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# Corporate social responsibility and risk management of multinational companies: a case study of body shop

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### ABSTRACT

The present research paper formulated a conceptual framework for multinational companies to manage their risks with the help of corporate social responsibility initiatives and efforts. The case study of The Body Shop is analyzed for this purpose using the corporate social responsibility pyramid. The different corporate social responsibility initiatives and practices of The Body Shop were analyzed to determine which risks were being managed by those initiatives. The results of the present study showed that an organization can increase its output by reducing its risks associated with operations through corporate social responsibility activities related to environment, health and safety. Other risks including compliance and strategic risks can be catered to with the help of corporate social responsibility.

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### Introduction

The present research paper puts forth a conceptual framework for different multinational companies to manage their corporate risks through their corporate social responsibility initiatives and efforts.

Corporations come across different risks and uncertainties when they opt to do business on an international level. The level of uncertainties that is being faced by different multinational corporations has seen an increase due to the pressure of extended units of the same enterprise to perform as a single unit.

From a multinational company's perspective, risks arise when its own behavior or action of other in its operating environment create vulnerabilities. The current times call for keenly listening to the stakeholder's perspective on issues and embedding managing these social risks in the corporate strategy through different strategies including CSR.

#### Hypothesis

- CSR initiative and practice aid the large scale businesses in managing and mitigating risks

#### Definitions

##### Risk Management:

Risk management is an organized method for the identification of all the risks to which the company is facing as well as it determines the level of the identified risks. Risk management provides reasonable defense against the possible verification of harmful events. Risk management depends on early identification and analysis of risks [1].

##### Corporate Social Responsibility:

Corporate Social Responsibility is basically "commitment to improve community well-being through discretionary business practice and contribution of corporate resources" [2]. The basic idea of CSR is that business and society are interwoven rather than distinct entities [3]. Literature Review: concepts to apply to the case

### Type of Risks

Risk can be defined as the combination of the probability of an event and its consequences. Snider, Hill and Martin [3] categorized risks in three main categories:

#### Strategic Risks:

Strategic risks are those risks that originate from the different decisions made by the directors regarding the organizations goals and objectives. There is a subdivision of strategic risks into business risks (risks that derives from the products and services supplied) and non business risks (risks that do not derive from the products and services supplied) [4].

#### Operations Risk:

Operations risks are those risks that originate from the internal resources, procedures, systems and workers of the firm. For example, machine failures during the production of the product or resigning of the employees due to their dissatisfaction are some of the operations risk [5].

#### Compliance Risk:

Compliance risks are the current and prospective risk that originates from the violation of rules, laws and regulations. Compliance risk results in reduced business opportunities and inferior reputation [6].

#### Risk Management for Large Scale Businesses

Risk management is an integral part of organizational processes. It should create



Figure 1: Types of Risks [3]

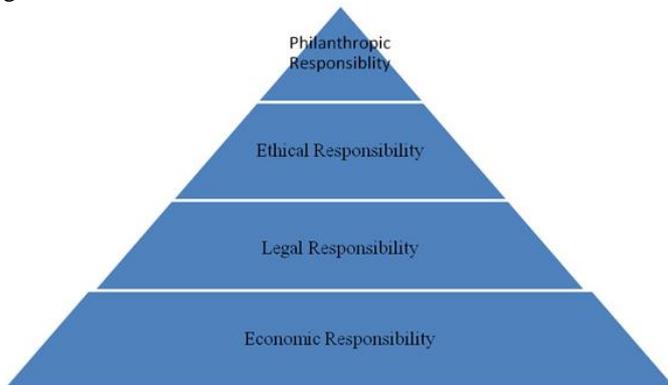
#### Risk Management for Large Scale Businesses

Risk management is an integral part of organizational processes. It should create value. Risk management plan for

large scale businesses should be created, implemented and evaluated and reviewed. It should be evaluated whether the previous control and management system is still applicable and effective or should the plan transformed in a better way. The evolution on risk level changes should also be under focus.

#### **The pyramid of Corporate Social Responsibility**

The CSR pyramid is based on a four-part perspective, namely economic, legal, ethical and philanthropic standpoint as figure 2 illustrates;



**Figure 2: The Pyramid of Corporate Social Responsibility [8]**

#### **Economic Responsibility**

The economic responsibility of the corporations is the most fundamental one since *“all other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations”*.

#### **Legal Responsibility**

All the corporations of the world are expected to pursue its economic responsibility within the framework of the legal of the country it is operating in. The corporation which complies with the law and regulations of federal state and local governments can be regarded socially responsible [9].

#### **Ethical Responsibility**

The ethical responsibilities refer to responsibilities associated with accepted norms, standards and expectations that reflect a concern for what consumers, employees, shareholders, and the community regards as fair [10].

#### **Philanthropic Responsibility**

The philanthropic responsibility of an organization as illustrated in Figure 2 refers to corporations contributing its resources to improve the quality of life of the community. The main difference between ethical and philanthropic is that the philanthropic responsibility is not expected by the shareholders in an ethical or moral sense [11].

#### **Body Shop: A case study of Risk Management and CSR**

This section of the paper presents the findings in accordance with the research problem. The case of Body Shop is discussed in detail with a focus on its CSR practices. This is followed by a discussion of how these practices are seen to be minimizing the associated risks of operating in foreign countries as a multinational company.

#### **Context of Body Shop**

Body Shop was founded in Brighton in 1976, by Dame Anita Roddick who basically wanted to sell natural skin and hair care products she had seen being used by women of other cultures on her travels around the world [12]. Gradually Roddick was being approached by other investors who wanted to set up their own Body Shop franchises from all across the world.

#### **The Body Shops CSR's initiatives and Practices according to The CSR pyramid**

In this section of the paper, the CSR initiatives and practices of Body Shop are categorized according to the CSR pyramid (figure 2) namely as: economic responsibility, legal responsibility, ethical responsibility and philanthropic responsibility. These CSR initiatives are then examined in next section to determine which risks they are catering to.

#### **Body Shop and Economic responsibility**

It is the foremost responsibility of any business to generate profit for its shareholders but not at the expense of its environment or people. According to the Body Shop's Annual Report and Financial Statement 2008, [13] Body Shop is working to achieve profits with principles in order to sustain the long term future. The Body Shop has succeeded in maintaining a dynamic balance between its short term and long term needs of the business and their stakeholders which have helped in achieving their goal of a sustainable future.

#### **Body Shop and Legal responsibility**

The legal responsibility of Body Shop comprises of compliance with rules and regulation in each country where they operate, compliance with code of conduct, complete and accurate financial statements and descriptions of their business.

#### **Environment, Health and Safety management system**

It collaborates with Environment, Health and Safety (EHS) management system to ensure environmental protection, occupational health and safety at work [14].

#### **EHS Management System of Body Shop has two main goals:**

➤ to reduce the negative impact the company has on the environment

➤ to prevent work related health and safety problems

#### **Law Integration in Policies**

The rules and laws of the operating companies are deep rooted in the policies of the Body Shop.

#### **Transparency in financial statements**

The body Shop has been publishing a true and accurate picture of its financials and a description of its business. The company's financial record, including time sheets, sales record and expenses reports, have always been accurate, timely and in accordance with the law [15].

#### **Ethical responsibility**

The ethical responsibility of The Body Shop refers to way of doing business and its integrity and transparency. It includes various operation and business processes ranging from picking the right ingredient, packaging and how suppliers are being treated.

#### **Supply chain audits**

The Body Shop management carries supply chain audits to make sure that their suppliers are working in accordance with the government's laws. The labor practices of the suppliers are also taken in to account when these supply chain audits are carried out [16].

#### **Green manufacturing practices**

The Body Shop undertakes green manufacturing practices in all of its business processes. The objective behind these practices is to minimize the negative impact of the business on environment and restrain from contaminating the environment.

#### **Employment of the local community**

As The Body Shop operates as multinational all around the world, it has been a source of employment for communities. It targets to recruit sixty percent of workforce from the local community.

### **Ethical Trade Initiative (ETI) of The Body Shop**

The Body Shop is one of the most active members of Ethical Trade Initiative. The ETI code of conducts includes; safe and hygienic working conditions, no child labor, manageable working hours, no inhumane treatment [17].

### **Philanthropic Responsibility**

The Body Shop also takes the philanthropic aspect of CSR very seriously by supporting different charitable organization. Being a multinational company, The Body Shop supported and donated money to the areas hit by Tsunami in Asia. It also actively support 'Until there is a Cure' an organization which works of Aids/HIV.

Other campaigns that The Body Shop funds are; "Stop violence at home" which is a anti animal testing campaign, Safe Cosmetic, Green Peace and Breast Cancer Fund. The Body Shop is working towards achieving sustainable progress in human and civil rights, environmental and animal protection has, in total donated over £ 7 million to over 2000 projects across the world [18].

**Table 1: Relationship between CSR- Risk Management**

CSR Initiative	Type of Risk	Potential Risks Aversion through CSR
Environment, Health and Safety management system	Operational Risks	Increase in output (units produced, services offered)
Law Integration in Policies	Compliance Risks	Reduced costs of prosecution and penalties
Green manufacturing practices	Operational and Strategic Risks	Good repute
Philanthropic CSR Initiatives	Operational Risks	Good corporate reputation, staff loyalty, improved recruitment
Ethical Trade Initiative	Strategic and Operational Risks	Reduction in potential costs related to suppliers
Employment of the local community	Operational Risks	Sense of ownership from the locals, Increased on time deliveries from suppliers

### **Discussion**

The present research paper attempted to develop a conceptual relationship between the CSR initiatives and practices with the risk management of a corporation. The corporation of today especially multinational companies faces the new reality of changed risks and risks management [19]. These new risks calls for an innovative means of management to adapt to change and risk and corporate social responsibility is one such risk management system.

According to Pinny (2009) [20] most of the big corporations in developed countries have succeeded in aversion of risks with the help of integration of their CSR initiatives in the business policies. The corporate social responsibility provides principles for stakeholder engagement, insight about social groups and ultimately aids a corporation in risk management.

The results of critical analysis of The Body Shop's CSR initiatives and practices showed that the company is following a formal CSR policy and strategy which has a common goal to mitigate the various risks that are typically associated with operating as a multinational company. The body Shop has

succeeded in keeping many risks at bay by paying attention to its CSR activities especially environmental concerns.

The CSR initiatives undertaken at The Body Shop enlisted in the table below along with the different types of risks (operational, strategic and compliance) they are catering to. The third column of the table shows the detail of how exactly those CSR initiatives are mitigating risks and benefiting the corporation ultimately.

The study of how the risks are being managed by multination's through CSR initiatives helps to reflect on the increasing strategic importance of CSR practices. It also shows how a company can link its CSR to its core business processes and improve the company's approach to risk management by providing information about different issues and potential risks. A company can be proactive by embedding its CSR in its core business philosophy and not only design better risk management but also anticipate the potential risks.

To conclude, this article aims to establish a framework to guide multinational companies and academics alike in their thinking on how to evolve towards a more strategic and more coherent CSR and which aids the company in its risk management and risk aversion.

### **Failures and Opportunities**

The present research study can be seen as a contribution for both academic and business international communities.

The present research has attempted to make an important contribution by trying to develop a conceptual framework of corporate social responsibility and risk management. However the research methodology i.e. taking one case study in consideration to generate results is not sufficient for confirming an emerging theory. So there is a need to carry out more empirical studies in this field.

The research primarily focused on developing a relationship of CSR and risk management of a multinational company. It would be interesting to focus on CSR of small medium enterprises (SME) and compare how multinational companies and SME manage their risks. Additionally it will also provide insight about the size of a corporation and its CSR initiatives.

A future research can also be carried out about CSR and risk management in different countries e.g. how a corporation in Pakistan carry out its CSR activities and risk management in comparison to America?

The scope of the research does not allow some concrete generalization to be made on the single case study. This can only be done through more in depth case studies in multiple industries that engage in CSR. It will give an opportunity to compare the results of the present research with other more profound explanation from other research studies.

### **Conclusion**

The present research paper attempted to develop a conceptual framework for different multinational companies to manage their corporate risks with the help of a case study of a multinational company (The Body Shop) which is mitigating its risks with the help of its CSR activities.

The hypothesis that CSR initiative and practice aid the large scale businesses in managing and mitigating risks was proven true through an in-depth study of The Body Shop and its CSR initiatives

The results of the research paper showed that an organization can increase its output (units produced and services offered) by reducing its risks associated with operations through CSR activities related to environment, health and safety. The compliance risks can be reduced by CSR practices related to law integration in policies.

The strategic risks have the potential to be reduced by engaging in activities like Ethical Trade Initiative like Body Shop.

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