QUALITY AND ETHICS

Corporate Social Responsibility

by **Denis Leonard and Rodney McAdam**

Business scandals involving high profile organizations such as Enron and WorldCom have rocked the corporate world and be-come front-page news. This has shaken consumer confidence in both business leaders and the economy, creating concern about business ethics and governance. As a result, corporate social responsibility (CSR) has become increasingly important.

CSR, which includes such elements as environmental protection, social equity and economic growth, has a strong affinity with the founding principles of quality management.

With CSR being adopted by many as the means of assuring values based corporate governance, the quality community now has the opportunity and responsibility to take leadership in promoting ethical business practices and driving CSR to regain consumer confidence.

What Is CSR?

The International Organization for Standardization, known as ISO, strategic advisory group on CSR describes it as "a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people, communities and society."[1]

CSR includes consideration of such issues as:
- Human rights.
- Workplace and employee issues, including occupational health and safety.
- Unfair business practices.
- Organizational governance.
- Environmental aspects.

In 50 Words Or Less

- **Recent scandals may be awakening corporate America to its social responsibilities.**

- **Quality has a foundation in ethics through the teachings of Crosby, Deming, Juran and Ishikawa.**

- **Corporate social responsibility can be advanced more rapidly if it is incorporated into established quality management models and methodologies.**

- Marketplace and consumer issues.
- Community involvement.
- Social development.

Ethics and values are essentials on which businesses are founded and through which success can be achieved and communities developed. CSR has always been a major influence in the business world and is growing in importance as it is increasingly supported by business models and standards.

In the aftermath of the scandals, the public,

> In the aftermath of the recent scandals, the public, which includes our customers, is asking whether the business community can be trusted.

which includes our customers, is asking whether the business community can be trusted. *Business-Week* said companies are "scrambling aboard the reform bandwagon. Throughout corporate America, companies are adding more outsiders to boards, beefing up crucial committees and recruiting financial experts to bolster their audit panels."[2]

The need for reform was highlighted at the Malcolm Baldrige National Quality Award 2001 ceremony on March 7, 2002, when President Bush called for a "renewed sense of corporate responsibility." He went on to state, "The whole design of free market capitalism depends on free people acting responsibly. … Managers should respect workers. A firm should be loyal to the community, mindful of the environment."[3]

As for the acceptance of CSR as a critical business issue, a KPMG CSR based survey released on June 10, 2002, reported, "While the message is still working its way across corporate America, companies that embrace this approach are finding it is just good business sense, that they are rewarded with an enhanced reputation that often leads to greater financial value for the enterprise"[4]

Ethical Foundations of Quality

CSR and quality are strongly linked through such principles as ethics and respect for people. Some key examples of these principles include the philosophies of Philip Crosby, W. Edwards Deming, Joseph M. Juran and Kaoru Ishikawa.

Crosby talked of integrity, saying "The chief executive officer is dedicated to having the customer receive what was promised, believes that the company will prosper only when all employees feel the same way and is determined that neither customers nor employees will be hassled."[5]

Deming's 14 points highlighted the "driving out of fear" to release the ability to ask questions and express ideas, break down barriers between staff, encourage pride in workmanship and establish self-improvement for everyone. Deming supported an organizational climate where dealings between managers, employees and customers were conducted on an ethical basis.[6]

Based on Deming's teachings, the organizational structure—and, importantly, the reward and recognition system—must promote organizational values and not create contradictions. This results in a culture of trust and openness both inside and outside the organization, ultimately improving corporate reputation.

Juran spoke of a system of values, beliefs and behaviors that are necessary for organizational success. He espoused the view that quality is recognized for its focus on people through work life and employee satisfaction.[7]

Ishikawa made a particularly strong statement on behalf of CSR when he said, "The first concern of a company is the happiness of the people connected to it. If the people do not feel happy, … that company does not deserve to exist."[8]

CSR has attracted many of us to the quality profession. Practitioners and researchers alike have built their careers around quality because of what March Laree Jacques calls the tremendous appeal of quality as an "opportunity to do good—to improve the workplace, to raise standards of living, to achieve excellence."[9]

Through ASQ's Code of Ethics, its members agree to use their "knowledge and skill for the advancement of human welfare and in promoting the safety and reliability of products for public use."

It is on such ethical foundations that CSR can be built and from which leadership role models can emerge, because the lower the organization's ethical standards, the less likely total quality management will be successful. If managers break their promises to staff, this creates justification for staff to break promises to customers. If managers provide themselves with excessive perks for short-term benefit, staff is not motivated to be concerned with long-term customer satisfaction."[10]

Quality is an inherent aspect of successful CSR. Liz Keim, ASQ chair, pointed out, "The corporate meltdown we're witnessing reminds us of the tragic long-term consequences of paying lip service to quality and ethics."[11]
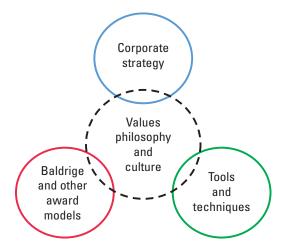
Four key elements make up the quality management environment:

- **Tools and techniques,** which include problem solving tools and management systems such as ISO 9000 and ISO 14000.
- **Quality models,** such as the Malcolm Baldrige Criteria for Performance Excellence, which coordinate and drive quality tools.
- **Corporate strategy,** which establishes the direction and means through which the organization will achieve its goal and with which the quality tools and models are aligned.
- **Philosophies,** which are the most important element and are the heart of quality management. Built upon the teachings of Deming, Juran and others, these philosophies make quality management unique among business theories and practices. They influence and guide the formation of organizational values and ultimately the corporate vision and mission. They form the ethical, or CSR, foundation of quality, as shown in Figure 1.[12, 13]

Why CSR Is Good Business

CSR concepts have been applied for years through quality and have proven their practicality and profitability, while emphasizing sustainable performance through valuing people and society. Therefore, the right thing for business and the right

FIGURE 1 **The Quality Management Environment**

Corporate strategy

Values philosophy and culture

Baldrige and other award models

Tools and techniques

Corporate social responsibility is at the core.

thing ethically become one and the same.[14]

This is not a contradiction, nor is it an impossible goal. Rather, quality provides "competitive products and services of excellent and durable quality, delivered in the shortest possible time to market, at minimum cost and in a manner that emphasizes

Companies are "scrambling aboard the reform bandwagon."

human dignity, work satisfaction and mutual and long-term loyalty between the organization and all its stakeholders, in particular its employees," according to Bohdan W. Oppenheim and Zbigniew H. Przasnyski.[15]

CSR impacts a wide range of organizational activities, including:

- Product manufacturing and integrity.
- Disclosure labeling and packaging.
- Marketing and advertising.

- Selling practices.
- Pricing.
- Distribution.[16]

CSR provides a number of advantages to businesses, including:

- Reducing and limiting litigation.
- Protecting brand image.
- Improving customer satisfaction.
- Reducing absenteeism and employee turnover and increasing the ability to retain talented employees.

> The Baldrige criteria assert, "An organization's leaders should stress responsibilities to the public, ethical behavior and the need to practice good citizenship."

The impact a poor CSR stance can have on the brand image of corporations is evident in rankings such as *BusinessWeek*'s "The Best and Worst Corporate Boards in America." In 2002, the bottom ranking companies included Enron, Global Crossing, WorldCom, Andersen Worldwide and Adelphia. The top ranking companies included Johnson & Johnson, Apria Healthcare, Colgate-Palmolive, General Electric and Home Depot.[17]

Examples of approaches to CSR by successful companies include Starbucks Coffee Co.'s "code of conduct," which it uses to partner with suppliers, importers and other companies to improve the quality of life for workers internationally.

The Xerox Corp. designs products that can be refurbished or recycled, saving itself $50 million since 1991. Xerox also offers employees benefits in the areas of mortgage support and extended household healthcare and provides employees the opportunity to work up to one year with local community service organizations, with full salary and benefits paid by Xerox.

Standards and Models

A structured approach to CSR has existed for some time in the form of ISO 14000, the environmental management standard. Indeed, ISO 14000 and ISO 9000 combined auditing practices are addressed in ISO 19011, reflecting their ever closer relationship and the increasing importance of environmental management systems to quality.

ISO's consumer policy committee (COPOLCO) has begun an assessment of standards designed for CSR. ISO became involved because "an increasing number of consumers are expressing their concern regarding the social integrity of corporations in their operations in the global marketplace."[18]

The ISO strategic advisory group for CSR is evaluating the need for developing a voluntary ISO corporate social responsibility management systems standard.

Other organizations are also considering such standards. In early 2003, Standards Australian International released a draft Australian standard on CSR (DR 03028). But a standard for CSR already exists.

SA8000

SA8000, developed by Social Accountability International, an affiliate of the Council on Economic Priorities, provides a management system based on conventions of the International Labor Organization, United Nations Conventions on the Rights of the Child and the Universal Declaration of Human Rights.

A voluntary standard, SA8000 encourages organizations to maintain and apply socially acceptable workplace practices. It covers the following workplace conditions:

- Child labor.
- Forced labor.
- Health and safety.
- Freedom of association and the right to collective bargaining.
- Discrimination.
- Disciplinary practices.
- Working hours.
- Compensation.

The SA8000 management system uses clauses to build on a similar format to that of ISO 9000 and ISO 14000. The clauses within SA8000 are:
- Management review.
- Company representatives.
- Planning and implementation.
- Control of suppliers.
- Addressing concerns and corrective action.
- Outside communication.
- Access for verification.
- Records.[19]

Baldrige

One of the best examples of quality frameworks that incorporate core elements of CSR is the Malcolm Baldrige *Criteria for Performance Excellence*.

While CSR had been incorporated under its leadership criteria in clause 1.2, labeled "public responsibility and citizenship," for some time, in 2003 the criteria's emphasis on CSR increased.

Social responsibility was made one of the Baldrige core values and given distinct mention under the criteria of leadership in clause 1.2, now labeled "social responsibility," and under the business results criteria in clause 7.6, "governance and social responsibility."

The Baldrige criteria assert, "An organization's leaders should stress responsibilities to the public, ethical behavior and the need to practice good citizenship. Leaders should be role models for your organization in focusing on business ethics and protection of public health, safety and the environment."[20]

Social responsibility, 1.2, asks how organizations address their responsibilities to the public, ensure ethical behavior and practice good citizenship through processes, measures and goals.

Governance and social responsibility, 7.6, evaluates key measures or indicators, including fiscal accountability, ethical behavior, legal compliance and organizational citizenship.

It can be concluded existing national quality models and emerging management standards are consistent with the principles of CSR and its objectives.

However, there is a need for a more coordinated use of these models in regard to CSR implementation strategies and an awareness of the role of quality management in aiding in their successful implementation and management.

Need for Strategy and Leadership

Leadership begins with a "vision that stimulates hope and a mission that transforms hope into reality."[21] Leaders create the vision, determine the mission and create the cultural values on which the strategy is established.

It is critical the vision supports not simply what is good for the company but also what is good for its employees, local communities and society as a whole. Leaders with this sort of vision are needed to drive CSR.

These ethical leaders have a long-term focus, are people oriented and elicit pride and emulation among their employees. In contrast, ethically neutral CEOs have a short-term outlook, are self-centered and elicit fear and confusion.[22]

A short-term focus reflects what Deming called one of the "deadly diseases," namely an emphasis on short-term profits resulting from "most executives think[ing] they are in business to make money rather than products and service."[23]

Leadership's mission should describe the values needed to make the mission a reality and set a standard of behavior. This mission should not be about a code of conduct, rules, systems and procedures. It should be about having a sense of purpose and a set of values that guide everyday actions.[24]

This is reflected in Jim Collins' substantial research in which he points out, "Enduring great companies don't exist merely to deliver returns to shareholders. In a truly great company, profits and cash flow become like blood and water to a healthy body: They are absolutely essential for life, but they are not the very point of life."[25]

Expectations

"There are heightened expectations of business behavior—in terms of how a business runs its core activities and how it contributes to tackling wider societal problems," says David Grayson.[26] CSR provides the driver by which organizations can meet these expectations.

Quality management is already established within business management theory and practice and is recognized as having a strong ethical focus

while significantly contributing to the achievement of organizational goals.

Thus, CSR can be advanced more rapidly if it can be incorporated into established quality management models and methodologies. This places the quality profession at the forefront of CSR and represents a return to quality's roots.

REFERENCES

1. International Organization for Standardization strategic advisory group on corporate social responsibility, preliminary working definition of organizational social responsibility, ISO/TMB AGCSR N4, 2002.

2. Amy Borrus, Mike McNamee, William Symonds, Nanette Byrnes and Andrew Park, "Reform: Business Gets Religion," *BusinessWeek*, Feb. 3, 2003, pp. 40-41.

3. National Institute of Standards and Technology news release, remarks by the President related to the Malcolm Baldrige National Quality Award Ceremony, Washington Hilton Hotel, Washington, DC, March 7, 2002.

4. News release, Business for Social Responsibility, www.bsr.org, June 10, 2002.

5. Philip Crosby, *Quality Without Tears: The Art of Hassle Free Management*, McGraw-Hill International, 1986.

6. W. Edwards Deming, *Out of the Crisis*, MIT Press, 1986.

7. J.M. Juran and Frank M. Gryna, *Quality Planning and Analysis*, third edition, McGraw-Hill, 1993.

8. Kaoru Ishikawa, *What Is Total Quality Control? The Japanese Way*, translated by David J. Lu, Prentice Hall, 1985.

9. March Laree Jacques, "The Call of Quality: Doing Right Things Right," *Quality Progress*, September 1999, pp. 48-54.

10. Larry Reynolds, *Beyond Total Quality Management*, Sheldon Business Books, 1994.

11. Liz Keim, "Corporate Wrongdoing: A Betrayal of Quality Principles," public statement by ASQ president, ASQ website, www.asq.org, 2002.

12. Denis Leonard and Rodney McAdam, "Grounded Theory Methodology and Practitioner Reflexivity in TQM Research," *International Journal of Quality & Reliability Management*, Vol. 18, Nos. 2 and 3, 2001, pp. 180-194.

13. Denis Leonard and Rodney McAdam, "The Strategic Dynamics of Total Quality Management: A Grounded Theory Research Study," *Quality Management Journal*, Vol. 9, Issue 1, 2002, pp. 50-62.

14. John DallaCosta, *The Ethical Imperative: Why Moral Leadership Is Good Business*, Perseus Books, 1998.

15. Bohdan W. Oppenheim and Zbigniew H. Przasnyski, "Total Quality Requires Serious Training," *Quality Progress*, October 1999, pp. 63-73.

16. Business for Social Responsibility, www.bsr.org.

17. Lois Lavelle, "The Best and Worst Boards: How the Corporate Scandals Are Sparking a Revolution in Governance," *BusinessWeek*, Oct. 7, 2002, pp. 104-114.

18. International Organization for Standardization press release, Ref 8000, Sept. 10, 2001.

19. International Standard, SA8000, Social Accountability International, 1997.

20. Baldrige National Quality Program, *Criteria for Performance Excellence*, National Institute of Standards and Technology, 2003.

21. Rick L. Edgeman, Su Mi Park Dahlgaard, Jens J. Dahlgaard and Franz Scherer, "On Leaders and Leadership," *Quality Progress*, October 1999, pp. 49-54.

22. W.W. George, "Mission Driven, Values Centered, Executive Excellence," *Magazine of Leadership Development, Managerial Effectiveness and Organizational Productivity*, Vol. 16, No. 8, 1999, p. 6.

23. Deming, *Out of the Crisis*, see reference 6.

24. Aaron Bernstein, "Low Skilled Jobs, Do They Have To Move?" *BusinessWeek*, Feb. 26, 2001, pp. 94-95.

25. Jim Collins, *Good to Great: Why Some Companies Make the Leap and Others Don't*, Random House Business Books, 2001.

26. David Grayson, "The CSR Brand," *Quality World*, 2003, pp. 10-12.

DENIS LEONARD *is quality manager for Veridian Homes, Madison, WI. He earned a doctorate in quality management from the University of Ulster in Jordanstown, Northern Ireland. Leonard is a Senior Member of ASQ and an ASQ certified quality manager and auditor.*

RODNEY McADAM *is a senior lecturer and director of the MBA programs at the School of Management, University of Ulster, Northern Ireland. He formerly worked in the aerospace industry and is an author, speaker and supervisor of four doctoral students in the area of strategic organizational change management.*

Please comment

If you would like to comment on this article, please post your remarks on the *Quality Progress* Discussion Board at www.asq.org, or e-mail them to editor@asq.org.