element of voluntariness in this response. Certainly there is no evidence that respondents who think this way see any advantage in going beyond what is strictly required. However, the second most popular response (running the first one very close) is that CSR gives the company something of a distinctive position in the market. In other words, there are market-based advantages in adopting CSR. While this is positive it is somewhat self-serving. CSR is seen simply as something that enhances a brand's position rather than something that tackles serious problems from a largely ethical perspective. After that, with less than half the scores of the first two categories of response, is that of CSR being meaningless if it includes what we would do anyway. This is true voluntarism. Perhaps CSR proponents will take comfort from the fact that a very small percentage of respondents thought that CSR was 'A waste of money'.

What does not come out in the survey, but is well worth considering, is that CSR activities can provide some genuine operations-based advantages. But moving beyond the minimum of engagement in CSR can provide real operations-based benefits. The obvious one, as we have mentioned before, is that in some ways the interests of CSR and those of the firm very obviously coincide. Energy saving, minimizing transport costs, avoiding reputational risk-laden issues, and so on, are the 'low hanging fruit' of CSR. But beyond this there may be advantages for businesses that regularly monitor the environment (including the business environment) generally and keep in touch with and aware of what is happening in the world. CSR can only encourage this. Finally, it may be that operations that 'push the envelope' of their own processes in order to improve their ethical behaviour also are the ones with the greater process knowledge. In other words, moving beyond the strict minimum of CSR behaviour may be one of the best signs of competent operations management. Reportedly, some stock market analysts believe that examining the excellence of a company's CSR policy may be helpful in assessing the quality of its management more generally.

How can operations managers analyse CSR issues?

It should already be apparent that CSR is both important and yet difficult to analyse. It is an issue on which not everyone holds similar views. It involves an only partially understood relationship between cause and effect. It often involves conflicting short-term and long-term costs and benefits. More than anything else, it is complex, involving operational, strategic, socio-economic and geopolitical aspects. How then can operations managers attempt to understand CSR issues? It will certainly involve operations managers in mastering new skills and analytical techniques. Yet there are existing concepts (some of which are covered in this book) that can be used to enhance our understanding of CSR. Here we have space to look at only two of them – trade-off theory and risk management.

Trade-offs and CSR

In Chapter 3 we introduce the idea of trade-offs and how the concept of the 'efficient frontier' could help with an understanding of operations strategy. It can also help with an understanding of CSR. Figure 21.5 illustrates the idea of trade-offs between the financial and the ethical performance of any operations. The first point to make is that there are relatively extreme positions on both financial and ethical performance. On the side of those who believe that CSR is essentially a distraction for business, the most famous quote comes from Milton Freeman, the famous economist, who said:

> *'The business of business is business. A society that puts equality before freedom will get neither. A society that puts freedom before equality will get a high degree of both.'*

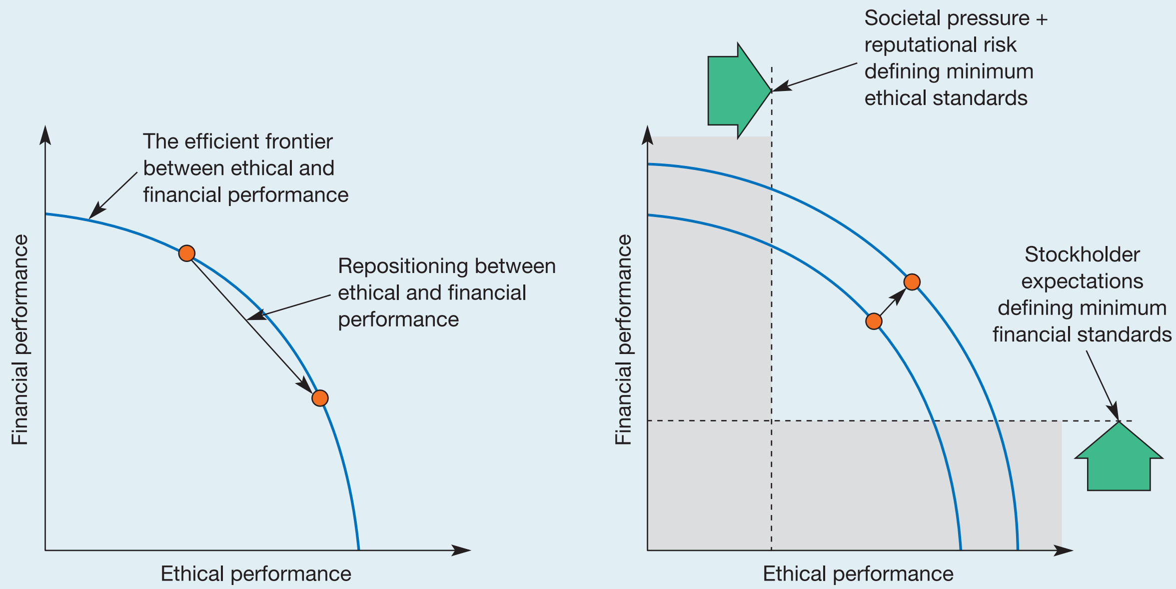
In the opposite corner, representing those who believe that business should only exist in the context of a broader set of social responsibilities, is the founder of Body Shop – Anita Roddick. She said:

> *'In terms of power and influence . . . there is no more powerful institution in society than business . . . The business of business should not be about money, it should be about responsibility. It should be about public good, not private greed.'*

In between these two positions, most businesses try and reach some degree of compromise. In this sense they are 'repositioning' themselves on an efficient frontier as in Figure 21.5(a). As pointed out in Chapter 3, repositioning an operation on the efficient frontier is sometimes necessary as the demands of the market (or environment) change. Also, as we pointed out in Chapter 3, it is possible either to adopt an extreme position at either end of the efficient frontier (that is, designing a focused operation) or to try and break through the efficient frontier through operations improvement activities. In this case, it is increasingly difficult to focus exclusively on either financial or ethical performance. Societal pressure and issues of reputational risk are defining minimum ethical standards while tough market conditions and stockholder expectations are defining minimum financial standards. Thus exercising improvement creativity to try and become better at financial and ethical performance simultaneously could be argued to be the only realistic option for most businesses, see Figure 21.5(b).

Risk management

Although treating CSR as risk management is frowned on by some experts, it is likely that, in practice, many companies, while doing their best to adopt ethical standards, are certainly influenced by the reputational risks of unethical behaviour. Look at this quotation from one report on the subject. *'Most of the rhetoric on CSR may be about doing the right thing and trumping competitors, but much of the reality is plain risk management. It involves limiting the damage to the brand and the bottom line that can be inflicted by a bad press and consumer boycotts, as well as dealing with the threat of legal action.'*[16] Given this, it is worth reminding



(a) Changing the balance (trade-off) between ethical and financial performance

(b) Simultaneously improving both ethical and financial performance, partly because extreme positions on either are becoming less acceptable

Figure 21.5 To what extent do ethical and financial performance trade off?

ourselves of how we described risk management in Chapter 19. Figure 21.6 summarizes an operations view of risk management as it could be applied to CSR. Essentially it involves thinking through and planning for four steps.

Assess the potential causes of and risks from any breach of ethical practice – The first stage in any risk management is to look at what could go wrong. In this case, exactly what could the operation do that would fall short of sound ethical practice? One of the main problems here is that different stakeholders will judge what sound ethical practice is differently.

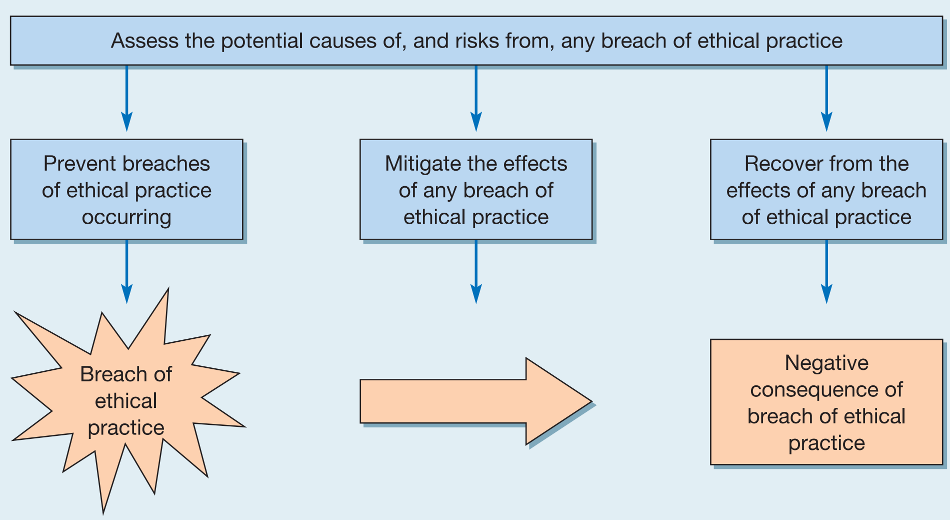


Figure 21.6 CSR as risk management

Prevent breaches of ethical practice occurring – This is where an operation's basic process and cultural ability to follow procedures is tested. An operation that has designed its processes to delivery appropriate levels of performance, has resourced those processes adequately, and has kept the processes under continual review, is less likely to suffer breaches of ethical standards. By contrast, operations with poorly defined or out-of-date process records will find it difficult to identify where breaches of procedure are likely to occur.

Mitigate the effects of any breach of ethical practice – Mitigation means reducing the negative consequences of failure. If a breach of ethical standards does occur, how can its effects be minimized? Again, one refers back to the details of mitigation outlined in Chapter 19, but it is worthwhile pointing out that a history of genuine efforts to maintain ethical standards can help to diffuse failures when they do occur. Look back at the example of Gap earlier in the chapter. The fact that Gap had a history of penalizing suppliers who breached its ethical codes must have helped to diffuse the failure in one supplier's ethical standards when it did occur.

Recover from the effects of any breach of ethical practice – As with any other recovery activity, it is important to be prompt, honest and genuinely penitent. The worst thing that any company could do is try and 'cover up' any ethical failure. Rather, it is important to understand what has happened, honestly examine why the failure has occurred and learn the lessons that can prevent it happening in the future.

Summary answers to key questions

Check and improve your understanding of this chapter using self assessment questions and a personalised study plan, audio and video downloads, and an eBook – all at ***www.myomlab.com****.*

➤ What is corporate social responsibility (CSR)?

- CSR is about how business takes account of its economic, social and environmental impacts in the way it operates – maximizing the benefits and minimizing the downsides. It is the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society.
- Although there are many definitions of CSR, they usually include five 'dimensions':
  - The environmental dimension
  - The social dimension
  - The economic dimension
  - The stakeholder dimension
  - The voluntariness dimension.

➤ How does the wider view of corporate social responsibility influence operations management?

- The concept of corporate social responsibility permeates almost every decision taken by operations managers.
- Most dramatic environmental contamination disasters are caused by operational failure. In a broader sense, all operations management decisions have some kind of environmental impact.
- Increasingly, companies are making formal reports and statements relating to their environmental practice. Operations managers are often responsible for providing the basic information for these reports. The environmental management system ISO 14000 is being adopted by a wide range of organizations. Operations managers will often have to implement these standards.

- Corporate social responsibility includes understanding the effects of operations management decisions on all stakeholder groups.
- Although globalization is an emotive issue, operations managers are affected in all the decision areas by aspects of globalization.
- Operations managers are at the forefront of trying to balance any costs of CSR with any benefits. This means attempting to understand where extra expenditure will be necessary in order to adopt socially responsible practices against the savings and/or benefits that will accrue from these same practices.
- Groups that are affected by ethical management practice include the organization, the customers, staff, suppliers, the wider community and the organization's shareholders.
- Some authorities claim that CSR is meaningless if it involves nothing more than what is required by legislation, or even simple good management.

➤ How can operations managers analyse CSR issues?

- Analysing CSR issues in difficult in the context of operations management decisions, partly because of the complexity of those issues. Two models that were introduced in earlier chapters, and can be used to understand how to approach CSR, are trade-off analysis (including the idea of the efficient frontier) and risk management.

Case study
CSR as it is presented

The following are extracts from the corporate social responsibility corporate web sites of four reputable companies.

Source: Corbis

HSBR (bank)

For HSBC, . . . 'CSR' means addressing the expectations of our customers, shareholders, employees and other stakeholders in managing our business responsibly and sensitively for long-term success. . . . [this involves] . . . Listening to our stakeholders . . . [which] . . . helps us to develop our business in ways that will continue to appeal to customers, investors, employees and other stakeholders. . . . We believe the world is a rich and diverse place. The better our workforce reflects this diversity, the better we can anticipate and meet our customers' needs. . . . Involving our employees in the community brings many benefits. Our employees gain in understanding, confidence and self-esteem. And being recognised in the community as good corporate citizens and employers helps HSBC to attract great people who in turn can provide great service to our customers.

Orange (mobile telecoms operator)

As part of our commitment to corporate social responsibility and to the communities we operate in, Orange have developed a framework in the UK called community futures, which is about enabling people to participate more fully in society. It provides a co-ordinated approach to our corporate community involvement, bringing together all activities undertaken by our employees and the company. Community futures covers three core areas – charity, community futures awards and education. Many people with sensory disabilities find it difficult to participate fully in society. Communication is clearly key to improving lives and we believe our expertise in this area can make a real ➔

difference. Therefore, we have chosen sensory disability, with a focus on the visually and hearing impaired, as the single issue for national campaigning in the UK. Orange support local projects around the country that are working to make a difference to people with sensory disabilities. Through the provision of awards, Orange seek to recognise and reward innovative community projects that use communication to enable people with sensory disabilities to participate more fully in society. Education plays a key role in any community, bringing it together. It helps people participate more fully in society by improving the ability to communicate.

John Lewis Partnership (retailer)
The Partnership was ahead of its time in recognising that commercial success depended on showing the highest level of good citizenship in its behaviour within the community. Today we are best known for the fact that our business is owned for the benefit of our employees, but we know that to cut our way through tough competitive conditions, we have to continue to prize sound relationships with our customers and suppliers, and sustain a keen sense of civic responsibility.

Starbucks (coffee shops)
Giving back to communities and the environment. Treating people with respect and dignity. Serving the world's best coffee. Every day, we demonstrate our beliefs in the guiding principles of our mission statement in the way we do business. In fact, corporate social responsibility at Starbucks runs deeply throughout our company. Here are some of the commitments we've made to do business in a socially responsible manner. (a) By making investments that benefit coffee producers, their families and communities, and the natural environment, Starbucks is helping to promote a sustainable model for the worldwide production and trade of high-quality coffee. (b) From promoting conservation in coffee-growing countries to in-store 'Green Teams' and recycling programs, Starbucks has established high standards for environmental responsibility. (c) We strive to be a responsible neighbour and active contributor in the communities where our partners and customers live, work and play. (d) At Starbucks, we believe in treating people with respect and dignity. This is especially true of the way we treat the people who work for Starbucks – our partners.

Questions

1. What are the similarities and differences between these statements?
2. Why do large companies like these go to so much trouble to invest in CSR?
3. Of these companies, two, HSBC and Starbucks, have been the target of anti-globalization violence. Why these two?

Problems and application

*These problems and applications will help to improve your analysis of operations. You can find more practice problems as well as worked examples and guided solutions on MyOMLab at **www.myomlab.com**.*

Try debating the following points:

- Business ethics is a contradiction in terms.
- For-profit companies have a primary responsibility to their shareholders; social responsibility therefore only makes sense when it is in the commercial interests of companies.
- Life would be considerably simpler if we went back to serving our own national markets rather than global ones.
- Anti-capitalist globalization protesters are basically conservatives who are frightened by the modern world. Throughout history there have been people like this.
- Soon all organizations will be global organizations. The Internet will see to that.
- The modern corporation cannot separate itself from the society in which it operates. We are entering the mature age of capitalism, where business objectives must reflect the interests of all their stakeholders.
- The only way to get firms to be environmentally responsible is by taxing them for the environmental damage they do.
- The best way to encourage firms to be environmentally responsible is by educating customers only to buy products and services from environmentally responsible companies.
- How can operations managers ever be creative in their response to CSR? To do their job well, they have to be dull, technologically obsessed and sad. They ought to get a life.

Selected further reading

Harvard Business Review (2003) *Harvard Business Review on Corporate Responsibility*, Harvard Business School Press, Boston.

Kotler, P. and Lee, N. (2005) *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*, John Wiley & Sons Inc.

McWilliams, A. and Siegel, D. (2001) Corporate social responsibility: a theory of the firm perspective, *Academy of Management Review*, vol. 26, no. 1, 117–27. Discusses the 'ideal' level of CSR, which managers can determine using cost–benefit analysis.

Useful web sites

www.imf.org The International Monetary Fund web site. Not a neutral in the globalization debate, but some well-argued commentary.

www.ifg.org Site of the International Forum on Globalization (IFG), an 'alliance of sixty leading activists, scholars, economists, researchers and writers formed to stimulate new thinking, joint activity, and public education in response to economic globalization'. They don't like it, but their discussions are interesting.

www.sustainable-development.gov.uk/ The UK government's site.

www.technologyreview.com/ MIT's online technology review. Full of interesting stuff (if you like technology, that is).

www.kmmagazine.com/ A knowledge management journal with articles and links.

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