



# Corporate Social Responsibility: A social contract between Social Enterprises and Communities

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## **Abstract :**

*Many theories have played a role in developing the conceptual understanding of Corporate Social Responsibility (CSR) by converging economic and ethical perspectives. CSR is a paradigm that mainly focuses on relationships a firm develops with its community through its economical, legal, ethical and philanthropic duties (Carroll, 1979). Bowen's (1953) original idea of businesses' social responsibility towards society has been deployed as a starting point of this discussion on theoretical advancements in the field of CSR. Extending the assertion in the context of social enterprises, we argue the sector's policies and practices, currently aimed at improving the 'quality of life' of deprived communities needs to be revised in order to develop a coherent understanding of social responsibility of social enterprises. The main argument exists between primary motives of for-profit and not-for profit organizations coupled with the role that third sector organization (TSO) and in particular, social enterprises are obliged to play as part of their organizational ethos. We argue social enterprises' socially responsible practices are inclined more towards the Basic Need Approach (BNA) framework of social responsibility and also advocate Cornelius et al., (2008) idea of Capabilities Approach articulates the better conceptual underpinning of CSR in the context of social enterprises.*

## **INTRODUCTION**

For companies engaged in Corporate Social Responsibility (CSR) one important question to be asked is which ethical standpoint forms the basis of their socially responsible policies and practices. The vast majority of research in CSR has been directed at discussions on ethics in large organisations where the link between CSR and instrumental gains has been a focal point of debate. One of the guiding theories, such as stakeholder theory has yielded the way to develop the CSR policies and practices mainly in large organisations. The implications of this theory concerning CSR is that it failed to identify the interests of stakeholder(s) that needs to be addressed from the standpoint of organisations' CSR practices. This is where we tend to argue that integration of Sen's (1992, 1999) Capabilities Approach can generate a framework that can guide organisations to develop CSR policies and practices in order to target the specific interests of identified stakeholders. The focus of this paper is on third sector organisations and, in particular, social enterprises that are questionable in

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regard to their socially responsible practices to an extent where their practices are actually meeting the interests of their stakeholders and, in particular, community as a major stakeholder. Much of research has focused to theorise CSR in the private business sector, whereas, the literature pertaining to CSR in Third Sector Organisations (TSOs), and social enterprises in particular is small (Choudhary and Ahmed, 2002; Cornelius et al., 2008; Kramer, 2002; Somers, 2005; Todres, et al., 2006). This is an emerging area of research in CSR where the focus has been placed upon developing a new conceptual understanding on how the capabilities approach can aid social enterprises to identify the interest of communities and engage them actively in their socially responsible policies and practices.

### **Corporate Social Responsibility**

The field of Corporate Social Responsibility (CSR) has grown significantly and the ambiguity within the literature to define CSR has resulted in articulating a great proliferation of theories, approaches and terminologies (Garriga and Mele, 2004), that try to define CSR conceptually and/or in practice. This concept is hard to pin down from the social enterprises' perspective, because of its nature that encapsulates other concepts such as, corporate citizenship (Matten et al., 2003) and corporate sustainability (van Marrewijk, 2003), which are not familiar in the social enterprise sector. Building on the thinking of Windsor (2006) there is unresolved debate in ethics itself "where unclear semantics and specialist terminologies make the concept as continuously mixed up in terms of context, content and perspectives" (Fassin et al., 2010, p. 2). Many scholars such as Carroll (1994) contends that defining CSR is as "an eclectic field with loose boundaries, multiple memberships, and differing training/perspectives; broadly rather than focused, multidisciplinary; wide breadth; brings in a wider range of literature; and interdisciplinary" (Carroll, 1994, p. 14).

Many scholars such as Garriga and Mele (2004), Lantos (2001) Meehan et al., (2006), and Windsor (2006), attempt to categorise CSR theory in a more specialised manner based on the motivational factor for corporate engagement. To pursue CSR emanates from the motives based on whether CSR initiatives are intended to gain financial benefits and to improve long-run firm-level competitiveness in terms of profitability and growth (business case) (Margolis and Walsh, 2003), or result from the role that an organisation should play in the society (ethical) (Windsor, 2006). For instance, Garriga and Mele (2004) cite four different foundational theories to develop an understanding of CSR from a theoretical perspective. This includes instrumental theories (where an enterprise engage social acts to achieve economic results), political theories (concerns the responsible use of power in society), integrative theories (organisation's response toward the social demand), and ethical theories (based on ethical responsibilities of corporations to society) – all of which indicate the

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importance and relevance of CSR for organisations (such as to improve profits, or to improve relations with stakeholders etc.). The main argument in the theoretical debate on CSR among these scholars underpins the assumption that a role business should play in the society and therefore strengthen the rationale of researching CSR and its importance and relevance in business engagement.

### **CSR a form of social contract**

Many social and ethical critics argue that CSR stems from the field of ethics, and therefore advocate the strong nuances of ethical underpinning in conceptualisation of CSR (Walton, 1996; Bertland, 2009). This debate emerged mainly as a result of corporations' self-interest behaviours and social repercussions caused by their activities. There are many views on CSR but all tend to originate from Bowen's original idea developed in the 1950s is that CSR concerns as the "obligations of businessmen to pursue policies, implement actions, and make decisions which are considerate of society's values" (Bowen, 1953, Cited in Carroll, 1979).

Bowen (1953) made his position very clear on referring CSR not as a panacea that will cure all the illnesses of society, but contains important insights that can shape the future businesses' practices to be socially responsible. He did not argue that whether businesses have social responsibility or not. For Bowen, the answer is obvious. His work proceeded from the belief that the far-reaching scope, power and consequences of corporations' decisions obligate businesses to consider social consequences of their business activities in a most socially responsible manner. Among many questions raised by Bowen, one is of special note that he is more interested in, refers to - what exactly are responsibilities to society may businesses reasonably be obliged to assume?. This question drove many subsequent thought and still resonates with how an idealised view of CSR is considered in modern businesses. The theoretical underpinning of his belief of businesses having social responsibilities to society can be clearly seen from the definition which refers to "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953).

Many Authors (see Davis, 1960; Frederick, 1960) made an attempt to specify what are these social obligations mean in the organisational context. They emphasised that these obligations concern the organisational decisions on engaging such activities that are least partially beyond the direct economic or legal obligations. The central feature of their argument is that, the level of power a business enjoys should directly equate to the CSR obligations. This definition holds its implications from a standpoint which sees the society as a form of complex entities that needs to be defined before businesses focus on addressing CSR issues. This limited understanding of CSR prevails

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among the businesses' CSR practices which are mainly a reflection of public relations strategy taken by organisations (Burt 1983). Much theoretical advancement has been achieved since the Bowen's assertion came out. The implication here is that all these theoretical advancements have lacked to establish a robust case for developing a relationship between business and society compatible with the complex nature of society.

### **Social Enterprises**

The concept of social enterprise first appeared in Europe and more precisely in Italy (Defourny and Nyssens, 2008), and in relation to the UK its history extends as far back to 18th century of Victorian social landscape (Hines, 2005) as a means to fund socioeconomic agendas. The understanding of social enterprises in the Europe is being developed by the EMES European Research Network (Galera and Borzaga, 2009). The goal pursued by social enterprises is explicitly other than profit; and making a contribution to the local economic development by providing a wide range of goods and services; such as creating employment, reaching goods and services to disadvantaged group of community, developing skill and confidence building, advocacy and advice, information and guidance etc. All these initiatives reflect upon the primary duty of social enterprises where the orientation is to encourage maximum level of reinvestment in the economic activities. Arguably, in 2002, the Department of Trade and Industry (DTI) provides a robust definition of a social enterprise based on the tacit assumption as:

“A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners”

### **Role of Social Enterprises in Civil Society**

Corporate malfeasances have undermined stability of the civil society, and therefore social reforms have taken heightened interest among international supra-governmental organisations such as the United Nations and European Union. Arguably this is due to corporate crises which exhibit a strong need for implementing CSR policies in all business sectors to ensure such practices are in line with ethical and moral values. In this regard, the UK government acknowledges the role of social enterprises in their policy agenda of reforming civil society (The Conservative Party, 2010a, 2010b; Cabinet Office, 2010a, 2010b).

The paternalistic dependence image of the UK welfare state has been criticised in the policy generation for civil society reforms (The Conservative Party, 2010a, 2010b; Cabinet Office, 2010a, 2010b), and therefore a shift of state in the UK from welfare state to welfare mix embrace the importance of third sector organisations.

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The efforts of the UK government for reforming and sustaining strong civil society are reflected through the production of a variety of policy documents, relating to social and economic development (The Conservative Party, 2010a, 2010b; Cabinet Office, 2010a, 2010b). Many of these reform initiatives are set up within consortia comprising private and public sector and increasingly, third sector partners, with the underlying mission of improving social, economic and ethical performances (Zadek, 2001). Developing and supporting the capacity of social enterprises is an important plank of European social model. The formation of such consortia enables organisations to establish the means to achieve those objectives that an individual organisation irrespective of government, public, private or non-profit, unable to achieve alone. Therefore, given the goal of attaining a sustainable strong civil society, the UK Government stresses the importance of Third Sector Organisation's (TSO) collaboration with public and private sector. The central focus of such assertions reflects the role of the UK Government policy in abdicating its responsibility in addressing community-based civic issues, rather adequately fund public services with the implicit assumption, that social enterprises are better placed than the state to provide public services (Pollitt and Bouckaert, 2004). It is the importance of this sector that works in its own right or through partnerships with public and/or commercial organisations, which precludes the social repercussions of damage societies on the local economic development through various initiatives aimed at social, economic and infrastructural reforms of deprived communities (Corcoran, 2006; Selsky and Parker, 2005).

### **CSR and Social Enterprises**

Research in CSR with regards to its significance in the context of social enterprises is an emerging field, and therefore it can be surmised without any doubts that there is not any prior research done which can be claimed as well addressed. Social enterprises reside their normative underpinning in social, economic and ethical realm. This is a sector that requires close investigation in regard to its appreciation towards CSR. Much of the literature on understanding CSR has focused upon private businesses, the literature pertaining to the CSR of Third Sector Organisations (TSOs) and in particular, social enterprise is small (Choudhary and Ahmed, 2002; Cornelius et al., 2008; Kramer, 2002; Somers, 2005). Nevertheless, it is striking that there has been relatively little discussion of the CSR in social enterprises.

Recognising that social enterprises, by their nature of providing social provisions, tend to care more for social causes. This does not necessarily translates to social enterprises actively engaged in ethical practices. Therefore, prevalence of their ethical practices including 'CSR' has paramount importance among academic researchers, governmental and EU agenda. Given the paucity of CSR research in social

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enterprises, small to medium size enterprises' (SMEs) attitude towards CSR practices can be drawn and compared in order to explore whether social enterprises may experience similar trends in relation to their ethical practices. It has been acknowledged that SMEs have been actively engaged in socially responsible practices towards communities in general. Jenkins (2009) argues that much of these practices engaged by SMEs are arguably ethically appropriate but they do not associate such practices as 'CSR'. Due to hegemonic work in CSR in SMEs conducted by various dedicated scholars (e.g. Moore and Spence, 2006; Spence, 2007; Spence et al., 2003; Perrini et al., 2007), European Commission acknowledges the need to identify a different approach to CSR in SMEs as compared to that taken within large firms. Jenkins (2009) further concludes that "an integrated approach is needed to help SMEs to understand what CSR means for them and how to integrate it into core business practices".

Hodgkin (1993) argues that unlike corporations, not-for profit organisations have an obligation to represent the community interest; thus, they must consider not only what is legal, but also what is ethically and morally right thing to do. Whereas, a shift from ethically right thing to business-like mentality have been noticed due to the important plank in the UK central government policy on TSOs that encourage the not-for profit organisations to endorse business-like model by engaging in collaboration with for-profit sector to enhance capacity and financial solvency (Cornelius and Trueman, 2007; Diamond and Southern, 2006). There is a danger that too much focus on profit generation and funding may lead this sector to compromise its social mission, and replace a benevolent spirit with a mind-set of competition.

### **Discussion - A capability approach perspective**

One approach which is likely to be particularly useful in generating insights into Bowen's (1953) assertion of "businesses' obligation to pursue socioeconomic goals as expected and desired by society" is Sen's (1992, 1999) Capabilities Approach. Much research has done on formulating the certain dimensions of responsibilities which entail in the social responsibility paradigm of businesspeople (e.g. Carroll, 1979). Applying Bowen's (1953) thinking on TSOs and in particularly, social enterprises, this sector claims to run in line with the moral philosophy of discretionary duties of their social contract with community. However, much of their practices are criticised as these fall on the 'Basic Need Approach' (BNA) side of discretionary spectrum (Cornelius et al., 2008). This raises the concerns regarding the ethicality of their practices in relation to their role in reforming civil society. It can be argued that, as a core premise of their social contract, TSOs and in particularly, social enterprises' social agenda is about going beyond the philosophical thinking of BNA and excel in those

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socially responsible policies and practices which aim at enhancing the well-being and development of community they serve.

Basic Need Approach (BNA) is defined as an approach to social justice “that gives priority to meeting people’s basic needs – to ensuring that there are sufficient, appropriately distributed basic needs (BN) goods and services to sustain all human lives at a minimally decent level” (Reader, 2006, p. 337). This approach underlies the UK’s social policy in regard to encouraging social enterprises’ business processes. The implications here is a policy implicitly informed by BNA can only makes a minimal contribution to the betterment of community for short term. This assertion is also shared many other researchers (e.g. Cornelius et al., 2008; Wallace and Cornelius, 2010) who advocate that ethicality of SEs’ practices need to be revised. In this regard, they also contend that Capabilities Approach (CA) must be underpinned in terms of providing a framework on which the socially responsible policies and practices of SEs are developed. Building on the thinking of Cornelius et al., (2008), we tend to argue that CA should serve as a normative concern to formulate the terms and conditions of the social contract of social enterprises-community relationships, as opposed to other business-society relationship models. Sen’s (1992, 1999) Capabilities Approach as opposed to BNA, which is richer and has deeper philosophical foundations than BNA – that can serve as a core normative framework to the development of CSR. Sen (1992, 1999) argues that activities aimed at improving the quality of life for deprived communities must be considerate to an ends towards such actions are directed. From the CA perspective, it can be argued that social enterprises’ core obligation is to identify and resolve the core social issues in order to generate the sustainable outcomes for deprived communities.

To reform the deprived communities it is SEs’ primary obligation to actively target those aspects of social issues which may form the foundation of strong cohesive civil society. Providing basic commodities to community and not investing in, where the people build confidence to convert such commodities creates another social dilemma. From the perspective of capabilities approach, a social contract between social enterprises and deprived communities must be embedded in the goal of enhancement of social capital. As Wallace and Cornelius (2010, p. 74) contend that “social capital lost from deprived communities is hard to re-inject”, and many other scholars argue that increase in social capital enable deprived communities to enhance their well-being that lead to a quality of life. This consideration may be applied specifically to social enterprises, where a newly emerging sector may ask to what extent their cause related social practices are based on identifying and resolving the root cause of social problems.

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A social contract between social enterprises and deprived communities seems to lack the understanding of delicate aspects of social issues and this requires a deeper understanding of the complex nature of society. Nussbaum (1999) and Sen (1999) argue that, recognising the flourishing of human life of deprived communities, a focus must be placed upon the enhancement of capabilities. Nussbaum (1999) and Sen (1999) classify capabilities into three types. These are *basic capabilities* (reflect the innate equipment of individuals to function as human beings), which can be transformed into *internal capabilities* (with the support of surrounding environment) and *combined capabilities* defined as internal capabilities combined with suitable external institutional and material conditions for the exercise of the function. For example, an employee (paid or volunteer) may possess knowledge (e.g. through education) and abilities to input his/her voice in the transformation of health and safety at workplace, but may be restricted to do so because of absence of empowering culture (a consequence of the constraints placed upon workplace culture, or combined capabilities). Renouard (2010) takes the stance of relational anthropology and argue that combined capabilities are developed by individual entering into relationship with others.

Sen's (1992, 1999) idea of *freedom* also pave another theoretical block in building social enterprises-community relationship, where *freedom* concerns the 'real opportunities' that individuals have to achieve what they value or have reason to value. He criticise the underlying assumption of CSR models stemmed from instrumental perspective which focus on maximising the collective utility and ignore the importance of individual freedom. His line of reasoning is compatible as far Business-society relationship is concerned. Renouard (2010) further elucidates the capabilities approach by reflecting upon the CSR related practices of multinational companies in Nigeria. The programs implemented by such MNCs intended at improving the living conditions of people living near the site have "developed the paternalistic behaviour, without encouraging the individuals' freedom to participate in the development of such programs that are dependent on the good will of the company" (Renouard, 2010, p. 87). Whereas capabilities approach perspective of developing CSR activities would accentuate that individuals living near the site must be encouraged to participate and influence in formulation of such initiatives. These considerations may be applied to social enterprises where notable questions such as: to what extent the social contract between social enterprises and deprived communities embrace and facilitate the participation of beneficiaries and also, to what extent social enterprises consider 'providing real opportunities' as an important feature of their business-society relationship model?

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## CONCLUSION

This article attempts to revise Bowen's (1953) central assertion regarding "businesses' obligation is to consider the consequences of their practices in a way that are in line with the expectation of society" by extending his view of business-society relationship in the context of social enterprises. Much research has focused exclusively large organisations in terms of developing coherent understanding of CSR. There is very little reflection on what CSR means for Third Sector Organisations (TSO), and in particular, social enterprises. Recognising the difference in primary motive of both for profit and not-for profit sector, a one size fit all approach is unlikely to be fruitful. Use of Sen's (1992, 1999) capabilities approach in establishing social enterprise-community relationship from a purely ethical standpoint can tightly couple the social and economic perspectives of CSR.

The social provision nature of this sector demands the ethicality of discretionary duties must be stemmed from an ethical paradigm. Lee (2008) argues that organisations that tend to have contractual relations with their key stakeholders such as government and community are required to show the greater level of legitimacy in their economic activities. Edelman (1990) shares the same view and contends that "firms closer to public sphere are more open to public scrutiny and more dependent on public support for survival" (Cited in Lee, 2008, p. 68). Building on the thinking of Edelman (1990) and Lee (2008) it can be argued that social enterprises performance should be judged by the outcomes generated by their social provisions and to some extent this should serve as a primary indicator of their survival. However, economic performance is vital for the further development of this sector, but this should only be seen as measure to stay financial solvent. This is an area in research which needs to be addressed in terms of developing an evaluative framework to analyse the performance of this sector from an ethical standpoint. Wallace and Cornelius (2010) also advocate the improvement in 'quality of life' of deprived communities must be measured qualitatively by assessing the impacts of social provisions provided by this sector.

One of the aspects of future research is to investigate the implementation process of adapting CA perspective within institutional culture. This is a concern suggested by many researchers studying ethics in TSOs (Cornelius et al. 2008; Wallace & Cornelius, 2010; Choudhary and Ahmed, 2002; Kramer 2002). Social enterprises may claim that their practices are in line with ethical reasoning as informed by their organisational ethos. Empirical research would be required to investigate the normative concern which guides their socially responsible practices and also, to what extent such practices are generating the sustainable outcomes. The insights generating from these research can further enhance the understanding of social

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enterprises' perspective on CSR and also the role that CA can play in reforming their understanding of social responsibility depending on their role in society.

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