

Corporate Social Responsibility and Public Policy

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(1) Global Background

In an era increasingly concerned with sustainable development, corporate social responsibility has come to be discussed globally, and further the role of business in society has come to be reconsidered since the 1990's. The background to the increasing demands for CSR is as follows: 1) Exposing negative aspects of globalization, 2) The expansion of and movements in NGO activities, and 3) A growing number of voices demanding the sustainable development of the socio-economic system. This concept of 'sustainable development' includes both current and future needs, benefits for both developed and developing countries, and aspects of both environment and society.

At the same time, the following topics have been widely discussed recently:

- 1) Conventional and new versions of the questions: "Who owns a corporation, and how should it be governed?". We need to reconsider systems of corporate governance in relation to stockholders and other stakeholders.
- 2) Corporate scandals/crimes in domestic and global market societies concerning issues on the environment, human rights, safety, bribery and corruption. Supervisory government agencies have been cracking down rigorously on these recently. Rating Agencies downgrade the evaluation of businesses proven to have been deceitful, which leads to sharp declines in the market share value of such companies.
- 3) Arrangements on ISO/SR guidance, the diffusion of the UN's Global Compact initiative, and so on. They impact discussions of CSR in global market society.

Until recently in Japan, the essence of CSR has been thought of as the manufacturing of good, quality products, and the creation and retention of employment. Lately, however, CSR is being sought in the process of business management itself. Environment, society and governance are regarded as material factors in management. Now we can define the basic concept of CSR as follows: to incorporate social fairness, ethics and environmental considerations into management practices.

(2) Changes in the positioning CSR on the marketplace

Most companies have considered social responsibility as a passive response to social pressure from the outside market. Now however, companies are positively responding to CSR demands. CSR is beginning to be incorporated into management processes in areas of investment, finance, and procurement. In other words, both the production process and the management process have become important factors in evaluating business, in

addition to the more traditional factors of quality and cost of products. Further, because the power of choice that consumers and investors hold in the marketplace puts pressure on companies, this behavior serves as a message from the market, providing either positive or negative sanction. Comprehensive evaluations of corporate financial and non-financial value are developing in the market. The market is beginning to choose socially responsible and sustainable companies.

As CSR becomes the norm in the market society by being incorporated in the areas of investment / finance (SRI), procurement and transaction, corporations need to build a system that embeds social fairness and environmental sustainability into the foundations of efficient production processes - whether they like it or not. As the demand for socially responsible business activities grows, the positioning of the concept of CSR in the marketplace is gradually shifting, as it moves from being considered a “social-peripheral issue” to an “economic-central issue” (Figure1).

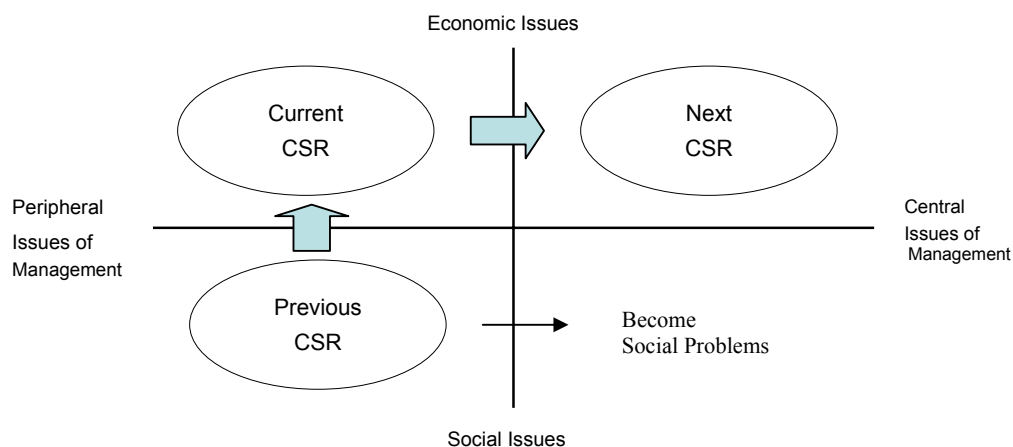


Figure 1 The transition of the positioning of CSR in the marketplace

(3) Social Dilemma and Public Policy

Many companies consider CSR to address environmental and social issues as voluntary and spontaneous activities. However, if individual companies address CSR issues only discretely, there will be no automatic link to the sustainable development of the whole socio-economic system. This is the so-called “Social Dilemma”; it is a paradox that individual rationality conflicts with collective rationality. To overcome this dilemma, we need to set certain “rules”. For example, voluntary rules by industrial associations, ethical norms by NGOs, and global standards by international organizations, take some moderate roles to set a framework. Public policy plays a significant and indispensable role in creating an overall framework for companies to readily address CSR issues, and to encourage the development of CSR in the

marketplace. We can point out three fundamental roles for the public sector in the enhancement of CSR.

1) Regulations: to create a legal framework to control business operations. There are two basic mandating approaches: hard regulations and soft regulations. The former approach is not necessarily an appropriate way to enforce CSR in general. This is an indispensable approach, for example, in protecting consumers through the regulation of toxic substances. The latter approach is not intended so much to control business stringently, but rather to set an appropriate framework to enable businesses to tackle CSR issues. Incorporation of CSR into the criteria for public procurement practices, and introducing SRI methods into parts of public pension fund management are also applicable approaches. These are an important ways to create a socio-economic environment, as well as being significant in enabling the next role: Encouragement” .

2) Encouragement: to create institutionalized encouragement to enhance CSR. This approach is concerned with setting fiscal frameworks, granting awards to socially responsible companies, and promoting CSR awareness activities. Another method is the promotion of voluntary benchmarking by setting standardized guidelines for CSR reports, social labeling, etc.

3) Collaboration; to create collaborations between government, business and NGOs. It is not possible for government alone to mainstream CSR in market society. It is important to collaborate with other sectors to formulate CSR policies, and to address local/global community development.

For example, UK Government (Department for Business, Enterprise and Regulation Reform, former Department of Trade and Industry) leads the way in promoting CSR, and ensures that CSR will contribute to the nation’s economic, social and environmental development. The department encourages the spread of responsible business practice, and explores and demonstrates the links between CSR and business performance, and competitiveness. It creates CSR policy together with other sectors, and other ministries. Its goal is “to support business to achieve their sustainable development goals with all stakeholders” .

A broad perspective is needed in setting public policy. Policy tasks are required at three levels in order to embed CSR in the market society (Figure 2).

1) Macro Level (Government): Creating institutionalized encouragements to promote CSR. CSR will be integrated with industrial policy (setting a legal and fiscal framework). One of the most important policies is to create a future vision for building a sustainable socio-economic system. Setting up a platform where stakeholders can participate and discuss this vision is a significant challenge. The most major tasks are how to

collaborate with other sectors, and facilitate cooperation among related ministries.

2) Intermediate Level: The respective roles of industrial associations, labor unions, consumers groups, human rights groups, NGOs, universities and research institutes, etc. These organizations play crucial roles in the development of CSR in the market society. They need to promote collaboration with business and with government in order to address social problems.

3) Micro Level (corporations): Implementing CSR management practices within each company. Business corporations need to develop innovative approaches to incorporate CSR into the management process, and also need to promote social innovation to ensure practical outcomes by tackling environmental and social issues.

1)	Macro Level	Government
	<ul style="list-style-type: none"> • Future vision, strategic direction • Regulations: hard and soft regulations • Encouragement • Collaboration 	
2)	Intermediate Level	Industrial associations, labor unions, NGOs, research institutes, etc
	<ul style="list-style-type: none"> • Set a code of conduct, norms • Awareness activities of CSR • Support, coordination, collaboration 	
3)	Micro Level	Corporations
	<ul style="list-style-type: none"> • Implementation of CSR management (Vision, strategy, PDCA) • Promotion of social innovation 	

Figure 2 Three Levels of Policy Tasks

Related Literatures (Kanji Tanimoto) :

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