Corporate Social Responsibility: Part II

Performance Evaluation, globalisation and NFP's

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> *'If the confidence of the public in the integrity of accountants' reports is shaken, their value is gone. To preserve the integrity of his reports, the accountant must insist upon absolute independence of judgment and action. The necessity of preserving this position of independence indicates certain standards of conduct.'*
>
> Arthur Andersen 1932

> In a survey organised by Faversham House Group four out of every five executives interviewed said that new laws were the most important factor in persuading their companies to spend on the right technology and management to save energy and reduce emissions. More than half viewed prosecution as the ultimate weapon for forcing responsibility to the top of the agenda at board meetings.

1.1 Introduction

For all organisation the question of the management of the organisation deoends upon the abaility to measure performance and then evaluate and report upon that performance. When we are considering CSR this is equally true, although it becomes more difficult to measure and evaluate that performance. In this chapter therefore we will consider some of the issues involved.

1.2 What is performance?

It should be clear that the determination of good performance is dependent upon the perspective from which that performance is being considered and that what one stakeholder grouping might consider to be good performance may very well be considered by another grouping to be poor performance (Child 1984). The evaluation of performance therefore for a business depends not just upon the identification of adequate means of measuring that performance but also upon the determination of what good performance actually consists of.

Just as the determination of standards of performance depends upon the perspective from which it is being evaluated, so too does the measurement of that performance, which needs suitably relevant measures to evaluate performance, not absolutely as this has no meaning, but within the context in which it is being evaluated. From an external perspective therefore a very different evaluation of performance might arise, but moreover a very different measurement of performance, implying a very different use of accounting in that measurement process, might arise.

The measurement of stakeholder performance is perhaps even more problematic than the measurement of financial performance. Objective measures of stakeholder performance are not reported in the annual reports of companies and therefore we have chosen to consider the subjective measures included within the "Britain's Most Admired Companies" surveys annually published in Management Today. These measures provide a reputation rating, as gathered from 'rivals' perceptions, in nine categories and these measures are also added to also provide a total score. The nine categories are:

- Quality of management;
- Quality of goods and services;
- Capacity to innovate;
- Quality of marketing;
- Ability to retain top talent;
- Community and environmental responsibility;
- Financial soundness;
- Value as long-term investment;
- Use of corporate assets.

1.3 Social accounting

Social accounting first came to prominence during the 1970's when the performance of businesses in a wider arena than the stock market, and its value to shareholders, tended to become of increasing concern. This concern was first expressed through a concern with social accounting. This can be considered to be an approach to reporting a firm's activities which stresses the need for identification of socially relevant behaviour, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques.

Thus social accounting considers a wide range of aspects of corporate performance and encompasses a recognition that different aspects of performance are of interest to different stakeholder groupings. These aspects can include:

- The concerns of investors
- A focus upon community relations
- A concern with ecology

Measuring performance in terms of these aspects will include, in addition to the traditional profit based measures, such things as:

- Consumer surplus
- Economic rent
- Environmental impact
- Non-monetary values.

Many writers consider, by implication, that measuring social performance is important without giving reasons for believing so. Solomons (1974) however considered the reasons for measuring objectively the social performance of a business. He suggests that while one reason is to aid rational decision making, another reason is of a defensive nature.

Unlike other writers, Solomons not only argued for the need to account for the activities of an organisation in term of its social performance but also suggests a model for doing this, in terms of a statement of social income. His model for the analysis of social performance is as follows:

Fig 1.1
Model for social performance

	XAnalysis of Social Performance	
	Statement of Social Income:	£
	Value generated by the productive process	xxx
+	unappropriable benefits	xxx
-	external costs imposed on the community	xxx
	Net social profit / loss	xxx

While Solomons proposes this model, which seems to provide a reasonable method of reporting upon the effects of the activities of an organisation on its external environment, he fails to provide any suggestions as to the actual measurement of external costs and benefits. Such measurement is much more problematic and this is one of the main problems of any form of social accounting – the fact that the measurement of effects external to the organisation is extremely difficult.

Indeed it can be argued that this difficulty in measurement is one reason why organisations have concentrated upon the measurement through accounting for their internal activities, which are much more susceptible to measurement.

1.4 Aspects of performance

One factor of importance to all organisations, which comes from its control system, is the factor of performance measurement and evaluation. To evaluate performance it is necessary to measure performance and Churchman (1967) states that measurement needs the following components:

- Language to express results;
- Specification of objects to which the results will apply;
- Standardisation for transferability between organisations or over time;
- Accuracy and control to permit evaluation.

Kimberley, Norling and Weiss (1983) also make this point and argue that traditional measures do not necessarily even measure some aspects of performance and can certainly lead to inadequate and misleading evaluations of performance. They state that:

> Traditional perspectives on performance tend to ignore the fact that organisations also perform in other, less observable arenas. Their performance in these arenas may in some cases be more powerful shapers of future possibilities than how they measure up on traditional criteria. And, paradoxically competence in the less observable arenas may be interpreted as incompetence by those whose judgements are based solely on traditional criteria. Particularly in the case of organisations serving the interests of more than one group where power is not highly skewed and orientations diverge, the ability to develop and maintain a variety of relationships in the context of diverse and perhaps contradictory pressure is critical yet not necessarily visible to the external observer. (p251)

1.5 The balanced scorecard

A different perspective upon performance evaluation has been proposed by Kaplan and Norton (1992) with the development of their balanced scorecard approach. They argue that traditional measurement systems in organisation are based upon the finance function and so have a control bias but that the balanced scorecard puts strategy and vision at the centre. They identify four components of the balanced scorecard, each of equal importance, and each having associated goals and measures. The four components are:

- Financial perspective - how does the firm look to shareholders;
- Customer perspective - how do customers perceive the firm;
- Internal business perspective - what must the firm excel at;
- Innovation and learning perspective - can the firm continue to improve and create value.

They state (1993) that measurement is an integral part of strategy, stating:

> Today's managers recognise the impact that measures have on performance. But they rarely think of measurement as an essential part of their strategy. For example, executives may introduce new strategies and innovative operating processes intended to achieve breakthrough performance, then continue to use the same short-term financial indicators they have used for decades, measures like return on investment, sales growth, and operating income. (p135)

and

> Effective measurement, however, must be an integral part of the management process. (p136)

They maintain that the balanced scorecard is a way of evaluating performance which recognises all the factors affecting performance and it is certainly true that an external perspective, in the shape of customers, is included in this framework. The framework they propose looks as in Figure 1.2.

Figure 1.2
The Balanced Scorecard

Financial Perspective	Customer Perspective
Internal Business Perspective	Innovation and Learning Perspective

The scorecard enables companies to balance their short-run and long-run goals. It also highlights where results have been achieved by trade off of other objectives.

The scorecard uses four perspectives from which to view the firm. These are:

- Financial — How the company is perceived by the shareholders.
- Customers — How the company is perceived by its customers.

- Internal — What must the company excel at e.g. core competencies.
- Innovation & Learning — How can future value be created.

Each business that adopts the approach develops its own purpose built scorecard that reflects its "mission, strategy, technology and culture". The strength of the system is that it measures the success in achieving the strategies cascaded down by top management. There is often a divergence between mission statements, strategies and performance measures. The scorecard offers a mechanism to avoid this divergence.

The scorecard could, for example, take a mission statement that has a customer focus and convert generally stated goals into specific objectives and then develop associated performance measures. In this example the measurement system may seek an interface with the customer's management information system. If the customer has a system for capturing data that assesses its suppliers the firm could attempt to capture this information to enable it to judge its performance through the customer's eyes.

The balanced scorecard system, it is claimed, actually balances the competing needs of an organisation. In its original form (1992) the balanced scorecard was credited with the ability to "allow managers to look at the business from four important perspectives". The techniques is claimed to focus upon the needs of the stakeholders of a business. Thus shareholders and customers are two specific stakeholders that are mentioned within the balanced scorecard. The focus upon innovation and learning however and upon continuous improvement would also indicate the need for employee development and supplier relations should be incorporated within the internal-business-process perspective (as it was referred to in 1996).

In fact each business is expected to design and adopt its own scorecard to meet its own needs. Kaplan and Norton (1996) explicitly state that they "don't think that all stakeholders are entitled to a position on a business unit's scorecard. The scorecard outcomes and performance drivers should measure those factors that create competitive advantage and breakthroughs for an organization." The overarching objective of the balanced scorecard is to achieve both short-term and long-term financial success and is actually competing with other more explicitly shareholder value based approaches as a method to enable businesses to achieve this.

1.6 The environmental audit

Before the development of any appropriate measures can be considered it is first necessary for the organisation to develop an understanding of the effects of its activities upon the external environment. The starting point for the development of such an understanding therefore is the undertaking of an environmental audit. An environmental audit is merely an investigation and recording of the activities of the organisation in order to develop this understanding (Kinnersley 1994).

Indeed ISO14000 is concerned with such audits in the context of the development of environmental management systems. Such an audit will address, inter alia, the following issues:

- The extent of compliance with regulations and possible future regulations
- The extent and effectiveness of pollution control procedures
- The extent of energy usage and possibilities increasing for energy efficiency
- The extent of waste produced in the production processes and the possibilities for reducing such waste or finding uses for the waste necessarily produced
- The extent of usage of sustainable resources and possibilities for the development of renewable resources
- The extent of usage of recycled materials and possibilities for increasing recycling
- Life cycle analysis of products and processes

- The possibilities of increasing capital investment to affect these issues
- The existence of or potential for environmental management procedures to be implemented

Such an audit will require a detailed understanding of the processes of an organisation and so will be detailed and cannot be undertaken just by the accountants of the organisation. It will also involve other specialists and managers within the organisation who will need to pool their knowledge and expertise to arrive at a full understanding. Indeed one of the features of environmental accounting is that its operation depends to a significant extent upon the cooperation of the various technical and managerial specialists within the organisation such accounting cannot be undertaken by the accountants alone.

The objective of such an audit is firstly to arrive at an understanding of the effects of organisational activity and then to be able to assign costs to such activity. It should also enable the managers of the organisation to consider alternative ways of undertaking the various activities which comprise the operational processes of the organisation and to consider and evaluate the cost implications, as well as the benefits, of undertaking such processes differently.

Such an audit will probably necessitate the collection of information which has not previously been collected by the organisation, although it may well be in existence somewhere within the organisation's data files. A complete environmental audit is a detailed and time consuming operation but there is no need for such an exercise to be completed as one operation. Indeed the review of processes and costs should be a continuous part of any organisation's activity which can lead to the implementation of better processes or control procedures without any regard to environmental implications.

Thus the way to approach this is to extend the normal routines of the organisation to include a consideration, and quantification, of environmental effects on an ongoing basis.

Once this audit has been completed then it is possible to consider the development of appropriate measures and reporting mechanisms to provide the necessary information for both internal and external consumption. These measures need to be based upon the principles of environmental accounting, as outlined below. It is important to recognise however that such an environmental audit, while the essential starting point for the development of such accounting and reporting, should not be viewed as an discrete isolated event in the developmental process.

Environmental auditing needs to be carried out on a recurrent basis, much as is financial or systems auditing, in order to both review progress through a comparative analysis and to establish where further improvement can be made in the light of progress to date and changing operational procedures.

1.7 The Measurement of Performance

The measurement of performance is central to any consideration of performance evaluation and this resolves into two areas for consideration, namely why measure and what to measure. Measurement theory states that measurement is essentially a comparative process, and comparison provides the purpose for measurement. Measurement enables the comparison of the constituents of performance in the following areas:

- Temporally by enabling the comparison of one time period with another;
- Geographically by enabling the comparison of one business, sector or nation with another;
- Strategically by enabling alternative courses of action and their projected consequences to be compared.

Performance itself is not absolute but rather comparative and it is essential in evaluating performance to be able to assess comparatively in the nature of 'better than expected', 'worse than the competition' etc. It is not possible to assess performance in other than these terms and so a quantitative approach to performance evaluation is essential even if some aspects of performance are qualitative in nature. It is necessary therefore that measurement is a constituent of performance evaluation and so it becomes necessary to determine what should be measured in order to evaluate performance.

It is essential therefore to select appropriate measures for the purpose of the evaluation. It is argued however that appropriate measures cannot be selected until the purpose of evaluation has been determined. It is therefore again demonstrated that the foundation of performance measurement is the identification of the reasons for the evaluation of performance, and this must now be considered. It is clear from the evaluation of the literature, and a consideration of actual practice, that the evaluation of performance takes place for several reasons.

- For control
- For strategy formulation
- For accountability

1.8 The Evaluation of Performance

A variety of measures exist to measure and evaluate performance, and while these have been criticised in their efficiency by some writers, it is nevertheless true that such measures have a role in this function. The efficiency of measures of performance can only be determined however by considering their use in the measurement of performance when the purpose of that measurement has been determined. It seems reasonable to argue that different purposes need different measures and that perhaps some, but by no means all, measures are universal in addressing all needs.

Measurements derive their meaning however from the use to which they are applied and mismeasurement by using measures incorrectly causes conflict and misunderstanding. Once a framework has been developed which identifies and addresses needs and purposes of evaluation it is then possible to consider the efficiency and effectiveness of existing measures and identify deficiencies in the measurement system. It is then possible to develop and implement new measures which are appropriate to the purposes identified.

It can readily be seen that the differing needs of different parties in the evaluation process cause tensions within the organisation as it seeks to meet its internal control, strategy formulation and accountability functions and produce a reporting structure to meet these needs. While the basic information required to satisfy these needs is the same information, or at least derives from the same source data, the way in which it is analysed and used is different, which can lead to conflict within the organisation.

Such conflict is exacerbated when a measure is adapted for one need but only at the expense of a deterioration in its appropriateness for another purpose. Part of the semiotic of corporate reporting however is that managers have the ability to manage information provision in such a way that all stakeholders can be satisfied both with the information received and with the performance of the organisation.

One factor of importance in performance evaluation is the concept of the sustainability of performance. It is therefore important for all stakeholders to be able to ascertain, or at least project, not just current performance but its implications for the future. Performance evaluation must therefore necessarily have a future orientation for all evaluations. The appropriate measures developed through this proposed framework are likely to facilitate a better projection of the sustainability of performance levels and the future impact of current performance.

This is because the addressing of the needs of all stakeholders is likely to reveal factors which will impact upon future performance and which might not be considered if a more traditional approach was taken towards performance evaluation. An example might be the degree to which raw materials from renewable resources have become significant to many industries recently but were not considered at all until recently by any stakeholders of an organisation other than community and environmental pressure groups.

1.9 Multi-dimensional performance management

Probably the best known of the multi-dimensional performance measurement frameworks is the balanced scorecard , which we have considered. Another example is the service profit chain which specifically considers three stakeholders – namely employees, customers and shareholders. Again this model specifically considers the first two stakeholders as means to achieving superior financial results.

Thus it is argued that satisfied and motivated employees are essential if service quality is to be of a high standard and hence customers are to be satisfied. Further it is then argued that satisfied customers provide the base for superior financial results. Both of these models acknowledge the needs of stakeholder groups and thus deem it necessary to measure performance for these groups but still target financial performance as the ultimate goal.

A stakeholder managed organisation therefore attempts to consider the diverse and conflicting interests of its stakeholders and balance these interests equitably. The motivations for organisations to use stakeholder management maybe in order to improve financial performance or social or ethical performance, howsoever these may be measured. In order to be able to adequately manage stakeholder interests it is necessary to measure the organisation's performance to these stakeholders and this can prove complicated and time-consuming.

1.10 Conclusions

Social and environmental accounting has a significant part to play in the management of an organisation and the adoption of the techniques will have the following effects:

- Improved decision making within the organisation
- Better cost allocation, leading to improved decision making
- Better use of, and allocation of, resources within the organisation
- Improved operational performance
- Improved operational procedures, based upon greater understanding of the impact of activities
- Improved profitability, through either cost reduction or increased activity
- Greater support of investors and other stakeholders, through increased transparency and disclosure leading to greater confidence

These effects are based upon the adoption of the principles of social and environmental accounting but these principles need to be translated into action, in terms of the accounting and reporting systems of the organisation. It is to this that we now turn.

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1.13 Self-test questions

1. What categories are included for Britain;s most admired companies?
2. What factors are included in he balanced scorecard?
3. Why is the measurement of performance important?
4. What is ISO14000 and what factors does it cover?

2. Globalisation and CSR

> Truly accepted values must infuse the organisation at many levels, affecting the perspective and attitudes of personnel, the relative importance of staff activities, the distribution of authority, relations with outside groups, and many other matters. Thus if a large corporation asserts the wish to change its role in the community from a narrow emphasis on profit-making to a large social responsibility (even though the ultimate goal remains some combination of survival and profit-making ability), it must explore the implications of such a change for decision making in a wide variety of organisational activities.
>
> Selznick (1957: 136)

2.1 Introduction

Globalisation is a leading concept which has become the main factor in business life during the last few decades. This phenomenon affects the economy, business life, society and environment in different ways, and almost all corporations have been affected by these changes. We can see these changes mostly related with increasing competition and the rapid changing of technology and information transfer. This issue makes corporations more profit oriented than a long term and sustainable company. However, corporations are a vital part of society which needs to be organised properly. Therefore we need some social norms, rules and principles in society and business life for socially responsible behavior.

2.2 Globalisation

Globalisation can be defined as the free movement of goods, services and capital. This definition does not cover all the aspects of globalisation or global changing. Globalisation also should be a process which integrates world economies, culture, technology and governance. This is because globalisation also involves the transfer of information, skilled employee mobility, the exchange of technology, financial funds flow and geographic arbitrage between developed countries and developing countries. Moreover globalisation has religious, environmental and social dimensions. In order to encompass this broad impact area globalisation covers all dimensions of the world economy, environment and society. Moreover it is apparent all over the world and the world is changing dramatically. Every government has a responsibility to protect all of their economy and domestic market from this rapid changing.

The question is how a company will adapt to this changing. First of all companies have to know different effects of globalisation. Globalisation has some opportunities and threats. A company might have learn how to protect itself from some negative effects and how to get opportunities from this situation.

Globalisation affects the economy, business life, society and environment in different ways:

- Increasing competition,
- Technological development,
- Knowledge/Information transfer,
- Portfolio investment (fund transfer between developed countries and emerging markets),
- Regulation/deregulation, International standards,
- Market integration,
- Intellectual capital mobility,
- Financial crisis-contagion effect-global crisis.

2.2.1 Competition

Globalisation leads to increased competition. (Increased competition is a consequence of globalisation) This competition can be related to product and service cost and price, target market, technological adaptation, quick response and quick production by companies etc. When a company produces with less cost and sells cheaper, it will be able to increase its market share.

Customers have too much choice in the market and they want to acquire goods and services quickly and in a more efficient way. And also they are expecting hıgh quality and a cheap price which they are willing to pay. All these expectations need a response from the company, otherwise sales of company will decrease and they will lose profit and market share. A company must be always ready for price, product and service and customer preferences because all of these are global market requirements.

2.2.2 Exchange of Technology

One of the most striking manifestations of globalization is the use of new technologies by entrepreneurial and internationally oriented firms to exploit new business opportunities. Internet and e-commerce procedures hold particular potential for SMEs seeking to broaden their involvement into new international markets (Wrighta & Etemad, 2001). Technology is also one of the main tools of competition and the quality of goods and services. On the other hand it necessitates quite a lot of cost for the company. The company has to use the latest technology for increasing their sales and product quality. Globalisation has increased the speed of technology transfer and technological improvement. Customer expectations are directing markets. Mostly companies in capital intensive markets are at risk and that is why they need quick/rapid adapting concerning the customer/market expectations. These companies have to have efficient technology management and efficient R&D management.

2.2.3 Knowledge/Information transfer

Information is a most expensive and valuable production factor in the current environment (presently/currently/at the current time) Information can be easily transferred and exchanged from one country to another. If a company have a chance to use knowledge and information then it means that it can adapt to this global changing. This issue is similar with the technology transfer issue in global markets. The rapid changing of the market requires also quick transfer of knowledge and efficient using of that knowledge and information.

2.2.4 Portfolio investment (Financial fund flows)

Globalisation encourages increased international portfolio investment. Additionally, financial markets have become increasingly open to international capital flows. For this reason, portfolio investment is one of the major problems of developing economies. It is almost the only way to increase liquidity of the markets and economies for emerging countries through attracting foreign funds. Significantly, this short term investment can dramatically impact on the financial markets. When the emerging economies have some problem in their country or investors make enough profit from their investment then these investors might leave the market. This would mean that market liquidity decreased and financial markets indicators plummet immediately.

2.2.5 Regulation/deregulation and international standards

Globalisation needs more regulation of the markets and economy. There are many new and complicated financial instruments and methods in the market and such instruments easily transfer and trade in other countries because of the globalisation effect. Every new system, instrument or tool requires new rules and regulations to determine its impact area. These regulations are also necessary to protect countries against global risks and crises. When the crisis comes out of one country then it influences other countries with trade channels and fund transfers, which we call the contagion effect. On the other hand, during globalisation the shares of big companies are trading in the international stock markets and these companies have shareholders and stakeholders in many different countries. International rules and regulations also offers protection to small investors against the big scandals and other problems in companies.

International standards also regulate markets and economies by means of international principles and rules such as International accounting standards, international auditing standards. It aims to make corporate reporting standardised and comparable
So that is why the globalised world has more rules and more regulations and international standards than before.

2.2.6 Market integration

In fact globalisation leads to the conversion of many markets and economies into one market and economy. The aim of international standards and regulations is also to deregulate all these markets. The economy needs financial structures capable of handling the higher risk in the new economy. For this reason financial markets must be broad, deep, and liquid and at present only the U.S. financial markets are large enough to provide this financial structure in the world market. Global stock market projection and Pan-European stock market projection are part of this changing. There are many similar examples in the current situation for market integration which are also the result of increasing competition in the economy. Integration examples are prominent in company mergers and acquisitions as well.

2.2.7 Qualitative Intellectual capital mobility

Another effect of globalisation is human capital mobility through knowledge and information transfers. One of the reasons is that international/multinational companies have subsidiaries, partners and agencies in different countries. They need skilled and experienced international employees and rotation from country to country to provide appropriate international business practice. This changing also requires more skilled, well educated and movable employees who can adapt quickly to different market conditions.

2.2.8 Financial crisis-contagion effect-global crisis

Financial crises are mostly determined through globalisation and as a result of the globalisation impact. In fact, this is quite a true explanation. The financial world has witnessed a number of crises cases. Generally financial crises come out from international funds/capital flows (portfolio investments), lack of proper regulations and standards, complex financial instruments, rapid development of financial markets, asymmetric information and information transfers. One country crisis can turn into a global crisis with systemic risk effect. Systemic risk refers to a spreading financial crisis from one country to another country. In some cases, crises spread even between countries which do not appear to have any common economic fundamentals/problems. Previous global crises have also showed that one of the reasons for the crisis is unregulated markets.

2.3 How Globalisation Affects CSR

The question might be how globalisation affects CSR. But the answer to this question is not only related to the last quarter of the 20th century but also related to previous centuries. John Maynard Keynes calculated that the standard of living had increased 100 percent over four thousand years. Adam Smith had an important (seminal) idea about the wealth of communities and in 1776 he described conditions which would lead to increasing income and prosperity. Similarly there is much evidence from economic history to demonstrate the benefit of moral behaviour; for example, Robert Owen in New Lanark, and Jedediah Strutt in Derbyshire – both in the UK – showed the economic benefits of caring for stakeholders. More recently Friedman has paid attention to the moral impact of the economic growth and development of society.

It is clear that there is nothing new about economic growth, development and globalisation. Economic growth generally brings out some consequences for the community. This is becoming a world phenomenon. One of the most important reasons is that we are not taking into account the moral, ethical and social aspects of this process. Some theorists indicated the effect of this rapid changing more than a hundred year ago. Economic growth and economic development might not be without social and moral consequences and implications.

Another question is who is responsible of this ongoing process and for ensuring the wellbeing of people and safeguarding their prosperity. Is this the responsibility of governments, the business world (businessman), consumers, shareholders, or of all people? Government is part of the system and the regulator of markets and lawmakers. Managers, businessmen and the business world take action concerning the market structure, consumer behaviour or commercial conditions. Moreover, they are responsible to the shareholders for making more profit to keep their interest long term in the company. Therefore they are taking risk for their benefit/profit. This risk is not opposed to the social or moral/ethical principles which they have to apply in the company. There are many reasons for ethical and socially responsible behaviour of the company. However, there are many cases of misbehaviour and some illegal operations of some companies. Increasing competition makes business more difficult than before in the globalised world.

The good news and our expectations are that competition will not have any longer bad influence on company behaviour. According to international norms (practice) and expectations, companies have to take into account social, ethical and environmental issues more than during the last two decades. One of the reasons is more competition not always more profit; another reason is consumer expectation is not only related to the cost of products but also related to quality, proper production process and environmental sensitivity.

Moreover shareholders are more interested in long term benefit and profit from the company. The key word of this concept is long termism which represents also a sustainable company. Shareholders want to get long term benefit with a sustainable company instead of only short term profit. This is not only related to the company profit but also related to the social and environmental performance of the company. Thus, managers have to make strategic plans for the company concerning all stakeholder expectations which are sustainable and provide long term benefit for the companies with their investments. However, Sustainability can be seen as including the requirement that whatever justice is about – fair distribution of goods, fair procedures, respect for rights – is capable of being sustained into the future indefinitely. Thus sustainability requires that the values of justice are capable of being continued into the future: if current practices for instance were just from the present point of view but would prevent the same practices from occurring in the future, that would be rejected from the point of view of sustainability (Dower, 2004)…. So investor or shareholder expectations and all other stakeholders approaches are supporting a socially responsible and ethical company more than other companies. Globalisation has had a very sharp effect on company behaviour and still we can see many problems particularly in developing countries. This is one of the realities of the globalisation process. However we are hoping to see some different approaches and improvements to this process with some of them naturally related to some international principles, rules and norms. But most of them are related to the end of this flawed system and the problems of capitalisation.

The challenge of CSR in a globalizing world is to engage in a process of political deliberation which aims at setting and resetting the standards of global business behaviour. While stakeholder management deals with the idea of internalizing the demands, values and interests of those actors that affect or are affected by corporate decision-making, we argue that political CSR can be understood as a movement of the corporation into environmental and social challenges such as human rights, global warming, or deforestation (Scherer & Palazzo, 2008), .

2.4 Globalisation, Corporate Failures and CSR

Enron, WorldCom, Qwest, Parmalat, Sunkill, ImClone, and various other corporate failures bring out some governance and CSR issues and have increased attention to the role of business ethics. Managers and CEO's of these companies must be considered responsible for all of these failures and these are cases of "corporate irresponsibility". Many people have the opinion that if corporations were to behave responsibly, most probably corporate scandals would stop.

CSR protects firms against some long term loss. When corporations have social responsibilities, they calculate their risk and the cost of failure. Firstly, a company has to have responsibility to share holders and also all stakeholders which means that it has responsibility to all society. Corporate failures have an important impact on all society also. In particular, big scandals such as Enron have sharply affected the market and the economy. Various stakeholders (e.g. employee, customer, consumer, suppliers etc) as well as shareholders and regulators of the firm have a responsibility to ensure good performance. Therefore, CSR is not only related to firms but also related to all society. So changing the role of corporate responsibility shifts/moves the focus from the real problem that society needs to address.

One of the reasons for this result is increasing competition between the company and the market. Managers tend to become much more ambitious than before in their behaviour and statüs in the globalised world. Thus we have to focus on corporate and managerial behaviour. The question is how to behave as a socially responsible manager and how to solve this vital problem in business life and in society. In the business world there are always some rules, principles and norms as well as regulations and some legal requirements.

However, to be socially responsible one must be more than simply law abiding who has to be capable of acting and being held accountable for decisions and actions. The problem is the implication for all of these directions for company and managerial behaviour. On the other hand, one perspective is that a corporation is a "legal person" and has the rights and duties that go with that status—including social responsibility. In the case of Enron, managers were aware of all regulations, even though they have known all irresponsible and unethical problems in the company management, they did not change their approach and behaviour.

The conclusion is that it is not always possible to control behaviour and corporate activity with regulations, rules and norms. So another question arises in this situation, that if people do not know their responsibility and socially responsible things to do and if they do not behave socially responsibly then, who will control this problem in business life and in the market. The concern is that the social responsibility implication of the company cannot be controlled through legal means. This is the only social contract between mangers and society and stakeholders of the company and for responsible and accountable behaviour.

Firms will consciously need to focus on creating value not only in financial terms, but also in ecological and social terms. The challenge facing the business sector is how to set about meeting these expectations. Firms will need to change not only in themselves, but also in the way they interact with their environment (Cramer,2002).

2.5 Is Globalisation an opportunity or threat for CSR?

We have no certain answer for this question which is depends on from where are you are looking. It is clear that the globalisation has different effects on the social responsibility of the company and the behaviour of managers. Some of these are supporting companies/managers for motivating towards socially responsible behaviour, while others of them are destroying fair business and all principles, norms and regulations which are the result of increasing competition. Globalization has been created bigger companies in terms of turnover, market capitalization, and amount of assets. This causes imperfect competition with other small and medium size companies which is a major threat for them. But it might also provide to companies great opportunities for reaching people and customers, and for collaboration with other companies from all over the world. In fact we have to accept that globalisation is an inevitable phenomenon for which we have no alternative yet. Well regulated and controlled markets are not a big problem and threat, but lack of regulation and norms is the main problem in a developing country which globalisation has a big influence in these economies.

Moreover CSR implementation is the one of the most important issues for globalised economies and markets. CSR requires some rules for the determination of the relationship between the corporation and society, which is still a complicated process. The implication is that CSR is not merely a simple process but also needs a long term strategic approach by companies which need to learn socially responsible behaviour and their decision makers must enforce these principles in the company.

When the company takes a long term perspective it will have benefits concerning profit and stakeholder interests in the company. Some studies show that there is a clear relationship between CSR and corporate financial performance which is an important academic research topic. Research results focus on the existence of slack resources resulting from better financial performance made when companies invest in areas that are related to social actions. Some other results also support the good management approach which states that good management practice resulting from engagement in social actions enhances the relationship with stakeholders, leading to better financial performance. This topic still needs more research for finding better solutions for corporate behaviour.

The duty of corporations is serving their shareholder through providing proper products and services. The purchasing decision of the customer is not only related with price and quality but also based on a consideration of the social behaviour of the company. Socially responsible investment and behaviour gives some opportunities to the company which are more visible than others and show more concern for stakeholders also.

In particular, the development of information technology is helpful for the company for trading in any place in the world to any customer. Customers want the corporation to behave properly to its suppliers, and their suppliers to treat their labourers fairly even in far distant countries. When the company behaves unethically then people will know this problem all over the word and its effect on company sales and stakeholder interests for the company.

So from this aspect globalisation has a multidimensional effect relating to socially responsible behaviour. Good and bad behaviour are easily visible around the world and all company stakeholders will be aware of it. A company can use this opportunity both ways, which is that good behaviour affects the company positively but unethical behaviour will undoubtedly have negative effects for them. Companies already know that proper behaviour is the only way they can survive and enhance their commercial interests and thereby increase their profits. So the demands of society will be reflected in corporate behaviour. As a In summary, a firm has an investment in reputation, including its reputation for being socially responsible. An increase in perceived social responsibility may improve the image of the firm's management and permit it to exchange costly explicit claims for less costly implicit charges. In contrast, a decline in the level of stakeholders' view of a firm's social responsibility may reduce its reputation and result in an increase in costly explicit claims (Mcguire & Sundgren &Schneeweis,1988), We can also confidently say about CSR's impact at the present time is that it benefits some people and some companies in some situations. Consequently thought is being given to the implications of CSR for the developing world (Blowfield M, J. G. Frynas, 2005).

2.6 Conclusion

As we can see, globalisation has an enormous effect on society and business life which can be manifest in a number of different ways. So business life needs more regulation and proper and socially responsible behavior than before. In this chapter we have shown the relationship between CSR and globalisation. We pointed out that the relationship between business failure/ scandals increased after the globalization, and social responsible behavior.

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2.9 Self-test Questions

1. What is the main indicator of Globalisation?
2. How globalisation effect CSR?
3. Is globalisation threat for CSR?
4. Is the reason of the big corporate scandal irresponsible management?

3. CSR in not for profit organisations

> A ***not for profit organisation*** is one whose objective is to support or engage in activities of public or private interest without any commercial or monetary profit. In many countries some will be charities but there will also be many which are not.
>
> A ***non-governmental organisation*** (***NGO***) is a legally constituted organisation operates without any participation or representation of any government. In the cases in which NGOs are funded totally or partially by governments, the NGO maintains its non-governmental status insofar as it excludes government representatives from membership in the organisation.

3.1 Introduction

It is important to consider the nature of the sector. The not for profit (NFP) sector is one which is growing in importance all over the world. Moreover it is much bigger than people generally realise. In Europe for example it is estimated that the sector comprises around 40% of GDP. In this chapter we will explore the distinctive nature of the sector and consider the implications for CSR.

In the world as a whole there is an unknown number of such organisations. In India alone, for example, it is estimated that between 1million and 2 million such organisations exist. Some are very large – such as governmental institutions and the largest charitie (eg WWF) but many are very small.

There is a growing movement within the "non"-profit and "non"-government sector to define itself in a more constructive, accurate way. Instead of being defined by "non" words, organisations are suggesting new terminology to describe the sector. The term "civil society organization" (CSO) has been used by a growing number of organisations, such as the Center for the Study of Global Governance. The term "citizen sector organisation" (CSO) has also been advocated to describe the sector — as one of citizens, for citizens. This labels and positions the sector as its own entity, without relying on language used for the government or business sectors. However some have argued that this is not particularly helpful given that most NGOs are in fact funded by governments and business.

3.2 Distinguishing features of sector

The first thing we must remember about this sector is that there is no profit motive and decisions must be taken according to different criteria. Instead the emphasis is upon the provision of a service, which is the essential reason for the existence of such an organisation. Additionally there is normally a disconnection between the acquisition of resources and their use – in other words the money to provide the services normally does not come from the recipient of those services. Moreover the need for those services frequently outstrips the ability of the organisation to satisfy those needs and it is forever operating under a situation of resource constrain.

This means that there are different motivations operating in the NFP. It also means that the stakeholders are different – something which we will return to as it is important for our consideration of CSR in such organisations.

3.3 Types of NFP organisation

We can classify NFPs into various types, each with different purposes:

3.3.1 Public bodies

These are related to government in some way and include such things as a local authority and a health authority. These all have the function of providing services to members of society and receive their funding and powers directly from the national government.

3.3.2 Quasi public body

These are also often known as Quangos (quasi autonomous non-governmental organisations) and serve a public or civic purpose without having any direct relationship with the government. Many civic societies are like this and other examples include such things as housing associations. These too often get some funding directly from the government.

3.3.3 Educational institution

As the name suggests these serve an educational function and include such organisations as schools, further education colleges and universities. These may be publicly owned organisations or privately owned and the norm differs between countries.

3.3.4 Charity

We will consider these in detail later but here we need to recognise that a charity exists to fulfil a particular function which involves providing a service.

3.4 Motivation for NFP's

The motivation for the existence of NFP's is important to consider as it tens to be different to profit seeking organisations and this has implications for CSR. Firstly a NFP organisation is motivated by some kind of societal concern. Normally this involves the provision of a service to some part of that society and this service provision is normally unrelated to payment for that service.

One motivation for an NFP therefore is the acquisition of resources in order to undertake the provision of those services. Thus there is a concern with the optimising of the utilisation and allocation of what is inevitable scarce and restricted resources. Similarly there is a concern with transaction cost minimisation. These issues are similar to those of profit seeking organisations but the way in which they are decided and the way in which effecyiveness is measured tends to be quite different.

Because there is no profit motive then this way of providing motivation to managers and rewarding them for their performance does not exist and alternatives must be sought. Another factors which must be borne in mind is the matter of who decides what is good performance. For a profit seeking organisation the customer will ultimately decide by choosing to buy or not buy. In a NFO there is no customer and the service beneficiaries do not pay (or at least not full cost) for the service received.

Thus the determining of measures of performance is important for these organisations. So too is the setting of standards and the reporting of performance. This is normally done through the development of performance indicators. Often a variety of measures are used including:

- Budgetary control / cash flow
- Performance indicators
- Non-financial measures
- Qualitative factors

For the evaluation of performance then there is less relevance of accounting measures and a correspondingly greater importance of non-financial measures. This inevitable involves problems of quantification and a necessity for deciding between alternatives. One technique which is particular to this environment is that o fcost benefit analysis.

3.5 Implications for managers

It will be apparent that there are a number of issues facing managers of these organisations. The first is concerned with the acquisition and utilisation of resources. There is considerable uncertainty regarding the acquisition of resources and this makes planning particularly difficult. The planning horizon therefore tends to be short even though the projects which some NFPs are involved in are inevitably long term in duration.

Other issues which concern managers include the setting of objectives and the measuring of performance . Finance, budgeting & control of course are particularly important in this environment. Another factor is concerned with the influence of stakeholders. Without customers and without shareholders and investors there are a range of other stakeholders who are important and have a great deal of influence. These will include such stakeholders are donors, recipients and society at large.

As far as the external environment is concerned the there are a number of issues which are important and distinctive. The first is the question of market identification; this is essential for planning but is not necessarily obvious. Then, as we have implied already there is the fact that service delivery is not evaluated by its beneficiaries who do not pay for its receipt. There are a lot of different stakeholders who all have a view about performance and some influence on its evaluation – a complex situation.

NFPs are – in theory at least – not in competition with each other: this is true as far as helping beneficiaries is concerned but there is an element of competition in the acquisition of resources. For the provision of services there are generally several organisations involved in providing the same services and it might be thought that collaboration – rather than competition – might be an effective way of providing such services. Certainly high profile disasters always several large charities which often collaborate and pool resources.

One of the factors in this sector however is that the largest NFPs are most able to acquire additional resources. Thus there is competition for market share because this leads to easier resource acquisition. In theory also NFPs exist to fulfil a particular purpose. Once that purpose has been satisfies there is no purpose to their continued existence. For both of these factors however the egos of the people managing the NFPs becomes a factor as each strives to extend its life, extend its purpose and extend its size and market share.

3.6 Available resources

For many NFPs the main source of funding comes from the government. This is certainly true for public bodies and for quasi public bodies. In most countries it is also true for educational institutions. For the largest charities it is also true as governments tend to use these charities to distribute their aid programmes.

Other sources of funding include borrowing but this is only really an option for capital projects when some security can be provided. So for many NFPs the other main source of funding is from fund raising. This can take the form of seeking donations or legacies or trusts. For the larger organisations then raising funds through trading is also a viable possibility and in the UK, for example, the shopping centres have a considerable number of charities represented.

3.7 Structure of a charity

As charities are a significant number of the organisations in the NFP sector then we need to consider their structure in some detail. The first point to make is concerning the legal environment in which they operate. This can be described intra vires rather than ultra vires. The difference is as follows:

Ultra vires

An ultra vires organisation has the power to do anything which it is not specifically prevented to do according to either the law or its founding legal articles of association. All commercial organisations are founded like this and can therefore extend and change their operations according to market needs and cirocumstances.

Intra vires

An intra vires organisation can only undertake those activities which it is specifically empowered to undertake. It is therefore much more difficult for such an organisation to extend or change its activities. All charities are established as intra vires organisations. This can be defined as its charitable purpose.

A charity has many tax and regulation advantages but in return there are certain restrictions on what it can do. Thus a charity is not able to act as a pressure group – at least not overtly. Politics are excluded from its sphere of operation. It can engage in fund raising of course but it is prevented from trading as a means of raising funds. This might seem surprising given how many charities are visibly engaged in trading. This is done either through a third party or by means of a trading subsidiary which then gifts the proceeds to the charity.

Thus these restrictions are legal restrictions to ensure that the benefits of being a charity can only accrue to an organisation with a genuine charitable purpose but the they are interpreted fairly liberally for organisations which are recognised to be charities. The ultimate sanction of course it the removal of charitable status from such an organisation.

The final point to make about charities is that they make extensive use of volunteers as well as of paid employees. This keeps their operating costs down of course but also adds another stakeholder group with an interest in and concern for how the charity operates, manages its performance and services its beneficiaries. Moreover the relationship between volunteers and paid employees is sometimes a source of conflict.

3.8 Accounting issues

We have dealt with a number of accounting issues already in our consideration of planning and budgeting; of the measurement and reporting of performance; and of the evaluation of results. Another important point to make though is concerning the time horizon adopted by these organisations. Many projects are long term in nature but sources of funds are often short term in nature. So there is a long term horizon for expenditure but a short term horizon for income, this is problematic and a source of difficulty in planning for many of these organisations.

Many of these NFP organisation engage in fund raising, as we have seen. This itself causes complications for the accounting iof such organisations and can affect its operational procedures. Money can be given to one of these organisations either for its general activities or for a specific purpose. For example the larger charities frequently have appeals for a specific disaster relief operation. When money is given for a specific purpose then it can only be used for that purpose. Thus these organisations tend to have a number of funds for specific purposes.

This can be problematic when the need for such money has been completed and there is a surplus – it is difficult to use this for another purpose. A further difficulty is caused by the fact that some funding is needed for general administration. People are willing to give for a specific cause but not for general administration. Thus the accounting for these organisations is geared towards making as much expenditure as possible direct expenditure rather than indirect.

3.9 CSR issues in NFPs

All of these factors have implications as far as CSR is concerned. It is often thought that is an organisation exists for a public or charitable purpose then it must be a socially responsible organisation. Our consideration of issues throughout this book should have enabled you to understand that this is not necessarily the case. CSR is about how an organisation conducts its operations and deals with its stakeholders. For NFPs we can see that there is a different focus and we need to consider this in terms of CSR implications. We can consider this according to these criteria:

3.9.1 Stakeholders

There are different stakeholders for a not for profit organisation and the different stakeholder groups have different amounts of power to a profit seeking organisation. It is inevitable therefore that dealing with these stakeholders will be a much more important function for a NFP. Moreover the sources of conflict might be different and the actions taken in resolution of this might also be different. Inevitable also the decision making process is likely to be different.

3.9.2 Sustainability

In terms of doing more with fewer resources (see Aras & Crowther 2009) then this is always an objective for this kind of organisation. In terms of affecting the choices available to future generations then an NFP actually seeks to do this and to redistribute resources more equitably. In terms of seeking a continual existence then really an NFP should strive to make its purpose of existence no longer relevant and should not seek sustainability.

Thus sustainability is an equally important issue for these organisations but its implications are very different in terms of both motivation and decision making.

3.9.3 Accountability

Accountability is an even more important issue for this kind of organisation and who it is accountable to can be very different. Without either shareholders or customers then accountability is to donors, beneficiaries and a wide range of other stakeholders. Moreover it needs to address this accountability – which can be different for different stakeholders – in order to be able to continue with its operations.

3.9.4 Transparency

With this diverse set of stakeholders groupings who all have considerable interest in the organisation and its activity then there is obviously a great need for transparency and all such organisations will strive for this. This is particularly exacerbated by the need to keep fund for specified restricted purposes. On the other hand it is in the interest of the NFP to seek to use its accounting system and procedures to classify indirect costs as direct and thereby to minimise the apparent administrative costs incurred. This is contrary to the principle of disclosure but completely understandable!

3.9.5 Disclosure

Increasing disclosure is a feature os corporate reporting as they seek to satisfy stakeholders through increased accountability and transparency. Disclosure has of course always been a feature of NFP activity as such disclosure is necessary to seek additional funds as well as to satisfy the diverse but powerful and vociferous stakeholder groupings. In this respect there it might be considered that profit seeking organisations are becoming more like not for profit organisations.

3.10 Conclusions

The environment in which not for profit organisations operate is somewhat different but there are still CSR implications which are mostly concerned with sustainability and with accountability. Particular features of this environment are:

- Uncertain resource availability ate its effect on long term planning
- Stakeholder power and involvement

- Conflicting priorities
- Legal environment
- Managing ambiguity

3.11 References

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3.13 Self-test questions

1. What is ultra vires?
2. What types of NFP exist?
3. What CSR issues exist for NFPs?
4. What measures of performance are typically used by these organisations?