10 The Role of Business in Social Development : Understanding the Concept of Corporate Social Responsibility

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INTRODUCTION

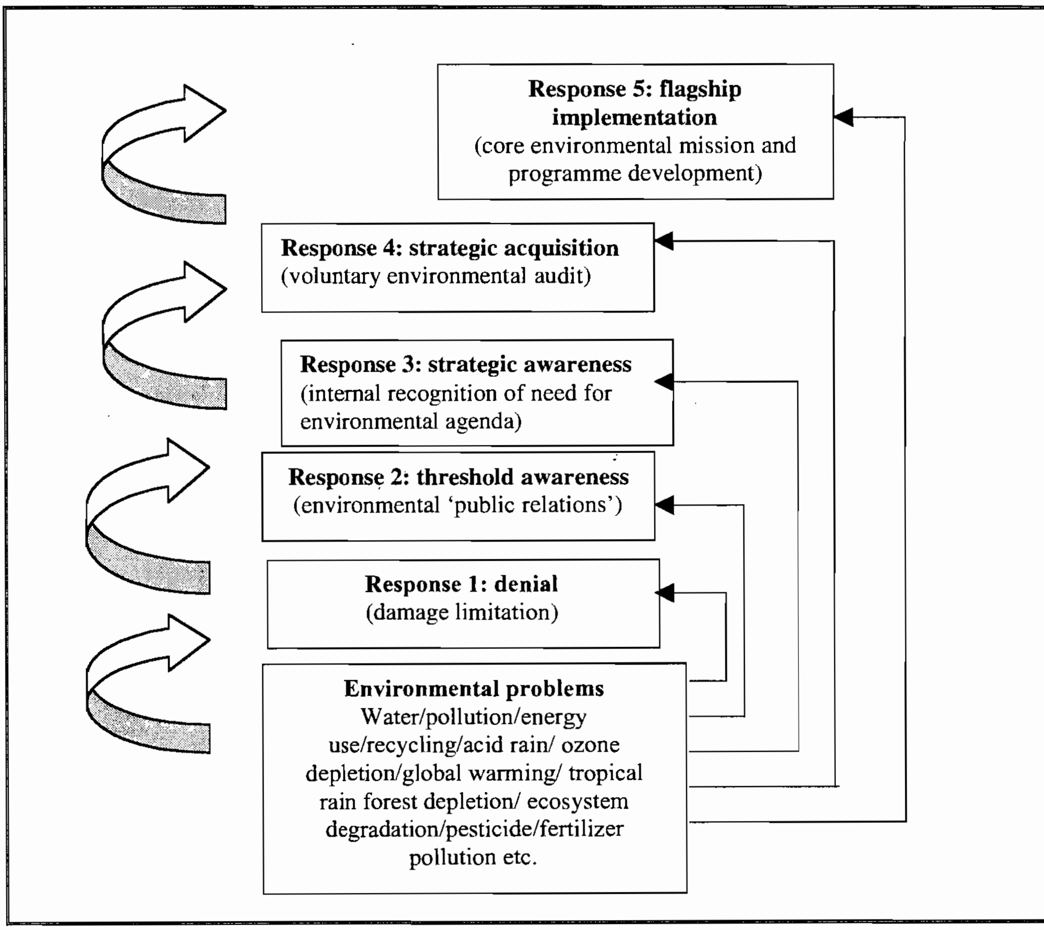
Community development is one of the myriads of issues that lie under the umbrella of Sustainable Development, defined by the World Commission on Environment and Development (1987) as 'development that meets the needs of the present without compromising the needs of the future generation'. The pressing need to address sustainable development issues has been addressed in the Brundtland Report *Our Common Future,* which among others explores the role of business (manufacturing or service-based) in promoting sustainable development. This suggestion underscores the original perception of business as being solely a profit-minded entity, thus providing a challenge of how a business can incorporate environmental and social concerns without jeopardizing its own survival. The challenge fundamentally lies in the way business has reacted to environment and social issues in the past. At the time, business was seen as having no negative impacts to the people or the environment and any environmental protectionism was considered a nuisance, unbeneficial and would reduce business's competitiveness. Figure 1 demonstrates the laggard response taken by businesses to environmental legislation and the corresponding tactics used by corporate.

This attitude has however, changed with time in the developed countries as a result of increasing environmental regulation and legislation. Among the drivers for the increasingly 'positive' relationship are government concerns and environmentalism among consumers and social movements everywhere. Other factors include the Brundtland Report (mentioned above), global technological advancement as well as attention from the politician and media on green issues. The establishment of environmental and social groups in developing countries have also played a role in pressuring business to respond positively to environmental issues in the concerned countries.

However, a systematic response to environmental pressures by business began in the 1990s. Large corporations began to show willingness to be transparent and reactive to NGO's campaign, consumer demands, media reports and political pressures. In fact, some important TNCs not only 'jumped into sustainable development bandwagon, but also led it' (Uttings, 2000). One significant move by business is the establishment of, what is known today as, the Business Council for

Sustainable Development (BCSD) by large corporations, to discuss environmental issues ranging from energy issues to biodiversity. BCSD (currently known as World Business Council for Sustainable Development (WBCSD) is the body that pinpoints the need for the business community to develop international environmental management standards to enable 'globally operating businesses to abide by the same rule where the environment is the concerned'.

Figure 10.1: Corporate Responses to Environmental Challenges



Adapted from Ledgerwood, G. S, E. & Therel, R. (1994). The environmental audit and business strategy: a total quality approach

Zadek & Lamb (1999) has noticed the changing discourse within the business community (Table 1), which further confirmed the changing attitude of corporations towards environmental and social issues affecting them.

Table 10.1: The changing discourse

The shift of language of business statements relating to 'doing good' to environment and society: ❖ If being good is good for business, then we will be good; to ❖ It is good for business to be good; ❖ It is necessary for business to be good Recent statements by BP illustrate the third level: " A good business should both be competitively successful <u>and</u> a force for good" (BP 1998 in Zadek, 1999)

Adapted from Zadek and Lamb, 1999, p.26

A combination of factors, globalization, information technology, increase in uncertainty of environmental risk (genetically modified food, global warming), green consumerism and concerns of business enterprises worldwide, have provoked business in developed countries to take initiatives such as 'the international environmental matters' by proposing several regulatory mechanisms. Those mechanisms include environmental management standards such as the internationally recognized and implemented ISO 14001 and EMAS as well as certification and labeling systems such as the EU eco-label and Blue Angle.

Business's new outlook towards environmental responsibility is a welcomed change. Its increasing power and its global influence make it the best vehicle for bringing about a more sustainable future. However, as noted by Gladwin (2000), the obstacles and barriers to bringing about an environmentally efficient as well as socially impartial economy are considerably difficult, and will require change that is more revolutionary and painful but will simultaneously yield more opportunities for organizational revitalization, improvement and involvement.

But how can business bring change? One school of thought suggests the 'eco-modernism theory' as a means for business to protect the environment without sacrificing economic development. The theory suggests development, growth and the creation of economic surpluses that are needed to deal with social issues like poverty and pollution (Schmidheiny, 1991). It dwells on the idea that societies cannot overcome poverty, improve the welfare of their people or protect the environment without economic growth.

The eco-modernism perspective has proposed the use of 'eco-efficiency' which was later expanded to 'sustainable production and consumption' (SP&C) as tools for realizing business contribution to the environment. The former is based on the premise that environmental degradation can be minimized via the use of technologically driven solutions such as energy saving features, green building designs, waste management techniques and so on. The latter is based on the premise that sustainable production and consumption can be achieved if business, government, communities and households strive for efficient production and use of natural resources, the minimization of wastes, and the optimization of products and services (www.wbcsd.org).

However, limiting sustainability to technological solutions conveniently ignores the fact that wealth gap between the rich and the poor is one of the main causes of environmental degradation. Over-consumption by the rich, and the survival pattern of the poor, are the major reasons why the world's resources are being over and unsustainably harvested. Eco-modernism obscures the difference between development and growth, thereby translating sustainable development into an array of opportunities for 'business-as-usual'. In fact, the call for transfer of (costly and therefore only affordable to big corporations) environmentally-friendly technology only serves to show the agenda of major international companies to increase their presence in the global market and further colonize their operating environment for commercial results (Welford, 1997). The emphasis on 'eco-efficiency' i.e. 'the search for environmental improvements that yield parallel economic benefits' (www.wbcsd.org), is criticized as insufficient as it deals with only two of the three elements sustainability, in i.e. economic and environment, while leaving out social progress.

Genuine sustainability also demands community development issues such as poverty alleviation, population stabilization, female empowerment, employment creation, human rights observance and opportunity redistribution on a massive scale (Gladwin, 2000). Thus, to be a vehicle towards a sustainable future, business must go beyond cost-saving measures and focus on these social issues as well. Otherwise, inequality will 'reduce life quality by fostering poverty-induced resource deterioration, affluence-induced over-consumption and injustice-induced socio/economic/political disruption within and between countries' (Gladwin, 2000, p.2).

The challenge is that harmonizing business with environment, which is now signaling strong and positive responses (www.wbcsd.org), seems to be easier than harmonizing business with human and community development. This is where the concept of corporate social responsibility is relevant. It is a concept that aims to expand business's responsibility to both environmental and social issues. In other words, any effort by business to design and implement sustainability measures must take both issues into consideration.

CORPORATE SOCIAL RESPONSIBILITY (CSR): A CONCEPTUAL ANALYSIS

There are many terms used to describe how business should interact positively with the community, among them are 'Corporate Involvement in Community and Economic Development' (CI in CED), 'Corporate Community Involvement' (CCI), 'Corporate Citizenship' (CC) and 'Corporate Social Responsibility' (CSR) and more recently 'Corporate Engagement' (CE) which is offered as a more comprehensive term compared to the others (Zadek & Amalric, 1998). However, just as the theoretical framework surrounding the 'greening' of industry (industry being more environmentally-friendly) is theoretically underdeveloped and empirically untested, these terms also lack 'clear definitions and remain ambiguous (despite the fact) that they have been a popular target for academic research' (p: 16). The myriads of names notwithstanding, these labels basically refer to the same concept, i.e. the responsibility of business towards the environment and the society.

While a single, commonly accepted definition of CSR still does not exist (www.bsr.org), it generally refers to business decision-making linked to ethical values, compliance with legal requirements, and respect for people, communities and the environment. It is about operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. It is more than a set of isolated practices or occasional gestures, or schemes driven by marketing, public relations or other business benefits. Rather, it is regarded as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are encouraged and rewarded by top management.

A definition given in the Conference Board of Canada's meeting (refer table 2) sees CSR as more holistic in nature, extending beyond philanthropy and volunteerism to incorporate the changing mindset and corporate culture that see values interacting with society above and beyond simply satisfying customers and shareholders (Khoury et. al., 1999).

Zadek and Lamb (1999) added to the definition of CSR by emphasizing it as the 'conscious intention' and approaches of business to its activities that seek to increase positive and reduce negative impacts on society (workers, consumers, local communities) and the natural environment. The authors further assert that ethical business covers a wide range of aspects including labor standards, broader dimensions of human rights and the environment. It is synonymous to 'good business practice' but its initiatives aim to act directly on business behaviour through the incorporation of environmental and social goals in addition to financial goals – regardless of the effect - either independent, reinforcing, or in conflict with one another.

Table 10.2: The Overall Relationship between a Company and its Many Stakeholders

Definition of CSR

CSR is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental responsibility, human rights and financial performance.

Specifically, CSR is about producing and/or delivering socially and environmentally responsible products and/or services in an environmentally and socially responsible manner. It is about a company's commitment to being a fair and equitable employer. And it is about strategic social investment.

Adapted from Khoury et. al., (1999).

Theoretically, CSR has been examined using several frameworks. In 1970, Friedman suggests that CSR is an indication of problem or conflicts between managers and shareholders of a firm. This position is also known as the 'agency theory', which argues that managers use CSR to further their own agendas, at the expense of shareholders.

The agency theory has been challenged by others who instead proposed the Corporate Social Performance (CSP) framework. Carroll (1979) asserts that this framework includes the philosophy of social responsiveness, the social issues involved and the many categories of social responsibility.

This theory is further refined by Donaldson and Preston (1995), who added three dimensions to the theory - normative, instrumental and descriptive. According to the authors, there are three justifications to stakeholder theory namely descriptive, instrumental and normative. Stakeholder theory is descriptive in that it presents a model to describe the organization. It is instrumental in that it establishes the framework for examining any links between the practice of stakeholder management and the attainment of organizational goals. Finally, it is also fundamentally normative as it involves the acceptance of the following ideas: 1) stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. Stakeholders are identified by their interests in the corporation, whether or not the corporation has any corresponding functional interest in them; and 2) the interests of all stakeholders are of intrinsic value. Each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners (Donaldson and Preston, 1995).

On the other hand, the authors' theory is limited in that it is not able to clearly show specific links between cause and effect. For example, the theory makes connections between stakeholder approaches and profitability, but stop shorts of exploring specific links between them. This effectively reduces the attractiveness of 'being green' to business. Data on the effects of responsible actions on business processes and finances are the most convincing to the 'disbelievers' (business managers skeptical on the benefits of corporate social responsibility). The authors made an analysis on the type of information that could convince business managers, and found that data on responsible activities which have an impact on a business process that disbelievers believe to be critically important to success (of which financial gains is an indicator), are more likely to be able to convince these believers of the benefits of being responsible. Absence of such proof would reduce business' desire to change.

More recently, Jones and Wicks (1999) suggest converging the instrumental and normative components of the stakeholder theory as a descriptive theory that explains 'how managers can create morally sound approaches to business and make them work' (p. 206). Considerable attention has also been given to the instrumental aspect of the Stakeholder Theory and how it relates to conventional theories on economic and corporate strategy. Jones (1995) devised a model that integrates both ethics and economic theory. He concludes that businesses that cooperate with stakeholders are more driven to demonstrate an honest commitment to ethical behavior. Consequently, a lasting and productive relationship will develop; giving the firms the much needed competitive advantage.

McWilliams (2001) outline a supply and demand model of CSR to further develop the instrumental aspects of CSR. Assuming that the management of publicly held firms attempts to maximize profit, the author proposes that CSR is a form of investment. It is also proposed that at some level of CSR, determined by cost-benefit analysis, there is a balance between profit and stakeholder demands satisfaction. Thus, to maximize profit, the firm should offer precisely the level of CSR for which increased revenue (resulted from higher demand) equals the higher costs of using resources to accomplish the requirements of CSR. In short, managers need to treat decisions relating to CSR precisely as they treat all other business investments (McWilliams, 2001).

Besides theoretical discourses, CSR has also been discussed from an applied perspective. Specifically, the seemingly narrow focus of CSR on environmental issues, leading businesses to focus solely at the environmental dimension while ignoring the social dimension has been subjected to criticism. As stated by Nancy Bennet, program officer of the United Nations Environment Programme's (UNEP) Industry and Environment office (in Hoffman, 1997): "Environmental management (EM) has come and is certainly not about to go, but the next big challenge is about integrating social issues onto the traditional environmental management tools". In other words, to be socially responsible, business essentially has to incorporate two broad dimensions - environmental and social into their core practices. The environmental dimension involves the need for business to operate in an environmentally friendly way by incorporating measures such as energy saving initiatives, resource minimization (through recycling, reducing or reusing resources) initiatives and various other measures. The social dimension of the concept involves a wide range of actions taken by companies to contribute towards the positive development of the communities in which they operate. Community involvement can take several forms, the most common include charity, social investment (in areas of education and social problems such as homelessness, unemployment or exclusion), partnerships with the community to help them achieve communal aspiration, and business basics i.e. providing products and services which society needs and wants in an efficient, ethical and just manner.

Hoffman (2000), on the other hand, is skeptical about the inclusion of social equity and other social issues in the business agenda. He contends that integrating the values underlying social issues into the market system may pose the most challenging as it runs contrary to the norms and nature of business. According to him, while environmental problems are highly visible and clearly threatening to almost everyone, the social equity components of sustainable development are not so evident, and are inherently about 'distributing resources from those who presently have to those who are presently without' (p:8). Thus, corporations may find these to be at odds with the self-advancing and resource-consuming nature of the market system. Companies attempting to tackle social equity issues are leaders of substantial change and may indicate the potential transformation of industrial norms. However, they do not represent a systemic response from business. However, as asserted by Zadek & Lamb, (1999), several significant steps forward in the incorporation of the social dimension of sustainability among the business community indicate a desire to deal systematically with this aspect. This, they further assert, signify an important step forward in the tackling of social responsibility.

There has also been suggestions that CSR is essentially business' fulfilling its 'three bottom lines' i.e. profitability, environmental responsibility and social responsibility. This metaphor is useful in getting business managers and boards to conceive the possibility of concentrating on bottom lines rather than profit alone. However, Zadek & Amalric (1998) have identified that the metaphor fails when one tries to implement it. The problem, according to the authors, is that as sustainability is a system condition and organizations are subsystems, the relationship between the two levels in understanding the path to sustainable development is not clear. They illustrate this in terms of the dilemma in pollution control: less pollution is good from the point of view of environmental sustainability but from the overall sustainability point of view, less pollution could also mean putting people out of work and this affects the social dimension of sustainability.

Thus, much discourse has been given to the need for business to find a balanced approach towards CSR. CSR initiatives, when strategically designed and executed, should not only bring value to recipients, but also enhance the reputation of companies and their brands, products and values in local communities where they have significant commercial interests - as well as around the world (Watts, 1999).

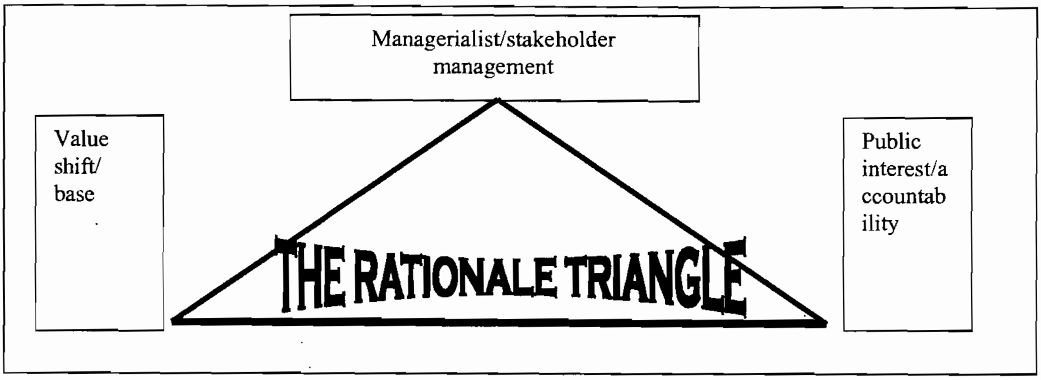
Leadbeater (2000) explains the benefits of social responsibility within the context of the emerging 'new economy'. According to this author, there are essentially six reasons why ethics should be the center of business concerns: 1) companies in the knowledge-driven economy thrives on new products and processes, which in turn depend on the talent and creativity of the workers. Increasing evidence have shown that bright, young, intelligent and mobile individuals decline to work in companies with poor social reputation, 2) the importance of public trust in the exploitation of knowledge dictate that companies cannot do with public distrust. Giving the example of Monsanto and others, the author stresses that companies facing public confidence problems will not be able to innovate, 3) with increasing influence in the political domain by powerful companies, business are no longer strictly a private sector. Instead they are as much a part of the political process as the government in environmental issues, 4) companies especially TNCs are exposed to the 'immediacy' and power of modern communication. Thus practicing double standards is highly risky, 5) trust is becoming more and more important in the shift towards the global production and trade of intangible services, and finally, 6) social engagements can help spur innovations within a company. An example is IBM's effort to get schools to deliver education digitally which is made possible through IBM's reinvention of the education programme.

Zadek & Lamb (1999), established the 'rationale triangle' as to why companies should strive towards sound business through social aspects of sustainability (Figure 10.2). The rationale include a) the managerialist rationale, i.e. that to survive and prosper in society, business needs to know the on-going issues and event, the perception of the people, the best approaches to use and influence this perception through managerial understanding and appreciation of stakeholder needs and views, and the patterns of demands that are likely to arise in the future; b) the public interest rationale concerning the ability of society to make business respond to changing interests and needs. In this perspective, business is not simply choosing to undertake social accounting, but is demanded to do so by stakeholders; and c) the value shift in business rather than a compliance or managerially-based response to new pressures.

There are currently numerous websites that advocate success stories and benefits of corporate social responsibility. Some examples include www.globalcompact.org

, www.bsr.org and www.ethicalcorp.com for business in general as well as www.ihei.org and www.ih-ra.com for service-oriented business, particularly hotels. My own analysis of the literature for an economic course has found seven key economic benefits received by companies embracing the concept of CSR. These include: 1) enhanced financial performance; 2) reduced operating costs and increased efficiency; 3) increased market share; 4) enhanced business competitiveness; 5) enhanced company image; 6) increased access to market and capital; and 7) increased customer goodwill and loyalty (Kasim, 2001).

Figure 10.2: Rationale for Business' Need to be Socially Accountable



To reap the benefits mentioned above, there are two major formal approaches currently available for business to be socially responsible, i.e. voluntary initiatives and codes of conduct. These two different approaches provide a choice for business when deciding policies and practices towards embracing the whole concept of corporate social responsibility.

VOLUNTARY INITIATIVES

Companies whose managers have a strong sense of corporate responsibility often introduce good environmental policies. The reason could vary from maintaining good environmental reputation and thereby maintaining competitive edge to protecting their companies from lawsuits, losses and regulatory pressures. The trend towards voluntary initiatives towards environmental protection started in the late 1980s, with companies such as 3M, Chevron, Texaco and Dow Chemical publicizing the view that tough environmental policies provide financial saving. Voluntary initiatives have gained significance from the widespread perception that the "command and control" approach is failing to live up to its expectation due to poor implementation of nation states.

Voluntary initiatives are actions taken by a company, industry, government or third party that go beyond existing environmental laws and regulations. It is a generic term for 'voluntary agreements', 'voluntary standards', 'voluntary codes of conduct', 'guideline principles' and various other similar terms. Voluntary initiatives vary in scope. They can be : 1) the commitment by a company to achieve environmental targets beyond what is legally required; 2) unilateral codes of conduct adopted sectoral industry associations at national or international level; and 3) agreement between governments and a company, groups of companies or industry sectors on environmental performance.

Voluntary initiatives are perceived to be better than government regulations because they are more flexible to suit the rapidly changing or complex situations, they improve dialogues and trust between business, government and the public and they provides opportunities for innovation. However, voluntary initiatives are efforts that come from the business itself. Thus, they require strong commitment and political will to design and adhere to effective environmental measures. Goals set in the initiatives must be meaningful and require full co-operation of stakeholders in preparation of the initiatives. Once implemented, monitoring is required to ensure successful results. The results then need to be communicated to the public to get feedback on how to improve. As emphasized by Bjorn Stingson, president of the World Business Council for Sustainable development, Australian Institute for Company Directors:

> *The management of company reputation is a central element in managing a corporation today. In a globalized and transparent world, the value of brands including the overall corporate identity is growing. The risk of damaged reputation is also increasing as the visibility increases. To be able to defend against accusations companies increasingly find that they must explicitly state and communicate what values and principles they base their operations on. They must also be prepared to openly communicate how they live up to these values and principles and increasingly accept third party verification of this.*

CODES OF CONDUCT

Codes of conduct are slightly different from voluntary initiatives because instead of relying solely on the internal (and perhaps altruistic) motivation of the company to be socially responsible, codes of conduct are drawn from the 'external push' of the government or the industry itself. Many exercises that award companies for CSR are based on codes of conduct or principles of ethics and standards specifically designed to guide a company's social responsibility measures. One example is the codes of conduct developed by the International Labor Organization (ILO), which were adopted by the Federation of the Sporting Goods Industry and the International Council of Toy

Industries in 1997 to address social issues such as child labor. Other international codes of conduct that cover other issues have also emerged. Among the most renown is the series of standards prefixed by ISO (example - ISO 14000 which deals with environmental issues). With the ISO standards, companies will be certified and this will give them the needed advantage when trading internationally.

Social Accountability 8000, which tackles human rights and labor conditions, has been developed by the United States Council on Economic Priorities Accreditation Agency. The Eco-Management and Audit Scheme (EMAS) was designed by the European Union while the Forest Stewardship Council has issued forestry-related standards. Eco-labeling schemes, such as Germany's Blue Angle and Thailand's Green Labeling Scheme, have also emerged to add up to the numerous codes of conduct already existing. There are also labels that categorize goods to be 'socially-friendly'. One of the earliest is the Rugmark, a certification that child labor is not used in the production of carpets in India.

The emergence of codes of conduct has been accompanied by the call for systems of verification to ensure companies' claims are substantiated. While internal verification or control (Brown, 1996) is perfectly accepted as a form of evaluation, there have been calls for more emphasis on external verification to ensure impartiality and credibility (Zadek & Lamb, 1999) followed by the mushrooming of international accounting and consulting firms such as Ernst & Young, KPMG and Pricewaterhouse Coopers offering their services in this regard. Some companies go a step further in ensuring credibility by adding NGOs in their list of external verifiers. One example is Mattel, a toy company who invites local activists to sit in the independent monitoring committee for its factories. Such steps have been lauded as strategic for a company's reputation and competitiveness.

Companies are also using social labelling supported by effective monitoring and verification against agreed standards. Among examples of social labeling are the 'Rugmark' associated with monitoring the use of child labor in India's carpet production, the fair-trade marks of the Max Havelaar Foundation in the Netherlands and the Fairtrade Foundation in the UK for fairly traded coffee, the social label awarded by the Abring Foundation in Brazil to companies that do not use child labor (Zadek & Lamb, 1999).

Ethical investment is an external tool to drive companies to be more socially responsible. According to the US Social Investment Forum (in www.bsr.org), the total value of all 'responsibly invested' assets under management in the US jumped from USD639 billion in 1995 to USD1.185 trillion in 1997. The same encouraging scenario is also happening in Britain and Europe, though less so.

PRECONDITIONS FOR CSR

To be socially responsible, companies need the right internal and external environments as preconditions. For many businesses, the process of change is best understood with an insight into the external drivers of change. Business approach to environmental and social issues has largely been driven by three elements namely opportunity, insecurity and threat. With regards to 'opportunity', environmental and social issues are seen as methods to improve their environmental performance and social responsibility and at the same time provide benefits to the companies themselves through improvement of image, cost-saving, public relations and the like. However, 'altruism' or a reflection of a responsible attitude is hardly a factor in approaching environmental and social issues based on opportunities (Eden, 1996).

As for 'insecurity', business responds are the result of anticipations about future changes – be it the results of changing government policy or a change in market demand. A proactive corporation would acknowledge uncertainty as opportunities to get the needed competitive edge. This "win-win" approach, as advocated by Porter & Van Der Linde (1996), sees environmental challenges such as tight environmental regulation as means to improve competitiveness capacity and must be taken advantage of. Welford (2000) also highlights the potential of CSR when he states:

> Rather than see corporate environmental management within the 'business-as-usual' context (which is what ecomodernism does), the environment and the concept of sustainable development can actually be at the forefront of competitiveness strategies, driving environmental, social and economic performance in positive directions. Rather than put the emphasis of competitiveness on cost reduction strategies, which are often inconsistent with sustainable development, there is a need to see competitiveness enhanced through a degree of differentiation which is, in fact, fully consistent with sustainable development.
>
> (Welford, 2000; p.12)

'Threat' affect business responds to environmental and social issues in the form of negative external pressures such as new regulations, NGO and consumer boycotts, rival media, public or community, contractors or suppliers or changing investor's requirements. Each of these pressures may be intertwined or influence one another to produce the strongest pressure for corporations to respond accordingly. Legislation for example, is not a principal or explicit part of the pressure but is a consequence of other pressures (Roome, 1992) such as public perception and scientific developments. Legislation can also be prompted by public support, NGOs, national and international politics. However, in itself, regulation can exert heavy pressure including negative consequences of noncompliance including 1) non-compliance penalties; 2) product elimination, substitution, and the banning or restriction of raw materials.

The influence of the public-community pressure, which is also linked to consumer pressure (Eden, 1996) and to a lesser extend the NGOs, can also provide significant external preconditions because of its power: 1) to influence legislative process and change their buying habits; 2) to curtail future development; and 3) to launch third party and citizen suits. As for the contractors or suppliers, they may be able to pressure a company via liability or boycotts.

Table 10.3: External Preconditions and Sources of Pressure on Companies Change Towards CSR

Drivers of Environmental Performance	Order of Significance	People/agencies involved in influencing company behavior	Order of importance
Existence of Government legislation	*Most Significant* ↓	Local authority	*Most Significant* ↓
Community demand		The Local community	
Existence of trade legislation		Trade associations or pressure groups	
Customers demand		Consumer associations	
Commercial and image related pressures		Media	
Public opinion	*Least Significant*	Local pressure groups	*Least Significant*
Management conscience		Individuals in management	

Adapted from Eden (1996)

Internal preconditions, as suggested by the Stakeholder Theory, can also influence business responses to environmental and social issues. The first type of internal precondition is the pressure from stakeholders such as the investors and employees. These stakeholders can exert influence from discontentment on 1) environmental fines and liabilities which lower profits, 2) lack of progress toward environmental goals, and 3) company's failure to raise new capital or attract new investors. The employees can also pressure the company in cases where accidents occur due to a lack of training or awareness and if there is a perceived non-commitment by top management, which may spark the tendency to whistle-blow. The purpose of an environmental plan in this case would be to inform shareholders, management, and employees of a firm's **position vis-à-vis environmental issues, which may** reduce the potential risks listed above. In general, the more pressure a corporation is under to take into account the environmental impact of its actions, the more likely it is that the firm will.

The second type of internal precondition is the financial position of the company. In fact, Zadek & Lamb (1999), suggest that financial position of the company is the strongest internal influence on a company's decision to 'green' itself. This is especially true at the initial stage of the 'greening' where a huge amount of financial capital is needed to plan and implement. Thus, the more capital the company has, the more likely for it to support the costs associated with implementing an environmental plan. If this assumption holds true, then we can expect lesser responsiveness among small and medium scale business, towards the environmental agenda.

Equally important and exerting similar influence on a company's reaction towards the environment, is the size of the company's size. The assumption is that the bigger the company, the more it tends to adopt an environmental plan in order to keep effective coordination of the actions of the many individuals and subgroups in the organization (Henriques & Sardosky, 1996). Another assumption associated with company's size is *visibility*. In other words, the bigger the company, the more exposed is its stance towards the environment in the public eye. Thus *reputation management* entails that the company portray a more environmentally friendly image (Zadek and Lamb, 1999).

A company's attitude, which often reflects its managerial stance on environmental issues, is another important internal precondition. Companies that see environmental issues as important to their longevity and survival would be more willing to invest in environmental strategies. Accordingly, those that see environmental agenda as unimportant or an unnecessary cost, tend to put it off or avoid it for as long as they can.

In short, a company striving to be socially responsible needs to have both internal and external preconditions to 'push' and 'pull' it through the process. Lack of either one would provide a significant barrier for companies to play an effective role as the vehicle towards sustainability.

CONCLUSION

Indeed, the role of business in sustainability issues, including social and community development issues, is gaining importance. As has been explained in this chapter, business is no longer an entity that exists for profit making alone, but an entity that interacts with its physical and social environments and thus has the duty to ensure that the interactions are positive ones. Business can no longer ignore their social responsibility especially at the time when companies all over the world, especially the ones in the developed countries are integrating social responsibility seriously into their core competencies. Ignorance will only make companies lose out in the long run due to lack of competitiveness in the eyes of the investors, the customers, the local community and the potential employees. Thus, companies everywhere including in a developing country such as Malaysia, need to keep up with this new development in the business world. In other words, they need to make an effort to enhance their responsibility towards the natural environment and the society by understanding and utilizing the concept of corporate social responsibility.

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