Chapter 5
CORPORATE SOCIAL RESPONSIBILITY
Business has to take account of its responsibilities to society in coming to its decisions, but society has to accept its responsibilities for setting the standards against which those decisions are made.

- Sir Adrian Cadbury

We are not in business to make maximum profit for our shareholders. We are in business...to serve society. Profit is our reward for doing it well. If business does not serve society, society will not long tolerate our profits or even our existence.

- Kenneth Dayton
ETHICS IS TOUGHER THAN YOU THINK . . .

You never expect justice from a company, do you? They neither have a soul to lose nor a body to kick.

- Sydney Smith, 1771–1845, English writer, clergyman

Corporations are people.

- Mitt Romney, U.S. Presidential Candidate
CHAPTER OBJECTIVES

After exploring this chapter, you will be able to:

1. Define corporate social responsibility.
2. Describe and evaluate the economic model of corporate social responsibility.
3. Distinguish key components of the term responsibility.
4. Describe and evaluate the philanthropic model of corporate social responsibility.
5. Describe and evaluate the social web model of corporate social responsibility.
6. Describe and evaluate the integrative model of corporate social responsibility.
7. Explain the role of reputation management as motivation behind CSR.
8. Evaluate the claims that CSR is “good” for business.
OPENING DECISION POINT: Walmart’s Ethics

- Although controversial, Walmart does have some claim to being regarded as a socially responsible company.
  - In addition to huge financial success, and consistently being among the “most admired” companies in Fortune magazine’s annual survey, the company also:
    - Brings consumers the benefits of low prices;
    - Gives jobs to about 2 million employees;
    - Gives business to suppliers of products and of the services it consumes.
    - Gives millions of dollars to charity each year.
    - Has announced ambitious goals for its own environmental sustainability performance.
OPENING DECISION POINT: Walmart’s Ethics

- On the other hand:
  - Walmart has faced serious criticism over its treatment of workers.
    - Employees have been required to work overtime without pay.
    - Employees have sued the company for discrimination.
    - And more!
      - And in 2012, the *New York Times* exposed a pattern of bribery being conducted by Walmart in Mexico.
  - Do Walmart’s ‘socially responsible’ activities do anything to compensate for other unethical and/or illegal behaviour?
CSR refers to the responsibilities that a business has to the society in which it operates.

From an economic perspective: A business is an institution that exists to produce goods and services demanded by society and, by engaging in this activity, the business creates jobs and wealth that benefit society further.

- The law has created a form of business called *corporations*, which limits the liability of individuals for the risks involved in the business activities.
ECONOMIC MODEL OF CSR

- It holds that business’ sole duty is to fulfill the economic functions businesses were designed to serve.
- According to this model, the social responsibility of business managers is simply to pursue profit within the law.
- Profit is a direct measure of how well a business firm is meeting society’s expectations.
- Profit is an indication that business is efficiently and successfully producing the goods and services that society demands.
- This model denies that business has any social responsibilities beyond the economic and legal ends for which it was created.
ECONOMIC MODEL OF CSR

- It has its roots in the utilitarian tradition and in neoclassical economics.
  - Primary social responsibility of business managers: Pursue maximum profits for shareholders.
  - By pursuing profits, business managers will allocate resources to their most efficient uses.
  - Consumers who most value a resource will be willing to pay the most for it; so profit is the measure of optimal allocation of resources.
  - The pursuit of profit will continuously work towards the optimal satisfaction of consumer demand: Optimal social good (Utilitarian interpretation)
ETHICS AND SOCIAL RESPONSIBILITY

Different meanings of the word *responsible*:
- Reliable or trustworthy.
- Attributing something as a cause for an event or action.
- Attributing liability or accountability for some event or action, creating an obligation to make things right again.

Responsibility as accountability: Heart of CSR
- CSR:
  - Actions for which a business can be held accountable.
  - To be concerned with society’s interests that should restrict or bind business’s behavior.
  - What a business should or ought to do for the sake of society, even if this comes with an economic cost.
FIGURE 5.1 - RESPONSIBLE AND RESPONSIBILITY

- Did Vioxx cause the heart attacks?
- Was Vioxx *responsible* for the heart attacks?

- Was Merck at fault, i.e. should it be held legally liable, for the heart attacks?
- Should Merck bear *responsibility* for the heart attacks?
ETHICS AND SOCIAL RESPONSIBILITY

- Three different types of responsibilities, on a scale from more to less demanding or binding:
  - Responsibility not to cause harm to others.
  - To prevent harm even in those cases where one is not the cause.
  - To do good (Volunteer and charitable work)
FIGURE 5.2 - MODELS OF CORPORATE SOCIAL RESPONSIBILITY

- Economic View of CSR
  - Primary Responsibility: Produce goods and services (seek profit), within the law

- Philanthropic CSR
  - Economic View of CSR
    - Business may also choose to contribute to social needs as a matter of philanthropy, but not as a matter of duty or social responsibility

- Social web or "Citizenship" Models of CSR
  - Business is embedded within a web of social relationships of mutual rights and responsibilities (including but not limited to the responsibility to produce goods and services, while obeying the law)

- Integrative/Strategic Models of CSR
  - Part, or all, of the mission of the company is to serve some important social goals (e.g., social enterprise, other businesses with serious commitment to sustainability)

- For reputational and public relations purposes
- Because it is the right thing to do
PHILANTHROPIC MODEL OF CSR

- It holds that, like individuals, business is free to contribute to social causes as a matter of philanthropy.
  - Business has no strict obligation to contribute to social causes; but it can be a good thing when they do so.
  - Business has no ethical obligations to serve wider social goods.
  - Business should be encouraged to contribute to society in ways that go beyond the narrow obligations of law and economics.

- Within the philanthropy model, there are occasions in which charity work is done because:
  - It brings the firm good public relations.
  - It provides a helpful tax deduction.
  - It builds good-will and/or a good reputation within the community.
PHILANTHROPIC MODEL OF CSR

- In few cases, firms contribute to charity anonymously, corporate support for the social causes is not done for potential business benefits, but instead because the business manager or owner decides that it is simply a good and right thing to do.

- There is overlap between decision makers who engage in the Philanthropic Model for reputational reasons and those who follow the economic view of business’s social responsibilities.

- The Philanthropic model in which business support for a social cause is done simply because it is the right thing to do differs from the reputational version in terms of the underlying motivation.
PHILANTHROPIC MODEL OF CSR

- From the perspective of the narrow view of CSR, only philanthropy done for reputational reasons and financial ends is ethically responsible.
  - Business managers are the agents of owners, they have no right to use corporate resources except to earn owners greater returns on their investment.
- From the perspective of the philanthropic model, philanthropy done for financial reasons is not fully ethical and not truly an act of social responsibility.
SOCIAL WEB MODEL OF CSR

- It views business as a citizen of the society in which it operates and, like all members of a society, business must conform to the normal ethical duties and obligations that we all face.

- According to philosopher Norman Bowie, beyond the economic view’s duty to obey the law, business has an equally important ethical duty to respect human rights.
  - Respecting human rights: “Moral minimum”
    - It is expected of every person, whether they are acting as individuals or within corporate institutions.
  - Bowie identified his approach as a “Kantian” theory of business ethics.
SOCIAL WEB MODEL OF CSR

- “Kantian” framework of business ethics:
  - Bowie began with the distinction between the ethical imperatives to use no harm, to prevent harm, and to do good.
  - People have a strong ethical duty to cause no harm, and only a *prima facie* duty to prevent harm or to do good.
  - In Bowie’s view, the obligation to cause no harm overrides other ethical considerations.
  - The pursuit of profit legitimately can be constrained by the duty to cause no harm.
  - Managers are the agents of stockholder-owners and their duty to stockholders over-rides the ethical imperatives to prevent harm, and to do good.
SOCIAL WEB MODEL OF CSR

- According to Bowie, business has a social responsibility to respect the rights of its employees, even when not specified or required by law.
  - Right to safe and healthy workplaces
  - Right to privacy
  - Right to due process

- According to Bowie, business has an ethical duty to respect the rights of consumers, even when not specified in law.
  - Safe products
  - Truthful advertising
SOCIAL WEB MODEL OF CSR

- Stakeholder theory
  - Every business decision affects a wide variety of people, benefiting some and imposing costs on others.
  - The economic model argues that the firm should be managed for the sole benefit of stockholders
    - The stakeholder theory argues, on factual, legal, economic, and ethical grounds, that this is an inadequate understanding of business.
  - Stakeholder theory argues that the narrow economic model fails both as an accurate descriptive and as a reasonable normative account of business management.
  - Factual, economic considerations diminish the plausibility of the economic model.
SOCIAL WEB MODEL OF CSR

- The economic model appeals to two fundamental ethical norms for its justification: utilitarian considerations of social well-being and individual rights.
- On each of these normative accounts, due consideration must be given to all affected parties.
  - The stakeholder theory acknowledges this fact by requiring management to balance the ethical interests of all affected parties.
  - Balancing will require management to maximize stockholder interests; but not always.
- In its Kantian formulation, stakeholder theory argues that the overriding moral imperative is to treat all people as ends and never as means only.
SOCIAL WEB MODEL OF CSR

- Stakeholder theory of corporate social responsibility is proven ethically superior than the classical model.

- According to Freeman:
  - The stakeholder theory does not give primacy to one stakeholder group over another, though there will be times when one group will benefit at the expense of others.
  - The management must keep the relationships among stakeholders in balance.
SOCIAL WEB MODEL OF CSR

- Stakeholders theory recognizes:
  - Some stakeholders have different power and impact on decisions than others.
  - Organizations have distinct missions, priorities and values, affecting the final decisions. Therefore, social responsibility would require decisions to prioritize competing and conflicting responsibilities.
INTEGRATIVE MODEL OF CSR

- Non-profit organizations: Pursue social ends as the very core of their mission.
  - Examples: NGOs, foundations, professional organizations, schools, colleges, and government agencies.

- Some for-profit organizations have social goals as a central part of the strategic mission of the organization.
  - Social entrepreneurship
    - Example: Grameen bank
  - Sustainability
    - Interface corporation
INTEGRATIVE MODEL OF CSR

- Even advocates of the narrow economic model of CSR agree that these social goals should be part of every business model.
- Social entrepreneurs demonstrate that profit is not incompatible with doing good, and therefore that one can do good profitably.
- Some argue that the ethical responsibilities associated with sustainability are relevant to every business concern.
- Sustainability offers a model of CSR that suggests that ethical goals should be at the heart of every corporate mission.
INTEGRATIVE MODEL OF CSR

- The implications of sustainability in the Integrative Model of CSR.
  - Sustainability holds that a firm’s financial goals must be balanced against, and perhaps even over-ridden by, environmental considerations.
  - Defenders of sustainability point out that all economic activity exists within a biosphere that supports all life.
    - They argue that present model of economics is already running up against the limits of the biosphere’s capacity to sustain life.
  - The success of a business must be judged not only against the financial bottom line of profitability, but also against the ecological and social bottoms lines of sustainability.
    - A firm that is environmentally unsustainable — In the long-term, financially unsustainable.
CSR not only provides benefits to society, but it can also benefit an organization by securing its place within a society.

CSR-related activities can improve profitability by enhancing a company’s standing among its stakeholders, including consumers and employees.

- The positive impact on the bottom line stems from customer preference and employee preference.

With focus on reputation, social responsibility becomes merely social marketing.

- A firm may use the image of social responsibility to garner customer support or employee loyalty while the facts do not evidence a true commitment.
EXPLORING ENLIGHTENED SELF-INTEREST

- **Reputation management**: The practice of attending to the “image” of a firm.
- There is nothing inherently wrong with managing a firm’s reputation; the failure to do so might be a poor business decision.
- But observers could challenge firms for engaging in CSR activities solely for the purpose of impacting their reputations.
- The challenge is based on the fact that reputation management often *works*. 
EXPLORING ENLIGHTENED SELF-INTEREST

- If a firm creates a good image for itself, it builds a type of trust bank, consumers or other stakeholders seem to give it some slack if they then hear something negative about the firm.
- If a firm has a negative image, that image may stick, regardless of what good the corporation may do.
- Companies are far more likely to survive under an unethical person with a good reputation than under an ethical person with a reputation for injustice.
EXPLORING ENLIGHTENED SELF-INTEREST

- Examine the perspectives of various consumer and advocacy groups in connection with well-known businesses at any of the following Web sites:
  - www.ihatestarbucks.com
  - www.starbucked.com
  - www.mcspotlight.org
  - makingchangeatwalmart.org

- Is good ethics also good business?
  - One important justification offered for CSR — *enlightened self-interest* — presumes that it is, or at least it can be.
  - Unethical decisions do lead to high profits, but in the long run ethics pays off, measurement of that payoff is the challenge.
FIGURE 5.3 - THE CONSTRUCTION OF CORPORATE REPUTATION

[Diagram showing the construction of corporate reputation through expert reputation measurement, with dimensions such as emotional appeal, products & services, financial performance, social responsibility, workplace environment, and vision & leadership.]

Six Dimensions of Corporate Reputation
IS CSR GOOD FOR BUSINESS?

- There is evidence that good ethics is good business; yet if it cannot be measured, it is not important.
- Efforts have been made to measure the bottom-line impact of ethical decision making.
- According to David Vogel, a political science professor at Berkeley:
  - There is a market for firms with strong CSR missions.
  - It is a niche market: Caters to only a small group of consumers or investors.
  - Contrary to a global shift in the business environment, CSR instead should be perceived as just one option for a business strategy that might be appropriate for certain types of firms under certain conditions.
IS CSR GOOD FOR BUSINESS?

- He warns of the exposure a firm might suffer if it then does not live up to its CSR promises.
- He cautions against investing in CSR when consumers are not willing to pay higher prices to support that investment.

Recent study titled “Developing Value: The Business Case for Sustainability in Emerging Markets,” based on a study produced jointly by SustainAbility, the Ethos Institute, and the International Finance Corporation concluded:

- It does pay for businesses in emerging markets to pursue a wider role in environmental and social issues, citing cost reductions, productivity, revenue growth, and market access as areas of greatest return for multinational enterprises (MNEs).
IS CSR GOOD FOR BUSINESS?

- A landmark study by Professors Stephen Erfle and Michael Frantantuono found that firms that were ranked highest in terms of their records on a variety of social issues had greater financial performance as well.

- Study by Murphy and Verschoor reports that the overall financial performance of the 2001 Business Ethics Magazine Best Corporate Citizens was significantly better than that of the remaining companies in the S&P 500 index.

- Despite substantial differences among companies, research demonstrates that almost all companies will confront CSR issues from stakeholders at some point in the near future.
OPENING DECISION POINT REVISITED: SOCIAL ENTREPRENEURSHIP: BANKING ON POVERTY

- The *New York Times* reported that Walmart executives only notified legal authorities about its internal investigation (of bribery at its Mexico branch) *after* learning about the *Times’s* own investigation.
- How does the fact that Walmart’s executives knew about the bribery in Mexico change any judgments you made at the Opening Decision Point?
- Can you imagine any defence that those executives might offer for their actions?
- Which stakeholders would or would not accept that defence?
Milton Friedman wrote:

“[F]ew 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.”

How would you judge Walmart in light of this quote?
CHAPTER FIVE VOCABULARY TERMS

- After examining this Chapter, you should have a clear understanding of the following Key Terms and you will find them defined in the Glossary:
  - Corporate social responsibility
  - Corporate sustainability report
  - Economic model of CSR
  - Enlightened self-interest
  - Integrative model of CSR
  - Philanthropy model of CSR
  - Reputation management
  - Social entrepreneurship
  - Social web model of CSR
  - Stakeholder theory