PART I

CORPORATE SOCIAL RESPONSIBILITY

Part I of *Strategic Corporate Social Responsibility* (*Strategic CSR*) demonstrates the breadth and depth of corporate social responsibility (CSR).

Chapters 1 and 2 set the foundation for this book by defining CSR and related concepts, while outlining how this subject has evolved throughout history. Chapter 1 provides core definitions, identifies the different arguments for CSR (ethical, moral, rational, and economic), and shows why CSR is of growing importance for firms, large and small. Chapter 2 then introduces the five elements of business and society that drive CSR today—affluence, sustainability, globalization, communication, and brands. As these drivers have become essential characteristics of modern life, they have altered stakeholder expectations of business. Though firms exist to generate a profit, they can achieve this most effectively by broadening their perspective and avoiding a self-defeating focus on the short term. Without an understanding of the complex environment in which it is embedded, a firm can become exploitative and corrupt, losing the societal legitimacy that is necessary to remain viable over the medium to long term.[1]

Part I finishes with a case study that considers the relationship between organized religion and capitalism. In particular, it focuses on the rise of Islamic finance to examine how broad "nonbusiness" factors, such as religion, are increasingly influencing corporate decisions.

1 WHAT IS CSR?

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

1.1 Define *corporate social responsibility* within the framework of this book.

1.2 Begin to answer the question, *What is the purpose of the for-profit firm?*

1.3 Track the evolution of CSR throughout history.

1.4 Identify and explain the four arguments for CSR (ethical, moral, rational, and economic).

1.5 Understand why this book favors the economic argument for CSR.

People build organizations to leverage their collective resources in pursuit of common goals. As organizations pursue these goals, they interact with others inside the larger context of society. Based on their purpose, organizations can be classified as for-profit, government, or nonprofit. At a minimum, *for-profits* seek to generate revenue, *governments* exist to define the rules and structures of society within which all organizations must operate,[2] and *nonprofits* (including NGOs—nongovernmental organizations) emerge to fill the gaps when the political will or the profit motive is insufficient to address society's needs.[3] Aggregated across society, each of these different types of organizations represents a powerful mobilization of resources. In the United States alone, for example, there are over 1.5 million nonprofits filling needs unmet by the government or private sector. Together, they contribute an estimated $1.05 trillion to the economy, equivalent to 5.6 percent of GDP.[4]

Within society, therefore, there is a mix of these organizational forms. Each performs different roles, but each also depends on the others to provide the complete patchwork of exchange interactions (of products and services, financial and social capital, etc.) that constitute a well-functioning society. Whether labeled as corporations, companies, firms, or proprietorships, for example, for-profit businesses interact constantly with government, trade unions, suppliers, NGOs, and other groups in the community, in both positive and negative ways. Each of these groups, 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 day-to-day. Definitions of who qualifies as a firm's *stakeholder* vary (see Chapter 3); for now, it is sufficient to note that it encompasses those individuals and groups that have a *stake* in the firm's operations.[5]

While stakeholders exist symbiotically with companies, the extent to which managers have paid attention to their interests fluctuates. Depending on factors such as the level of economic and social progress, the range of stakeholders whose concerns a company seeks to address has shifted—from the earliest view of the corporation as a legal entity that exists at the behest of governments in the 19th century, to a narrower focus on shareholder rights early in the 20th century, to the rise of managerialism by midcentury, and back again in the 1970s and 1980s to a distorted focus on shareholders due to the rise of agency theory.[6] Since then, as the expectations of business in society evolve, firms are again adopting a broader stakeholder outlook, extending their perspective to include the communities in which they operate and social issues about which they feel most passionate.[7] As a result, managers today are more likely to recognize the interdependence between the firm and each of these groups, leaving less room to ignore their separate and pressing concerns.

Just because an individual or organization meets the definition of having a vested interest, however, this does not compel a firm (either legally or logically) to comply with every demand that stakeholder may make. Deciding which demands to prioritize and which to ignore is a challenge, but one that is even more important as social media provides individuals with the power to disseminate their grievances worldwide. If ignored long enough, affected parties may take action against the firm (such as a product boycott), or turn to government for redress, or even write a song and post it to YouTube.[8] Such protests can cause significant brand damage (and even revenue loss), particularly if the grievance remains unaddressed once it becomes widely known.[9]

In democratic societies, laws (e.g., antidiscrimination statutes), regulations (e.g., tax-exempt status for nonprofits), and judicial decisions (e.g., fiduciary responsibilities of directors)[10] provide a minimal framework for business that reflects a rough consensus of the governed. However, because the government cannot anticipate many issues, the legislative process takes time (if it works at all), and a general consensus is often slow to form; laws often lag behind social convention and technological progress. This is particularly so in areas of high complexity and rapid innovation, such as bioethics or artificial intelligence. Yet, social convention is often difficult to decipher and technological progress is neither linear nor ethically neutral. Thus, we arrive at the discretionary area of decision making that resides between legal sanction and societal expectation that business leaders face every day—an area of ambiguity that generates two questions from which the study of CSR springs.

The Ambiguous Area of Corporate Discretion

1. What is the role of the for-profit firm in society?
2. Does the firm have broader social responsibilities (beyond making a profit)?

CSR, therefore, is both critical and controversial. It is *critical* because the for-profit sector is the most innovative and productive part of any free society's economy. Companies intertwine with society in mutually beneficial ways, driving progress and affluence—creating most of the jobs, wealth, and innovations that enable society to prosper. They are the primary delivery system for food, housing, healthcare, and other necessities of life. Without modern corporations, the jobs, taxes, donations, and other resources that support governments and nonprofits would decline significantly, further diminishing general well-being. Businesses are the engines of society that propel us toward a better future, which suggests an interesting thought experiment: If you wanted to create the most social benefit in your career, would you enter public service (politics or nonprofits), or would you go into business? Fifty years ago, the best answer would probably have been public service. Today, it is easy to conclude that business offers the more effective vehicle for creating maximum social benefit.

At the same time, CSR remains *controversial*. People who have thought deeply about *Why does a business exist?* or *What does profit represent?* do not agree on the answers. Do firms have obligations beyond the benefits their economic success provides? In spite of the rising importance of CSR, many still draw on the views of the Nobel Prize–winning economist Milton Friedman to argue that society benefits most when firms focus purely on financial success.[11] Others look to the views of business leaders who have argued for a broader perspective, such as David Packard (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. . . . 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.[12]

This book navigates between these perspectives, within the ambiguous area of corporate discretion, to outline a view of CSR that recognizes both its strategic value to firms and the social benefit such a perspective brings to the firm's many stakeholders. The goal is to present a comprehensive assessment of *corporate social responsibility* that, on reflection, suggests Friedman and Packard were not as far apart as their respective proponents assume.

A NEW DEFINITION OF CSR

The entirety of CSR can be discerned from the three words this phrase contains. CSR covers the relationship between *corporations* (or other for-profit firms) and the *societies* with which they interact, focusing on the *responsibilities* that are inherent on both sides of these ties. CSR defines society in its broadest sense, and on many levels, to include all stakeholder groups that maintain an ongoing and active interest in the firm's operations.

CSR

A responsibility among firms to meet the needs of their stakeholders, and a responsibility among stakeholders to hold firms to account for their actions.

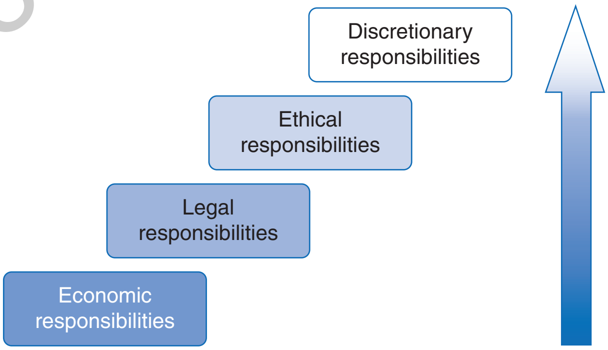
Stakeholder groups range from clearly defined customers, employees, suppliers, creditors, and regulating authorities to other, more amorphous constituents, such as the media and local communities. For the firm, trade-offs must be made among these competing interests. Issues of legitimacy and accountability exist, such as when a nonprofit claims expertise in an area, even when it is unclear exactly how many people support its vision. Ultimately, therefore, each firm must identify those stakeholders that constitute its operating environment and then prioritize their level of importance. Increasingly, firms need to incorporate the concerns of those key stakeholder groups within their strategic outlook or risk losing societal legitimacy. CSR provides a framework that helps firms embrace these decisions and adjust their internal strategic planning process to increase the long-term viability of the organization.

This approach is broad, however, and definitions regarding the mix of interests and obligations have varied considerably.[13] Previously, for example, the European Union defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis." Today, that definition has shifted to a much broader "responsibility of enterprises for their impacts on society," making clear that this entails the integration of "social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders."[14] Definitions like these have evolved out of one of the earliest CSR frameworks, advanced by Archie Carroll in 1979: "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time."[15]

The Corporate Social Responsibility Hierarchy

Archie Carroll was one of the first academics in business to make a distinction between different kinds of organizational responsibilities. He referred to this distinction as a firm's "pyramid of corporate social responsibility" (Figure 1.1),[16] with the connotation of an ascending hierarchy of importance and value to the organization:

FIGURE 1.1 ■ The Corporate Social Responsibility Hierarchy



Source: Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons*, July–August 1991, p. 42.

According to Carroll, a firm's fundamental *economic responsibility* is to produce an acceptable return for investors. An essential component of pursuing economic gain within a law-based society, however, is a *legal responsibility* to act within the framework of laws and regulations 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 benefit themselves or society, or both.

As a firm progresses toward the top of Carroll's pyramid, therefore, its responsibilities become more discretionary (but also more beneficial) in nature. In Carroll's vision, a *socially responsible* firm is able to encompass all four responsibilities within its culture, values, and day-to-day operations.

While useful, this typology is not rigid.[17] One of the central arguments of this book is that what was ethical or even discretionary in Carroll's model is becoming increasingly necessary due to the shifting expectations placed on firms by stakeholders. Yesterday's ethical responsibilities can quickly become today's economic and legal necessities. In order to achieve its fundamental economic goals today, therefore, a firm must incorporate a stakeholder perspective within its strategic outlook. As societal expectations of the firm rise, and the technical tools evolve for transgressions (perceived or real) to disseminate, the penalties imposed for lapses in behavior will become prohibitive. In other words, while definitions may vary, the debate around CSR (and related terms, such as sustainability or ESG) is most essential in the detail of implementation. For firms, being *socially responsible* is something that is easy to say, but much more difficult to do, effectively. The potential danger is that, to the extent that CSR means different things to different people, action can be ineffective or, at worst, counterproductive:

> Right now we're in a free-for-all in which "CSR" means whatever a company wants it to mean: From sending employees out in matching t-shirts to paint a wall for five hours a year, to recycling, to improving supply-chain conditions, to diversity and inclusion. This makes it difficult to have a proper conversation about what [CSR] should be.[18]

For the purposes of this book, it is important to emphasize that CSR is both a means and an end. It is an integral element of the firm's strategy—the way the firm goes about delivering its products or services to market (*means*). It is also a way of securing the legitimacy of the firm's actions in society by bringing stakeholder concerns to the foreground (*end*). Put another way, CSR is both a *process* and an *outcome*. At any given moment, CSR describes the methods by which firms react to their stakeholders' collective set of needs; it is also the set of actions that are defined by what stakeholder demands require. Over time, while the essential process remains the same (firms should always seek to respond to stakeholder interests), the actions that are required to do this will necessarily evolve in response to shifting norms, values, and societal expectations. As such, references to "CSR" in this book will sometimes be to the process and sometimes to the outcome. The underlying principles that determine the relationship between the two, however, remain consistent. The end result, a firm's success, is directly related to its ability to incorporate stakeholder concerns into its business model—something that was apparent to Peter Drucker as far back as 1974:

> The business enterprise is a creature of a society and an economy, and society or economy can put any business out of existence overnight. . . . The enterprise exists on sufferance and exists only as long as the society and the economy believe that it does a necessary, useful, and productive job.[19]

As such, CSR covers an uneven blend of concerns and opportunities that rise and fall in importance from firm to firm over time. In other words, while the stakeholder categories stay the same, the individuals involved and the issues that motivate them to change, constantly. Whether the concern is wages, healthcare, or same-sex partner benefits, for example, a firm's employees are central to its success. A firm that consistently ignores its employees' legitimate claims is a firm that is heading for bankruptcy. CSR is a vehicle for the firm to discuss its stakeholder obligations (both internal and external) and develop the means to meet these obligations, as well as a tool to identify the mutual benefits that result. Simply put, CSR encourages the firm to manage its stakeholder relations because these ties are essential to its survival—something that requires firms to acknowledge

> that markets operate successfully only when they are embedded in communities; that trust and co-operation are not antithetic to a market economy, but essential to it; that the driving force of innovation is pluralism and experiment, not greed and monopoly; that corporations acquire legitimacy only from the contribution they make to the societies in which they operate.[20]

CSR encompasses the range of economic, legal, ethical, and discretionary actions that affect a firm's economic performance. At a minimum, of course, firms should comply with the legal or regulatory requirements that relate to day-to-day operations—a minimum condition for CSR.[21] To break these regulations is to break the law, which does not constitute socially responsible behavior. Taking these base obligations as given, the framework presented in this book focuses on discretionary concerns, around which there is often no clear consensus, but that are necessary to address because they are of concern to stakeholders. Firms do this (while minimizing competitive risk and maximizing potential benefit) by fully embracing CSR and incorporating it within the firm's strategic planning process.

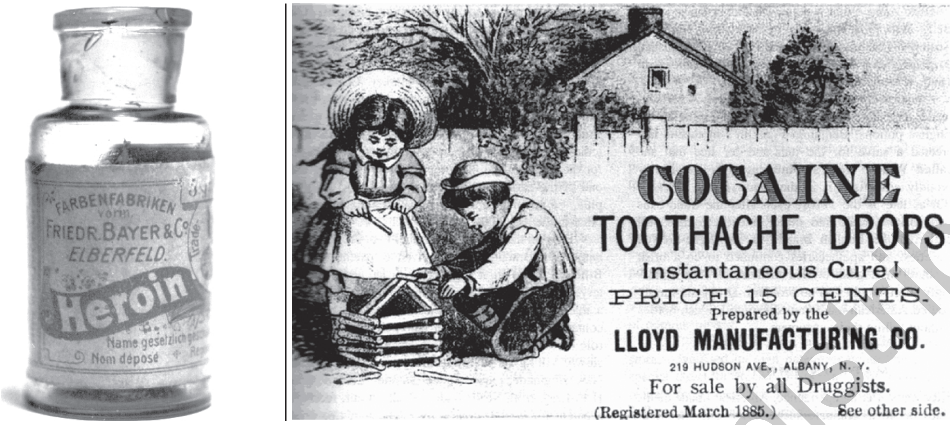
THE EVOLUTION OF CSR

The call for social responsibility from businesses is not new. While specific issues may change, societies have always made demands of firms, and people have protested when transgressions occur. As such, firms have responded and progress has occurred, but that does not mean that *progress* was either linear or always judicious:

> In 1900, Bayer, the German pharmaceutical company that had developed aspirin, introduced a much stronger brand of pain killer in the United States. The new drug was called heroin, a name derived from the German word for "heroic." The company promoted it as a treatment for an array of ills: colds, coughs, asthma, epilepsy, multiple sclerosis, stomach cancer, schizophrenia. It also advertised heroin as safe for children. And anyone over 18 could buy it.[22]

As the two images in Figure 1.2 indicate, what was once acceptable can become an embarrassing oversight with hindsight and shifting social morals. But, it is the push and pull of market

FIGURE 1.2 ■ Medicine circa 1900



Sources: Bayer Heroin bottle, Mpv_51, *Wikimedia Commons*, https://commons.wikimedia.org/wiki/File:Bayer_Heroin_bottle.jpg; Cocaine Tooth Drops, *Wikimedia Commons*, https://commons.wikimedia.org/wiki/File:Cocaine_tooth_drops.png.

forces, with companies responding to stakeholder concerns as they evolve, that reflects (and shapes) what society deems to be acceptable behavior at any given point.

In other words, in spite of the obvious value that firms create, "the pursuit of profit has been 'unloved' since Socrates declared that 'the more [men] think of making a fortune, the less they think of virtue.'"[23] Even though a business cannot create value for itself unless it is also creating value for others, the instinct to curb profit-seeking has deep roots. Ancient Chinese, Egyptian, and Sumerian writings, for example, often delineated rules to facilitate trade and ensure broader interests were considered. Ever since, public concern about the impact of business on society has grown in proportion to the growth of economic activity:[24]

> 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.[25]

Evidence of social activism intended to influence firms' behavior stretches back across the centuries. Such efforts mirrored the legal and commercial development of corporations as they established themselves as the driving force of market economies. Periodically, society stepped in when business was deemed to be causing more harm than good: "The first large-scale consumer boycott? England in the 1790s over slave-harvested sugar."[26] Although crude and lacking the efficient communication that social media enables today, it is clear that these early consumer-led protests could be effective—initially in terms of raising awareness, but also in terms of effecting change:

> 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.[27]

Due to the impact of targeted action, especially in large numbers, the idea of protest against business (specifically, a boycott) spread in the second half of the 20th century:

> In January 1957, shortly after the successful conclusion of the Montgomery bus boycott, black South Africans in Johannesburg started their own bus boycott. From this local protest grew a national and then international boycott movement that continued until South Africa ended apartheid in 1991.[28]

Corresponding academic interest in the topic of CSR in the 1950s was quickly followed by broader societal awareness that resulted in pressure on firms to respond. In particular, books such as *Silent Spring* (1962), *Unsafe at Any Speed* (1965), and *The Feminine Mystique* (1963) were "credited with being catalysts for the environmental movement, the consumer movement, and the feminist movement, respectively."[29] More recently:

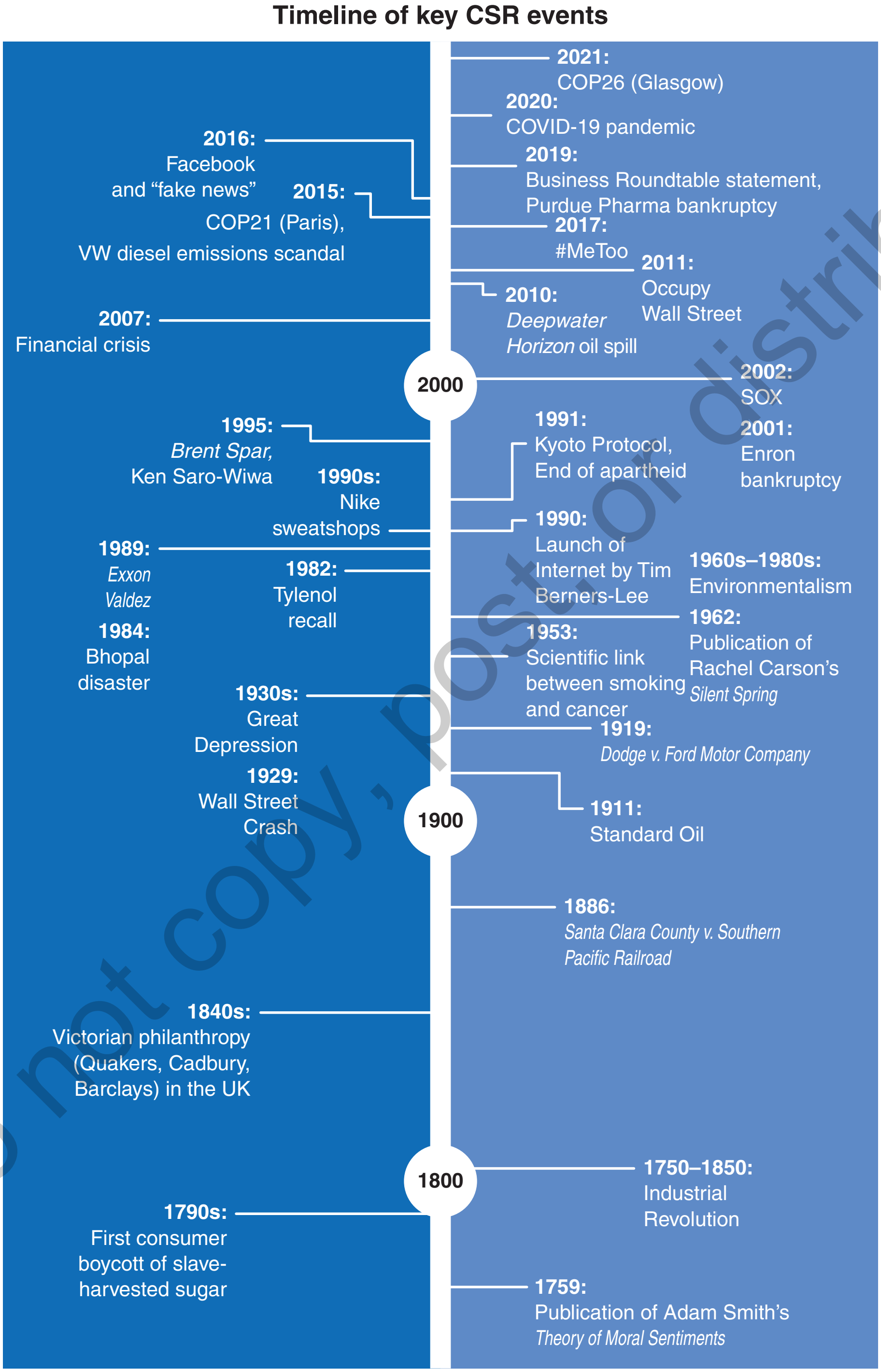
> In the 1990s, Nike and Gap were pilloried for their alleged use of 'sweatshop' labor. In 2010 Nestlé had to fend off a campaign alleging that it had orangutans' blood on its hands because oil palms which provided ingredients for KitKats had replaced the apes' jungle habitat. [In 2019] Peloton, an exercise-bike company, got into hot water over a Christmas ad some deem sexist.[30]

While the extent to which these public remonstrations influence corporate decisions will vary, it is clear that CEOs have always faced pressure to conform to societal demands. What is notable today is how quickly such issues emerge and diffuse, and the breadth of topics they encompass. The experience of the late Ray Anderson, founder and chairman of Interface Carpets,[31] in relation to the environmental practices of his company, is instructive:

> One day . . . 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, . . . 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.[32]

Leaders such as Anderson face a balancing act that addresses the trade-offs among the firm's primary stakeholders, the society that enables the firm to prosper, and the environment that provides the raw materials to produce products and services of value. When elements of society view leaders and their firms as failing to act *appropriately*, activism can result. That was just as true of 18th-century Britain as it is today. Current examples of social activism in response to firms' perceived lack of responsibility are in this morning's news and online social media. Whether the response is government regulation of products that pollute, consumer boycotts of firms that advocate overtly religious principles, or NGO-led campaigns to eradicate overseas sweatshops, societal concerns have become increasingly prevalent in corporate boardrooms, business school classrooms, and family living rooms. Figure 1.3 illustrates some of the key events that have defined the advance of CSR over the centuries.

FIGURE 1.3 ■ The Evolution of CSR



This ongoing evolution ensures that meeting society's expectations is not a static target. Widespread industry practices, previously considered discretionary or ethical debates, can quickly become illegal or socially unacceptable absolutes due to aggressive prosecution or novel activism. In recent years, for example, the growing criticism of investors who use high-frequency algorithms to gain *unfair* advantages when trading shares indicates the danger of assuming that yesterday's accepted practices will continue to be acceptable.[33] Similarly, the NCAA in the U.S., which "once had the tightest of clamps on college athlete compensation," has had to learn that its previously permitted monopoly (in spite of years of public criticism) is now considered a violation of antitrust law by the Supreme Court.[34] Tomorrow, it could be opposition to the legalization of marijuana that draws the ire of stakeholders, or ignoring the ethical issues associated with the spread of artificial intelligence.[35] Firms operate against an ever-changing background of what is considered *socially responsible*; worse, these constantly shifting standards vary from society to society, even among cultures within a given society. Faced with a complex kaleidoscope of evolving expectations, the challenge for a manager is to understand what the firm's stakeholders want today and, even more important, what they will want tomorrow. That is what makes being an effective manager so difficult; it is also what makes CSR central to that skillset.

THE ESSENTIAL NATURE OF CSR

Although CSR enables the firm to account for the needs and demands of its stakeholders in its strategic decision-making processes, there is a balance that needs to be struck. It is essential to remember throughout that the pursuit of economic gain remains a necessity for the for-profit firm. A CSR lens sensitizes the firm to the interests of its stakeholders, but the decisions that are made subsequently must be compatible with securing a profit. CSR does not repeal the laws of economics under which for-profit firms must operate (to society's benefit). The example of Malden Mills demonstrates that, unless a firm is economically viable, even the best of intentions will not enable stakeholders to achieve their goals.

MALDEN MILLS

Aaron Feuerstein, the late CEO of Malden Mills (founded in 1906, family-owned),[36] was an excellent employer. He operated "a unionized plant that was strike-free, a boss who saw his workers as a key to his company's success."[37] In 1995, however, a fire destroyed the firm's main textile plant based in Lawrence, Massachusetts, an economically deprived area in the north of the state. Feuerstein then had a decision to make:

> 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.[38]

His decision to keep the factory open and continue meeting his obligations to his employees when they needed him most was applauded in the media:

(*Continued*)

(*Continued*)

> 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.[39]

In addition to full pay, Feuerstein continued to provide all employees with full medical benefits and guaranteed them a job when the factory was ready to restart production:

> "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 [at 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."[40]

But the increased demand for Polartec clothing wasn't enough to offset the $100 million debt that had accumulated while the plant was rebuilt.[41] The situation was compounded by an economic downturn, as well as cheaper fleece alternatives flooding the market:

> But no good deed goes unpunished. . . . In 2001 the company went into bankruptcy; it emerged two years later, with a restructuring plan that stripped Mr. Feuerstein of his management roles. His attempt to buy the company back was rejected by the new board, and he left in 2004.[42]

The Polartec example demonstrates vividly the complexity of CSR. While an imperfect measure of a firm's success, profit is clearly essential. If the goal is to create value, the firm needs to stay in business. Would Malden Mills have avoided bankruptcy if it had initially fired half its employees and relocated the factory elsewhere? What is the firm's responsibility to continue delivering a valued product to its customers, and does this outweigh the firm's duties to its employees? The answers to these questions are difficult and will change depending on the issue at hand. What is clear is that good intentions do not replace the need for an effective business model and no firm, whatever the motivation, can or should indefinitely spend money it does not have. Which actions should be pursued depend on many factors specific to the firm, its industry, and the society in which it is based. Manufacturing offshore in a low-cost environment, for example, remains a valid strategic option, particularly in a globalized world. This choice is *strategic* because it can provide a competitive advantage for some firms (such as Apple),[43] even while other firms (such as Zara)[44] see value in onshoring operations due to rising costs and a shorter, more responsive supply chain (a decision that is increasingly relevant in a post-COVID world of constrained global logistics and heightened geopolitical uncertainty):

> Offshore production is increasingly moving back to rich countries not because Chinese wages are rising, but because companies now want to be closer to their customers so that they can respond more quickly to changes in demand. And some products are so sophisticated that it helps to have the people who design them and the people who make them in the same place.[45]

All business decisions have both economic and social consequences. The trick to success is to manage the conflicting interests of stakeholders in order to meet their ever-evolving needs and concerns. As societies rethink the balance between economic and social 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 to create a competitive advantage for those firms that do it well. Hopefully, this discussion indicates that the cultural context in which the concept of *social responsibility* is perceived and evaluated is crucial.

In other words, different cultures define the relationship between business and society in different ways. Expectations spring from many factors, with wealthier societies having more resources and, perhaps, more demanding expectations that emerge from the greater options wealth brings. The reasoning is straightforward: In poor democracies, general well-being is focused on the necessities of life—food, shelter, education, medicine, social order, jobs, and so on. *Luxuries*, such as a living wage or environmental regulations, add costs that may cause them to be deferred. As societies advance, however, expectations change and *general well-being* is redefined. A corresponding shift in the acceptable level of economic activity quickly follows, as this example of air pollution and public transportation in Chile indicates.

Santiago, Chile

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 due to the varying level of economic development in these two pollution-retaining basins.

While stringent laws went into effect in L.A., in Santiago, necessities (including low-cost transportation) were given a higher priority because of widespread poverty. After more than a decade of robust economic growth, however, Chileans used democratic processes to limit the number of cars entering Santiago and imposed increasingly stringent pollution standards. This shift in priorities reflected the country's changing societal needs, along with the growing ability to afford new rules and legal actions.

A similar distinction is apparent today in the different approaches being taken by developed and developing economies to the climate crisis—a similar problem, just on a bigger scale. While much of the urgency around the issue is being driven by Europe, countries like China, India, Brazil, and Russia are more reluctant to reform their economies (given the perceived costs and their respective stages of development).

Although the root causes of such differences are complex, it is intuitive that different economies at different stages will bring different perspectives (and priorities) to solving a common problem.

Different 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. Though poor societies value clean air just as advanced ones do, there are other more pressing concerns (such as keeping costs low). As a society prospers, higher expectations incentivize producers to make vehicles that pollute less—a shift in emphasis. In time, these expectations evolve from a discretionary (strategic) option to a mandatory (legal) requirement.

In short, it is in the interest of any organization (for-profit, nonprofit, or governmental) to anticipate, reflect, and strive to meet the constantly shifting needs of its stakeholders. In the case of a for-profit firm, the primary stakeholder groups are its employees and customers, without whose direct support the business fails. Other constituents, however, from suppliers to shareholders to the local community, also matter (and may matter more, depending on the issue at hand). Firms must satisfy these core constituents 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 negotiate among competing interests. An important part of that conflict arises from different expectations that, in turn, reflect different approaches to CSR.

THE FOUNDATIONS OF CSR

Strategic CSR represents an argument for a firm's economic interests, where satisfying stakeholder needs is central to retaining societal legitimacy (and achieving financial viability). Much debate (and criticism) in the CSR community, however, springs from well-intentioned parties who argue from perspectives that differ along philosophical and ideological lines. Understanding these different arguments (ethical, moral, rational, and economic), therefore, is essential to comprehend the full breadth and depth of CSR.

An Ethical Argument for CSR

The danger of promoting a perspective of CSR that focuses primarily on its strategic value to the firm is that the ethical and moral foundations on which much of the CSR debate rests are ignored. The advantage of making the business case for CSR is that it is more convincing to those most skeptical of broadening the firm's responsibilities and, as a result, is more likely to be implemented. In other words, the business case is expedient—it offers the greatest potential gain because it will appeal to the widest possible audience of people who need to be convinced. To downplay an ethical or moral component, however, is to ignore an intellectual philosophical foundation that many believe is essential to the idea of CSR.

In order to understand ethics as a subject, it is useful to think in terms of three fundamental branches: normative, descriptive, and practical ethics. *Normative ethics* draws on moral philosophy to categorize individual actions as right or wrong in specific situations, *descriptive ethics* explains why individuals make these right or wrong decisions, and *practical ethics* applies ethical principles of right and wrong to specific issues (e.g., capital punishment or animal rights). Within this overarching framework, of particular interest in building an ethical framework for decision making in business is the field of normative ethics, which incorporates the tensions between individual rights/interests and the rights/interests of the community. In other words, normative ethics helps us understand what people *should* do—what is the *right* or *ethical* thing to do in different circumstances. Within this branch of ethics, there are three fundamental approaches:

> People who have studied ethics . . . [recognize] three major currents of moral reflection: virtue ethics, which is centered on character; deontology (from "deon," a Greek word for that which is binding or required), which is centered on obligation or duty;

and consequentialism, which is centered on the harms and benefits that result from our actions. Ordinary moral thought draws freely from all of these traditions.[46]

Underpinning these three schools of thought is the issue of whether ethical values are relative (i.e., varying from individual to individual and culture to culture) or absolute (i.e., inalienable *rights* that are consistent across cultures and applicable to all humans). While virtue ethics and deontology rely more on the idea of absolute right and wrong (varying in terms of their orientation, whether internal or external), consequentialism assesses the ethical value of a specific action based on the result (the same action can be judged as more or less ethical based on the alternative options and resulting outcomes). An illustration should help emphasize the distinctions among these three schools:

> So, for example, where a utilitarian would argue that giving to a charity maximises well-being in society, and a deontologist would argue that we have a duty to help others, a virtue ethicist would point to the fact that helping others displays desirable virtues such as being charitable or benevolent.[47]

AN ETHICAL ARGUMENT FOR CSR

CSR is an argument based on one of three forms of ethical reasoning—*virtue* (character), *deontological* (duty), or *consequentialist* (outcome). Virtue ethics justifies action in terms of moral integrity (defined by the individual conscience); deontology justifies action in terms of obligation to principle (defined objectively); while consequentialism justifies action in terms of outcome (defined as the greatest communal good).

To be more specific, consequentialist (or teleological) reasoning locates ethicality in terms of the outcomes caused by an action. This stream of thought is closely aligned with utilitarianism, which was most famously advocated by the 18th-century English political philosopher Jeremy Bentham, who argued that "an action is considered ethical . . . when the action is intended to produce the greatest net benefit (or lowest net cost) to society when compared to all the other alternatives."[48] In contrast, deontological reasoning "is defined as embodying those activities which reflect a consideration of one's duty or obligation."[49] An example of this perspective is Immanuel Kant's categorical imperative, but it also includes any kind of objectively determined guiding principles, such as religious doctrine.[50] And, in contrast again, virtue ethics (an argument most closely associated with Aristotle) shifts the focus toward ethical behavior as determined by a person's character or integrity—in other words, what the individual thinks is right/wrong, vs. what they might feel a duty or obligation to do (deontology), or might feel is best for the group (consequentialism):

> Aristotle singled out the cultivation of the virtues in one's self, including temperance, courage, justice and munificence. The reason we ought to nurture these virtues is entirely self-interested: to live the best life we can. . . . It also happens to be true that the virtuous person benefits his community, and while that may make him loved and respected, these side effects are not what make him virtuous.[51]

Taking all of this into account, the violation of a society's cultural heritage and ethical principles regarding issues of social justice, human rights, or environmental stewardship, for example, are all unethical and socially irresponsible acts. This logic is the foundation of the *social contract*, which is based on societal expectations that bind firms because compliance is directly related to a license to operate that is granted by society to an organization. In terms of application, the three ethical perspectives are realized as norms or standards with different loci or motivations. They are institutionalized within the firm in the form of a code of conduct or code of ethics, which acts as a guide in determining whether the firm "is acting ethically according to the conventional standard."[52] Remaining within these implicit ethical boundaries is directly related to the firm's societal legitimacy and long-term viability.

A Moral Argument for CSR

Although profits are necessary for any business to survive, firms are able to obtain those profits only because of the society in which they operate. All of the firm's stakeholders (even internal stakeholders, such as employees) exist primarily as members of a society. Without that social context, there is no marketplace in which firms can compete. CSR emerges from this symbiotic relationship between business and society. It is shaped by individual and societal standards of morality that define contemporary views of *right* and *wrong*.[53] As Howard Bowen said about managers in his famous 1953 book:

> They must accept the social implications of their calling. They must recognize that ultimately business exists not for profits, for power, or for personal aggrandizement, but to serve society. . . . [The freedom and power that comes with managing a business] must be used moderately, conscientiously, and with a view to the interests of society at large.[54]

Given this, to what extent is a firm obliged to repay the debt it owes society for its opportunity to conduct business (and its continued success)? That is, what moral responsibilities do firms possess in return for the benefits society grants? Also, to what extent do the profits the firm 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 advantage to the firm of meeting its obligations as defined by evolving societal expectations.

A Moral Argument for CSR

CSR is an argument of moral reasoning that reflects the relationship between a company and the society within which it operates. It assumes that firms recognize they do not exist in a vacuum and that their ability to operate and achieve success comes as much from societal resources (e.g., infrastructure, rule of law, educated employees) and consent (e.g., social contract, license to operate) as it does from internal factors.

Peter Drucker expresses this sentiment—that there is no moral justification in ignoring the social context of business—by suggesting that "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."[55] Charles Handy similarly suggests that firms have a moral obligation to move beyond a narrow focus on profit:

> 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. . . . 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.[56]

On one level, the moral argument for CSR reflects a give-and-take approach based on a realization of the interdependent relationship between business and society. Society makes business possible and provides what firms need to succeed, ranging from educated and healthy workers to a safe and stable physical and legal infrastructure, not to mention a vibrant consumer market for their products. Because society's contributions make business possible, the moral argument for CSR presumes that firms have a reciprocal obligation to operate in ways that are deemed by society to be *responsible* and *beneficial*. And because businesses operate within a social context, society has the right to define the expectations for those organizations that operate within its boundaries:

> [Free-market economists] 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 . . . is a social product . . . shaped by the character of that society's public conversation and the capacity to build effective social institutions and processes.[57]

For many, a sole focus on money as the motivation for business is dispiriting—"as vital as profit is, it seems insufficient to give people the fulfillment they crave."[58] It follows that money is a social good that is accompanied by a moral obligation to return to the collective a percentage of the proceeds of economic gain earned on advantages conferred by society to the firm. As Adam Smith[59] wrote in *The Wealth of Nations*,

> The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government . . . is like the expense of management to the joint tenants of a great estate, who are all obligated to contribute in proportion to their respective interests in the state.[60]

At a deeper level, societies rest upon a cultural heritage that grows out of a confluence of religion, traditions, and norms. This heritage gives rise to a belief system that defines the boundaries of socially acceptable behavior by participants. The moral argument for CSR claims that all members of society have a responsibility to uphold these *rules* in the interest of the common good.[61]

A Rational Argument for CSR

A loss of societal legitimacy can lead to a rise in the countervailing forces of strikes (employees), activism (NGOs), boycotts (consumers), legislation (government), or bad press (media) that constrain the firm's ability to act. Violations of stakeholder expectations are material and counterproductive and, as such, should be avoided whenever possible, which suggests a rational argument for CSR.

Efforts to comply with stakeholder expectations are rational, regardless of ethical or moral reasoning. While compliance with ethical or moral expectations can be based on subjective values, the rational argument rests on sanction avoidance—it may be more cost-effective, for example, to address issues voluntarily. Waiting for society to impose legally mandated requirements (or other stakeholder reprisals) and only then reacting allows firms to ignore their ethical and moral obligations and concentrate on generating profits in the short term; however, it also inevitably leads to strictures being imposed that not only force compliance, but often do so in ways that the firm may find neither preferable nor efficient.[62]

Worse, if the required actions are a complete surprise, or the firm needs time to build a competency in the relevant area, compliance can be extremely costly in terms of both immediate investment and longer-term reputational damage. By ignoring the opportunity to influence the debate in the short term through proactive behavior, a firm is more likely to find its operations and strategy affected negatively over the long term. One need only consider the evolution of affirmative action in the United States to see this rationale in action.

#BLACKLIVESMATTER

Prior to the 1960s, businesses could discriminate against employees on the basis of race, gender, religion, age, national origin, disability, sexual orientation, or any other non-merit-based criteria. Doing so was a discretionary right that was legal, if far from ethical. Social activism and evolving norms moved these discretionary decisions into the arena of public debate and, in time, imposed legal prohibitions. The result for many firms that were guilty of discrimination was affirmative action plans to redress imbalances among employees. Those firms 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 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."[63]

Similar resistance is apparent today among those firms unwilling to embrace same-sex partner benefits or gender fluidity among employees. What is clear is that skepticism is warranted based on prior commitments that have been stronger on rhetoric than with action. Following the death of George Floyd while in police custody in Minnesota in the spring of 2020, companies rushed to be seen pledging support for #BlackLivesMatter,[64] but many fear that meaningful action will be limited:

> Pushed by employees in some cases, and in others by a fear of losing customers, corporations are being forced to examine their roles in perpetuating inequalities in hiring, pay and promotion, fostering toxic workplace cultures and consumer discrimination. Their track records have raised skepticism about whether they will indeed introduce the kind of change that would make this moment a turning point for racial equity.[65]

While there may be short-term value for some in denial, the direction in which society is moving is clear. Firms that resist normative compliance will ultimately be coerced to conform to society's evolving standards and could potentially pay a higher price for their resistance.

While lobbying to ensure that discrimination remains legal is theoretically an option for firms, attempts to subvert societal consensus around a particular issue represent an ethical and moral lapse that places the firm's legitimacy at risk. Instead, the rational argument advocates the benefits of avoiding the inevitable confrontation.

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 reprisals.[66] Restated: In a democratic society, power is removed 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 of their own destruction. Parallels exist in the business arena. Ethical scandals around the turn of this century at Enron, WorldCom, and other icons of U.S. business provoked discretion-limiting laws and rulings, such as the Sarbanes-Oxley Act (2002). Similarly, the Financial Crisis of 2007 gave rise to the Dodd-Frank Wall Street Reform and Consumer Protection Act, passed by the U.S. Congress in 2010.

A RATIONAL ARGUMENT FOR CSR

CSR is a rational argument that focuses on the benefits to performance of avoiding external constraints. Adopting the path of least resistance with regard to issues of concern makes common and business sense. In today's globalized world, where firms are empowered to enact change, CSR represents a means of anticipating and reflecting stakeholder concerns to minimize operational and financial sanctions.

The rational argument for CSR therefore underpins the idea that it is in firms' best interests to seek voluntarily to meet the needs and concerns of their stakeholders. Firms that wait until they are forced to comply may find that the costs of doing so quickly become prohibitive. In the finance industry today, for example, the global bank HSBC has announced that "nearly 25,000 of its 258,000 employees, almost 10%, work in compliance" and that "compliance was a major driver in the 5% increase in operating expenses reported."[67] Eventually, corporate transgressions result in heightened oversight that forces previously discretionary and ethical issues into the legal arena.

By adopting a rational argument for CSR, firms seek to interpret evolving societal values and stakeholder expectations and act to avoid future sanctions. Sensing that public opinion in the United States is moving in favor of regulating carbon emissions, for example, firms formed groups to lobby the government in support of change. The group BICEP (Business for Innovative Climate and Energy Policy)[68] was established by five firms with progressive records—Levi Strauss, Nike, Starbucks, Sun Microsystems, and Timberland. Similarly, the NACB's (National Association of Cannabis Businesses) mission is "to shape the legal cannabis market into a safe, responsible, and ethical industry," claiming that membership for a firm "shows you're committed to lasting relationships and ethical business in the cannabis industry."[69] And, perhaps most controversially, in 2021, the American Petroleum Institute published its "Climate Action Framework," shifting policy by calling "for two policies API had opposed for years: more regulation on methane . . . and a price on carbon."[70]

Implementing a rational perspective, these firms realize it is in their interests to engage with regulators, rather than form a barrier to progress they see as inevitable. As the CEO of Duke Energy, the late Jim Rogers succinctly put it when addressing the role of fossil fuels in fostering climate change, "If we are not at the table, we will be on the menu."[71] In other words, genuine and proactive engagement to avoid unwelcome intrusion or help shape prospective legislation is an act of rational business.

An Economic Argument for CSR

The economic argument for CSR builds on the previous three arguments. In addition to avoiding ethical, moral, legal, and other societal sanctions, incorporating CSR into a firm's operations and strategic planning offers a potential point of differentiation and competitive advantage upon which future market success can be built.[72]

An Economic Argument for CSR

CSR is an argument of economic self-interest for business. CSR adds value because it allows firms to reflect the needs and concerns of their various stakeholder groups. By doing so, the firm is more likely to create more value and, as a result, retain the loyalty of those stakeholders. Simply put, CSR is a way of matching corporate operations with stakeholder values and expectations that are constantly evolving.

CSR influences all aspects of day-to-day operations. Everything a firm does causes it to interact with one or more of its stakeholder groups. As a result, companies are best served by building positive relationships with as many stakeholders as possible. Whether the firm is acting as an employer, a producer, a buyer, a supplier, or an investment, its attractiveness and success are increasingly linked to its values and CSR profile. Concerning sustainable investment assets, for example, currently "one out of every three dollars under professional management in the United States—$17.1 trillion—[is] managed according to sustainable investing strategies."[73] Even for those who believe that the only purpose of a firm is to increase its shareholders' wealth (see Chapter 6), being perceived as socially *irresponsible* risks losing access to a significant (and growing) segment of investors and their capital.

This book expounds the economic argument for CSR. It is the strongest of the four arguments supporting CSR (ethical, moral, rational, and economic), due partly to its reliance on what we know about human psychology and economic theory. Rather than seeking to subvert patterns of exchange that have evolved over centuries, the economic argument for CSR operates at the intersection of the firm's self-interest and the broader well-being of society. Ultimately, indeed, there is no difference between the two. If stakeholders are willing to reward the behavior they seek from firms, then it is in those firms' best interests to provide stakeholders with what they want. As long as this basic formula holds on both sides, value will be optimized and distributed broadly across society.[74] Of course, what is simple to say is often difficult to put into practice. This book exists to build a framework that firms can use to address the complex process of listening to, and seeking to meet, the conflicting interests of all their stakeholders. As a result, they will be implementing **strategic CSR**.

A useful distinction that helps explain the value of the economic argument for CSR is between an effective *business model* and a broader, more sustainable *model for business*. In other words, rather than focusing on what works in isolation, it is more effective to establish what works economy-wide. The Body Shop, for example, has implemented a successful *business model* that subscribes to a moral argument for CSR. This activist organization is able to draw on support from the small percentage of the population that is aware and sufficiently responsive to a progressive social agenda, translating this support into economic success. It is a wonderful business, but its model is not one that all businesses can emulate. Ben & Jerry's is another example, as is Patagonia. These are all great firms, but they will not introduce meaningful change across the economy or globe. For that, we need to rely on corporations that operate on a sufficiently large scale to make a difference. To do so, an economic argument for CSR seeks to build a broad *model for business* that recognizes the limited application of moral activism and, instead, searches for an economic standard that can be applied across all for-profit firms. The result is an approach to business that highlights the strategic benefits to the firm of seeking to create value for its stakeholders, broadly defined.

STRATEGIC CSR DEBATE

MOTION: There are no absolute ethical or moral standards.

QUESTIONS FOR DISCUSSION AND REVIEW

1. What is the purpose of the for-profit firm? What value does it create for society?
2. Define *corporate social responsibility*. What arguments in favor of CSR seem most important to you? Are these factors prevalent among firms today, or are they rare?
3. What are 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 stated 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."[75] What are two arguments in support of his assertion and two against?
5. Why does this book favor the economic argument for CSR? Why is this argument *better* than the ethical, moral, or rational arguments for CSR? Do you agree?