WHAT IS CSR?

People create organizations to leverage their collective resources in pursuit of common goals. As organizations pursue these goals, they interact with others inside a larger context called society. Based on their purpose, organizations can be classified as for-profits, governments, or nonprofits. At a minimum, for-profits seek gain for their owners; governments exist to define the rules and structures of society within which all organizations must operate; and nonprofits (sometimes called NGOs—nongovernmental organizations) emerge to do social good when the political will or the profit motive is insufficient to address society’s needs. Aggregated across society, each of these different organizations represents a powerful mobilization of resources. In the United States, for example, more than 595,000 social workers are employed largely outside the public sector—many in the nonprofit community and medical organizations—filling needs not met by either government or the private sector.¹

Society exists, therefore, as a mix of these different organizational forms. Each performs different roles, but each also depends on the others to provide the complete patchwork of exchange interactions (products and services, financial and social capital, etc.) that constitute a well-functioning society. Whether called corporations, companies, businesses, proprietorships, or firms, for example, for-profit organizations also interact with government, trade unions, suppliers, NGOs, and other groups in the communities in which they operate, in both positive and negative ways. Each of these groups or actors, therefore, can claim to have a stake in the operations of the firm. Some benefit more, some are involved more directly, and others can be harmed by the firm’s actions, but all are connected in some way to what the firm does on a day-to-day basis.

R. Edward Freeman defined these actors or groups as a firm’s stakeholders. His definition reflects the broad reach of for-profit activity in our society and includes all those who are related in some way to the firm’s goals.²

**A Firm’s Stakeholders**

A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization’s objectives.³
Simply put, a firm’s stakeholders include those individuals and groups that have a stake in the firm’s operations. Such a broad view has not always been the norm, however. Over time, as the impact of business on society has grown, the range of stakeholders whose concerns a company needs to address has fluctuated—from the initial view of the corporation as a legal entity that is granted societal permission to exist by charter, to a narrower focus on the rights of owners, to a broader range of constituents (including employees and customers), and back again and at the end of the 20th century, to a disproportionate focus on shareholders. Increasingly, however, companies are again adopting a broader stakeholder outlook, extending their perspective to include constituents such as the communities in which they operate. Today, companies are more likely to recognize the degree of interdependence between the firm and each of these groups, leaving less room to ignore stakeholders’ pressing concerns.

Just because an individual or organization meets this definition of an “interested constituent,” however, does not compel a firm (either legally or logically) to comply with every stakeholder demand. Nevertheless, affected parties who are ignored long enough may take action against the firm, such as a product boycott, or they may turn to government for redress. In democratic societies, laws (such as antidiscrimination statutes), rulings by government agencies (such as the Internal Revenue Service’s tax-exempt regulations for nonprofits), and judicial interpretations (such as court rulings on the liabilities of board members) provide a minimal framework for business operations that reflects a rough consensus of the governed. Because government cannot anticipate every possible interaction, however, legal action takes time, and a general consensus is often slow to form. As a result, regulatory powers often lag behind the need for action. This is particularly so in complex areas of rapid change, such as information technology and medical research. Thus, we arrive at the discretionary area of decision making that business leaders face on a day-to-day basis, which generates two questions from which the study of CSR springs:

- What is the relationship between a business and the societies within which it operates?
- What responsibilities do businesses owe society to self-regulate their actions in pursuit of profit?

CSR, therefore, is both critical and controversial. It is critical because the for-profit sector is the largest and most innovative part of any free society’s economy. Companies intertwine with the societies in which they operate in mutually beneficial ways, driving social progress and affluence. In fact, the term company comes from a combination of the Latin words *cum* and *panis*, the literal translation of which originally meant “breaking bread together.” Today, however, the meaning of a company implies a far greater degree of complexity. Companies create most of the jobs, wealth, and innovations that enable the larger society to prosper. They are the primary delivery system for food, housing, medicines, medical care, and other necessities of life. Without modern day corporations, the jobs, taxes, donations, and other resources that support governments and nonprofits would decline significantly, negatively affecting the wealth and well-being of society as a whole. Businesses are the engines of society that propel us toward a better future.

At the same time, however, CSR remains controversial. People who have thought deeply about why businesses exist or what purpose they have within society do not agree on the answers. Do companies have obligations beyond the benefits their economic success already provides? In spite of the rising importance of CSR today for corporate leaders, academics,
and bureaucrats alike, many still draw on the views of the Nobel prize–winning economist Milton Friedman, who argued against CSR in the 1960s because it distracted leaders from economic goals. Friedman believed that the only “social responsibility of business is to increase its profits”—that society benefits most when businesses focus on maximizing their financial success.7 There are others, however, who look to the views of business leaders such as David Packard, a cofounder of Hewlett-Packard:

I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company’s existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably conclude that a group of people get together and exist as an institution that we call a company so that they are able to accomplish something collectively that they could not accomplish separately—they make a contribution to society, a phrase which sounds trite but is fundamental.8

This book will try to navigate between these competing perspectives to outline a view of CSR that both recognizes its strategic value to firms and incorporates the social value such a perspective also brings to a firm’s many stakeholders. The goal is to present a comprehensive perspective of CSR.

CORPORATE SOCIAL RESPONSIBILITY

The entirety of CSR can be discerned from the three words this phrase contains: corporate, social, and responsibility. CSR covers the relationship between corporations (or other large organizations) and the societies with which they interact. CSR also includes the responsibilities that are inherent on both sides of these relationships. CSR defines society in its widest sense and on many levels, to include all stakeholder and constituent groups that maintain an ongoing interest in the organization’s operations.

**CSR**

A view of the corporation and its role in society that assumes a responsibility among firms to pursue goals in addition to profit maximization and a responsibility among a firm’s stakeholders to hold the firm accountable for its actions.

Stakeholder groups range from clearly defined consumers, employees, suppliers, creditors, and regulating authorities to other more amorphous constituents, such as local communities and even the environment. For the firm, tradeoffs must be made among these competing interests. Issues of legitimacy and accountability exist, with many nonprofit organizations, for example, claiming expertise and demanding representative status, even when it is unclear exactly how many people support their vision or claims. Ultimately, however, each firm must identify those stakeholders that constitute its operating environment and then prioritize their strategic importance to the organization. Increasingly, companies need to incorporate the concerns of stakeholder groups within the organization’s strategic outlook or risk losing societal legitimacy. CSR provides a framework that helps firms embrace these decisions and adjust
the internal strategic planning process to maximize the long-term viability of the organization. Consider some different viewpoints:

The notion of companies looking beyond profits to their role in society is generally termed corporate social responsibility (CSR). . . . It refers to a company linking itself with ethical values, transparency, employee relations, compliance with legal requirements and overall respect for the communities in which they operate. It goes beyond the occasional community service action, however, as CSR is a corporate philosophy that drives strategic decision-making, partner selection, hiring practices and, ultimately, brand development. (South China Morning Post, 2002)\(^{10}\)

CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers, and the communities in which they operate, as well as the extent they attempt to protect the environment. (The Institute of Directors, United Kingdom, 2002)\(^{11}\)

The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time. (Archie B. Carroll, 1979)\(^{12}\)

Figure 1.1 elaborates on Archie Carroll’s conceptual framework. This useful typology is not rigid, however; issues can and do evolve over time.\(^{13}\)

Figure 1.1 The Corporate Social Responsibility Hierarchy

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\(^{6}\) STRATEGIC CORPORATE SOCIAL RESPONSIBILITY

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\(^{10}\) South China Morning Post, 2002

\(^{11}\) The Institute of Directors, United Kingdom, 2002

Chapter 1: What Is CSR?

Chapter 1: What Is CSR?

CSR, therefore, is a fluid concept. It is both a means and an end. An integral element of the firm's strategy—the way the firm goes about delivering its products or services to markets (means)—it is also a way of maintaining the legitimacy of its actions in the larger society by bringing stakeholder concerns to the foreground (end). The success of a firm’s CSR reflects how well it has been able to navigate stakeholder concerns while implementing its business model. CSR means valuing the interdependent relationships that exist among businesses, their stakeholder groups, the economic system, and the communities within which they exist. CSR is a vehicle for discussing the obligations a business has to its immediate society, a way of proposing policy ideas on how those obligations can be met, and a tool for identifying the mutual benefits for meeting those obligations. Simply put, CSR addresses a company’s relationships with its stakeholders.

As such, CSR covers an uneven blend of issues that rise and fall in importance from firm to firm over time. Recently, ethics and corporate governance, for example, have been of growing societal concern. This is a result of the lack of board oversight and poor executive decision making, which led to the accounting-related scandals exposed during the first decade of this century, followed shortly thereafter by the 2007–2009 financial crisis. The corporate response to this heightened concern is evidenced by the rapid growth of the Ethics and Compliance Officers Association (ECOA). Figure 1.2 shows that, since its founding in 1992, the ECOA has grown to more than 1,300 members (http://www.theecoa.org/). In addition, the ECOA

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The Corporate Social Responsibility Hierarchy

Archie Carroll, University of Georgia, was one of the first academics to make a distinction between different kinds of organizational responsibilities. He referred to this distinction as a firm’s “pyramid of corporate social responsibility.”

- Fundamentally, a firm’s economic responsibility is to produce an acceptable return on its owners’ investment.
- An important component of pursuing economic gain within a law-based society, however, is legal responsibility—a duty to act within the legal framework drawn up by the government and judiciary.
- Taken one step further, a firm has an ethical responsibility to do no harm to its stakeholders and within its operating environment.
- Finally, firms have a discretionary responsibility, which represents more proactive, strategic behaviors that can benefit the firm and society, or both.

One of the central theses of this book is that what was ethical or even discretionary in Carroll’s model is becoming increasingly necessary today due to the changing environment within which businesses operate. As such, ethical responsibilities are more likely to equate to economic and legal responsibilities as the foundation for business success. To fulfill its fundamental economic obligations to owners in today’s globalizing and wired world, a firm should incorporate a broad stakeholder perspective within its strategic outlook. As societal expectations of the firm rise, so the penalties imposed by stakeholders for perceived CSR lapses will become prohibitive.
estimates that, in 2008, 85% of the Fortune 500 firms had adopted the ECOA position, with much of that expansion occurring since 2000.

As a result of the blend of academic study and managerial practice, our understanding of CSR and how firms are integrating it is complex and still evolving. And because CSR influences all aspects of a firm’s strategic outlook and day-to-day operations, CSR’s cutting edge can be controversial, especially among those stakeholders whose interests are not considered primary by decision makers.

CORPORATE STRATEGY AND CSR

CSR, therefore, embraces the range of economic, legal, ethical, and discretionary actions that affect the economic performance of the firm. A significant part of a firm’s fundamental responsibilities is complying with the legal or regulatory requirements that relate to day-to-day operations. To break these regulations is to break the law, which does not constitute socially responsible behavior. Clearly, adhering to the law is an important component of any ethical organization. But, legal compliance is merely a minimum condition of CSR. Rather than focus on firms’ legal and regulatory obligations, Strategic CSR focuses more on the ethical and discretionary concerns that are less precisely defined and for which there is often no clear societal consensus.

CSR is a key element of business strategy. In the words of The Economist, it is “just good business.” Strategy strives to provide the business with a source of sustainable competitive advantage. For any competitive advantage to be sustainable, however, the strategy must be acceptable to the wider environment in which the firm competes. CSR done incorrectly—or, worse, completely ignored—may threaten whatever comparative advantage the firm holds within its industry. One hundred and twenty years ago, for example, Standard Oil Trust pressured industry suppliers to treat its competitors unfairly in the eyes of society. The result was a
series of antitrust laws introduced by government that eventually forced Standard Oil to break into separate companies. Today, activist organizations such as Greenpeace and the Rainforest Action Network target corporate actions they deem to be socially irresponsible. The result of these protests and boycotts can be dramatic shifts in corporate policies and damage to the brand, such as Shell’s change of course regarding the breakup of the Brent Spar oil platform, or Citigroup’s adoption of wide-ranging environmental metrics in the criteria it uses to grant loans—action that ultimately resulted in Citigroup playing a leading role in the creation of the Equator Principles.

However, leaders should address stakeholder concerns like these in ways that carry strategic benefit for the firm. CSR is not about saving the whales or ending poverty or other worthwhile goals that are unrelated to a firm’s operations and are better left to government or nonprofits. Instead, CSR is about the economic, legal, ethical, and discretionary issues that stakeholders view as directly related to the firm’s plans and actions. The solution to these issues, the overlap where economic and social value intersect, is at the heart of any successful CSR policy. Michael Porter and Mark Kramer outline this approach in defining “strategic corporate philanthropy,” but the same approach can be applied to the wider issue of CSR:

The acid test of good corporate philanthropy is whether the desired social change is so beneficial to the company that the organization would pursue the change even if no one ever knew about it.

Beyond the desired changes, however, are the approaches employed to achieve those changes. Too often, the end (building shareholder wealth, for example) has been used to justify the means (polluting the environment). A firm that seeks to implement a CSR policy that carries strategic benefits is concerned with both the ends of economic viability and the means of being socially responsible. As such, the connection between these means and ends is an important component of strategic CSR and something that sets it apart from other areas of social responsibility.

This distinction becomes apparent when discussing an issue such as ethics, which is concerned about the honesty, judgment, and integrity with which various stakeholders are treated. There is no debate: Ethical behavior is a prerequisite assumption for strategic CSR. It is hard to see how a firm’s actions could be both socially responsible and unethical. Ethics, however, is not the central focus for strategic CSR, except insofar as constituents are affected or society defines a firm’s actions as unethical, thus harming the firm’s legitimacy and profit potential. Likewise, other socially important issues also exist outside the direct focus of strategic CSR. Concerns over domestic and international income disparity, gender issues, discrimination, human rights, spirituality and workplace religiosity, technological impacts on indigenous populations, and other issues affect societal well-being. Unless firms take actions that directly affect stakeholders in these areas, however, the study of these topics might better fall under ethics, public policy, sociology, or developmental economics courses, which are better suited to explore these complex and socially important topics in greater depth.

THE EVOLUTION OF CSR

The need for social responsibility among businesses is not a new concept. Ancient Chinese, Egyptian, and Sumerian writings often delineated rules for commerce to facilitate trade and
ensure that the wider public’s interests were considered. Ever since, public concern about the interaction between business and society has grown in proportion to the growth of corporate activity:

Concerns about the excesses of the East India Company were commonly expressed in the seventeenth century. There has been a tradition of benevolent capitalism in the UK for over 150 years. Quakers, such as Barclays and Cadbury, as well as socialists, such as Engels and Morris, experimented with socially responsible and values-based forms of business. And Victorian philanthropy could be said to be responsible for considerable portions of the urban landscape of older town centres today.²¹

Evidence of social activism in response to organizational actions also stretches back across the centuries, mirroring the legal and commercial development of companies as they established themselves as the driving force of market-based societies:

The first large-scale consumer boycott? England in the 1790s over slave-harvested sugar.²²
Within a few years, more than 300,000 Britons were boycotting sugar, the major product of the British West Indian slave plantations. Nearly 400,000 signed petitions to Parliament demanding an end to the slave trade. . . . In 1792, the House of Commons became the first national legislative body in the world to vote to end the slave trade.²³

Although wealthy industrialists have long sought to balance the mercantile actions of their firms with personal or corporate philanthropy as a response to social activism or other demands, CSR ultimately originates with leaders who view their role as stewards of resources owned by others (e.g., shareholders, the environment). The words of Ray Anderson, founder and chairman of Interface Carpets, are instructive:

Can any product be made sustainably? . . . One day early in this journey it dawned on me that the way I had been running Interface is the way of the plunderer, plundering something that is not mine; something that belongs to every creature on earth. And I said to myself, my goodness, the day must come when this is illegal, when plundering is not allowed [and] . . . people like me will end up in jail. The largest institution on earth, the wealthiest, most powerful, the most pervasive, the most influential, is the institution of business and industry—the corporation, which also is the current present day instrument of destruction. It must change.²⁴

Leaders such as Anderson²⁵ face a balancing act that addresses the tradeoffs between the owners (shareholders) that employ them, the society that enables their firms to prosper, and the environment that provides them with the raw materials to produce products and services of value. When specific elements of society view leaders and their firms as failing to meet societal needs, activism results. That is as true of 18th-century England as it is today.

Current examples of social activism in response to a perceived lack of CSR by organizations are in this morning’s newspapers, on TV news, and in chat rooms and Web sites all over the Internet. Whether the response is civil disobedience in Seattle, Turin, or Cancun protesting the impact of global corporations on developing societies, consumer boycotts of products that are hazardous to health, or NGO-led campaigns to eradicate sweatshop conditions in the factories
of branded-clothing firms, CSR has become an increasingly relevant topic in recent decades in corporate boardrooms, in business school classrooms, online, and in family living rooms.

In addition to public relations fiascos that damage a firm’s sales and image, the direct financial impact of CSR failures in a litigious society is never far behind. Widespread, long-term industry practices, which may have previously been deemed discretionary or ethical concerns, can be deemed illegal or socially unacceptable under aggressive legal prosecution or novel social activism. Such violations are less likely in firms with a strong commitment to CSR. For example, the uncovering of the widespread practice of backdating employee stock options by firms, first publicized widely by the *Wall Street Journal*,\(^\text{26}\) indicates the dangers of assuming that yesterday’s accepted business practices will necessarily be acceptable to others today. Businesses operate against an ever-changing background of what is considered socially responsible. CSR is not a stagnant concept. It is dynamic and continues to evolve as cultural expectations change.

On the one hand, these ever-changing standards and expectations compound the complexity faced by corporate decision makers. Worse, these standards vary from society to society; even among cultures within a given society. Worse still, they also evolve over time. Faced with a kaleidoscopic background of evolving standards, business decision makers must consider a variety of factors on the way to implementation.

In the early history of the United States, for example, the Alien Tort Claims Act “was originally intended to reassure Europe that the fledgling U.S. wouldn’t harbor pirates or assassins. It permits foreigners to sue in U.S. courts for violations of the law of ‘nations.’”\(^\text{27}\) Today, this 1789 law is being used in an attempt to hold U.S. firms accountable for their actions overseas, as well as the actions of their partners (whether other businesses or governments). Thus, what may be legal, or even encouraged, in one country may bring legal repercussions in another. And this is not just an isolated example. Firms such as Citibank, Coca-Cola, IBM, JCPenny, Levi Strauss, Pfizer, Gap, Limited, Texaco, and Unocal have all faced possible suits under this same law, which may extend to hundreds of other national and international firms.\(^\text{28}\) Unocal, one of the companies in this list whose case had advanced the furthest in U.S. courts, announced in December 2004, on the eve of having its case heard on appeal, that it would settle for an undisclosed sum:

Lawsuits filed by 15 villagers from Myanmar . . . said the company “turned a blind eye” to atrocities allegedly committed by soldiers guarding a natural gas pipeline built by the company and its partners in the 1990s. . . . A joint statement by the two sides said Unocal would pay the plaintiffs an unspecified sum and fund programmes to improve living conditions for people living near the pipeline.\(^\text{29}\)

In 2008, in the first major case to be brought to trial under the Alien Tort Claims Act, Texaco was cleared of any responsibility for the shooting death of two Nigerian villagers who were protesting on one of the company’s oil platforms in 1998. The villagers were killed by police and security officers who were brought in by the firm to diffuse the situation. The Texaco case sets an important precedent for future prosecutions against firms operating in foreign countries to be brought to trial:

Despite the outcome, . . . the trial was a success for the human rights community because the lawyers succeeded in bringing a case to trial under the Alien Torts law.\(^\text{30}\)
Nike, more commonly, reacted to stakeholder criticism of sweatshop conditions in its factories by demanding that its suppliers provide their employees with wages and working conditions that meet the expectations of consumers in developed societies—consumers who might boycott Nike products if they perceive the company to be acting in an unfair or irresponsible manner. Today, media and NGO activists are more likely to criticize the poor treatment of workers in developing economies by holding corporations to standards found in their home markets, especially the United States and the European Union (EU). The result is increased complexity and risk that can harm economic outcomes when CSR is lacking.

On the other hand, however, the pursuit of economic gain remains an absolute necessity. CSR does not repeal the laws of economics under which for-profit organizations must operate (to society’s benefit). The example of Malden Mills, below, demonstrates that, unless a firm is economically viable, even the best of intentions will not enable stakeholders to achieve their goals and maximize social value.

### Malden Mills

Aaron Feuerstein, CEO of Malden Mills (founded in 1906, family owned), was an excellent man to work for:

Here was a CEO with a unionized plant that was strike-free, a boss who saw his workers as a key to his company’s success. 32

In 1995, however, his approach to business was put to the test when

a fire destroyed Malden Mills’ textile plant in Lawrence, an economically depressed town in northeastern Massachusetts. With an insurance settlement of close to $300 million in hand, Feuerstein could have, for example, moved operations to a country with a lower wage base, or he could have retired. Instead, he rebuilt in Lawrence and continued to pay his employees while the new plant was under construction. 33

As a result, “he was idolized throughout the media. . . . The national attention to Feuerstein’s act brought more than the adulation of business ethics professors—it brought increased demand for his product, Polartec, the lightweight fleece the catalogue industry loves to sell.” 34

In addition to full pay, Feuerstein also continued all his employees on full medical benefits and guaranteed them a job when the factory was ready to restart production. In spite of the cost, the decision for Feuerstein was an easy one:

Rebuilding in Lawrence would cost over $300 million while keeping 1,400 laid-off workers on full salaries for a period of up to 3 months would cost an additional $20 million. “I have a responsibility to the worker, both blue-collar and white collar,” Feuerstein later said. “I have an equal responsibility to the community. It would have been unconscionable to put 3,000 people on the streets [two weeks before Christmas] and deliver a death blow to the cities of Lawrence and Methuen. Maybe on paper our company is [now] worth less to Wall Street, but I can tell you it’s [really] worth more.” 35
CSR is an important component of a company’s strategic and operating perspective; however, alone, it is not enough. It certainly does not replace the need for an effective business model, and no company, whatever the motivation, can or should spend indefinitely money that it does not have. Manufacturing offshore in a low-cost environment, for example, remains a valid strategic decision, particularly in an increasingly globalizing business world. Where CSR considerations play a major role is in how such decisions are made and implemented. And, as *The Economist* notes, there is still plenty of room left for improvement:

> Corporate social responsibility, once a do-gooding sideshow, is now seen as mainstream. But as yet, too few companies are doing it well.

As societies rethink the balance between societal needs and economic progress, CSR will continue to evolve in importance and complexity. And although this complexity muddies the wealth-creating waters, an awareness of these evolving expectations holds the potential for increased competitive advantage. The examples above indicate that the cultural context within which CSR is perceived and evaluated is crucial.

**THE CULTURE AND CONTEXT**

Firms operate within the context of broader society. The resulting interaction requires a CSR perspective in order for firms to maintain their social legitimacy. Yet, societies differ and so, therefore, does what they consider acceptable. Although differences range from the anthropological and sociological to the historical and demographic, two dimensions consistently influence the visibility of CSR: democracy and economics.

Different societies define the relationship between business and society in different ways. Unique expectations spring from many factors, with wealthy societies having greater resources and, perhaps, more demanding expectations that emerge from the greater options wealth brings. The reasoning is straightforward: In poor democracies, the general social well-being is focused on the necessities of life—food, shelter, transportation, education, medicine, social order, jobs, and the like. Governmental or self-imposed CSR restrictions add costs that poor societies can ill afford. As societies advance, however, expectations change, and the general social well-being is redefined. This ongoing redefinition and evolution of societal expectations causes the CSR response also to evolve, as this example of air pollution and public transportation in Chile indicates.

But the increased demand for Polartec ([http://www.polartec.com/](http://www.polartec.com/)) Feuerstein’s actions generated wasn’t enough to offset the debt he had built up waiting for the plant to be rebuilt: $100 million. This situation was compounded by the downturn in the market, as well as cheaper fleece alternatives flooding the market. Malden Mills filed for bankruptcy protection in November 2001.
In the 1980s, air pollution in downtown Santiago, Chile, was an important issue, just as it was in Los Angeles, California. The problem, however, was addressed differently in relation to the level of economic development found in these two pollution-retaining basins. Stringent laws went into effect in the Los Angeles basin during the 1980s. At the same time in Chile, necessities (including low-cost transportation) got a higher priority because of widespread poverty. After more than a decade of robust economic growth, however, Chileans eventually used democratic processes to put limitations on the number of cars entering Santiago and required increasingly stringent pollution standards. This shift in priorities reflected their changing societal needs and expectations, along with the growing wealth to afford the new rules and legal actions.

Differences in CSR expectations among rich and poor societies are a matter of priorities. The need for transportation, for example, evolves into a need for nonpolluting forms of transportation as society becomes more affluent. Although poor societies value clean air just as advanced ones do, competing needs may take priority—one of which will be the need for low-cost transportation. As a society prospers economically, new expectations compel producers to make vehicles that pollute less—a shift in emphasis. In time, these expectations may evolve from discretionary to mandatory (legal).

This example reinforces the idea that it is in any organization’s best interest (for-profit, nonprofit, or governmental) to anticipate, reflect, and strive to meet the changing needs of its stakeholders to remain successful. In the case of for-profits, the primary stakeholder groups are its owners (its shareholders), customers, and employees, without which the business fails. Other constituents, however, from suppliers to the local community, also matter. Businesses must satisfy the primary groups among these constituents, therefore, if they hope to remain viable over the long term. When the expectations of different stakeholders conflict, CSR enters a gray area, and management has to balance competing interests.

CSR represents an argument for a firm’s economic interests, where satisfying stakeholder needs becomes central to retaining societal legitimacy (and, therefore, financial viability) over the long term. Much debate (and criticism) in the CSR community springs from well-meaning parties who argue the same facts from different perspectives, breaking down along partisan and ideological lines. Understanding these different perspectives, therefore, is an important component of understanding the breadth and depth of CSR. An introduction to the underlying moral, rational, and economic arguments for CSR follows.

**A MORAL ARGUMENT FOR CSR**

Although recognizing that profits are necessary for any business to survive, for-profit organizations are able to obtain those profits only because of the society in which they operate. CSR emerges from this interaction and the interdependent relationship between for-profits and society. It is shaped by individual and societal standards of morality, ethics, and values that define contemporary views of human rights and social justice.
Thus, to what extent is a business obliged to repay the debt it owes society for its continued business success? That is, what moral responsibilities do businesses have in return for the benefits society grants? And also, to what extent do the profits the business generates, the jobs it provides, and the taxes it pays already meet those obligations? As an academic study, CSR represents an organized approach to answering these questions. As an applied discipline, it represents the extent to which businesses need to deliver on their societal obligations as defined by society.

**A Moral Argument for CSR**

CSR broadly represents the relationship between a company and the principles expected by the wider society within which it operates. It assumes businesses recognize that for-profit entities do not exist in a vacuum and that a large part of their success comes as much from actions that are congruent with societal values as from factors internal to the company.

Charles Handy constructs a compelling argument that businesses have a moral obligation to move beyond the goals of maximizing profit and satisfying shareholders above all other stakeholders:

The purpose of a business . . . is not to make a profit, full stop. It is to make a profit so that the business can do something more or better. That “something” becomes the real justification for the business . . . . It is a moral issue. To mistake the means for the end is to be turned in on oneself, which Saint Augustine called one of the greatest sins. . . . It is salutary to ask about any organization, “If it did not exist, would we invent it?” “Only if it could do something better or more useful than anyone else” would have to be the answer, and profit would be the means to that larger end. 39

A similar sentiment is expressed in a quote attributed to Peter Drucker:

Profit for a company is like oxygen for a person. If you don’t have enough of it, you’re out of the game. But if you think your life is about breathing, you’re really missing something. 40

At one level, the moral argument for CSR reflects a give-and-take approach, based on a meshing of the firm’s values and those of society. Society makes business possible and provides it directly or indirectly with what for-profits need to succeed, ranging from educated and healthy workers to a safe and stable physical and legal infrastructure, not to mention a consumer market for their products. Because society’s contributions make businesses possible, those businesses have a reciprocal obligation to society to operate in ways that are deemed socially responsible and beneficial. And because businesses operate within the larger context of society, society has the right and the power to define expectations for those who operate within its boundaries:

Conservatives and Republicans may like to portray “wealth-producing” businesses as precarious affairs that bestow their gifts independently of the society in which they trade. The opposite is the case. The intellectual, human, and physical infrastructure that creates successful companies, alongside their markets, is a social product and that, in turn, is shaped by the character of that society’s public conversation and the capacity to build effective social institutions and processes. 41
At a deeper level, however, societies rest on a cultural heritage that grows out of a confluence of religion, mores, and folkways. This heritage gives rise to a belief system that defines the boundaries of socially and morally acceptable behavior by people and organizations. For many, a focus on money alone is dispiriting—“as vital as profit is, it seems insufficient to give people the fulfillment they crave.” 42 Although not always codified into dogma or laws, the cultural heritage leads to an evolving definition of social justice, human rights, and environmental stewardship, the violation of which is deemed morally wrong and socially irresponsible. To violate these implicit moral boundaries can lead to a loss of legitimacy that threatens the long-term viability of the organization.

A RATIONAL ARGUMENT FOR CSR

The loss of societal legitimacy can lead to the countervailing power of social activism, restrictive legislation, or other constraints on the firm’s freedom to pursue its economic and other interests. Violations of ethical and discretionary standards are not just inappropriate, they present a rational argument for CSR.

Because societal sanctions (such as laws, fines, prohibitions, boycotts, or social activism) affect the firm’s strategic goals, efforts to comply with societal expectations are rational, regardless of moral arguments. When compliance with moral expectations is based on highly subjective values, the rational argument rests on sanction avoidance: It may be more cost-effective, for example, to address issues voluntarily, rather than wait for a mandatory requirement based on government or judicial action. One argument is that businesses can wait for the legally mandated requirements and then react to them. 43 This reactive approach may permit for-profits to ignore their moral obligations and concentrate on maximizing profits or other business goals; however, it also inevitably leads to strictures being imposed that not only force mandatory compliance but often force compliance in ways that are neither preferable nor efficient for the firm. By ignoring the opportunity to influence the debate in the short term through proactive behaviors, an organization is more likely to find its business operations and strategy hampered over the long term. One need only consider the evolution of affirmative action in the United States.

**Affirmative Action**

Prior to the 1960s, businesses could discriminate against current or potential employees on the basis of race, sex, religion, age, national origin, veteran’s status, pregnancy, disability, sexual preference, and other non-merit-based criteria. Putting aside the moral concerns, doing so was a discretionary right that was legal, if far from ethical. Social activism moved these ethical and discretionary decisions into the arena of public debate and, in time, into legal prohibitions. The result for many businesses that were guilty of past or present discrimination meant affirmative action plans to redress racial or other imbalances in their workforce. Those organizations that lagged quickly found themselves the test case in litigation focused on institutionalizing the new legislation.

As Robert Kennedy said during the civil rights movement to those firms that were reluctant to change: “If you won’t end discriminatory practices because it’s the right thing to do; then do it because it’s good for business.” 44
We are not suggesting firms should have been proactive to ensure discrimination remained legal. That would be a moral or ethical lapse and would have involved fighting the evolving societal consensus, risking the societal legitimacy of the firm. Instead, the rational argument advocates self-interest in avoiding the inevitable confrontation. By not adopting a proactive (or at least accommodative) approach to fair treatment, many businesses found their behavior suddenly (and expensively) curtailed through legislation, judicial and agency interpretations, and penalties because of a failure to interpret correctly the evolving social and business environment.

**A Rational Argument for CSR**

CSR is a rational argument for businesses seeking to maximize their performance by minimizing restrictions on operations. In today's globalizing world, where individuals and activist organizations feel empowered to enact change, CSR represents a means of anticipating and reflecting societal concerns to minimize operational and financial constraints on business.

The rational argument for CSR is summarized by the *iron law of social responsibility*, which states: In a free society, discretionary abuse of societal responsibilities leads, eventually, to mandated solutions.45 Restated: In a democratic society, power is taken away from those who abuse it. The history of social and political uprisings—from Cromwell in England, to the American and French revolutions, to the overthrow of the shah of Iran or the communist government of the Soviet Union—underscores the conclusion that those who abuse power or privilege sow the seeds for their own destruction.

Parallels exist in the business arena. Financial scandals around the turn of this century at Enron, WorldCom, Adelphia, HealthSouth, and other icons of U.S. business caused discretionary-limiting laws and rulings, such as the Sarbanes-Oxley legislation of 2002, that move previously discretionary and ethical issues into the legal arena. Similarly, firms that pay their CEOs and other executives amounts of money that are perceived to be excessive, even following poor performance, face unwelcome oversight from regulatory agencies and politicians who have to answer to their electorates:

Public corporations are political institutions: They depend on the good will of the public to operate successfully. The absence of that good will leaves them open to attacks from Congress, regulators, ambitious attorneys general, pension funds, hedge funds, unions, nongovernmental organizations and just about anyone else who wants a say in a corporation's affairs.46

By adopting a rational argument for CSR, however, firms are able to interpret changing societal values and stakeholder expectations and act to avoid future sanctions. Sensing that the tide of public opinion in the United States is moving in favor of regulating carbon emissions, for example, firms have formed groups to lobby the government for change. The group BICEP (Business for Innovative Climate and Energy Policy, http://www.ceres.org/bicep) was established by five firms with proactive CSR track records—Levi Strauss, Nike, Starbucks, Sun Microsystems, and Timberland. Perhaps more surprisingly, however, USCAP (United States Climate Action Partnership, http://www.us-cap.org/), which “supports the introduction of carbon
limits and trading. . . . was set up by energy companies and industrial manufacturers” that might otherwise have opposed government action in this area. General Motors, for example, became the first U.S. automobile manufacturer to join USCAP, “which seeks economy-wide greenhouse gas emission reductions of 60 to 80 per cent by 2050.” Similar motives result in newspaper headlines, such as, “Exxon CEO Advocates Emissions Tax.”

Implementing a rational perspective, these firms realize that it is in their interests to engage with regulators, rather than oppose legislation that is inevitable. As such, acting proactively in a socially responsible manner to avoid unwelcome intrusion or help shape prospective legislation is an act of rational business—particularly so in light of the overwhelming anecdotal evidence that discretionary abuses lead to a loss of decision-making freedoms and financial repercussions for for-profit organizations.

AN ECONOMIC ARGUMENT FOR CSR

Summing the moral and rational arguments for CSR leads to an economic argument. In addition to avoiding moral, legal, and other societal sanctions, incorporating CSR into a firm’s operations offers a potential point of differentiation and competitive market advantage on which future success can be built.

CSR is an argument of economic self-interest for business. CSR adds value because it allows companies to reflect the needs and concerns of their various stakeholder groups. By doing so, a company is more likely to retain its societal legitimacy and maximize its financial viability over the medium to long term. Simply put, CSR is a way of matching corporate operations with societal values and expectations that are constantly evolving.

CSR influences all aspects of a business’s day-to-day operations. Everything an organization does causes it to interact with one or more of its stakeholder groups. As a result, companies need to build a watertight image with respect to as broad an array of key stakeholders as possible. Whether as an employer, producer, buyer, supplier, or as an investment, a firm’s attractiveness and success are increasingly linked to the strengths of its image and brand(s). Concerning socially responsible investments (SRI), for example, “funds that invest with a conscience have more than doubled in size over the last 10 years.”

Certainly, even for those who believe that the only purpose of a business is to increase the wealth of the owners, being perceived as socially irresponsible risks losing access to an already significant (and growing) segment of investors and their capital. SRI funds amounted to $202 billion in 2007 and, by some measures, outperformed broader market funds, such as the S&P 500. CSR affects operations within a corporation because of the need to consider constituent groups. Each area builds on all the others to create a composite of the corporation in the eyes of its stakeholders. Businesses must satisfy key groups among these constituents if they hope to remain viable over the long term. However,

these messages [firms send to stakeholders] are not incompatible with pursuing shareholder value. Rather, they give the companies a license to operate in order to pursue it.
Strategic CSR expounds the economic argument in favor of CSR. We believe it is the clearest of the three (moral, rational, and economic) arguments supporting CSR and emphasizes the importance of CSR for businesses today. Importantly, however, the economic argument for CSR operates at the intersection of the economic self-interest of the firm and the broader well-being of society. As such, this perspective offers a plan of action that has as its goal the maximization of both economic and social value.

An important distinction is between an effective business model and a broader, more sustainable model for (all) businesses. The Body Shop, for example, has implemented a successful business model, which subscribes to a moral argument for CSR. An activist organization, it is able to draw on support from the small percentage of the population that is aware and sufficiently responsive to a progressive social agenda and translate it into economic success. In contrast, however, an economic argument for CSR speaks to a broad model for businesses, which recognizes the limited application of moral activism and, instead, searches for a standard to which all organizations can subscribe. The result is an approach to business that identifies the strategic benefits of a CSR and stakeholder perspective in a way that sustains the firm and maximizes the added total value of its operations.

WHY IS CSR IMPORTANT?

CSR is important, therefore, because it influences all aspects of a company’s operations. Increasingly, consumers want to buy products from companies they trust, suppliers want to form business partnerships with companies they can rely on, employees want to work for companies they respect, large investment funds want to support firms that they perceive to be socially responsible, and nonprofits and NGOs want to work together with companies seeking practical solutions to common goals. Satisfying each of these stakeholder groups (and others) allows companies to maximize their commitment to their owners (their ultimate stakeholders), who benefit most when all of these groups’ needs are being met. As Carly Fiorina, former chair and chief executive officer of Hewlett-Packard, has argued:

I honestly believe that the winning companies of this century will be those who prove with their actions that they can be profitable and increase social value—companies that both do well and do good. . . . And, increasingly, shareowners, customers, partners, and employees are going to vote with their feet—rewarding those companies that fuel social change through business. . . . This is simply the new reality of business—one that we should and must embrace. 55

CSR is increasingly crucial to success because it gives companies a mission and strategy around which multiple constituents can rally. The businesses most likely to succeed in today’s rapidly evolving global environment will be those best able to balance the often conflicting interests of their multiple stakeholders. Lifestyle brand firms, in particular, need to live the ideals they convey to their consumers.

WHY IS CSR INCREASINGLY RELEVANT TODAY?

CSR as an element of strategy is becoming increasingly relevant for businesses today because of five identifiable trends—trends that seem likely to continue and grow in importance throughout the 21st century. 56
Growing Affluence

A poor society, in need of work and inward investment, is less likely to enforce strict regulations and penalize organizations that might otherwise take their business and money elsewhere. Consumers in developed societies, on the other hand, can afford to choose the products they buy and, as a consequence, expect more from the companies that make those products. This sense has increased in the wake of the corporate scandals at the turn of this century and the 2007–2009 financial crisis, both of which reduced public trust in corporations and public confidence in the ability of regulatory agencies to control corporate excess. Affluence matters and leads to changing social expectations. Firms operating in affluent societies, therefore, face a higher burden to demonstrate they are socially responsible. As a result, increasing affluence on a global basis will continue to push CSR up the agendas of corporations worldwide.

Ecological Sustainability

An increase in general affluence and changing societal expectations is enhanced by a growing concern for the environment. When the Alaskan pipeline was built in the 1970s, crews could drive on the hardened permafrost 200 days a year. Today, climate changes leave the permafrost solid for only 100 days each year, while NASA photographs reveal that the arctic ice cap “has shrunk more than 20 percent” since 1979 and that the rate of decrease is accelerating. Increasing prices for raw materials, rising mutation rates among amphibian populations, and other growing anecdotal evidence all suggest that the Earth has ecological limits. The speed at which we are approaching the Earth’s limits and the potential consequences of our actions are complicated issues, about which experts do not agree. What is not in doubt, however, is that human economic activity is depleting the world’s resources and causing dramatic changes to the mix of gasses in the Earth’s atmosphere—changes that could become irreversible in the near future. As a result, firms that are perceived to be indifferent to their environmental responsibilities are likely to be criticized and penalized. Examples include: court-imposed fines (Exxon Valdez), negative publicity (Monsanto’s genetically modified foods), or confrontations by activist groups (Friends of the Earth).

Globalization

Increasingly, corporations operate in a global business environment. Operating in multiple countries and cultures magnifies the complexity of business exponentially. Not only are there more laws and regulations to understand, but many more social norms and cultural subtleties to navigate. In addition, the range of stakeholders to whom multinational firms are held accountable increases, as does the potential for conflict among competing stakeholder demands. While globalization has increased the potential for efficiencies gained from production across borders, it has also increased the potential to be exposed to a global audience if a firm’s actions fail to meet the needs and expectations of the local community.

The Free Flow of Information

The growing influence of global media conglomerates makes sure that any CSR lapses by companies are brought rapidly to the attention of the worldwide public, often instantaneously. Scandal is news, and yesterday’s eyewitnesses are today armed with pocket-size video cameras
or pictures taken by mobile phones that provide all the evidence necessary to convict by TV. In addition, the Internet fuels communication among activist groups and like-minded individuals, empowering them to spread their message while giving them the means to coordinate collective action. Such technologies are reaching beyond the control of autocratic governments and allowing people to find new ways to mobilize and protest. Thomas Friedman, for example, explains how this communication revolution is affecting the relationship between the government and people of Iran:

What is fascinating to me is the degree to which in Iran today—and in Lebanon—the more secular forces of moderation have used technologies like Facebook, Flickr, Twitter, blogging and text-messaging as their virtual mosque, as the place they can now gather, mobilize, plan, inform and energize their supporters, outside the grip of the state.62

Google is one company that is increasingly finding new ways to apply these new communication technologies.

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**CSR Newsletters: Google**

The Internet has enormous power to reshape the way information is communicated around the globe. This phenomenon will continue to evolve in ways that we have not yet even begun to imagine (at least, those of us who do not work for Google). As a recent article in the *Wall Street Journal* pointed out, “You can Google to get a hotel, find a flight and buy a book. Now you may be able to use Google to avoid the flu.”63

The philanthropic arm of the Internet search company (http://www.google.org/) has released a new service (http://www.google.org/flutrends/) that will track Internet search terms related to the flu nationally (e.g., *cough* or *fever*) and use this information to help identify potential outbreaks of the illness:

It displays the results on a map of the U.S. and shows a chart of changes in flu activity around the country. The data is meaningful because the Google arm that created Flu Trends found a strong correlation between the number of Internet searches related to the flu and the number of people reporting flu symptoms.

This information is powerful because of the speed with which it identifies early trends to which government agencies and health providers can then react:

Tests of the new Web tool from Google.org, the company’s philanthropic unit, suggest that it may be able to detect regional outbreaks of the flu a week to 10 days before they are reported by the Centers for Disease Control and Prevention.

Firms are just beginning to appreciate the ways in which these communication tools will affect their operations and reputations. What seems apparent, however, is that the affect will be dramatic and that firms that are not transparent and accountable to their stakeholders will suffer as a result.
Brands

All of these trends that are driving the importance of CSR overlap in terms of the importance of a firm’s reputation and brand. Brands today are often a focal point of corporate success. Companies try to establish popular brands in consumers’ minds because it increases any competitive advantage they hold, which then results in higher sales and revenue. In addition, consumers are more likely to pay a premium for a brand they know and trust. Due to growing demands from increasing numbers of stakeholders, however, combined with the increased complexity of business in a global environment and the ability of activists and media organizations to spread missteps instantaneously to a global audience, today, more than ever before, a firm’s reputation is precarious—hard to establish and easy to lose. As a result, as BusinessWeek’s annual brand survey demonstrates, brands are more valuable than ever, and firms need to take ever greater steps to protect an investment that is essential to their continued success.

BEYOND TRENDS

Beyond the trends in CSR that we identify in this chapter, CSR must also work in practice. It must allow firms to prosper as well as act as a conduit for stakeholder concerns. But how are firms supposed to identify their key stakeholders and prioritize among their competing interests? Does CSR matter to stakeholders? Are stakeholders willing to enter the debate and impose their views on corporations? Do they share some of the responsibility for shaping corporate actions? How should firms begin integrating a CSR perspective into their strategic planning and day-to-day operations?

The importance of the stakeholder model to the arguments presented in Strategic CSR will be explored further in Chapter 2. Arguments against CSR (and the often unintended implications of progressive CSR applications) exist and will be explored in Chapter 3. Chapter 4 puts CSR into strategic perspective and expands on the growing importance of CSR and its impact on corporate strategy. And, issues that influence the implementation of CSR within a strategic decision-making framework provide the basis for Chapter 5, which will conclude Part I of Strategic Corporate Social Responsibility.

Questions for Discussion and Review

1. Why do firms exist? What value do businesses serve for society?

2. Define corporate social responsibility. What arguments in favor of CSR seem most important to you? How is CSR different from strategic CSR?

3. Name the four responsibilities of a firm outlined in Archie Carroll’s pyramid of CSR model. Illustrate your definitions of each level with corporate examples.

4. Milton Friedman argued that, “Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.” Give two arguments in support of Friedman’s assertion and two against.
5. Define and discuss briefly the primary moral, rational, and economic arguments for CSR?

6. What five driving forces make CSR more relevant today?

7. Of these five factors, is there any one that you feel is more important than the others? Defend your choice with examples from your own experiences and knowledge.

NOTES AND REFERENCES


2. Post, Preston, and Sachs provide an alternative, narrower, definition of a firm’s stakeholder that ties the group or actor more directly to the firm’s operations: “The stakeholders in a firm are individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers.” In “Managing the Extended Enterprise: The New Stakeholder View,” California Management Review, Vol. 45, No. 1, Fall 2002, p. 8.


7. Of course, this debate continues today. For one example of a debate that was hosted by a skeptical source but includes different perspectives from the Rainforest Action Network to G.E., see “Corporate Social Responsibility: Good Citizenship or Investor Rip-off?” Big Issues: The Journal Report, Wall Street Journal, January 9, 2006, p. R6.


13. See Mark S. Schwartz and Archie B. Carroll, “Corporate Social Responsibility: A Three-domain Approach,” Business Ethics Quarterly, Vol. 13, 2003, pp. 503–530 for an update on Carroll’s pyramid of CSR. Instead of four levels of responsibility, Schwartz and Carroll divide a firm’s responsibilities into three domains—economic, legal, and ethical. These three overlapping domains result in seven “CSR categories,” or firm profiles, with the appropriate category determined by the firm’s orientation (i.e., the different emphases placed on each domain).

15. In March 2007, the ECOA had 1,388 individual members and approximately 750 organizational members. Individual members are defined by the ECOA as “ethics and compliance professionals.”

16. It is worth noting, however, that actions that appear to be legally permissible may still result in lawsuits filed against firms, under obscure treaties and statutes, by innovative activists seeking to right actual or perceived wrongs.


28. Ibid.


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37. In spite of emerging from bankruptcy protection in 2004, the firm continued to struggle and filed for bankruptcy again in 2007. Today, the company continues to make its clothing under the brand name Polartec (http://www.polartec.com/).
50. Some of the most important research in the business management literature on the relationship between CSR and firm performance is being done by Joshua Margolis of Harvard Business School (see Joshua Margolis and James Walsh, “Misery Loves Companies: Rethinking Social Initiatives by Business,” Administrative Science Quarterly, Vol. 48, Issue No. 2, 2003, pp. 268–305; Joshua Margolis, Hillary Elfenbein, and James Walsh, “Does It Pay to Be Good? What a Meta-analysis of CSP and CFP Can (and Cannot) Tell Us,” Academy of Management Annual Meeting, Philadelphia, PA, 2007; and Joshua Margolis and Hillary Elfenbein, “Do Well by Doing Good? Don’t Count on It,” Harvard Business Review, Vol. 86, No. 1, 2008, pp. 19–20). Margolis’s main conclusion from his research is that, while there is little evidence that CSR predicts firm performance, there does seem to be evidence of the reverse relationship—firm performance predicting CSR. In other words, while CSR does not increase profits, higher profits lead to greater CSR. One explanation for this failure to establish a conclusive link between CSR and firm performance is that the tools we currently use to measure CSR are not very good. While data and methods are improving all the time, we are yet to identify a sufficiently comprehensive means of establishing a firm’s CSR profile. In the absence of such a measure, continuing to research whether or not such activities have positive (or negative) correlations with firm performance (creating a huge black box in the process) seems difficult to justify. Margolis’s response is to call on researchers to move beyond investigating the relationship between CSR and firm performance (or vice-versa) and, instead, focus on understanding how and why firms decide to act in relation to CSR—“understanding the mechanisms that connect CFP to CSP, rather than the reverse.”
53. Ibid.
56. For a more detailed discussion of these trends that are driving the relevance of CSR, see Chapter 5.