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# **Corporate Social Responsibility and the Gaming Industry: A Contradiction in Terms?**

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## **Abstract**

The majority of academic literature, public opinion and popular press articles relating to gambling and in particular electronic gaming machines (EGMs) in Australia, adopts the view that it is a serious problem, both to susceptible individuals and to the wider community. The common stance is that EGM manufacturers, operators and Australian state governments could, at the very least, become much more socially responsible and as a result of not doing so, abrogate their duty of care thereby forfeiting their legitimacy. We are therefore interested in exploring the extent to which we can evaluate the current practices of the gaming industry against the precepts of CSR. We conclude that, although there are justifications for the view that gaming is a serious social issue and that there are instances of unethical practices by EGM manufacturers and operators, the majority of manufacturers and operators satisfice at the level of compliance. Subject to manifold criticism however, any critical view of CSR has to go beyond compliance to a question of the degree of incorporation of CSR principles.

**Key Words:** corporate social responsibility; electronic gaming machines; government regulation

## **Introduction**

Widespread community concern regarding the 'evils' of poker machines (EGMs) appears to exist. The 'evils' are double-edged: on the one hand, there is the potentially addictive nature of the EGMs themselves, which can lead to problem gamblers who, at the extreme, put all their weekly earnings into the pokies, lose their jobs, their homes and other assets and even their marriages and other close relationships. On the other hand, there is community perception that the NSW and other State Governments are themselves addicted to gambling revenue in the form of taxes they receive from the operators of EGMs. It is felt by many that the State Governments are basically paying lip service to the 'problem of problem gamblers' and that, were it not for their refusal to forfeit any of their gambling taxes, the governments would get serious about implementing tough measures. Such measures would include the pulling back on the numbers of poker machines available throughout the States and also changing some of the features of the machines themselves, such as removing bill acceptors so that players revert back to the feeding of coins only. The print media also have regular articles on the perils of poker machines and those involved in the gaming industry. Topics range variously from issues such as money laundering, to gaming operators flouting regulations, to children being exposed to gambling websites through computer and video games rated G and PG, to the devious tactics used by EGM operators to entice existing players to stay longer and to attract new players through décor, comfortable seating and a sense of privacy. NSW is not alone as a recipient of 'bad press'. The Victorian state government opposition was reported as accusing the incumbent Labor party of being 'sleazy' relating to the preferential treatment in the granting of EGM licences (Hughes, 2006). More recently, the NSW government introduced TITO (ticket in- ticket out), an EGM-related

technology already popular in Nevada for the past few years. Interestingly, two media reports offered opposing views on the subject, with one (Sun, MX 2007) quoting a NSW Gaming and Racing Minister spokesperson as emphasising that TITO was about player comfort, not harm minimisation relating to problem gamblers and the other (Sikora, The Daily Telegraph 2007) headlining the caption ‘Cashless machines [TITO] tackle problem punters’! It is important therefore to recognise that, although gaming operators offer a legal product in the form of EGMs, the potential harm caused to certain members of society through this product, along with negative publicity and community perception, means that adopting and practicing the major principles of corporate social responsibility (CSR) is paramount.

## **Literature Review**

A plethora of literature exists on problem gambling, with relatively little research concerning non-problem gambling and even less on the marketing of gambling products. This may be due, in part, to the fact that compared to more mature areas of scientific research, the study of gambling is a relatively young discipline (Shaffer et al. 2001). It may also be due to the fact that, as with other legal but potentially harmful products such as tobacco and alcohol, there is widespread concern as to the potential harm caused to certain members of society. Consequently, no academic literature has been identified to date that deals with the issue of how gambling operators market electronic gaming machines (EGMs). Hing (2000, 2001, 2002) does however examine problem gambling as a social issue in the context of NSW registered clubs. She identifies significant gaps between gaming operators in NSW registered clubs and the expectations of various, pertinent stakeholders (Hing 2000; Hing 2001; Hing and McMillen 2002; Hing and Mackellar 2004). The importance of closing these expectational gaps has been further endorsed by Breen (2005), who emphasises transparency, communication and dialogue between stakeholders, particularly gaming operators, the government and community groups.

Formalised research into CSR is largely recognised as beginning in the 1950s (Carroll 1999; De Bakker et al. 2005). Awareness of the importance of businesses interacting with society, in addition to adhering to the principles of profit and regulatory demands, was highlighted by Davis who, in the 1960s, developed the well-known “Iron Law of Responsibility” where the “social responsibilities of businessmen need to be commensurate with their social power” (cited by Carroll 1999, p.271). In fact, Davis (1973) goes on to say that “in the long run, those who do not use power in a manner which society considers responsible will tend to lose it (cited in Wood 1991, p. 695). This may explain why the gambling industry in Australia has gone from being largely self-regulated to one of the most heavily regulated industries in the world. Whilst firms remaining economically viable are considered to be socially responsible (providing jobs, etc.) and good corporate citizens by adhering to the law, Davis (1973) considers CSR to begin where the law ends – ‘A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do’ (cited in Carroll 1999 p.277). Certainly, there is the expectation by many that businesses that cause harm to the community should be part of the cure. Fitch (1976) stated, “CSR is the serious attempt to solve social problems caused wholly or in part by the corporation” (p.38). When this fails to happen, the firm’s licence to operate (i.e., their legitimacy) may fall into question. Black and Hartell (2003) consider that this legitimacy exists “when stakeholders perceive congruence between societal values and the firm’s activities and goals” (p.125). Furthermore, by having legitimacy, “firms’ survival and prosperity” is enhanced “by reducing costs associated with stakeholder conflict and improving long-term sustainability and employee satisfaction (ibid). Legitimacy is also achieved and

maintained by perceiving and embracing “stakeholder interests, ethical awareness and issues management”, the latter being obtained through market intelligence (Black and Hartel 2003, pp126-127). This highlights the salience of Hing’s findings and the importance of assessing the extent to which EGM operators fulfil the tenets of CSR.

CSR scholars bemoan the myriad of definitions and terms that exist (Carroll 1998; Valor 2005). Dahlsrud (2006) states that, although there is still confusion about how CSR should be defined, the existing definitions “are to a large degree congruent” (p. 1). Nevertheless, others consider the many “paradoxes inherent in the phrase ‘corporate social responsibility’” and that, “until these paradoxes are properly addressed [including acknowledgement and acceptance of all the firm’s stakeholders], corporate social responsibility can legitimately be branded an invention of PR” (Frankental 2001, p.18). Dahlsrud agrees in so much as it is not the lack of a universally accepted definition as it is “about how CSR is socially constructed in a specific context” (p. 1). Brooks (2005) sees the way forward as being a transparent, even contractual, arrangement between business and society, which would “make clear the details of socially responsible engagements, the limits and boundaries of such engagements and importantly, how the strategic objectives of each party will be realized. Such transparency should go some way towards alleviating the suspicion, voiced by some, that organizations are gaining advantage disproportionate to the efforts they put into socially responsible activities” (p.406). Fombrun (2005) talks about evolving standards relating to CSR and how certification can lead to an enhanced reputation. He states that with increased interest in CSR, ‘standard-setting’ has become a growth industry and that “[t]he more widely accepted the label or standard, the more the company can claim legitimacy in complying with prevailing ‘best practice’” (p.7).

### **CSR Principles**

Three major authors are associated with the development of CSR principles. The first and in a sense most notable, Carroll (1979), developed a model consisting of four components, namely (i) discretionary responsibilities; (ii) ethical responsibilities; (iii) legal responsibilities, and (iv) economic responsibilities. Carroll argues that the four categories are not mutually exclusive, nor are they a dichotomy with economic concerns versus social concerns. In 1991 he incorporated stakeholders as an integral part of CSR, stating that they provided clarity to the ‘social’ component of CSR by identifying exactly to whom the organisation should be socially responsible. Carroll (1991) also expands on the ethical component of his conceptual model by considering the ethical/moral dimension as being composed of three descriptors: immoral, amoral and moral management. He considers moral managers as exemplifying high ethical standards that go beyond the requirements mandated by law.

The second major contributor to CSR principles is Wood (1991) who combines Wartick and Cochran’s (1985) definition with Carroll’s four components of CSR, to develop a CSP (corporate social performance) model. This model incorporates three domains: *Principles* of corporate social responsibility (consisting of legitimacy, or institutional); *Processes* of corporate social responsiveness (public or organizational responsibility); and *Policies* (managerial discretion or individual choice) (pp. 694, 702). Wood (1991) alerts us to the danger in assigning a low weight to the ‘discretionary’ component in Carroll’s (1979) CSR classification leading “to a LIFO method of placement on a firm’s action inventory, that is, ‘last in, first out’” (p.698). Indeed, Hing (2001) found that NSW Registered Club Managers assigned the greatest weight to the economic component, followed by legal, then ethical, with

the least weighting given to the discretionary component in terms of EGM operations. In addition managers favoured passive over proactive responses to social responsibility. Her conclusion is that club managers need to trade off the economic with the ethical and discretionary components in order to satisfy the expectations of their stakeholders.

The third major contributor is Hing whose impressive doctoral thesis (2000) utilises the Aupperle (1982) instrument based on Carroll's (1979) conceptual model, which she then adapts for her 1998/99 study into NSW club machine gaming. This is a forced-choice scale with 15 topic areas each consisting of the four elements developed by Carroll, i.e. economic, legal, ethical and discretionary. By allocating up to ten points amongst the four elements, respondents indicated the relative importance and therefore their position relating to social responsibility. Unlike Aupperle's research on a number of major corporations in the U.S.A, Hing (2000) found no inverse relationship between the economic and the ethical and discretionary components. Her subsequent publications also incorporate Wood's model.

### **The Effect of CSR Principles on the Gaming Industry**

Since Hing's doctoral thesis and subsequent publications derived from it, a significant number of regulations have been implemented in NSW and other states and territories, most notably since the Productivity Commission (1999) report. The present Labor Government in NSW has introduced a number of restrictions that seeks not to encourage an escalation in the use and promotion of EGMs. These include, but are not limited to, harm minimisation measures such as self-exclusion programs and the training of all casino, hotel and registered club staff. A substantial number of amendments have been appended to various relevant Acts and to the Regulations since the NSW Gaming Machine Act 2002, but no significant change in terms of impact or amendment appertaining to the use and installation of EGMs. This increased government imposed regulation has meant that those EGM operators who could be considered in the 'ethical' component prior to 1999 are now merely in the 'legal' component. As a result, a large number of gaming operators feel that there is very little extra they could do in terms of CSR over and above the extensive regulatory requirements in NSW. Nevertheless, due to the negative perception in much of the community and in the popular press, it is incumbent upon gaming operators to be proactive and pursue CSR principles and policies that go beyond fulfilment of the law. Exacerbating the problem of acting responsibly beyond the requirements of the law is the fact that the powerful gaming industry lobby may have been at work in respect of the NSW Government's (2005) response to IPART's (2004) recommendation 29, which with some modification could have seen some appropriate warning appearing on EGMs, similar to the dire warnings on cigarette packets although perhaps not so severe. The authors question what would be wrong with a sign such as "This EGM is driven by a computer and over time it is set to take (\$7, \$10, \$13 or whatever the RTP setting is) of every \$100 gambled." Such a warning or statement of fact could hardly accord with the reason that the Government has not proceeded with IPART recommendation 29, being it "could create false expectations among some gamblers"! Other examples of lobbying exist, for example the powerful hotel sector successfully diluted the strict smoking laws by having two, instead of the originally legislated one, smoking-designated room (Clennell, 2006). One could question the Government's commitment to social responsibility over and above the income they receive from gambling taxation, although it is interesting to note that ClubsNSW successfully signed an agreement with the NSW Government resulting in significant taxation concessions to the clubs and costing "the Government \$400 million in lost revenue" (Brown, 2006, p.1). .

## **Pro-active Implementation of CSR Principles**

In spite of the above, initiatives leading to community involvement by gaming operators have been in place for a number of years. “NSW gambling businesses also provide financial assistance to a wide range of local and charitable organisations and community programs, with many NSW clubs managing and maintaining sporting facilities. The hotel industry in NSW also voluntarily contributes to community projects, charities and social causes.” (IPART 2004 p.15).

In addition, results from a study of thirty-seven respondents relating to the gaming industry in NSW and Nevada showed that, although there are instances of some operators ‘pushing the boundaries’ of legal compliance, most are cognisant of the importance of acting in a socially responsible manner (Buchanan and Johnson, 2007). Gaming operators need to be seen as actively ‘giving back to society’ as part of their ongoing strategy and indeed business culture. As Robins (2005) notes, there is “growing pressure on business to undertake discretionary social and environment expenditures and to account publicly for such activities through institutionalised annual reporting” (p.95). The privately owned pubs need not disclose sensitive financial information, but it would be in their best interests to provide a publicly available annual ‘social audit’ report. Gaming operators also need to be proactive in addressing and alleviating the very problem society considers that they have created – the social ills caused by those people who experience EGM addiction, whilst at the same time acknowledging and catering to the majority of people (98% - Productivity Commission 1999) who enjoy playing EGMs as a recreational activity.

## **Recommendations for Gaming Operators**

1. An accredited CSR standards body based on ethical and social criteria should be established. Gaming operators who meet the predetermined criteria can then display CSR certification, much like an ISO.
2. An incentive for EGM operators to be socially responsible over and above legal compliance would be for the NSW Office of Liquor, Gaming and Racing to publish publicly available graphs on a regular basis (such as annually) showing where pubs, clubs and Star City Casino sit in relation to the economic, legal, ethical and discretionary components.
3. Companies in the gambling industry should employ triple bottom line accounting and incorporate community concerns in addition to profit and the mandated Social Impact Assessment (SIA) requirements. In addition, marketing managers in the gaming industry should ensure their companies employ strict corporate governance practices. To this end, they should conduct annual assessments of their company’s performance against a Corporate Responsibility Index, such as that developed by Business in the Community.
4. Gaming operators should develop privately funded problem gambling treatment centres in order to ‘give back to the community’.
5. Gaming operators need to identify their stakeholders and conduct open and frequent dialogue with them to ascertain their expectations and mutually agree as to how those expectations can be viably met within agreed-upon time frames.

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