CSR TO INCREASE ENGAGEMENT AND BUILD RELATIONSHIPS*

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The smooth functioning of markets and wider society depends upon expectations and acceptable levels of trust. However, trust in private enterprises and business leaders has fallen in a number of countries. Are companies contributing enough to society in return for the privilege of limited liability? Are they engaging their people and securing their commitment? Are they doing things with people, or just doing things to people? How deep are their relationships with stakeholders?

Why are companies distrusted? Is it because of irresponsible conduct, or because they appear not to care? Do they need a new mandate to operate in the face of pressing environmental, social, employment, sustainability and inclusion challenges? Do responses from boards need to be more holistic, innovative and fundamental than meeting minimum legal and regulatory requirements, squeezing as much as possible out of people and cutting costs to the bone?

Collective confidence in the face of common challenges and widespread uncertainty would benefit from a restoration of trust. Where there is mutual dependency there is also scope for collaboration. Is greater empathy, more engagement with stakeholder issues and closer involvement in external concerns required? Do deeper and more intimate connections with stakeholders need to be forged? Is a new agenda for social and responsible business required that goes beyond traditional concerns?

Terms such as “responsible business”and corporate social responsibility (CSR) raise the question of responsibility to whom? From a governance perspective there are the issues of identifying the stakeholders to whom a board is accountable and/or has responsibilities, prioritizing them and determining and building appropriate relationships. The interests and requirements of different stakeholders do not always coincide, Those who are unhappy with certain policies, priorities and relationships may take their labour, custom or investment elsewhere.

WIDENING PERSPECTIVES

Are corporate boards taking too narrow a view of the relationships that need to be improved? To whom is the board of a company accountable and for what? What are the nature and limits of its responsibilities? Directors who work for the future success of their companies cannot do as they please. When operating in various jurisdictions they may find that objects and other clauses in their constitutions, and a variety of laws, regulations, agreements, commitments and constraints, limit and/or prescribe what can and cannot be done.

Will boards be blamed as automation, internet businesses, self-service, e-government, robotics, drones, artificial intelligence, self-driving vehicles and the shared economy destroy and/or replace current jobs (Kaplan, 2015)? Might disaffection grow to the extent of triggering riots or a revolution? Some companies for various reasons have already faced shareholder revolts, employee resignations and defecting customers.

Directors should have regard to the interests of various stakeholders when board decisions are taken. Are boards sufficiently engaged with their stakeholders to actually know what their interests are? Might widening involvement and devoting more attention to sustainability and the social responsibilities of business help to establish shared agendas and restore public trust in companies, governance arrangements and capitalism (Bowen, 1953)?

When political and other power is in the hands of a minority, clique or small group, some means needs to be found of ensuring accountability to the majority (Durant and Durant, 1968). Where the latter are unable to exert influence on those in governance roles they may become disgruntled. Excluded individuals and groups may plot and scheme as they look for ways of exerting greater influence and bringing about change. If directors and boards are perceived to be acting against wider public interests, will there be more calls for Government intervention?

STAKEHOLDER RELATIONSHIPS

Companies are networks of relationships (Coulson-Thomas, 1992, 2002 & 2004). The challenge for many boards is how to develop these, make them more intimate, long-lasting and mutually beneficial, at a time when trust in business and business leaders is at a low level. Those who have been successful at building strategic and key-account relationships understand the importance of locking customers in (Hurcomb, 1998). Do we need new ways of of reaching, engaging, involving and developing stronger connections with customers, employees and other stakeholders and securing their continuing allegiance? Could CSR help in this?

How many directors revisit past assumptions about the purpose of enterprise, or Charles Handy's (2002) question: “whats a business for”? How many boards voluntarily engage with the UN Global Compact (2000) initiative and report steps they take towards a more sustainable and socially responsible business? Unlike short-term and algorithm driven traders, are younger people more concerned with such issues? Do they hope that business leaders will show more commitment to a wider range of such interests? Are enough directors passionate about their companies and their contributions? Should directors and boards do more to show that they also care (Cardon, 2008)?

Transparency and trust can build and sustain relationships. Would wider buy-in to a vision, mission and an ethical or performance culture, or to corporate goals, values, policies, strategies and objectives, make their achievement more likely? Where stakeholder involvement and community engagement is thought to be beneficial, how should one set priorities and best monitor, manage and resource the process? Do current governance requirements help or hinder wider engagement?

STAKEHOLDER INVOLVEMENT

Might wider and deeper stakeholder involvement yield multiple and perhaps some unexpected benefits? For example, would dialogue and greater mutual understanding help to address the issue of short-termism, or are a wider set of actions required along the lines of those suggested by the review undertaken by John Kay (2012) of UK equity markets? Is the required collaboration and combination of steps needed for a more joined up approach likely to occur when those involved are busy and have other priorities?

Who should give a lead and be involved in improving stakeholder relationships? Given the fragmentation of responsibilities for better governance and the vested interests involved, is it unrealistic to expect a more comprehensive and coordinated involvement strategy? Is short-termism less of an issue for family owned companies, where controlling family members or trustees may feel less constrained by any other owners and more able to take a longer-term view?

ICSA and The Investment Association (2017) have issued guidance on involving the stakeholder voice in board decision making. Their interests, perspectives and concerns could be reflected in the composition of a board and in the selection, induction and development of directors. Liaison committees could be established. Certain directors could be invited to understand and articulate the viewpoints of particular stakeholder groups. In some countries there are worker or representative directors on boards, although in other jurisdictions all directors are supposed to work for the future success of a company rather than particular interests.

STAKEHOLDER ENGAGEMENT

Will more involvement lead to greater engagement? Kahn (1990) introduced the notion of engagement in terms of the “harnessing of organisation members' selves to their work roles” and whether they are able to “employ and express themselves physically, cognitively and emotionally” while undertaking them. Can CSR, more responsible conduct and/or turning an organisation into a cause reach more elements, aspects and activities of some people and encourage deeper and more mutually beneficial and rewarding connections and relationships between people and organisations?

Gibbons (2006) defined engagement in terms of “a heightened emotional and intellectual connection” that an employee has with a job, organisation, manager or colleagues that results in application of “additional discretionary effort”. Could a CSR or related initiative act as a catalyst and engage people to the extent of causing additional effort and motivation? Might it reduce disengagement (Kahn, 1990)? Could it help to build bridges between work and non-work activities and between organisations and their stakeholders?

While there may be some uncertainty about what is meant by a term such as engagement (Little and Little, 2006), an issue for boards is whether greater engagement, and related and inter-related factors such as interest, involvement, meaningfulness, motivation, commitment and satisfaction, can be used to positively impact upon different dimensions of performance (Jha and Kumar, 2016; Markos et al, 2010; May et al, 2004). Could initiatives in an area such as CSR that capture the attention and interest of people lead to multiple benefits for people and organisations?

ENGAGEMENT MECHANISMS

There is some expectation that effective boards will engage with a wider range of stakeholders (FRC, 2017). This can involve regular communications, contacts and feedback, some involvement in setting CSR and/or responsible business guidelines, objectives and priorities and also opportunities to become involved in particular initiatives and/or projects. As already alluded to, some companies establish forums, advisory panels, liaison committees or other mechanisms for securing greater stakeholder involvement and more intimate connections with particular activities.

A company could explore the use of further digital technologies and social networking to engage stakeholders and build better relationships with them and with business and supply chain partners. Another issue for some boards is whether different business, organisational and governance models might better enable companies and communities to engage, collaborate and cope.

A challenge for many boards is finding new ways of igniting or re-establishing passion and commitment and harnessing them so that people will invest more of themselves in their work and into helping an organisation to achieve its objectives (Lightie et al, 2015). Might a wider and more meaningful social purpose reach, engage and connect with people and help to restore trust and build relationships? Might the greater awareness, hope and optimism this could possibly create result in more positive emotions, attitudes and behaviours (Avey et al, 2008)?

INCREASING MOTIVATION

Many people are motivated by a cause. Could a CSR initiative or wider drive to become a more responsible company be used to address an issue or concern and form the basis of a cause that could capture the interest of external groups and communities and lead to greater collaboration with them? Could a company and its operations be turned into a cause that people might wish to support or contribute to? Could the right cause reach and engage the human spirit (May et al, 2004)?

Ideal causes for companies serving a large customer base are those that have potential appeal for significant numbers of people. For example, the River Ganges is of religious and cultural significance to many people in India on top of the 450 million who depend upon it for survival and yet it is badly polluted and requires a major clean up (Mallet, 2017). Could corporate capabilities contribute to addressing this challenge? Could a company be a catalyst in securing wider support?

Boards can articulate more socially responsible goals in the hope of encouraging greater interest and engagement, but if people are not supported in achieving them might a gap emerge between aspiration and achievement that is demotivating? Srivalli and Mani Kanta (2016) suggest a relationship between organisational support and employee engagement. Companies could explore the use of performance support tools to help people to take responsible risks and deliver multiple benefits to a variety of stakeholders (Coulson-Thomas, 2012 a & b, 2013).

CREATING SHARED VALUE

Closer involvement and greater engagement and intimacy can lead to opportunities to build collaborative value-adding relationships with stakeholders that have compatible aspirations and objectives. For example, value can be co-created with customers and business partners (Prahalad and Ramaswamy, 2004; Ramaswamy and Gouillart, 2010; Ramaswamy and Ozcan, 2014). Can more responsible business practices open up new routes for creating shared value?

Do old priorities and concerns need to be replaced or supplemented with new ones? Should directors shift their focus from profit to purpose, or is the former increasingly a consequence of the latter? Can identification with issues, challenges and excluded groups and engaging with them in developing responses to their requirements be mutually rewarding? Is such identification and collaboration now more important than competitive differentiation, or is first mover advantage from doing this a new arena for differentiation and cause-related brand building?

A noble aspiration such as creating a more equitable and inclusive world and shared value through more socially responsible strategies, policies and practices presents challenges and opportunities. Despite having more power to influence and impact than most boards, Ministers frequently follow their rhetoric with fudge and prevarication as they find that allocating more benefit to some people means less to distribute to others. The benefits of redistribution are often difficult to attribute to a particular source, but people are often very aware of what is being taken from them and by whom.

Do many directors really understand the lives of the poor? Would the number of those in poverty justify more affordable offerings? Do board members empathize with those excluded? Should more untouchables serve as company directors? Are new approaches, tools and techniques required? For example, can the Social Responsibility Agenda help to build brand reputation and trust, or do these result from changed priorities and practices? Without delivery and concrete achievement, might soaring rhetoric be taken as a further example of corporate “bullshit” (Ball, 2017; Davis, 2017)?

CSR JUSTIFICATION

Some benefits from greater involvement, engagement and collaboration take longer to achieve and are more difficult to measure and attribute to a cause than others. A CEO or board may feel that the benefits of corporate social responsibility (CSR) are self evident. Others may look for evidence and expect any use of corporate capabilities to be justified. They may question whether claims that relationships are improving are or will lead to tangible outcomes and benefit them.

For CEOs who are under pressure to justify activities, initiatives and priorities, an important question is whether if the people of an organisation feel more positive as a result of them this will benefit the implementation of positive organisational changes needed to cope with various challenges and address opportunities (Avey, 2008). For some companies CSR may simply be a matter of using a modest proportion of the corporate capabilities and resources that one can control to undertake some worthy and socially beneficial activities, ensuring they receive the maximum of publicity and then basking in the accolades for being an enlightened business leader. Once the reality of a situation is known, such an approach might further damage trust rather than rebuild it.

Is the challenge for CEOs one of having an acceptable justification up one's sleeve in case CSR activity is questioned and avoiding being too greedy by not devoting so much effort to CSR as to divert effort from the achievement of other corporate objectives of greater concern to influential stakeholders? Is such a question realistic or too cynical? Does it miss important considerations?

MEASURING AND REPORTING OUTCOMES

Justification is easier if it can be shown that CSR initiatives and programmes are cost-effective and productive and that as learning occurs they become more efficient and performance increases in terms of social outcomes compared with the effort put in and other resources committed. How should the extent to which companies are socially responsible and/or CSR and other initiatives are effective in yielding external benefits for stakeholder communities be measured?

Since the 2008/9 financial crisis productivity in some parts of the world has stagnated (Harari, 2017). Views differ as to the cause or causes. Is it a lack of investment, a shortage of skills or a slowing of innovation? Is labour being hoarded? Is increased functionality - such as that of contemporary mobile devices - not being recorded as additional output or value because many prices have fallen, been static. or have only recently increased? Should we be taking a wider view of productivity and performance and assessing social productivity and social performance?

From a CEO perspective, the reporting of extensive and successful CSR activity can be very risky if accompanied by poor corporate financial performance. While views differ on whether there is a link between CSR and improved financial performance, there is evidence - based upon a study of the dismissals of 98 CEOs at 90 Fortune 500 companies between 2003 and 2008 which used elements of the MSCI KLD social index to measure CSR - that a CEO is viewed more positively for delivering good financial performance while being socially responsible (Hubbard et al, 2017). However, when financial performance is poor, the study found effort devoted to CSR can be seen as distraction from concentration upon financial results. This can increase the risk of CEO dismissal.

LEGITIMACY AND COUNTERVAILING POWER

There may be some stakeholders such as regulators that companies might not wish to engage. Following the 2008 financial crisis, could further consequences of governance failures that impact on total populations and/or local communities lead to even more questioning of governance practices and the legitimacy of the power exercised by some companies and strong CEOs? What further checks and balances could and should boards and/or regulators introduce? Might such intervention lead to unintended consequences and are there some risks for which regulation and other forms of intervention might not be appropriate (Better Regulation Commission, 2006)?

Even if they do not necessarily agree with them, people are often more comfortable with decisions if they believe that due process has been followed and the exercise of power has been legitimate. Hence the importance of effective board processes and procedures. Were other options or competing proposals considered? Is sufficient time allowed for the discussion of agenda items? Has a board exercised moral and ethical leadership? Is the right tone being set from the top? Is a board earning respect as a result of its own conduct? Is it behaving in a responsible and sustainable way? Are relevant interests and parties consulted? Would the legitimacy of decisions increase if an element of democracy were introduced into governance and management practices (Arneson, 2003)?

When companies ignore national and international action to tackle their use of transfer pricing to avoid paying taxes where their customers reside, or to obtain access to customer information to identify damaging criminal activity such as laundering the proceeds of drug sales, international society sometimes seems to lack a leviathan that is able to bring them to heel (Hobbes, 1651).
Where companies have a degree of competitive and market dominance, and customers lack alternatives, their people may feel that they can get away with irresponsible conduct.

In the past dominant multinational companies have thrown their weight around in some countries to such as extent as to be considered actors in international society who are able to exert influence on states and other non-state actors and protect and actively defend their interests (Wagner, 2010). This raises the question of what new sources of countervailing power can help to contain abuse of such power, whether the use of the internet and social media or the emergence of an international civil society or public opinion (Warkentin, 2001). Companies that do not act responsibly and build mutually beneficial relationships with stakeholders may trigger forces that bring them to heel.

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