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# **Corporate social responsibility at Kraft Foods Lietuva: to be or not to be responsible?**

Teaching notes

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**Case synopsis:**

The case presents a number of corporate social responsibility (CSR) initiatives carried out by Kraft Food Lietuva towards its employees, customers and society at large. Looking at CSR from a multiple stakeholder perspective, the case provokes a discussion of organisational motives for engaging in CSR and CSR return on investment.

### **Teaching objectives**

The main aim of the case is to develop understanding of the CSR concept through a good practice example of one company and by relying on the Stakeholder' theory to demonstrate what kind of measures could be taken in meeting the needs of different stakeholders; to depict the main challenges that companies face in focusing on corporate social responsibility; and to encourage and inspire students to advocate CSR ideas.

The three specific teaching and learning objectives of the case are as follows:

1. Reveal the essence of corporate social responsibility and display CSR manifestations from the Stakeholder' theory perspective;
2. Show how an organization can address CSR through different stakeholder groups and consider means by which CSR practices are implemented to meet different stakeholder needs;
3. Discuss challenges and organizational benefits of CSR, i.e. to debate whether it is worthwhile for an organization to invest and engage in CSR.

### **Use of the case**

#### **Assumptions about the students' prior learning**

The case will be applicable for a number of courses, such as CSR, Business Ethics, HRM, Strategic Planning, Marketing, etc. Accordingly its study does not require any specific CSR-related prerequisites.

#### **Preliminary preparation**

If students are not familiar with the concept of Corporate Social Responsibility (CSR) and Stakeholder theory, especially when integrating this case into other modules, it is recommended for the students to read references 1, 2, 5, and 6.

#### **Theoretical background**

In recent decades the interest in corporate social responsibility has been increasingly growing. It has been stipulated by the apprehension of the negative globalisation effects, climate changes and changes in the perception of values by modern society. Even though recently corporate social responsibility has become more and more important and has been advocated more frequently, no generally accepted understanding of this concept has been developed so far as different CSR aspects have been highlighted in its definitions. The most commonly used definition is as follows - "Corporate social responsibility is a company's commitment to behave discreetly in creating economic benefit and improving the wellbeing of employees, local community and society at large"(World Business Council for Sustainable Development, 1998). European Stakeholder' Forum (2004) defined corporate social responsibility as voluntary integration of social and environmental problem solution into a company's activities and collaboration with all parties concerned. Exceeding legal requirements is one of the distinguishing features of corporate social responsibility.

One of the main theories that corporate social responsibility relies on Freeman's (2004) Stakeholder theory which states that the organization becomes socially responsible when it involves all parties concerned – consumers, employees, suppliers, shareholders, and community – who are related to company activities and results that comply with the interests of the parties concerned. A stakeholder can be any group or individual who can affect or be affected in reaching the company goals. However CSR critics state that the involvement of the stakeholder does not necessarily mean a responsible behaviour. The dialogue as such with the stakeholder does not imply transforming into responsible organizational behaviour. It is noted that the relations with the stakeholders based on mutual trust and collaboration are definitely beneficial to the company, and therefore the company realises that it is worthwhile being honourable, reliable and ethical.

Still the question remains whether and how CSR is related to organisational performance. The investigation of the links between corporate social behaviour and company performance has been the focus of many empirical studies. The majority of the US organizations assume that corporate social responsibility affects positively their financial results (Lindgreen, et al, 2009). In 1997 – 2002 as many as 127 empirical studies were carried out. Their results were made public with the aim of defining how socially responsible activities impact organization's financial results. The absolute majority of the studies confirmed a positive relationship between corporate social responsibility and indicators of an organization's financial performance (Margolis and Walsh, 2003). It is also argued whether corporate social responsibility can be both the reason and the consequence of good financial results. Corporate social responsibility facilitates the growth of competitive advantage by developing the image and reputation of an organisation inside and out, and encourages an organisation to change its values and processes by searching for innovative solutions (Vilanova, Lozano ir Arenas, 2009). The reputation developed by corporate social responsibility is related positively to the value of shares on a financial market (Orlitzky, 2005). Van Beurden & Gossling (2008) state that "Good Ethics is Good Business" ( p.407).

## **Teaching plan**

The case study can be started with a provocative question:

Is investment into CSR activities by Kraft Foods worthwhile?, or On what basis do you believe that investment into CSR activity by Kraft can be justified ?

*Students can then be further provoked by the following questions Is it worth for companies to invest into CSR activities and why having in mind that the implementation of CSR requires substantial resources and reduces the profit that can be re-invested into the company operations? To be more exact, is it worth for KFL to invest into CSR activities?*

The students' answers may vary from fully altruistic by quoting the company managers' arguments presented in the Case to very sceptical ones stating that CSR is a means of publicity to create a positive company image in the society. Students can be asked: Who believes that ethical business is good business?

The students can be asked to vote either for the benefit of CSR to the companies or for CSR causing financial loss to the companies. Besides, they can be asked to present the arguments supporting different approaches to CSR impact on organisational behaviour.

Then, the discussion can be directed towards the main question:

- *What is corporate social responsibility? What are the main characteristics of CSR?*

Here the students can present the above mentioned CSR definitions and features. The students can be asked to present the examples of socially responsible and non-responsible companies. The discussion can be encouraged by asking:

- *Does compliance with legal requirements ensure corporate social responsibility? What is the difference between corporate social responsibility and conventional responsibility?*

It should be highlighted that 'real' CSR means activities that exceed legal requirements, i.e., voluntary engagement in CSR. These include environmental protection, helping disadvantaged groups of society, taking care of current and potential employees, e.g., hiring disabled people and developing employee skills that might not be necessary in their current work but might be useful in the future and so on. The students can be asked to present examples of other companies involved in CSR activities.

- *Who are the stakeholders who have interests in CSR activities? To which stakeholders are KFL CSR activities directed ?*

It is necessary to discuss the stakeholders of CSR on the whole and each stakeholder (consumers, employees, suppliers, shareholders/owners, government, community, pressure groups) in more details.

Concern about consumers at Kraft Foods Lietuva is manifested through:

- ✓ Labelling - nutrition information, guideline daily amounts of nutrients required by an average adult for a healthy diet, allergens, GM products;
- ✓ Responsible marketing – application of nutrition criteria in making advertising solutions for children between 6 to 11 years of age;
- ✓ Healthiada – promotion of healthy life style among school children.

Kraft Foods Lietuva contributes to local communities by:

- ✓ Helping people in need with food products (prior the establishment of Maisto bankas);
- ✓ Establishment and on-going support to Maisto bankas.

Support to employees at Kraft Foods Lietuva is provided through:

- ✓ Competitive salaries and rewards for individual contributions and for excellent business results;
- ✓ Extra social guarantees;
- ✓ Health and Wellness initiatives.

- *How does CSR affect human resource management?*

The students might claim that CSR in human resource management means equality of rights and non-discrimination. The discussion can be encouraged by asking:

*Given that protection of equal rights and the absence of social discrimination is guaranteed by law, what types of activities represent socially responsible behaviour by the human resource management function?*

As it might be difficult for the students to answer this question, they can be asked to think over and give examples of companies they are familiar with.

Some of the human resource management activities that can be considered as socially responsible, e.g., exceeding legal requirements, related to the employees include such issues as pay and benefits, health care, working conditions and so on. The distinguishing feature of corporate social responsibility is voluntarism, i.e. doing things that exceed legal requirements. It can take place when the organization cares more about its employees than legally required, like supporting disadvantaged groups of society and directing its human resource activities towards potential employees. It is also implemented by granting additional benefits to the employees (company kindergarten, sport club and the like), introducing flexible working hours, improving working conditions and creating specific working conditions for the vulnerable society groups. The latter activity requires additional and substantial investment.

- *How does Kraft Foods Lietuva communicate their CSR activities? Why doesn't KFL publicize their involvement in Food Bank?*
- *Why is KFL involved in CSR activities? What are the motives behind it?*

Student answers can be summarised by introducing research results and the motives of Lantos (2002) companies' involvement into socially responsible activities:

- Altruistic motives are activities of philanthropic nature that are not financially beneficial to the organization but are usually inspired by values and philanthropic incentives of company shareholders and top managers;
- Ethical solutions are motives inspired by business ethics; organization feels morally committed to carry out certain economic, legal and ethical duties;
- Strategic motives are related to the implementation of socially responsible activities and programmes that are aimed at creating certain benefits, like a positive company image.

Organizations carry out socially responsible activities driven by different reasons and aim at meeting different stakeholder - internal and external - expectations. Judging from the above-mentioned motives, organizations do it on moral or economic grounds.

Finally, students can be put into groups to discuss the below issues and present their opinion to the class:

- What are the CSR benefits for the company. Please make a cost/benefit analysis.
- What CSR initiatives would you recommend for the company in the future?
- Would you recommend the company to continue the current CSR initiatives? Why Or would you rather recommend them to engage into new CSR projects?
- Please prepare a CSR strategy and activity plan for Kraft Foods Lietuva and present it in class.

**To demonstrate KFL position and its future CSR plans, it is recommended to end the case analysis with a short video featuring Rasa Bagdonienė talking on CSR.**

#### References

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