Corporate Social Responsibility and the Non-Commercial Sector. What Does Corporate Social Responsibility mean for the Non-Commercial Sector? And is it different from the CSR for businesses?

Maria May Seitanidi
Corporate Social Responsibility and the Non-Commercial Sector

What does Corporate Social Responsibility (CSR) mean for the Non-Commercial Sector (NCS) and is it different from the CSR for businesses?

Maria May Seitanidi
Doctoral Candidate
International Centre for Corporate Social Responsibility (ICCSR)
Nottingham University Business School

Abstract

The paper offers a definition of the non-commercial sector (NCS) and outlines its properties in order to provide a comparison between the social responsibilities of businesses and the non-commercial sector. It suggests that assigning different levels of responsibility to the different categories of organisations within the NCS will assist in defining those responsibilities.

1. Introduction

The primary aim of this paper is to identify what corporate social responsibility (CSR) is for the non-commercial sector and whether it is different from the CSR of businesses. The paper outlines the properties of the non-commercial sector and provides a comparison between the social responsibilities of businesses and the non-commercial sector. It suggests that assigning different levels of responsibility to the different categories of the NCS will assist in defining those responsibilities. It finally draws conclusions and recommendations on the ways the NCS can better address its social responsibilities.

It is important to note that the use of the term ‘corporate’ is used in the every day use of the term and does not question legal processes such as the incorporation of not for profit legal entities.
2. Why using a sectorial dichotomy?

Over the last decades the relationship between the market and society has been going through a transformation. Corporations assumed a role of greater importance as powerful actors but increasingly faced criticism from civil society. According to the Centre for Civil Society, at the London School of Economics:

Civil society refers to the arena of uncoerced collective action around shared interests, purposes and values. In theory, its institutional forms are distinct from those of the state, family and market, though in practice, the boundaries between state, civil society, family and market are often complex, blurred and negotiated. Civil society commonly embraces a diversity of spaces, actors and institutional forms, varying in their degree of formality, autonomy and power. Civil societies are often populated by organisations such as registered charities, development non-governmental organisations, community groups, women’s organisations, faith-based organisations, professional associations, trades unions, self-help groups, social movements, business associations, coalitions and advocacy group. (CCS, 2004)

The gradual empowerment of civil society organisations has played an important role in transforming non-profit entities into equally powerful actors of change within society. The role of the state is being redefined while its limits and desirability are being questioned. Due to this process the roles of the three sectors - private, public, non-profit - are going through a transformation. The responsibilities of each sector are not clear as new flexible forms emerge:

"there have also been crucial changes in the status of civil society as a partner, as most developed societies move towards a situation in which all three sectors share the role of providing public goods, if in different constellations in different circumstances." (Deakin, 2002, p.136)

Within the changing social scene the tri-sector divide of society (state, non-profit, for profit organisations) seems an imposed notion rather than a reflection of the complex reality organisations face, whereby interdependency and interconnection blur the borders between each sector. This paper suggests a dichotomy of commercial and non-commercial entities, which is based on the concept of "public good" as opposed to the "private good". Through the years the "public good" has proved to be a highly contested concept, dependent on cultural, historical and social contexts and thus will continue to be contested. However, the elasticity of the term can facilitate the debate on corporate social responsibility as it functions as a common denominator for the non-commercial entities. The discussion of the concept of "public good" is beyond the aims of this paper. However, a 'public good', (as opposed to a private good) "in economics, is one that is not produced for individual profit, as it is difficult to assign the cost that corresponds to its individual profit due to its large beneficial externalities" (Wikipedia, 2004). It is believed that this division serves better the aims of this paper as it reflects the dynamics of the debate around corporate social responsibility, i.e. what the responsibilities of each sector are. If the main difference of the non-commercial
organisations is to fulfil their mission, which is to serve the public good, then their responsibilities should primarily be derived from this very notion rather the lack of distribution of profit, as the definition of non-profit organisations suggests. This division does not mean to ignore the differences across the broad spectrum of entities that are considered part of the non-commercial sector. On the contrary, it stresses the important differences between each category by assigning different levels of responsibility with regards to each one’s mandate to deliver public goods. The roles and responsibilities of each sector are discussed briefly in an attempt to define what social responsibility means for the non-commercial sector.

The Non-Commercial Sector² includes: public bodies, quangos/regulatory bodies, co-operatives and mutuals, charitable organisations and social enterprises. As its name proclaims, it includes legal entities that do not have commercial interests but rather their primary concern is the ‘public good’. The non-commercial sector definition suggests the abolition of the tri-sectoral divide of society and the use of a dichotomy that it is based on the different responsibilities of the commercial and non-commercial sectors.

3. Attributes of the Non-commercial sector (NCS)

In order to describe the NCS three attributes have been identified and are discussed below:

1) **Social aim:** the inherent goal that is served, i.e. the ‘public good’, included in the mandate of non-commercial entities.

The public good is associated with the social character of the bodies represented in the sector, existing as an essential constituent of their organisational identity. For example, in order for regulatory bodies, social enterprises and local authorities to be consistent with the principles and values they represent they have to take into account in their decision making processes the public good as an important constituent in the delivery of their services or goods. The difference from the profit sector lies in the fact that the success of the NCS’ operations stems from the principles they represent and not solely from their commercial acceptance. For example, the Chairman of the Co-operative Commission, John Monks, remarks, in successful co-operatives, the ethical values of honesty, openness, social responsibility and caring for others, can give an edge over businesses driven simply by the profit motive. The edge helps build commercial success, and that in turn, provides the resources to strengthen the ethical dimension. (Co-operative Commission Report, 2001, p. 2) These principles are the ‘anchor’ of the NCS’ processes, policies, decisions, and outcomes.

2) **Not for personal profit:** the lack of ownership implies personal profit in contrast to profit maximisation which also exists in the realm of non-profit entities, but does not involve any personal gain. Lack of ownership in legal terms entails that, as opposed to businesses, there is no distribution of profit. The non-commercial sector, as part of the social economy, exists not only to serve the public good but also to generate income in order to secure its existence and reward its constituents. However, the income generation is clearly different from the profit maximisation.
approach of businesses. For example, Oxfam's Christmas cards appeal to consumers due to the benefit their purchase brings to the public good by supporting the charity's mission. In contrast, in the case of commercial cards the appeal of a lower price, for example, benefits the individual's purse. In both cases the aim is to generate profit, but in the first case the beneficiary is society and in the second case, individuals.

3) **Large impacts:** unlike small non-profit entities, the size of the organisations included in the NCS is mostly large with a wide scope of operations. The scale of paper recycling for a local authority could be one example of the importance of large impacts as the total recycling that could be achieved would be a considerable amount. Regardless of the organisational form, the size of an entity is an important factor (Hilton, 2004), as it positively correlates with the impact large organisations have upon society and the environment.

4. **CSR from Voluntary to Mandatory**

In the UK, socially responsible practices are a well-established concept reflected in the large number of organisations across all sectors that endorse it. Over a decade ago Carroll wrote of the corporate social responsibility (CSR) concept: "Corporate social responsibility is defined by companies' economic, legal, ethical and philanthropic responses to the community's expectation that corporations are good citizens" (Carroll, 1991). More recently, the European Commission’s Green Paper, issued in July 2001 defined CSR as: "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

Although CSR is still ‘essentially contested’ (Moon et al. 2003), its evolutionary character can be observed from the aforementioned definitions, which reflect the internalisation of responsibilities. In the past it was sufficient for companies to respond (voluntarily) to communities' expectations, whereas today they have to be pro-active in acting upon their responsibilities.

On the other hand "how a corporation is governed has become in recent years an increasingly important element in how it is valued by the market place" (Monks, 2001, p.142). The role of corporate governance is proclaimed by the following statement of James Wolfensohn, President of the World Bank Group: "The governance of the corporation is now as important in the world economy as the government of countries" (OECD, 2004). The revised "Corporate Governance Principles" of the OECD also state the worldwide importance of corporate governance practices. According to the Secretary General of the OECD the ambition of the principles is to: help develop a culture of values for professional and ethical behaviour on which well functioning markets depend. Trust and integrity play an essential role in economic life and for the sake of business and future prosperity we have to make sure that they are properly rewarded. (Johnston, 2004, p.4)

Similarly, the notion of corporate citizenship encourages companies to participate in the social discourse that leads to social change, by actively engaging in leadership roles. In other words corporate
citizenship can be defined as "the total impact of the business on society at all levels of operation" (Corporate Citizenship Company, 1999, p.6). However, Moon et al. suggest "the metaphor of citizenship on grounds of legal and political status through the minimalist model is not appropriate for corporations" (2003, p.21). However, the discussions on corporate citizenship and corporate governance have a synergetic effect that further promotes the understanding of each concept separately but also of the emergent role of the 21st century corporation within society.

Sandra Waddock argues that corporate responsibility:

is more than social. It is integral to the daily operating practices of the company. Because responsibility is integral, it cannot be avoided. In other words, all corporate practices (processes, policies, decisions, and outcomes) can have some integral degree of responsibility, because those practices have impacts on the company's stakeholders and the natural environment. (Waddock, 2002, p.20)

This definition of CSR is very important since it successfully disentangles the previously assumed voluntary character of CSR that most definitions and corporate practices adopt. These allow companies to aim only for minimum standards in their CSR strategy. However, in the absence of any legislation enforcing companies to be socially responsible, the evolution of these responsibilities relates to the way they are perceived by the corporate sector rather than defined characteristics. The introduction of the mandatory OFR (Operating and Financial Review) in the UK, which was a key-recommendation of the Company Law Review, will be a minimum requirement for all quoted companies beginning in 2005 (DTI, 2004).

It will require companies to report on their wider impacts. The OFR is an encouraging addition to the Company Law that mainly aims to improve corporate reporting rather than directly corporate practices. However, it is a first step towards the enactment of mandatory requirements that relate to the social responsibilities of businesses.

CSR as a business strategy touches upon both the internal and external stakeholders. CSR Europe, an umbrella organisation for large companies which supports companies in their development of CSR best practice, refers to the following areas whereby CSR plays an important role: workplace (employees), marketplace (customers, suppliers), environment, community, ethics and human rights. Consequently, CSR analysis involves meeting the needs of all stakeholders and not just shareholders. In the report by Business Impact (2000, p.2) the following are the key principles for all the organisations if they are to operate in a socially responsible way:

- To treat your employees fairly and equitably
- To operate ethically and with integrity
- To respect basic human rights
- To sustain environment for future generations
- To be caring neighbours in their communities

Although the CSR rationale is important for both businesses and society, it still remains a voluntary rather than a mandatory practice. As the concept of CSR is associated to a great extent with acquiring positive reputation, it largely remains instrumental and appears to be used predominantly as a tool for achieving a competitive advantage (DTI, 2003) rather
than serving the public good, since CSR is, according to the Green Eight, "the government and business community’s response to this public pressure" (Green Eight, 2004, p.1). More specifically as it is pointed out in the above paper: "The Green 8 frequently observe that the very same companies, who claim their leadership in CSR, are also those most active in undermining the implementation or development of legislation for sustainable development" (ibid, p.2).

Advocates of CSR and Corporate Citizenship typically do not address problems that follow from these notions as they generally assume a "win-win world and do not recognise the intractable conflict between corporate interests and those of civil society. At most, conflict is seen as a process issue, an outcome of paradoxes which should be managed carefully. However fundamental conflicts do exist." (Bendell, 2000, p.250) Hence, it is important to examine the differences between the social responsibilities of commercial and non-commercial entities.

5. Social Responsibilities of the NCS

Building on the above definitions and attributes of the NCS, in this section the social responsibilities (SR) of the NCS are compared to those of the commercial sector.

In essence, both sectors have the same responsibilities towards society. However, the social responsibilities of the NCS are part of their assigned obligations.

Table 1. Social Responsibilities: Comparison between Commercial and Non-commercial Sector

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<th>SOCIAL RESPONSIBILITIES</th>
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<td>PROPERTIES</td>
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<td>CSR management capabilities</td>
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* Note: The following initials are used in short to describe the responsibilities for: WP: workplace, MP: market place, En: environment, C: community, Eth: ethics, H R: human rights.
Referring to Table 1, the inherent differences of each sector are:

**Character.** The difference between the mandatory character of the social responsibilities of the NCS is perhaps the most important difference from the voluntary character of the corporate social responsibilities.

**Content.** Both sectors share the same content of social responsibilities. As mentioned previously, these are responsibilities in the workplace, marketplace (relating to both suppliers and customers), towards the environment, community, ethics and human resources.

**Context.** Conversely, the context in which each sector operates is different. The non-commercial sector operates in the social domain unlike the commercial domain of the corporate sector.

**Pressures.** For both sectors "the rising wave of public expectations is a wake-up call to business, voluntary, and public bodies alike" (Timms, 2002, p. 14). One of the important levers for change in business is the NGO movement, which exercises considerable pressure through a wide range of strategies (e.g. product boycotts, ‘name and shame’, publicising critical research) (Bendell, 2000). Consumers are another pressure point for the commercial sector as they can exercise pressure through their consumer power. In the case of the commercial sector the pressures are primarily of external direction (externalised pressures). In other words, the pressures come from the external environment and the challenge for the commercial sector is to internalise them. On the other hand, the pressures on the NCS are of internal direction, i.e. the stakeholders of the NCS attempt to exercise pressure on the sector (internalised pressures). They do this primarily through consultation processes. The stakeholders of the NCS play the role that shareholders are performing for the commercial sector and hence determine the extent to which the pressure is external or internal. Therefore, it can be stated that, the difference between the two sectors is attributed to the source of the pressure exercised upon organisations.

Commercial and non-commercial entities seem to share pressure from employees (an internal stakeholder pressure group), since employees prefer to work for socially responsible organisations (Article 13, 2004) regardless of the sector. Just like other stakeholders, employees expect certain things, not just a salary, from their employer. They want to feel they can identify with the company. Employer branding is about making sure that employees feel good about the place they work. (ibid).

An important issue that relates to the pressures experienced by an organisation is the ‘sphere of influence’ that each holds: Where do the borders of responsibility of a commercial organisation stop and where does the responsibility of a non-commercial organisation start? The pressures become even greater, more complex and dynamic in the case of partnerships between commercial and non-commercial entities.

**Accountability.** The NCS is accountable to public interests, referring to the collective interests of a community or society. While this is obvious for the provision of public goods deriving from the state, it is less apparent with the rest of categories of organisations comprising the NCS. Due to
the lack of private ownership and distribution of profits, taken as a whole, the NCS is distinguishable from the commercial sector, which is mainly accountable to private interests. As stated above, the commercial sector is also accountable to its stakeholders (not just shareholders), but only on a voluntary basis. The non-commercial entities’ shareholders are the stakeholders of the commercial sector. This constitutes for the NCS a much greater responsibility and a call for direct accountability towards society at large. In other words, the NCS is assigned with the social aim of serving the ‘public good’, through its principles and values. However, the effectiveness in reaching this aim is open to debate.

**CSR management capabilities.** Companies today are faced by the need to internalise their responsibilities and as such their CSR strategy and make it part of their core practices at all levels of operation. For the NCS the internalisation issue of CSR is a priori present in their mandate. The difference between the two sectors lies in the level of professionalisation: “Under pressure from management gurus, NGOs adopt corporate strategies, and are increasingly open to partnerships with business” (Kaldor et al, 2003, p.9). As a consequence, the transfer of know-how through cross sector partnerships might risk the social qualities that distinguish the NCS from the commercial entities (Deakin, 2002). So the drive to increase efficiency can in fact lead to reduced diversity, particularly when competition is intense and donors value short-term cost-efficiency and certainty over long-term effectiveness and innovation that might involve risks. In this scenario, competitive pressure and donor influence help select forms and generalised best practices that are efficient but potentially less effective, and isomorphic niche-seekers rather than diverse innovators. (Anheier and Themudo, 2003, p.210)

In other words, non-commercial entities are either externally (pressures from donors) or internally (management gurus that suggest increased efficiency) incentivised to increase their level of ‘professionalisation’. The word ‘professionalisation’ suggests here the ability of organisations to be "short-term cost-effective" (ibid) in contrast "to long-term effectiveness and innovation" (ibid). Indeed, it has been suggested elsewhere that "NGOs are also looking more and more like businesses’ as they get larger" (Anheier and Themudo, 2003, p. 212). ‘Professionalisation’ of the non-commercial entities is an ongoing process that aims to increase the management capabilities of the NCS’s staff in order to transfer the know-how and business perspective to the rest of societal sectors.

**Mode of CSR practices.** As the ‘business case’ for CSR became stronger throughout the years the number of companies that aspired to the CSR agenda increased. The most convincing argument for business was that ‘CSR is good for business’. This resulted in companies being instrumental in the way they deal with their responsibilities. The instrumentality lies on the importance that is given to the increase of positive reputation and the exhibition of CSR achievements in order to appear as socially responsible, as opposed to being responsible. In fact, "in the UK, under the influence of the ‘audit society’, users and citizens have been involved increasingly in recent years in performance reporting, often in terms of giving satisfaction ratings on services" (Bovaird et al, 2002, p.421). The
NCS’ properties call upon internalising a priori their responsibilities and acting upon them in a non-instrumental mode. However, it cannot be assumed that this is the case and that questions have not or will not be raised.

6. Different levels of responsibility within the NCS

Within the NCS it is important to differentiate between the different entities that comprise the sector. In the way society operates today, it would be misleading to claim that a government department raises the same public expectations as a charity. However, it is equally important that both types of organisations are responsible and accountable to their stakeholders.

Assigning different levels of responsibility within the NCS would assist in developing a better understanding of their responsibilities. It is taken for granted that public bodies exist exclusively for the 'social good' unlike charitable organisations, social enterprises and co-operatives, which also provide an alternative to either the public or the private sector. Although all organisations in the NCS are operating within the social domain and their operating principles are equally honourable, their mandates entail different levels of trust entrusted by the society.

Trust is an important element of a "good society" (NCVO, 2001, p. 2). However, it seems that trust is decreasing and people are being cynical towards institutions (ibid). In order for trust to be restored organisations need to be more accountable to their responsibilities. Public institutions have a higher level of responsibility towards the public than civil institutions, such as charities and social enterprises. Although public trust and civil trust have the same importance to stakeholders, they entail a system of different obligations, which stem from the very meaning of 'public' and 'civil'. The meaning of the word 'public' (publica in Latin, similar to the Greek word politea) refers to the state and encompasses all citizens of a state. Hence the responsibilities of the state towards all its citizens stem from the (political) power that its citizens have entrusted through indirect representation, i.e. representative democracy. Civil society organisations, on the other hand, are distinct from those of the state... varying in their degree of formality, autonomy and power" (CCS, 2004). Civil society organisations are not obliged by law to act democratically, i.e. their decision making can be based on a professional oligarchy, even if they raise claims for democratic decision making. Their power stems from the societal influence that they can elicit, rather than the political power that public bodies have.

These two different levels of responsibilities within the NCS need to be examined carefully by organisations within the sector in order to understand the meaning and expectations of their internal and external publics.

7. Conclusions

We are witnessing an era of revelations that touches upon the whole spectrum of organisational forms. Organisations, including companies that were considered 'untouchable', or were setting the standards
of reporting are now part of the ‘guilty’ and unaccountable corporate paradigm. Health, transport and education suffer increasingly from unaccountable practices either on an institutional or an individual level. It seems that "there is a decline in trust and participation in civil institutions" (NCVO, 2001, p.1) in the UK (BITC, 2004). It is perhaps those reasons that call for more social responsibility in the daily practices of organisations in order to safeguard the future of all stakeholders.

The aim of social responsibility is to build and develop trust between the organisations and their stakeholders. The non-commercial sector is equally in need (with the corporate sector) to re-establish trust concerning the way it operates, which involves its processes, policies, decisions, and outcomes. When combining the social mandate of the non-commercial sector with the way it operates it becomes apparent that social responsibility is the way of expressing its very existence.

In brief, the social responsibilities of the non-commercial sector are the same in content with those of the commercial sector, however different in their character and context. The pressures that are being exercised upon the NCS entities are not yet organised. The NCS manifestation of accountability needs to be reinforced by stronger management capabilities aiming at a non-instrumental mode of expression without losing its social qualities. The two different levels of social responsibilities within the NCS, public and civil, need to be addressed by each organisation separately in order to re-define them within a specific national context. Furthermore, the process would benefit by the participation of all stakeholders of each organisation through an ongoing process of consultation on social responsibilities that would allow for greater direct participation of citizens resulting in direct accountability.

The democratic deficit that societies are faced with today calls for a close examination of the different roles and levels of social responsibilities in order to preserve trust within its institutions and their functions.

Acknowledgements

I wish to thank the anonymous reviewers for their constructive comments. I am also indebted to Prof. Andrew Crane for his insightful remarks. Finally, I would like to thank for their comments on earlier drafts of the paper Sascha Grillo, Paola Grenier and Dr. Tasneem Mowjee.

Notes

1 For a discussion surrounding the contested concept of public good see Mansbridge 1998.

2 For a list of the non-commercial sector categories, with examples from the UK context, see Appendix A.

3 Logan defines corporate citizenship as "a multi-faced concept which brings together the self-interest of business and its stakeholders with the interest of society more generally" (Logan et al, 1997, p. iii).

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Appendix A

The N on-Commercial Sector
Examples provided from the UK context

Public bodies – H ospitals, local authorities, government departments, emergency services, nationalised transport providers, Royal M ail, universities etc

Quangos / regulatory bodies – Confederation of British Industry, Learning & Skills Councils, Financial Services Authority etc

Co-operatives and M utuals – Co-operative group, Co-operative Insurance Service, Co-operative Bank, N ationwide Building Society, Britannia Building Society, Portman Building Society, Skipton Building Society and Principality Building Society

Charitable organisations – N ational Trust, O xfram, British H eart Foundation, N SPCC, Barnardo’s, British Red Cross Society, M arie Curie Cancer Care, H elp the A ged, Scope etc
Social Enterprises - Community Action Network, Furniture Resource Centre, Credit Unions etc