SAGE Brief Guide to

CORPORATE SOCIAL RESPONSIBILITY

Global Business Citizenship

Social Entrepreneurship

Corporate Philanthropy

...le Bottom Line

...porate Social Performance

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CORPORATE SOCIAL RESPONSIBILITY

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PREFACE

Commerce is by its very nature a normative enterprise. It is concerned with creating value for owners and other constituencies, ranging from the firm's immediate stakeholders, such as employees, customers, and suppliers, to the entire society within which the business operates. But what particular value do we expect modern businesses to bring to our society?

The concept of corporate social responsibility (CSR) refers to the general belief held by many that modern businesses have a responsibility to society that extends beyond the stockholders or investors in the firm. That responsibility, of course, is to make money or profits for the owners. These other societal stakeholders typically include consumers, employees, the community at large, government, and the natural environment. There are many ways in which companies may manifest their CSR in their communities and abroad. Most of these initiatives would fall in the category of discretionary, or philanthropic, activities, but some border on improving some ethical situation for the stakeholders with whom they come into contact.

As we think about the importance of CSR/CSP in the new millennium, it is useful to review the results of the millennium poll on CSR that was sponsored by Environics, International, the Prince of Wales Business Leaders Forum, and the Conference Board. This poll included 1,000 persons in 23 countries on six continents. The results of the poll revealed how important citizens of the world now thought CSR really was. The poll found that in the 21st century, companies would be expected to do all the following: demonstrate their commitment to society's values on social, environmental, and economic goals through their actions; fully insulate society from the negative impacts of company actions; share the benefits of company activities with key stakeholders, as well as shareholders, and demonstrate that the company can be more profitable by doing the right thing. This "doing well by doing good" approach will reassure stakeholders that new behaviors will outlast good intentions. Finally, it was made clear that CSR/CSP is now a global expectation that requires a comprehensive, strategic response.

This *Brief Guide to Corporate Social Responsibility* is designed to provide students and practitioners with a quick reference guide to this important topic. While corporate social responsibility is certainly gaining increased respect and attention, the research in this area is still ever-evolving and the key terminology is constantly in flux. With entries covering key terms such as "Strategic Corporate Responsibility" alongside others such as "Corporate Social Responsibility," "Corporate Citizenship," and "Global Business Citizenship," this volume aims to provide readers with an introduction to these ever-evolving concepts and the relationships between them.

FORMAT

This guide to corporate social responsibility provides key terms and concepts related to CSR in a short, easy-to-use format. It is intended to act as a companion for business courses or as a reference for students and practitioners who would like to learn more about the basics of CSR.

The text is divided into five sections that contain important keywords that relate to those sections: *Corporate Social Responsibility and Related Terms; Corporate Social Responsibility on the Global Stage; Corporate Governance, Stakeholders, and Shareholders; Corporate Social Responsiveness: Public Affairs and Public Relations, Politics, and Philanthropy; and Measuring Corporate Social Performance and Implications for Financial Performance.* Each keyword entry is a comprehensive essay written by a business scholar, and entries address such critical topics as strategic philanthropy, corporate moral agency, triple bottom line, corporate social performance, and social audits. In the back of the book, you will also find three appendixes. Appendix A, Problematic Practices, includes entries on businesses and industries that have engaged in problematic practices that raise questions about their commitment to corporate social responsibility. A correlation table in this appendix also provides suggested pairings between the problematic practices and the entries in the text, so that instructors have an idea of which concepts are illustrated in the problematic practices entries. Appendix B provides a directory of

CSR-related organizations and Internet links, and Appendix C provides a directory of online CSR information sources and publications.

ACKNOWLEDGMENTS

We would like to acknowledge and thank Robert Kolb, editor of SAGE's award-winning *Encyclopedia of Business Ethics and Society,* whose contributions provided the foundation for this companion text.

—The Editors of SAGE

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CORPORATE SOCIAL RESPONSIBILITY (CSR)

The concept of corporate social responsibility (CSR) refers to the general belief held by many that modern businesses have a responsibility to society that extends beyond the stockholders or investors in the firm. That responsibility, of course, is to make money or profits for the owners. These other societal stakeholders typically include consumers, employees, the community at large, government, and the natural environment. The CSR concept applies to organizations of all sizes, but discussions tend to focus on large organizations because they tend to be more visible and have more power. And, as many have observed, with power comes responsibility.

DEVELOPMENT OF THE CSR CONCEPT

The concept of CSR has a long and varied history. It is possible to trace evidences of the business community's concern for society for centuries. Formal writings on CSR, or social responsibility (SR), however, are largely a product of the 20th century, especially the past 50 years. In addition, though it is possible to see footprints of CSR thought and practice throughout the world, mostly in developed countries, formal writings have been most evident in the United States, where a sizable body of literature has accumulated. In recent years, the continent of Europe has been captivated with CSR and has been strongly supporting the idea.

A significant challenge is to decide how far back in time we should go to begin discussing the concept of CSR. A good case could be made for about 50 years because so much has occurred during that time that has shaped theory, research, and practice. Using this as a general guideline, it should be noted that references to a concern for SR appeared earlier than this, and especially during the 1930s and 1940s. References from this earlier period worth noting included Chester Barnard's 1938 publication, *The Functions of the Executive,* J. M. Clark's *Social Control of Business* from 1939, and Theodore Kreps's

Measurement of the Social Performance of Business from 1940, just to mention a few. From a more practical point of view, it should be noted that as far back as 1946 business executives (the literature called them businessmen in those days) were polled by *Fortune* magazine asking them about their social responsibilities.

In the early writings on CSR, the concept was referred to more often as just SR rather than CSR. This may have been because the age of the modern corporation's prominence and dominance in the business sector had not yet occurred or been noted. The 1953 publication by Howard R. Bowen of his landmark book *Social Responsibilities of the Businessman* is argued by many to mark the beginnings of the modern period of CSR. As the title of Bowen's book suggests, there apparently were no *businesswomen* during this period, or at least they were not acknowledged in formal writings.

Bowen's work proceeded from the belief that the several hundred largest businesses at that time were vital centers of power and decision making and that the actions of these firms touched the lives of citizens at many points. Among the many questions raised by Bowen, one is of special note here. Bowen asked, what responsibilities to society may businessmen reasonably be expected to assume? This question drove much subsequent thought and is still relevant today. Bowen's answer to the question was that businesspeople should assume the responsibility that is desirable in terms of the objectives and values of society. In other words, he was arguing that it is society's expectations that drive the idea of SR.

Bowen went on to argue that CSR or the "social consciousness" of managers implied that businesspeople were responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-and-loss statements. It is fascinating to note that when Bowen referenced the *Fortune* article cited earlier, it reported that 93.5% of the businessmen agreed with this idea of a wider SR. Because of his early and seminal work, Bowen might be called the "father of corporate social responsibility."

If there was scant evidence of CSR definitions in the literature in the 1950s and before, the decade of the 1960s marked a significant growth in attempts to formalize or more accurately state what CSR means. One of the first and most prominent writers in this period to define CSR was Keith Davis, then a professor at Arizona State University, who later extensively wrote about the topic in his business and society textbook, later revisions, and articles. Davis argued that SR refers to the decisions and actions that businesspeople take for reasons that are at least partially beyond the direct economic or technical interest of the firm.

Davis argued that SR is a nebulous idea that needs to be seen in a managerial context. Furthermore, he asserted that some socially responsible business decisions can be justified by a long, complicated process of reasoning as having a good chance of bringing long-run economic gain to the firm, thus paying it back for its socially responsible outlook. This has often been referred to as the enlightened self-interest justification for CSR. This view became commonly accepted in the late 1970s and 1980s.

Davis became well known for his views on the relationship between SR and business power. He set forth his now-famous *Iron Law of Responsibility,* which held that the social responsibilities of businesspeople needed to be commensurate with their social power. Davis's contributions to early definitions of CSR were so significant that he could well be argued to be the runner-up to Bowen for the "father of CSR" designation.

The CSR concept became a favorite topic in management discussions during the 1970s. One reason for this is because the respected economist Milton Friedman came out against the concept. In a 1970 article for the *New York Times Magazine,* Friedman summarized his position well with its title—"The Social Responsibility of Business Is to Increase Its Profits." For many years since and continuing today, Friedman has maintained his position. In spite of Friedman's classic opposition, the CSR concept has continued to be accepted and has continued to grow.

A landmark contribution to the concept of CSR came from the Committee for Economic Development (CED) in its 1971 publication *Social Responsibilities of Business Corporations.* The CED got into this topic by observing that business functions by public consent, and its basic purpose is to serve constructively the needs of society to the satisfaction of society. The CED noted that the social contract between business and society was changing in substantial and important ways. It noted that business is being asked to assume broader responsibilities to society than ever before. Furthermore, the CED noted that business assumes a role in contributing to the quality of life and that this role is more than just providing goods and services. Noting that business, as an institution, exists to serve society, the future of business will be a direct result of how effectively managements of businesses respond to the expectations of the public, which are always changing. Public opinion polls taken during this early period by Opinion Research Corporation found that about two thirds of the respondents thought business had a moral obligation with respect to achieving social progress in society, even at the possible expense of profitability.

The CED went on to articulate a three-concentric-circles definition of SR that included an inner, an intermediate, and an outer circle. The *inner circle* focused on the basic responsibility business had for its economic function—that is, providing products, services, jobs, and economic growth. The *intermediate circle* focused on responsibilities business had to exercise its economic activities in a sensitive way by always being alert to society's changing social values and priorities. Some early arenas in which this sensitivity were to be expressed included environmental conservation; relationships with employees; and meeting the expectations of consumers for information, fair treatment, and protection from harm. The CED's *outer circle* referred to newly emerging and still ambiguous responsibilities that business should be involved in to help address problems in society, such as urban blight and poverty.

What made the CED's views on CSR especially noteworthy was that the CED was composed of businesspeople and educators and, thus, reflected an important practitioner view of the changing social contract between business and society and businesses' newly emerging social responsibilities. It is helpful to note that the CED may have been responding to the times in that the late 1960s and early 1970s was a period during which social movements with respect to the environment, worker safety, consumers, and employees were poised to transition from special interest status to government regulation. In the early 1970s, we saw the creation of the Environmental Protection Agency, the Consumer Product Safety Commission, and the Equal Employment Opportunity Commission. Thus, it can be seen that the major initiatives of government social regulation grew out of the changing climate with respect to CSR.

Another significant contributor to the development of CSR in the 1970s was George Steiner, then a professor at UCLA. In 1971, in the first edition of his textbook, *Business and Society,* Steiner wrote extensively on the subject. Steiner continued to emphasize that business is fundamentally an economic institution in society but that it does have responsibilities to help society achieve its basic goals. Thus, SR goes beyond just profit making. Steiner also noted that as companies became larger their social responsibilities grew as well. Steiner thought the assumption of social responsibilities was more of an attitude, of the way a manager approaches his or her decision-making task, than a great shift in the economics of decision making. He held that CSR was a philosophy that looks at the social interest and the enlightened self-interest of business over the long-run rather than just the old narrow, unrestrained short-run self-interest of the past.

Though Richard Eells and Clarence Walton addressed the CSR concept in the first edition of their book *Conceptual Foundations of Business* (1961), they elaborated on the concept at length in their third edition, which was published in 1974. In this book they dedicated a whole chapter to recent trends in corporate social responsibilities. Like Steiner, they did not focus on definitions, per se, but rather took a broader perspective on what CSR meant and how it evolved. Eels and Walton continued to argue that CSR is more concerned with the needs and goals of society and that these extend beyond the economic interest of the business firm. They believed that CSR was a concept that permits business to survive and function effectively in a free society and that the CSR movement is concerned with business's role in supporting and improving the social order.

In the 1970s, we initially found mention increasingly being made to CSP as well as CSR. One major writer to make this distinction was S. Prakash Sethi. In a classic 1975 article, Sethi identified what he called dimensions of CSP and, in the process, distinguished between corporate behavior that might be called social obligation, SR, or social responsiveness. In Sethi's schema, social obligation was corporate behavior in response to market forces or legal constraints. The criteria here were economic and legal only. SR, in contrast, went beyond social obligation. He argued that SR implied bringing corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations of society. Sethi went on to say that while social obligation is proscriptive in nature, SR is prescriptive in nature. The third stage in Sethi's model was social responsiveness. He regarded this as the *adaptation* of corporate behavior to social needs. Thus, anticipatory and preventive action is implied.

Some of the earliest empirical research on CSR was published in the mid-1970s. First, in 1975, Bowman and Haire conducted a survey striving to understand CSR and to ascertain the extent to which companies were engaging in CSR. Though they never really defined CSR in the sense we have been discussing, the researchers chose to measure CSR by counting the proportion of lines devoted to SR in the annual reports of the companies they studied. While not providing a formal definition of CSR, they illustrated the kinds of topics that represented CSR as opposed to those that were strictly business in nature. The topics they used were usually subheads to sections in the annual report. Some of these subheads were as follows: corporate responsibility, SR, social action, public service, corporate citizenship, public responsibility, and social responsiveness. A review of their topical approach indicates that they had a good idea of what CSR generally meant, given the kinds of definitions we saw developing in the 1970s.

Another research study in the mid-1970s was conducted by Sandra Holmes in which she sought to determine executive perceptions of CSR. Like Bowman and Haire, Holmes had no clear definition of CSR. Rather, she chose to present executives with a set of statements about CSR, seeking to find out how many of them agreed or disagreed with the statements. Like the Bowman and Haire list of "topics," Holmes's statements addressed the issues that were generally believed to be what CSR was all about during this time period. For example, she sought executive opinions on businesses' responsibilities for making a profit, abiding by regulations, helping to solve social problems, and the short-run and long-run impacts on profits of such activities. Holmes further added to the body of knowledge about CSR by identifying the outcomes that executives expected from their firms' social involvement and the factors executives used in selecting areas of social involvement.

In 1979, Archie B. Carroll proposed a four-part definition of CSR, which was embedded in a conceptual model of CSP. Like Sethi's earlier article, Carroll sought to differentiate between CSR and CSP. His basic argument was that for managers or firms to engage in CSP they needed to have (1) a basic *definition* of CSR, (2) an understanding/enumeration of the *issues* for which a SR existed (or, in modern terms, stakeholders to whom the firm had a responsibility, relationship, or dependency), and (3) a specification of the *philosophy or pattern of responsiveness* to the issues.

At that time, Carroll noted that previous definitions had alluded to businesses' responsibility to make a profit, obey the law, and to go beyond these activities. Also, he observed that, to be complete, the concept of CSR had to embrace a full range of responsibilities of business to society. In addition, some clarification was needed regarding that component of CSR that extended beyond making a profit and obeying the law. Therefore, Carroll proposed that the SR of business encompassed the economic, legal, ethical, and discretionary expectations that society had of organizations at a given point in time.

A brief elaboration of this definition is useful. First, and foremost, Carroll argued that business has a responsibility that is *economic* in nature or kind. Before anything else, the business institution is the basic economic unit in society. As such it has a responsibility to produce goods and services that society wants and to sell them at a profit. All other business roles are predicated on this fundamental assumption. The economic component of the definition suggests that society *expects* business to produce goods and services and sell them at a profit. This is how the capitalistic economic system is designed and functions.

He also noted that just as society expects business to make a profit (as an incentive and reward) for its efficiency and effectiveness, society expects business to obey the law. The law, in its most rudimentary form, represents the basic rules of the game by which business is expected to function. Society expects business to fulfill its economic mission within the framework of legal requirements set forth by the society's legal system. Thus, the *legal* responsibility is the second part of Carroll's definition.

The next two responsibilities represented Carroll's attempt to specify the nature or character of the responsibilities that extended beyond obedience to the law. The *ethical* responsibility was claimed to represent the kinds of behaviors and ethical norms that society expected business to follow. These ethical responsibilities extended to actions, decisions, and practices that are beyond what is required by the law. Though they seem to be always expanding, they nevertheless exist as expectations over and beyond legal requirements.

Finally, he argued there are *discretionary* responsibilities. These represent voluntary roles and practices that business assumes but for which society does not provide as clear cut an expectation as in the ethical responsibility. These are left to individual managers' and corporations' judgment and choice; therefore, they were referred to as discretionary. Regardless of their voluntary nature, the expectation that business perform these was still held by society. This expectation was driven by social norms. The specific activities were guided by businesses' desire to engage in social roles not mandated, not required by law, and not expected of businesses in an ethical sense, but which were becoming increasingly strategic. Examples of these voluntary activities, during the time in which it was written, included making philanthropic contributions, conducting in-house programs for drug abusers, training the hard-core unemployed, or providing day care centers for working mothers. These discretionary activities were analogous to the CED's third circle (helping society). Later, Carroll began calling this fourth category *philanthropic,* because the best examples of it were charitable, humanistic activities business undertook to help society along with its own interests.

Though Carroll's 1979 definition included an economic responsibility, many today still think of the economic component as what the business firm *does for itself* and the legal, ethical, and discretionary (or philanthropic) components as what business *does for others.* While this distinction represents the more commonly held view of CSR, Carroll continued to argue that economic performance is something business does for society as well, though society seldom looks at it in this way.

EXAMPLES OF CSR IN PRACTICE

There are many ways in which companies may manifest their CSR in their communities and abroad. Most of these initiatives would fall in the category of discretionary, or philanthropic, activities, but some border on improving some ethical situation for the stakeholders with whom they come into contact. Common types of CSR initiatives include corporate contributions (or philanthropy), employee volunteerism, community relations, becoming an outstanding employer for specific employee groups (such as women, older workers, or minorities), making environmental improvements that exceed what is required by law, and so on.

Among the 100 Best Corporate Citizens identified in 2005 by *Business Ethics* magazine, a number of illuminating examples of CSR in practice are provided. Cummins, Inc., of Columbus, Indiana, has reduced diesel engine emissions by 90% and expects that within 10 years the company will be at zero or close to zero emissions. In addition, the engine maker underwrites the development of schools in China, is purchasing biodiverse forest land in Mexico, and funds great architecture in its local community. Cummins also publishes a sustainability report that is available to the public.

Xerox Corporation, Stamford, Connecticut, is a multinational corporation that places high value on its communities. One of its most well-known community development traditions has been its Social Service Leave Program. Employees selected for the program may take a year off with full pay and work for a community nonprofit organization of their choice. The program was begun in 1971, and by 2005, more than 460 employees had been granted leave, translating into about half a million volunteer service hours for the program.

Green Mountain Coffee Roasters, Waterbury, Vermont, was a pioneer in an innovative program designed to help struggling coffee growers by paying them "fair trade" prices, which exceed regular market prices. The company has also been recognized for offering microloans to coffee-growing families and underwriting business ventures that diversify agricultural economies.