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1 STAKEHOLDER AND SHAREHOLDER THEORIES

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LEARNING OBJECTIVES

Upon completion of this chapter, the reader should be able to do the following:

1.1 Describe what is a stake and who is a stakeholder.

1.2 Explain the difference between shareholder and stakeholder theories of the firm.

1.3 Articulate the main issues in the stakeholder and shareholder debate.

1.4 Describe stakeholders in terms of issues, powers, and interests.

1.5 Assess the issues that may arise when businesses try to manage various stakeholder interests.

Ethics in Context

COMPETING STAKEHOLDER DEMANDS AT AMAZON

Businesses have a vested interest in managing different stakeholder groups. Similarly, various stakeholders closely monitor what businesses do and how they treat them. While the interests of various stakeholders and businesses may not always align, some view managing stakeholders as an ethical issue. Does a person or a group have the moral right to be treated in a certain way by a company? Later in the chapter, in the Ethics in Context section, we will examine the ethical implications of conflicting stakeholder demands.

INTRODUCTION

The role and influence of a broader set of "stakeholders" of a business organization has become a very common theme in the business and society landscape. Often this perspective is juxtaposed to the "shareholder" perspective. There are many reasons for managers and researchers to think of these two perspectives as if coming from different camps. While there are differences in these two predominant theories of the firm, there are also similarities and overlaps. Each stakeholder has different powers, issues, and interests. And while most stakeholder groups are thought to have certain characteristics, a person can be a part of one or more stakeholder groups simultaneously. Managing multiple stakeholders at one time—something managers are routinely tasked with doing—can be a challenge because there are also conflicts between these groups.

DEFINING *STAKE* AND *STAKEHOLDER*

To understand the concept of a stakeholder, it helps to start with its root—a **stake**. A stake is a kind of interest in or claim on something of value.[1] For example, a person or a group who is affected by a certain decision has an *interest* in that decision. A **claim** could be a legal entitlement or a right to be treated in a certain way—or even a formal request.[2] In R. Edward Freeman's influential book on stakeholder management, "stakes" are multidimensional and represent stakeholders' issues of concern about the company.[3]

One additional idea to keep in mind is that multinational corporations (MNCs)— some of the largest of which are Microsoft, Google, FedEx, Diageo, and Amazon—operate in many and varying legal jurisdictions, so they often face additional pressures because the claims made on

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them may be numerous and therefore difficult to resolve, both for formal reasons, such as differences in legal institutions or competing legal requirements and jurisdictional conflicts, and for informal reasons, such as cultural differences. For example, Google has faced criticism for its practices resulting from differences in the privacy rights of stakeholders in Europe, China, and the United States. We will discuss globalization more in Chapter 16.

The term **stakeholder** was coined by the Stanford Research Institute in the early 1960s, but later, two academic scholars—Edward Freeman and David Reed—proposed a broad definition of stakeholder as "any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives."[4] They contrast this definition with a narrow sense of stakeholder as "any identifiable group or individual on which the organization is dependent for its continued survival."[5]

While the broad sense definition reveals the perception that multiple and varied groups affect and are affected by the firm, termed the *stakeholder perspective* or *theory*, the narrow sense definition can lead to interpretations that shareholders, as a stakeholder group, deserve primacy because they are the foundation of a firm's survival. Shareholders are directly relevant to the firm's core economic interest, which represents the *shareholder perspective* or *theory*.[6] A **shareholder**, or sometimes known as a stockholder or investor, is a person, group, or organization owning one or more shares of stock in a corporation.

KEY TAKEAWAYS

DEFINING *STAKE* AND *STAKEHOLDER*

- A stake is a kind of interest in or claim on something of value.
- A stakeholder is any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives.
- A shareholder is a person, group, or organization owning one or more shares of stock in a corporation. A shareholder is also a stakeholder.

STAKEHOLDER VERSUS SHAREHOLDER THEORIES

Theory provides a road map that allows us to make sense of unfamiliar terrain. Even when we think we are just using common sense, there is usually a theory guiding our actions. A **theory** is a set of propositions or concepts that seek to *explain or predict* something.

Stakeholder- and shareholder-oriented theories are both what are called *normative* theories of corporate responsibility—advocating for what a firm *ought* to be—that is, its purpose.[7] Some theorists have suggested that one perspective should, or will, eventually replace the other[8] or even that the two are contradictory and incompatible.[9] Positioning these as distinct theoretical camps has resulted in overlooking the possibility that shareholder and stakeholder perspectives might complement one another.[10]

There are two critical questions when talking about theories of the firm. Stakeholder and shareholder theories or perspectives answer these questions differently.

- What is the purpose of the modern corporation?
- To whom, or what, should the firm be responsible?

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Stakeholder Theory

To answer the first question, "What is the purpose of the modern corporation?", there is general consensus that **stakeholder theory** sees the firm as serving a broader purpose, that is to create value for society, beyond a pure monetary benefit for shareholders, by addressing the needs of customers, employees, suppliers, and the local community. Further, the firm should keep these needs and interests in "balance" not simply so it will benefit the firm in the long run but because it is the right thing to do.[11] Managers face a challenge as they must be simultaneously accountable to multiple stakeholder groups.[12]

In addressing the second question, "To whom, or what, should the firm be responsible?", there is a growing assertion that responsible management of the legitimate stakes of internal and external constituencies will lead to higher long term financial returns. Regardless, management *should* work toward addressing multiple stakeholder interests because it has a moral obligation to do so. This obligation of managers extends further - that is to consider the interests of *all* stakeholders even if doing so reduces company profitability.[13]

It may come as no surprise that this balancing act can be, in practical terms, unworkable as managers face real trade-offs between multiple stakeholders, shareholder objectives and social responsibility.[14]

To help address this challenge, there are three key questions for managers to consider with stakeholder theory:

1. If this decision is made, for whom is value created or destroyed?
2. Whose rights were enabled or not?
3. What kind of person would I be if I make this decision in a particular way?[15]

Multinational firms approach stakeholder theory a bit differently. They tend to add local stakeholder obligations as the process of globalization unfolds over time and most often manage these obligations centrally, at the firm's headquarters, but actively allocate responsibilities to subdivisions. This central coordination is most beneficial when it is integrated with already established multinational stakeholder groups which share the firm's goals (e.g., the United Nations Global Compact or the World Wildlife Federation).[16]

Shareholder Theory

To answer the question, "What is the purpose of the modern corporation?", **shareholder theory** claims that managers should spend capital, given to them by shareholders initially, in ways that have been authorized by shareholders and act in the shareholders' interests.[17] In fact, some have argued that managers assume what is called a fiduciary duty to use various company resources in ways that have been authorized by the stockholders—regardless of any societal benefits or detriments.[18] **Fiduciary duty** involves trust that *one* party will act in the best interests of another, owing them a duty of loyalty and care.[19] When addressing the question, "To whom, or what, should the firm be responsible?", there is an underlying belief that shareowners' interests ought to take precedence over the interests of all other groups. In part, the theory and practice of corporate governance relies on this premise. **Corporate governance** is defined as the rules, processes, and procedures as outlined by an organization's board of directors to ensure accountability, fairness, and transparency among all parties with a claim on the organization (we discuss this concept more fully in chapter 13).

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The shareholder theory focuses on the firm's ability to provide long-term market value for shareholders[20] regardless of the benefits or detriments to other organizational or societal constituents.[21] The shareholder view also rests on the belief that a firm is better able to achieve competitive advantage because it allows managers to be unencumbered by other stakeholders' concerns.[22] This focus appeals to managers wanting to lower the cost of capital necessary for expansion and consequently gain better access to the capital markets for funding—both of which some argue is the best reasoning for a global convergence of the shareholder perspective.[23]

Generally, this view supports the idea that firms must put shareholders' interests above all others because the firm is the property of its (share)owners. The owners' interests take precedence over the interests of all other groups because of the recognition of a special relationship between the firm and its shareholders.[24]

To help address issues in shareholder theory, managers should be mindful of the following questions:

1. How do we measure "better" versus "worse" with regard to what we are trying to do?
2. How do we best maximize long-term value?
3. Who should decide value: managers or shareholders?[25]

Professor Cynthia E. Clark and her colleagues created a table comparing and contrasting some of the key elements of both the shareholder and stakeholder perspectives, which is adapted in Table 1.1.[26]

TABLE 1.1 ■ Stakeholder and Shareholder Theories

Characteristic	Stakeholder Theory	Shareholder Theory
Fiduciary relations	Multifiduciary—Obligations of loyalty and care are owed to multiple parties.[i]	Single fiduciary—Shareholders have a special role, and these obligations are owed only to them.[ii]
Moral claim	Shareowner's theory is morally untenable.[iii]	Stakeholder theory is morally inadequate.[iv]
Sources of legitimacy	Stakeholders' relationship with firm; nature of request	Shareholder primacy[v]
Sources of power	Access to resources[vi]	Residual risk bearers[vii]
Basis of strategy	Stakeholders have intrinsic value; management selects activities and directs resources to obtain benefits for legitimate stakeholders.[viii]	Direct resources and capabilities are toward shareholder value; management has free hand to direct externalities to society and even may have obligation to do so.
Governance mechanism	Nonshareholding stakeholders should have board representation.	Manager (agent) works on behalf of principal (owner); only shareowners have representation on board and voting rights; and shareholders ought to have control.[ix]

(Continued)

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TABLE 1.1 ■ Stakeholder and Shareholder Theories (*Continued*)

Characteristic	Stakeholder Theory	Shareholder Theory
Attitude toward socialresponsibility or purpose	"The survival and continuing profitability of the corporation depend upon its ability to fulfill its economic and social purpose, which is to create and distribute wealth or value sufficient to ensure that each primary stakeholder group continues as part of the corporation's stakeholder system" (Clarkson, 1995, p. 110).[x]	"What does it mean to say that 'business' has responsibilities? Only people can have responsibilities. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom" (Friedman, 1970).[xi]

[i]For a discussion of both approaches, see Goodpaster, K. E. (1991). Business ethics and stakeholder analysis. *Business Ethics Quarterly, 1*, 53–73.

[ii]See Marcoux, A. M. (2003). A fiduciary argument against stakeholder theory. *Business Ethics Quarterly, 13*, 1–24.

[iii]This is mainly based on an article by Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review, 20*, 65–91; it is also based on related citations.

[iv]This is mainly based on an article by Marcoux (2003) and related citations.

[v]Shareholder primacy tends to regularly render legitimate all corporate efforts on behalf of shareholders and to render irregular those efforts on behalf of other constituents and, further, that such efforts need of some type of justification—cf. Boatright, J. R. (1994). Fiduciary duties and the shareholder-management relation: Or, what's so special about shareholders. *Business Ethics Quarterly, 4*, 393–407.

[vi]See Frooman, J. (1999). Stakeholder influence strategies. *Academy of Management Review*, 24, 191–205; Eesley, C., & Lenox, M. J. (2006). Firm responses to secondary stakeholder action. *Strategic Management Journal, 27*, 765–781.

[vii]See Boatright (1994).

[viii]See Donaldson & Preston (1995).

[ix]See Boatright, J. R. (2006). What's wrong—and what's right—with stakeholder management. *Journal of Private Enterprise, 21, 106–130.*

[x]Clarkson, M. B. E. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. *Academy of Management Review 20,* 92–127.

[xi]Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *The New York Times Magazine,* 32–33, 122, 124, 126.

Source: Adapted from Clark, C. E., Steckler, E. L., & Newell, S. (2016). Managing contradiction: Stockholder and stakeholder views of the firm as paradoxical opportunity. *Business and Society Review, 121,* 123–159.

KEY TAKEAWAYS

STAKEHOLDER VERSUS SHAREHOLDER THEORIES

- Both theories are *normative* theories, and both advocate for what a firm *ought* to be: the purpose the firm plays in society.
- The *shareholder theory* supports the idea that firms must put shareholders' interests above all others because the firm is the property of its (share) owners. The owners' interests take precedence over the interests of all other groups because of the recognition of this special relationship.

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- The *stakeholder theory* supports the idea that there is a moral obligation for a firm to work toward addressing the needs of customers, employees, suppliers, and the local community as well as shareowners not simply so it will benefit the firm in the long run but because it is the right thing to do.

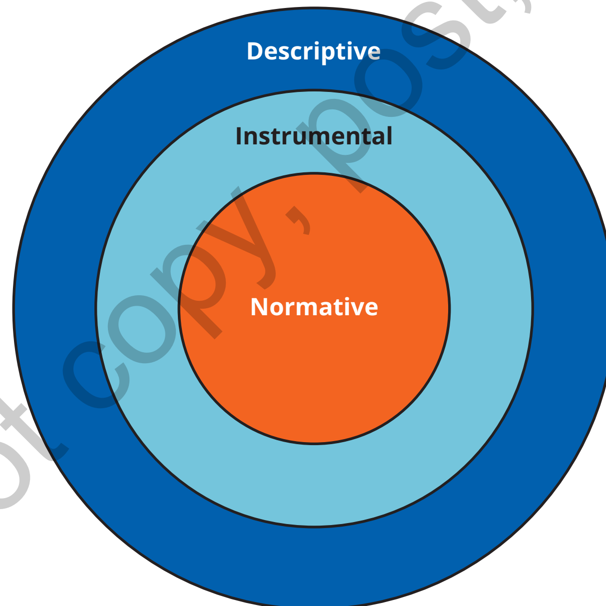
THE STAKEHOLDER AND SHAREHOLDER DEBATE

There is considerable debate about which theory is better at describing how a company should operate. Perhaps you are questioning which perspective you might use to run a company by. It's helpful to understand there are descriptive, instrumental, normative, moral, and legal arguments in this debate.

The Stakeholder Arguments

In an attempt to clarify and justify the stakeholder theory over the shareholder theory, researchers Tom Donaldson and Lee Preston conceptualized the descriptive, instrumental, and normative versions of stakeholder theory. These authors model these three aspects of the theory in a bull's- eye fashion, with normative at the core and descriptive at the outer edge (see Figure 1.1).

FIGURE 1.1 ■ Stakeholder Theory Bull's-Eye



Stakeholder theory defined in a descriptive manner literally describes how firms operate, arguing that the stakeholder approach is more representative of how firms truly operate. There is little doubt that stakeholder language is very common; for example, corporate websites, brochures, and Instagram posts are filled with firm's using the word *stakeholder* or expressing their concern for stakeholders.

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Stakeholder theory defined from an instrumental perspective is characterized by attempts to find evidence of connections between stakeholder management and positive financial performance. Stakeholders are a means to an end in that they contribute to achieving better performance overall. Here, firms are more likely to work toward the goal of better financial performance and see stakeholders as secondary.

Defining *stakeholder theory* from a normative perspective, stakeholders have value regardless of their instrumental use to managers or the firm. Adopting this view requires managers to endorse the attitude that all stakeholders have a legitimate stake in the firm, that they have *intrinsic* value. Here, firms work directly with stakeholders because they are a primary concern. In fact, Donaldson and Preston argue that stakeholder theory is fundamentally normative because of its guidance about what are right and wrong behaviors. In other words, a stakeholder approach should be adopted simply because it is the right thing to do. What's more is they maintain that a shareholder approach to the firm, which treats one group as superior, is therefore not morally supportable.

The Shareholder Arguments

Some shareholder theorists, in turn, claim there is no moral foundation in stakeholder theory. in fact, the main criticism of stakeholder theory by shareholder theorists is that it appears morally and practically unworkable to orient firms' decisions that bear on the fiduciary duties of managers to anyone but stockholders. Because shareholders hold a special status in their relationship with managers, a stakeholder approach is inadequate.[27] This special status centers around fiduciary duties which refer to a prioritization, a commitment to advancing the interests of shareholders over those of another party—very much like a doctor has to a patient. From this perspective, a firm simply cannot have multiple fiduciary duties (as stakeholder theory asserts) because if it did it would require trade-offs, compromises, and multiple loyalties that it cannot sustain because of the very meaning of the word *fiduciary*.[28]

Finally, a legal perspective on the debate is provided by Professor Lynn Stout, who observes that shareholder primacy is often granted as a result of ownership, which she noted is not quite accurate legally.[29] From a legal standpoint, she contends, stockholders do not own the corporation but merely a stock. This stock provides the stockholder with certain rights, which are limited. For example, Stout highlights that stockholders do not have the right to control the firm's assets or to decide on the distribution of the firm's earnings. Stout also notes that shareholder primacy is often granted on the premise that stockholders are the sole residual claimants of the firm, which, from a legal position, stockholders are only residual claimants in the case of bankruptcy. But even if the law cannot be counted on to enforce the shareholder theory, economic forces might drive the board of directors and thus the managers they oversee to embrace it.[30] Figure 1.2 is illustrative of each side of the debate.

Is One Right and One Wrong?

Given these contradictory arguments, some suggest the stakeholder and stockholder debate is based on a series of misrepresentations about what they stand for (see Table 1.2) and that they are not mutually exclusive.[31]

For one, numerous stakeholders can benefit from managers prioritizing the interests of shareholders. For example, some argue that all constituents are better off when the firm is run for shareholders because it forces an accountable management of the firm's assets and creates greater overall wealth.[32] Professor John Boatright thinks that "any successful corporation must manage

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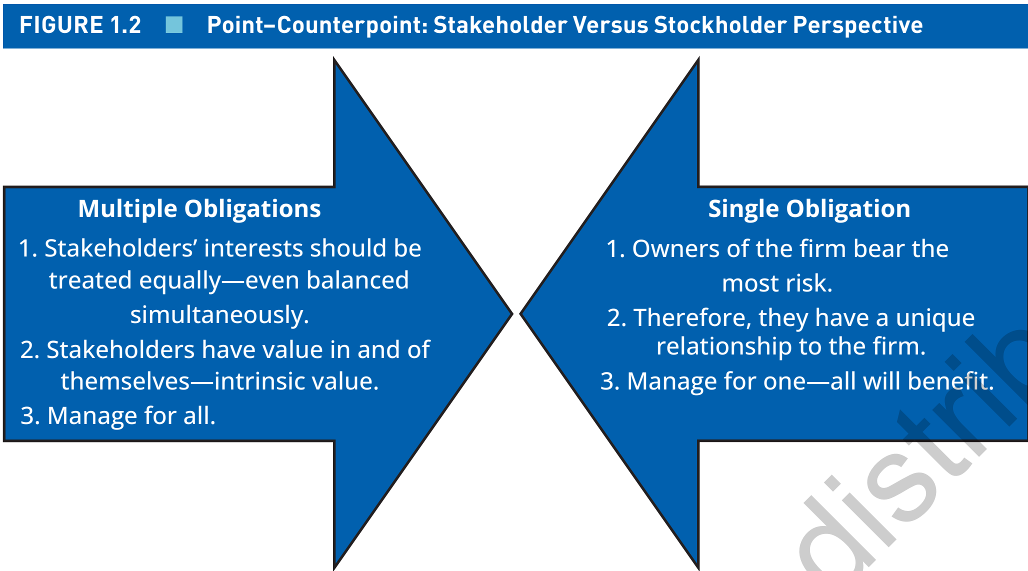
FIGURE 1.2 ■ Point–Counterpoint: Stakeholder Versus Stockholder Perspective



Source: Adapted from Clark, C., Steckler, E., & Newell, S. (2016). Managing contradiction: Stockholder and stakeholder views of the firm as paradoxical opportunity. *Business and Society Review,* 121(1): 123–159.

TABLE 1.2 ■ Misrepresentations of Each Theory

Shareholder Theory Misrepresentations
Firms do anything to make a profit.
Firms focus on short-term profits.
Firms are prohibited from giving to charity or nonprofits.
Stakeholder Theory Misrepresentations
There is no demand that firms make a profit.
The theory can't be practically implemented.

its relations with all stakeholder groups, if for no other reason than to benefit the shareholders" by not necessarily serving each group's interest but by considering their interests "sufficiently to gain their cooperation."[33] This idea is very closely related to the instrumental version of stakeholder theory discussed above.

Two, since most firms today have evolved from the traditional family-operated business to corporations with dispersed ownership, there are several subsets of specific interest groups even within the shareholder group. For example, shareholders can be long-term investors interested in a retirement income, short-term investors seeking to make a noticeable profit every quarter, or activists who acquired a share of the firm in order to press interests as varied as environmental preservation to women's rights or animal protection.[34]

Three, academics argue that a basis for both the shareholder and the stakeholder theories of the firm exists in the law through the concept of fiduciary duties. But while traditional American law posits firms as fiduciaries of their owners (the shareholders), many states have amended the law to allow managers to take into consideration a wider range of other stakeholders' interests,

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reflecting the increasing pressure by multiple stakeholders for firms to endorse responsibility and accountability for social issues as well as economic issues. Still, researcher Jeff Smith believes managers and firms that do not achieve profitability, operating either under a stakeholder or stockholder framework, will likely be penalized for underperformance by being removed by the board of directors or taken over by a competitor.[35] In fact, the Business Roundtable, a group of large company CEOs and a powerful voice in Washington for U.S. business interests, called for a new purpose for corporations: to view each stakeholder as essential and deliver value for all of them. This departs from its former statement of purpose, which focused on an obligation to provide value for shareholders alone.[36]

Lastly, others suggest that despite the persistence of these opposing theories, there are two key aspects where they complement one another: accountability and value.[37]

Shareholder theories argue managers should be held accountable for a single goal, such as shareholder value, and thus held accountable to shareholders for increasing the wealth of the firm's shareholders to the extent possible.[38] On the other hand, normative stakeholder theory suggests firms should manage with multiple and competing stakeholder interests in mind while not holding shareholder interests above others. And those adopting a stakeholder perspective would tend to argue that managers are accountable to all legitimate interests or to legitimate groups.[39]

As we mentioned previously, a fundamental question asked by both shareholder and stakeholder theory is this: For whose primary benefit is this firm managed? If we were to say the shareholders, we could equally say that we are all shareholders given the contemporary dependence on the financial markets for anything from retirement to routine banking to college savings. Likewise, we could say the firm is managed for stakeholders and recognize that employees, consumers, and suppliers can also be shareholders.

As you might guess, the term ***value*** has also been defined by both stakeholder and shareholder theorists. Recently, academics from the shareholder perspective have moved toward saying "maximizing total firm value" instead of "maximizing the value of the firm's equity" in recent years.[40] Further to the point, "total value created is the value created for all business model stakeholders (focal firm, customers, suppliers, and other exchange partners)".[41] This premise is complementary to the instrumental idea of stakeholder theory: "focusing on stakeholders, specifically treating them well and managing for their interests, helps a firm create value along a number of dimensions and is therefore good for firm performance."[42] It is also complementary to the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges.[43]

KEY TAKEAWAYS

THE STAKEHOLDER AND SHAREHOLDER DEBATE

- Stakeholder theory is described in normative, instrumental, legal, and descriptive ways. The instrumental version is very similar to shareholder theory. The debate centers on whether the purpose of the firm is to put stakeholders or stockholders first.
- Both theories emphasize the need for value and accountability by firms.
- The stakeholder versus stockholder debate is really based on a series of misrepresentations about what each stands for.

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STAKEHOLDER TYPES: INTERESTS, ISSUES, LEGITIMACY, AND POWER

While the debate continues, managers are often faced with limited resources to allocate as well as multiple and competing demands from stakeholders—sometimes every day. The inherent breadth of the concept of a stakeholder can make it challenging for manager's to practically implement. So the question becomes who and what should managers pay attention to and in what priority? That is, which stakeholder groups or issues should take precedence over others?

Market and Nonmarket Stakeholders

While stakeholders can be *any* identifiable group or individual—public interest groups, protest groups, government agencies, trade associations, competitors, and unions, as well as employees, customer segments, shareowners, and other stakeholders[44]—they have increasingly been divided into two categories based on their value to the firm.[45]

While traditionally thought of as primary and secondary stakeholders, they have increasingly been categorized as market based and nonmarket based with the following characteristics:[46]

- Market stakeholders—Engage in economic transactions with the company as it carries out its primary purpose (see Figure 1.3).
- Nonmarket stakeholders—Do not engage in direct economic exchange with the firm but are affected by the firm or can affect the firm (see Figure 1.4).

From a firm-centric viewpoint as depicted in Figures 1.3 and 1.4, these sets of stakeholders can seem very separate from one another because of the categories they are placed in. However,

FIGURE 1.3 ■ Market Stakeholders

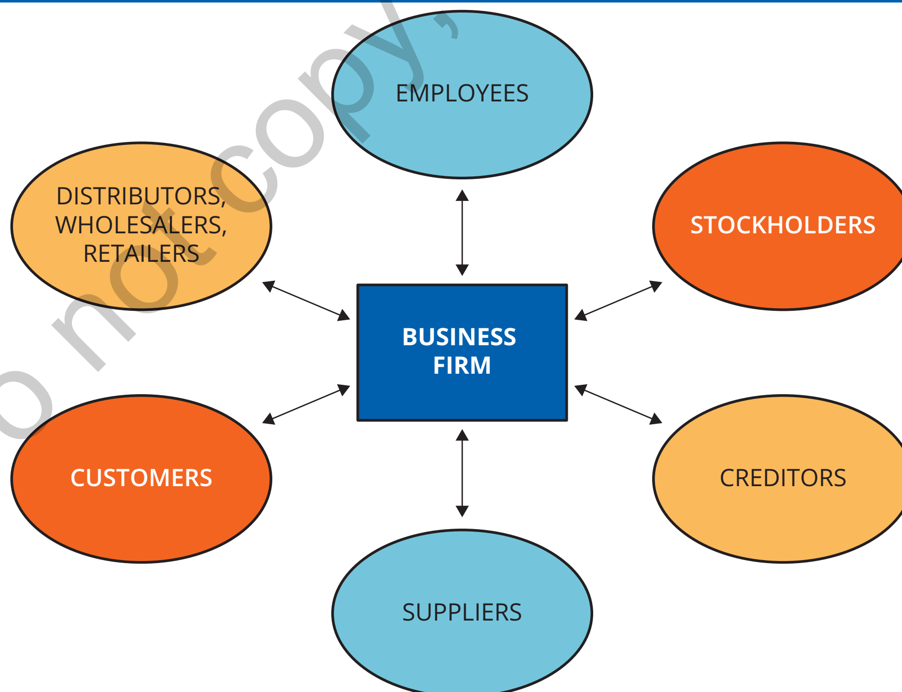

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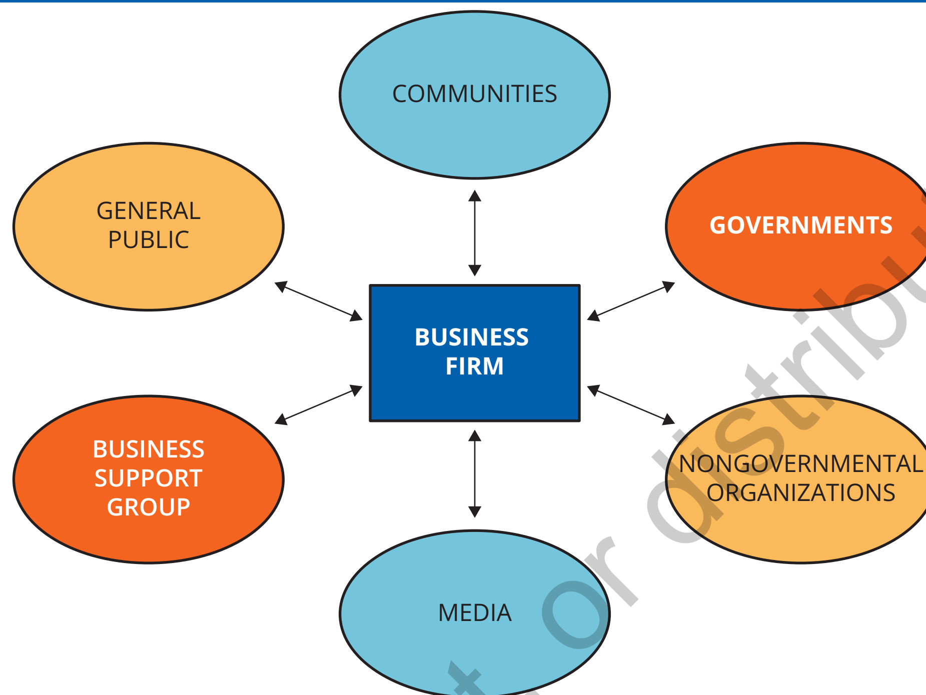
FIGURE 1.4 ■ Nonmarket Stakeholders



researchers and managers alike have emphasized that they are interrelated and not always voluntary. For example, engaging with the nonmarket environment may be voluntary, such as when the firm adopts a policy of developing relationships with government officials, or involuntary when government regulates an activity or activist groups organize a boycott of a firm's product.[47]

Some managers advocate for products, services, or certain stakeholder groups to be placed at the center (see Figure 1.5); otherwise, this firm-centric approach tends to marginalize other stakeholders even if that is not the explicit intent.[48] Novo Nordisk, headquartered in Denmark and the leading developer of diabetes medication, places patients in the center of its activities.

Stakeholder Interests and Power

While there are different ways to categorize stakeholders, most firms find the challenge lies in how to prioritize and engage them. Determining what their interests are, what their power base is, and how salient to the firm they are is a common starting point.

Because stakeholders are dynamic by nature, they do not have the same characteristics, especially in terms of their power, legitimacy, issues, and interests. Stakeholder groups often have common interests and will form temporary alliances to pursue these common interests. Analyzing stakeholder interests typically includes addressing two key questions.

1. What are the groups' issues or concerns?
2. What does each group want or expect from their relationship with the firm?

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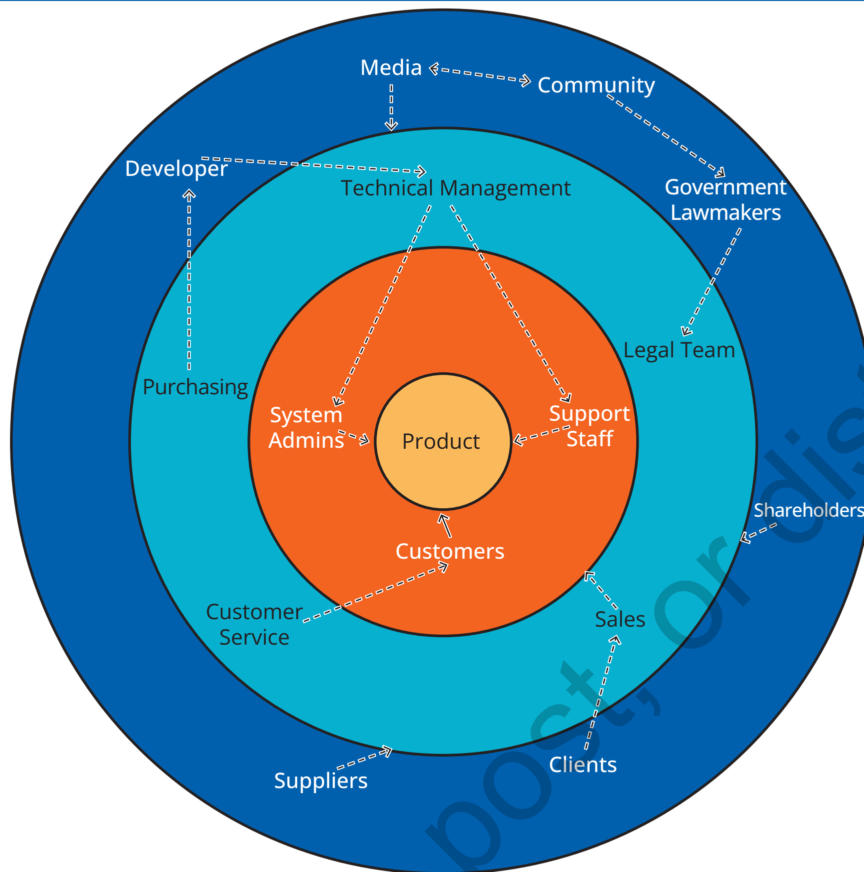
FIGURE 1.5 ■ Stakeholder Map With Product at Center



Source: BAwiki | A Reference and Blog for Business Analysts. David Olson.

Issues are the basic unit of analysis when thinking about stakeholder identification and engagement and often result when there is a discrepancy between what is expected from a firm in terms of responsible management and what is actually provided—its performance on those expectations. It is important to differentiate between stakeholder issues, which are defined as the concerns that stakeholder groups nurture in regard to the firm's activities, and social issues, which pertain to the social context in which the firm exists, addressing economic, social, political, or technological concerns.

Both market and nonmarket stakeholders have issues they are concerned about. For example, with Juul Labs, Inc., the largest e-cigarette company, parents, physicians, and regulators have become increasingly concerned about underage use of its vaping products. All three are nonmarket stakeholders. However, they may be part of its adult customer base or they may not use the product. Its current adult customers who are not underage, versus its youth customers, are concerned about a potential shutdown of a company whose products are believed to be far less deadly than cigarettes and may offer them a way to eventually quit smoking. As the Juul example indicates, it can be challenging to put stakeholders in clearly defined groups because many overlap. In Case Study 1.1, we discuss these overlapping and conflicting stakeholder challenges in more detail.

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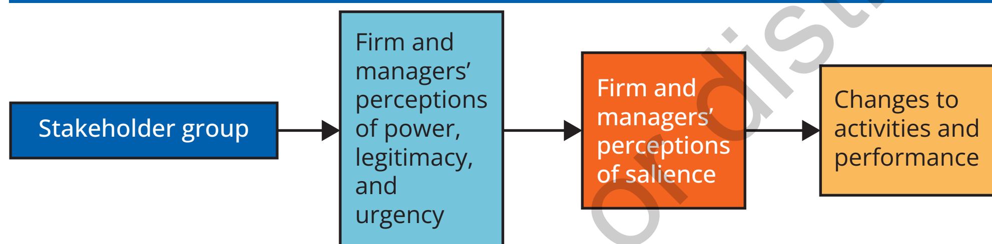
It is very common to identify which stakeholders deserve attention based on three specific attributes making them salient to firms:

1. The power of the stakeholder to influence the corporation
2. The legitimacy of the stakeholder's relationship with the corporation
3. The urgency of the stakeholder's claim on the corporation

Possessing these three attributes is thought to result in higher perceptions of **stakeholder salience**, the ability to stand out or apart from something else—and ultimately bring about changes in the firm's performance or current activities (see Figure 1.6).

FIGURE 1.6 ■ Theory of Stakeholder Salience



Source: Adapted from Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22(4), 853–886.

But not everyone is convinced that power, legitimacy, and urgency are the best ways to describe who and what matters to managers and that there is a need to better understand how legitimacy, power, and urgency are different.[49] Others have noted this focus essentially argues for a shareholder primacy model—that is, a shareholder has each of these qualities through the simple quality of owning a share.[50] Still, others argue that the very definition of stakeholders—those with the ability to affect or be affected by the firm's activities—means they are legitimate and worthy of managerial attention.[51] And, finally, that urgency may not be as relevant for identifying stakeholders and instead the salience of stakeholders will vary as the degree of these attributes vary.[52] Still, it provides a useful tool to initially identify how important a stakeholder claim might be to a firm.

As we discussed earlier, the idea of a claim is central to the stakeholder perspective. Building on this idea, there are additional and interrelated concepts important to a stakeholder claim, such as its issue, its requested action, and the tactic used to make its issue and action known to management.

Some experts have argued that certain types of requested actions may be more successful than others as they provide less risk in terms of the costs and benefits associated with fulfilling the request. One example of a low-cost request is when a firm is asked to disclose information.[53] Also, certain stakeholder tactics are likely to receive more managerial attention—like those that impose greater risk to the continued survival of the firm, such as civil lawsuits rather than tactics that have little bearing on the firm's continued activities, such as letter-writing campaigns—because the latter fail to impose an economic burden on the firm while the former may create a sense of urgency.[54]

For these reasons, let's focus on stakeholder power and legitimacy and how they might interact.

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What Is Stakeholder Power and Legitimacy?

Power is the ability or potential of a group to influence another and to secure a desired outcome. Power commands managerial attention in and of itself through the potential threat that it carries.[55] Power is context specific, meaning someone is not powerful or powerless alone but rather within the context of relationships with others. That is, power cannot be attributed to an issue, a request, or a tactic. **Legitimacy** represents some form of acceptance of a stakeholder's claim or of the group itself. Mark Suchman identified three primary forms of legitimacy: *pragmatic* occurs when the audience's self-interest is satisfied, *moral* is when the concerns over what ought to be are satisfied, and *cognitive* is based on whether something is taken for granted and well known or accepted (see Table 1.3).[56]

TABLE 1.3 ■ Examples of Forms of Legitimacy

Type of Legitimacy	Example of Type
Pragmatic	Support for a new human resources (HR) policy based on its expected value for a particular group
Moral	Support for a new HR policy because it is the right thing to do
Cognitive	Support for a new HR policy because it would be unthinkable not to have it or because it is inevitable to do so

Many researchers have discussed the relationship between legitimacy and power. For example, Thomas Jones, Will Felps, and Gregory Bigley explored the dynamics between power and legitimacy by integrating an ethical perspective in the stakeholder salience debate. Using two types of values—other-regarding or self-regarding—the authors predict that firms will prioritize either the interests of stakeholders or their own because firm–stakeholder power relationships are determined by these two value orientations. They find that while self-regarding firms are more prone to exercise power over stakeholders to maintain their interests, they are also more responsive to stakeholders' power that stems from essential resources needed for a firm's operational performance. By contrast, firms that are other-regarding are more responsive to stakeholders with legitimacy as they respond more readily to moral appeals.[57]

Case Study 1.1: Juul's E-Cigarettes and Teens

Juul Labs, Inc. is a San Francisco-based e-cigarette company started by two Stanford University graduate students in 2015. Adam Bowen and Adam Monsees set out to make a replacement for cigarettes that was both appealing and less risky to use. In fact, they thought of it as a sort of off-ramp for adult smokers, wanting "cigarettes to become obsolete," according to Monsees.[58] From that simple wish, Juul became a high-growth enterprise in just a few short years—and a lightning rod for criticism.

The company's mission in 2023 is to transition the world's billion adult smokers away from combustible cigarettes, eliminate their use, and combat underage usage of its products.[59] Juul faced some intense pressure in the last few years, and this may be one reason it changed its mission from improving the lives of the world's 1 billion smoking adults.

One indicator of Juul's troubles is its declining market share. In 2018 Juul's products were estimated to be 75% of a $2.5 billion e-cigarette market in the United States alone.

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In 2022, it captured just 37% of the market with Vuse accounting for 30%.[60] According to the National Youth Tobacco Survey, in 2022 one out of every ten high school or middle school students have used e-cigarettes in the last 30 days, and 1 in 4 use e-cigarettes daily.[61] 85% use flavored e-cigarettes. There's little doubt it's a popular product. So what happened?

By the summer of 2018, the company was valued at $16 billion and raised $1.25 billion from investors wanting to back the future success of this venture.[62] The company is not publicly traded. That same year, Altria Group bought a 35% stake in the e-cigarette maker. That stake was later challenged by the Federal Trade Commission (FTC) on an antitrust law violation; the FTC said it violated the law because the company acquired the position rather than competing against Juul in the e-cigarette market.

Soon after, in the fall of 2018, the company ran into intense pressure from parents, physicians, and regulators who had become increasingly concerned about the underage use of its vaping products. The Food and Drug Administration (FDA) sought to curb this underage use while parents and physicians were concerned about the effects of vaping on young people whose brains are still developing into their 20s and are vulnerable to addiction, according to scientific research.[63] In mid-November 2018, in response to mounting pressure, Juul Labs shut down its Facebook and Instagram accounts, which were a large part of its growth.[64] It also stopped sales of most of its flavored e-cigarettes, particularly popular among teens, in retail stores earlier that month.[65] The FDA imposed restrictions on the sale of sweet-flavored options like mango and cucumber, limiting them to stores that minors can't access or to online sales with age verifications. Mint-flavored e-cigarettes remained on shelves and made up about 35% of Juul's sales in 2018.[66]

In early September 2019, citing the surge in underage vaping, President Trump's administration said it planned to ban all e-cigarettes except those formulated to taste like tobacco.

On its website, then Juul CEO Kevin Burns outlined the company's action plan and emphasized their common goal with the FDA. The CEO stated, "We don't want youth using the product," and it is an unintended consequence and serious problem. FDA commissioner Scott Gottlieb said, "I will not allow a generation of children to become addicted to nicotine through e-cigarettes." If sales of mint do not decline, he will "revisit this aspect." In September 2019, the Centers for Disease Control and Prevention (CDC) urged people to stop using electronic cigarettes and other vaping products while they investigate several deaths from a mysterious lung illness; it did not identify a certain vaping brand.[67] Altria executive K.C. Crosthwaite replaced Ken Burns as CEO that same month.

Mounting lawsuits added to the turmoil. According to Forbes, by 2022 Juul Labs faced over 5,000 lawsuits, with most alleging the company engaged in deceptive marketing or failed to warn about the risks of its product.[68] While governments are behind many of these lawsuits, a growing number of e-cigarette users have filed claiming they were harmed by the company's products.

In July of 2020 Juul submitted a "Premarket Tobacco Product Application" to the FDA providing evidence that its products are "appropriate for the protection of public health". Juul's application included scientific data evaluating the product's impact on both current users and nonusers of its tobacco products, including those who are underage.[69] In June 2022, after two years of reviewing the application, the FDA ordered Juul to pull all of its vaping products from the US market and issued what's called a Marketing Denial Order (MDO). The MDO required Juul to stop selling and distributing its products and remove those currently on the market. The FDA determined that the application lacked sufficient

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evidence regarding the toxicological profile of the products to demonstrate that marketing of the products would be appropriate for the protection of the public health.[70] The FDA stated, "the likely benefit for adult smokers who significantly reduce their cigarette use ... outweighs the risk to youth".[71] In July 2022, the FDA placed a temporary hold on the June order. Juul began exploring bankruptcy as it struggled to raise money to pay its lawsuits.

Perhaps due to the mounting pressure, Altria exited its investment and previously terminated a non-compete agreement with Juul that the FTC opposed in March 2023. In a press release, Juul stated the return of Altria's equity stake "affords us full strategic freedom" and a "range of options to maximize the value of our company".[72]

In April 2023, Juul paid $462 million to six US states and DC in the largest multi-state settlement yet for the troubled company that has been accused of contributing to the rise of vaping among youth. "The e-cigarette company falsely led consumers to believe that its vapes were safer than cigarettes and contained less nicotine. However, just one pod of Juul contains as much nicotine as a whole pack of cigarettes," New York Attorney General Letitia James.[73]

With the settlement the company hoped its major troubles were behind it. But in January 2024, Juul was fighting a lawsuit from a group of investors alleging that the two board directors who helped save the company from bankruptcy were looking out for their own interests, not the company's – a violation of their fiduciary duty. In effect, the lawsuit claims, these insiders benefitted from their own bailout of the company at the expense of other investors.[74]

How Does It Work?

A Juulpod is the cartridge that clicks onto the top of the device, and it contains a proprietary nicotine e-liquid formula that creates the actual vapor. The vapor is created when the e-liquid is heated.

Source: https://www.juul.com/our-technology

Discussion Questions

1. What makes this product so appealing?
2. Based on your reading of the case, which theory of the firm is the company following to help resolve the widespread concern? Explain.
3. Adult consumers are one set of stakeholders impacted by Juul's decision. Are its consumers a single group with the same interests? Who might also be a consumer of these products?
4. What other stakeholders might have been involved, and what were their interests? Did all stakeholders have the same interests?

Critical Thinking

Given the company's change in mission, the ensuing lawsuits and divestment of Altria shares, what challenges do managers at Juul face in trying to both prevent teens from using its products while at the same time marketing to adult consumers—especially its flavored products which are popular among both groups.

How can it strike that balance?

What product adjustments, programs or policies can Juul implement to convince its various stakeholders that it can do both?

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KEY TAKEAWAYS

STAKEHOLDER TYPES: INTERESTS, ISSUES, LEGITIMACY, AND POWER

- Stakeholders are commonly categorized as market based and nonmarket based. The basis for these categorizations is whether or not they engage in economic transactions vital to the firm or not.
- A firm's perception of a stakeholder group's salience is based on the group's legitimacy, urgency, and power. These three attributes have different meanings, and these are important for managers to understand.

MANAGING STAKEHOLDERS

Stakeholder management involves constantly monitoring and redesigning processes to better serve multiple and conflicting stakeholders. Companies may employ different strategies in terms of the degree of engagement with their stakeholders. Typically, engagement is most likely when (1) both the firm and the stakeholder recognize and share the same goal, (2) they are motivated to participate, and (3) the firm or the stakeholder have the knowledge and resources to effectively engage.[75] Given that many companies you've heard the names of are global, it's probably no surprise that stakeholder engagement has a global focus. For example, at Coca-Cola, an MNC, stakeholder engagement is carried out in a variety of formal and informal settings across the entire Coca-Cola system, including local, regional, and international stakeholders. At an international level, the company is involved in multistakeholder initiatives, such as the United Nations Global Compact and the World Economic Forum (WEF), so that it can address pressing global challenges.[76] It regularly conducts workshops around the world to identify potential "impacts to people" associated with the company's activities and business relationships.

Firms can think of this in terms of four levels of commitment to practicing stakeholder management (see Table 1.4). Managers need to understand how the firm can make various stakeholders' benefit—making customers better off and simultaneously offering an attractive value proposition to employees, suppliers, communities, and shareholders (Level 1).[77] Today's competitive, economic, regulatory, and political environments are so dynamic they require firms to constantly revise their stakeholder perceptions—often upsetting the delicate balance in the basic value proposition to various stakeholders.

TABLE 1.4 ■ Levels of Commitment to Managing Stakeholders

Level 1	Basic value proposition	How do we make our stakeholders better off? What do we stand for?
Level 2	Sustained stakeholder cooperation	What are the principles or values on which we base our everyday engagement with stakeholders?
Level 3	An understanding of broader societal issues	Do we understand how our basic value proposition and principles fit or contradict key trends and opinions in society?
Level 4	Ethical leadership	What are the values and principles that inform my leadership? What is my sense of purpose?

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Managers must have a deep understanding of how these trade-offs affect each stakeholder, and they may wish to take positions on issues that are not always directly related to their business (Levels 2 and 3). Recent research points to a strong connection between ethical values and positive firm outcomes like long-term profitability and high innovation and motivation among employees.[78] Ethical leadership is possible when there is a deep understanding of the power, legitimacy, interests, and issues of concern of the stakeholders (Level 4).[79] We discuss ethics more fully in chapter 3 and integrate it into each of the chapters in this book.

KEY TAKEAWAYS

MANAGING STAKEHOLDERS

- Stakeholders have issues of concern that they bring to firms with the expectation that the firm will respond to them.
- Firms need to engage with stakeholders to know what their interests and issues are and to better manage conflicts among stakeholder groups. There are four levels of commitment to managing tensions.

Ethics in Context

COMPETING STAKEHOLDER DEMANDS AT AMAZON

Amazon, the publicly traded online retailer with extraordinary success and name recognition, announced in September 2017 a search for a second, equal headquarters to its home base in Seattle, Washington, known as the HQ2 decision. It stated the new location would house roughly 50,000 jobs and represent billions in investments. Amazon factored in a number of qualifications for the selection of HQ2, including access to mass transit, proximity to an airport with direct flights to and from Seattle, and a pool of available tech talent nearby. In November 2018, Amazon decided to split HQ2 into two additional headquarters between New York's Long Island City and the Crystal City community in Arlington, Virginia—both located directly across from the major city centers. The company planned have as many as 25,000 employees in each location. Amazon intended to begin hiring employees for the new headquarters in 2019 and claimed the average salary for new employees would be $150,000 per year. However, after strong financial performance during the Covid-19 pandemic, the company announced a pause on the 2nd phase of construction of the Arlington, Virginia H2Q project in March 2023. How had things changed so drastically?

The Pros and Cons

There are a number of potential benefits and harms to a decision to locate a substantial headquarter in these two cities. For example, according to published reports, Amazon's move to New York pits it against Google, its largest competitor, which focused on its own expansion in the city. Google has more than 8,000 employees in New York across several buildings and could surpass 14,000 by 2028.[80] And it gives Amazon a major presence in three coastal hubs that politically lean left at a time when tech companies are under scrutiny for their perceived elitism and liberal social views.

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On the other hand, Arlington, Virginia, could be a good fit for Amazon politically, as an important purple swing state that promises political clout no matter which party is in power. The company has faced critics ranging from former President Donald Trump to Vermont senator Bernie Sanders, who have called out the company over issues like wages. In September 2018, Amazon raised its minimum wage to $15 per hour compared to the federally mandated minimum of $7.25 per hour. As of August 2023, its minimum wage remained $15/hour but in 2022 it bumped its average starting pay for warehouse and delivery workers to $19 an hour.[81]

This wage increase can be seen in the context of a 3-year stretch of growth for the company. Profits in the year since the pandemic started in 2020 exceeded $26 billion, more than the previous three years combined. Net income from just three months - January to March 2021 - more than tripled to $8.1 billion, and 1st quarter sales revenue hit $108 billion, up 44% from the 1st quarter of 2020.[82] In July 2022 Amazon reported $121.2 billion in revenue in the three months that ended June 30, up 7.2 percent from a year earlier.[83] It was the company's slowest growth in more than two decades. But in July 2023, the company reported an 11% increase on revenue of $134.2 billion.

The Request for Proposal

Amazon's 2017 request for proposal for HQ2 was sent out to over 200 cities and mentioned incentives as part of its key preferences and decision drivers. For these communities, the announcement of a deal between local government and Amazon includes the promise of jobs but also $5 billion in new investments. In exchange, these communities offered tax breaks and other incentives. According to MarketWatch, Amazon was to receive $1.525 billion in performance-based incentives for creating jobs in Long Island City. In return, Amazon was to donate space for a tech incubator for artists and industrial businesses alike, and for a primary public school. In Arlington, Virginia, Amazon is to receive $573 million in performance-based incentives and a cash grant from the community of $23 million over 15 years based on incremental growth of a tax on hotel rooms. Virginia will invest $195 million in infrastructure in return.

After one large company receives a tax deal like this one, a state legislator or city council member will often need to make decisions about where to draw the line. For example, JPMorgan Chase CEO Jamie Dimon told investors that he would work to get HQ2 in New York in order to lobby legislators to give his company the same benefits as Amazon. This puts elected officials in the position of determining whether JPMorgan Chase and other companies should receive subsidies on par with Amazon.

Amazon's stock rose 2% after the initial HQ2 announcement. And analysts who rate the stock's performance estimated the stock price would soon reach $2,100 per share. It would seem, then, that Amazon's shareholders were pleased.

In February 2019, Amazon canceled its plans to build its headquarters in Long Island City due to "growing political opposition" in the area. The decision will cost the New York City borough an estimated 25,000 jobs for its community. Public protesters called it corporate welfare and felt the money could be used elsewhere in the community. According to the *Wall Street Journal*, Amazon's decision caught the deal's biggest government backers—then Governor Andrew Cuomo and Mayor Bill de Blasio, both Democrats—by surprise. Lastly, Amazon's reputation more broadly took a hit, affecting consumers and employees.

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In August 2019, reports surfaced of a "burn book" where the company kept a list of negative statements and who said them, including tweets from the hashtag #scamazon.[84] The company largely defended itself by saying it was legally allowed to receive tax breaks. In 2020, the company stated to the *Wall Street Journal*:

"Like many other companies, we are eligible to access incentive programs created and regulated by cities and states to attract new investors – as they know these investments pay a long-term dividend in the form of jobs, new economic opportunity, and incremental tax revenue."

In 2021, in the midst of the global pandemic when workers sought the safety of working from home, Amazon unveiled plans for the Arlington, Virginia location to include an outdoor amphitheater, a dog run and parking for around 950 bicycles.[85] The centerpiece of the 4 structures to be built is a double helix which will provide an opportunity for people to go on a hike in the middle of the city through its winding upward pathways.[86] The first of the buildings, called Met Park, opened in June 2023 housing 8,000 of the 25,000 employees promised to the city.[87] Earlier that year, in March 2023, the company announced a pause on the construction of its 2nd building after having announced 18,000 job cuts in January. Shares of Amazon had fallen about 38% between 2022 and 2023.[88]

Discussion Questions

1. *Stakeholder–shareholder theories:* Who are the stakeholders affected by Amazon's HQ2 decision? How might its decision impact these stakeholders? Do some stakeholders—like employees who are also shareholders—have conflicts by being a member of both groups?
2. *Ethical decision-making*: Why do some businesses receive incentives from communities and others do not? How can a policy on incentives for companies treat stakeholders equally?
3. How does Amazon choose benefits and harms to various stakeholder groups (including shareholders) in its HQ2 decision- making?

Take a Position

Issue: Should the community offer tax breaks to Amazon, or should it pay the same tax as other businesses? How does the financial success of Amazon during the pandemic change your view of the deal struck with Arlington, Virginia, if at all?

SUMMARY

As every manager eventually realizes, the interests of a firm's stakeholders do not always align with each other or with the business's goals. Effective stakeholder management remains a challenge for both business and society. We've discussed in this chapter how shareholders are one type of stakeholder and how shareholders sometimes stand on their own as a different class of stakeholder. We've also discussed that both share a concern for firm accountability and value creation. It's vital that managers understand each stakeholders' interests, power, and claim on the firm as a starting point for stakeholder management and engagement.

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KEY TERMS

claim
corporate governance
fiduciary duty
legitimacy
power
shareholder theory
shareholder
stake
stakeholder salience
stakeholder theory
stakeholder
theory

REVIEW QUESTIONS

1. What are the differences and similarities of stakeholder and shareholder theories of the firm?
2. What are the primary arguments for managing the firm from either a stakeholder or shareholder perspective? What are the common misrepresentations of each?
3. What is stakeholder salience? Why does it matter to managers of firms?
4. What types of power and legitimacy do stakeholders have?
5. Do stakeholder interests conflict? Can a stakeholder be part of more than one stakeholder group?
6. What are the ways in which firms can manage conflicts among stakeholders?

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2 CORPORATE SOCIAL RESPONSIBILITY

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LEARNING OBJECTIVES

Upon completion of this chapter, the reader should be able to do the following:

2.1 State a working definition of *corporate social responsibility (CSR),* and describe its four pillars.

2.2 Articulate the fundamental reasons why CSR is an effective organizational strategy.

2.3 Explain the three primary views of CSR and the explicit and implicit CSR framework.

2.4 Compare arguments for and against the use of CSR by businesses.

2.5 Identify current strategies used by businesses to achieve their CSR objectives.

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Ethics in Context

USING CORPORATE SOCIAL RESPONSIBILITY AS A BUSINESS STRATEGY

For many Fortune 500 corporations, CSR has become a big business globally. Combined, such companies now spend billions of dollars doing good deeds and self- promoting those myriad efforts to the public. The expectation, of course, is that ethically minded consumers will prefer the products and services of these companies. But is it ethical for such companies to use CSR strategically? As you study this chapter, think about the ethical dimensions of using CSR as part of a business strategy. Should business and social responsibility mix in this way? Are there any ethical boundaries? Later in the chapter, in the Ethics in Context section, we use stakeholder and ethical lenses to examine the use of CSR by businesses as part of a branding strategy.

INTRODUCTION

Organizations are embedded in a complex web of stakeholders with interests that can be both convergent and divergent. This chapter continues our discussion presented in Chapter 1 of the stakeholder and shareholder theories of the firm by focusing on how managers sometimes use either or both perspectives to carry out their daily operations by incorporating corporate social responsibility (CSR). Adopting CSR embraces the belief that businesses thrive when they consider societal and global interests together with their own. Organizations are faced with challenges that often require managers to take an integrated approach that balances legal, economic, ethical, and societal concerns. While many commentators and managers agree that integrating CSR is an important goal for any business, they debate the *degree* to which a business and its managers prioritize its societal objectives and the resources allocated to CSR initiatives. We begin by providing a working definition of CSR and briefly trace its historical underpinnings. Then we examine the primary schools of thought related to business's balance between economic success and its contribution to society and analyze the debate about how organizations should resolve conflicts when CSR values between various business constituents do not align. Finally, we conclude by reviewing current examples of various CSR strategies being used by organizations.

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CORPORATE SOCIAL RESPONSIBILITY DEFINED

It's more challenging than it might first appear to state a working definition of corporate social responsibility. The number one reason is that it overlaps with other terms. While business ethics may be thought of as an application of ethics to the corporate sector and may be useful to determine responsibility in business dealings, corporate social responsibility (CSR) generally involves a broader-based identification of important business and social issues and a critique of business organizations and practices. Various definitions of CSR have been offered over the past 50 years. In fact, one study identified over three dozen CSR-related definitions from a variety of sources.[1] Based on this work, a generally accepted working definition of **corporate social responsibility (CSR)** is actions that appear to further some social good, beyond the interests of the firm and that which is required by law.[2] We will use this term and definition through the chapter but address sustainability in chapter 9 and 10 and ESG more fully in chapter 13.

Still, there are subtle but important differences between CSR and sustainability and what is called ESG or environmental, social and governance issues. So, let's unpack this. First, ESG uses environmental, social, and governance factors to evaluate sustainability practices within a company. CSR is actions that further some social good, beyond the interests of the firm and that which is required by law. So, CSR can be a series of aspirational statements (see Law & Society case 2.1) and it is typically multi-stakeholder focused and aimed at brand and culture building. In slight contrast, ESG typically involves statements of fact (i.e. they are verifiable through corporate reporting), are investor focused, and are aimed at capital and growth building (Table 2.1). In short, we can say that CSR aims to make a business accountable and ESG aims to make a business's efforts measurable.

TABLE 2.1 ■ Defining CSR and ESG

CSR	ESG
Can be aspirational statements	Typically statements of fact – verifiable, use of materiality assessments, reporting
Multi-stakeholder focused	Investor focused (uses data from employees, suppliers)
Brand and culture building	Capital and growth building

Origins

While one could trace the European origins of the social responsibility of business to before World War II, the 1950s is a logical starting point because its growth took a noticeable uptick at that time, especially in the United States, and continues to do so globally. Initially, this social responsibility took the form of corporate philanthropy and stewardship. From its origins, social responsibility was framed as a social benefit and rooted in moral obligation—that is, what *should* a manager do[3]—at a time when few social safety nets existed and corporations were under attack for being too powerful. Being a socially responsible business evolved significantly through the 1960s and 1970s as academics and businesses started to focus their CSR initiatives toward integrating them into the business strategy. The stakeholder model, discussed in chapter 1, emerged in the 1980s as a response to a contrary view by a prominent economist, Milton Friedman, who believed the only social responsibility of business was to use its resources to increase profits so long as managers played within the rules of the game.[4] Friedman believed that social responsibility

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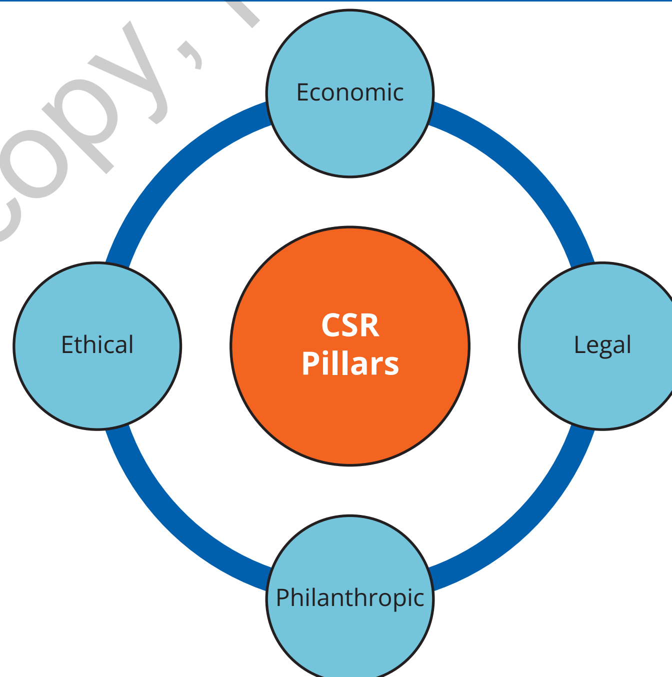
was an individual level responsibility, not a company's. Relatedly, he believed the social responsibility of business is to increase its profits. More recently, corporate financial performance and the emphasis on trying to measure the impact of CSR activities began to reflect businesses' growing understanding of the strategic value of CSR.[5]

In yet another iteration of the concept, researcher Edward Freeman and his co-authors, in coining the term Corporate *Stake*holder Responsibility, believed that CSR is a company level responsibility and that profits are an outcome of good stakeholder management but are not the ultimate goal. In this framework, "C" refers to the policies, practices and impacts of corporations; "S" refers to location, dependence upon and responsibility of business to society whereby irresponsibility will result in punishment by society; and "R" represents an obligation to be accountable or liable for something.[6] Other hallmarks of this framing are that CSR is not intended to be an "add-on" to what the business is doing otherwise but instead integrally woven in to every aspect of the business. In doing so, the practice of CSR cannot be separated from ethics and responsibility. Over the past decade there continues to be conversations about what it means to be a responsible business. Many businesses use the term sustainability to cover all their responsible business practices. Some believe that while CSR aims to make a business accountable, ESG criteria make such business' efforts measurable.

Corporate Social Responsibility Pillars

Although commentators, scholars, and executives use a variety of methods for explaining CSR, the building blocks for balancing multiple responsibilities begin with recognizing your company's economic, legal, ethical, and philanthropic responsibilities, which we call the *four pillars* of CSR (see Figure 2.1).[7] The pillars help us begin to ask the right questions when designing a CSR strategy.

FIGURE 2.1 ■ The Four Pillars of Corporate Social Responsibility (CSR)



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- *Economic:* A fundamental ingredient of any CSR strategy is the recognition that for-profit organizations are created by shareholders or owners primarily for the financial benefit of its shareholders or owners. While economic expectations may not strike you as a social responsibility, it is understandable that a community expects (and their ability to thrive requires) business organizations to be able to sustain themselves through being profitable enough to sustain their operations. Although economic interests such as profitability are balanced with social interests such as environmental sustainability, it is important to understand the social benefit of an organization's economic success in and of itself.
- *Legal:* Through their government officials, society sets certain rules and restrictions that are viewed as necessary to justice, order, and reliability. In a sense, the law reflects society's view of a global ethical code in that these rules set out the minimum standards for business practices as established by lawmakers at federal, state, and local levels. Legal compliance may not be as easy as it appears at first glance. The law can be complicated, and courts can be unpredictable. Still, the other pillars hardly matter if an organization is engaged in illegal or fraudulent practices. Any CSR strategy should ideally have systems in place to be sure that internal or external wrongdoers are detected and that any illegal activity is halted and reported to authorities.
- *Ethical:* This pillar requires the CSR strategy to embrace the notion that a company must behave in an ethical manner and assume responsibility for its impact on social and environmental well-being beyond what is legally required. While laws and regulations set out minimum ground rules for business operations, societal expectations go beyond mere compliance. The distinction between legal and ethical expectations takes some thought, as you will see in Chapter 3. Integrating ethical responsibilities into your CSR strategy adopts the belief that certain activities, norms, standards, and practices that are legal still may not be ethical. Part of the ethical expectation is that businesses operations are guided not just by the precise statutes but also the substance (or "spirit") of the law. In cases where the law is silent on a particular aspect of a business practice, there is a societal expectation that businesses will carry out its economic interests in an ethical manner using the highest standards of conduct. The consequence-, principles-, and virtue-based approaches to ethical deliberations will be discussed in Chapter 3 and can be useful here.
- *Philanthropic:* This pillar recognizes that it's desirable on a number of levels for companies to be good corporate citizens. Organizations voluntarily choose to engage in practices that directly improve community and environmental well- being, including supporting or engaging in efforts to raise or distribute capital resources to relevant and appropriate social causes. Of course, since there is no mandate, the exact nature of these activities are guided by a business's desire to participate in certain social causes. Integrating this pillar into a CSR strategy provides the community (and its leaders) with the sense that a business is "giving back," and this may be an opportunity to showcase the businesses as a good citizen with an ongoing commitment to a given cause or social problem. Some commentators view a business's philanthropic efforts as part of a fulfillment of the social contract between business and society whereby the community citizenry expects businesses to be responsible corporate citizens just as individuals are.[8]

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KEY TAKEAWAYS

CORPORATE SOCIAL RESPONSIBILITY DEFINED

- CSR is defined as actions that appear to further some social good, beyond the interests of the firm and that which is required by law.
- The stakeholder model emerged in CSR as a response to a contrary view by prominent thinkers who believed the only responsibility of business was to use its resources to increase its profits.
- Developing an effective CSR strategy requires a consideration of economic, legal, ethical, and philanthropic factors.

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CORPORATE SOCIAL RESPONSIBILITY AS A STRATEGY

Now that we have a solid understanding of the definition of CSR and its origins, the next natural question is *why* organizations are increasingly embracing CSR strategies. While some of a business's social responsibility reflects genuine concern for society and the environment, it would be naive to ignore that the CSR movement is driven partly by the public's perceptions that corporations are too powerful. According to the 2023 Bentley University and Gallup survey of over 5,400 people of all ages and backgrounds, the vast majority of Americans (89%) say businesses have "a great deal" or "some" power to make a positive impact on people's lives. However, only 30% say businesses are very or somewhat effective at doing so. Whether or not these perceptions hold over time - or are held by you or your friends - is a different matter. Managers must take these perceptions into account as part of their overall strategy, and CSR allows them to challenge and influence these perceptions. In the Bentley/Gallup study about seven in 10 (69%) say businesses that prioritize making a positive impact on society are just as profitable (47%) or more profitable (22%) than their competitors. Those who said they have expertise in owning, leading or managing a business, are no less likely than Americans without such expertise to say businesses that prioritize making a positive impact are at least as profitable as their competitors.[9] The survey also finds that most respondents believe businesses have a positive impact on people's lives, regardless of age or gender. These are strong motivators for why a business should practice CSR.

CSR is also viewed as a means to manage complex sociopolitical issues businesses face and reduce risk for their organizations. The range of issues affecting their organizations is overwhelming, which include challenging subjects such as climate change, health care, and human rights. Edelman, a global communications firm, surveyed the general population in 28 countries around the world in their annual 2023 Edelman Trust Barometer, and found that majority of respondents want business to engage in CSR activities. When asked whether business is not doing enough or overstepping on a variety of societal issues – from climate change to healthcare access to workforce reskilling – respondents were at least five times more likely to say that business wasn't doing enough. In its 2024 survey of 28 countries, business is trusted over NGOs, government and the media (Figure 2.2).

Branding and Reputation

Given the public's perception of corporate trust and increased awareness of the importance of CSR, it is not surprising that one of the ways organizations use a CSR strategy is for purposes of promoting or strengthening their brand and reputation. When CSR is integrated into a business's operations, it becomes a strategic branding tool to manage customers' expectations.

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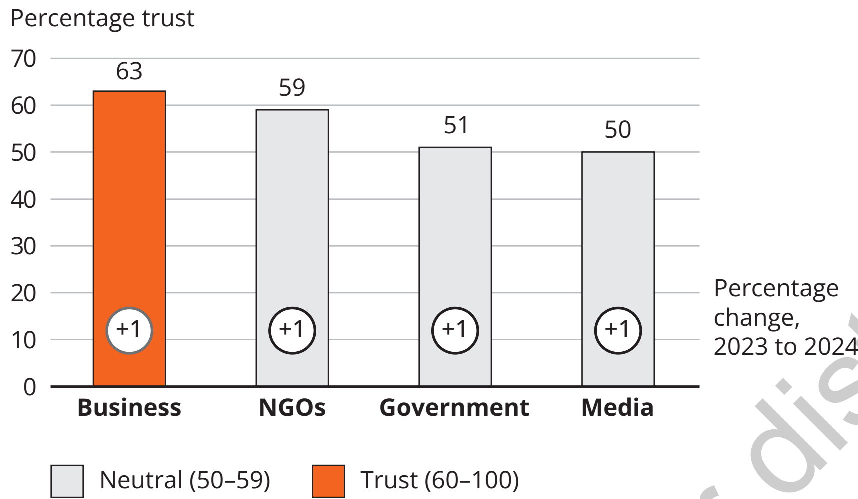
FIGURE 2.2 ■ Business Only Trusted Institution



Source: https://www.edelman.com/sites/g/files/aatuss191/files/2024-02/2024%20Edelman%20Trust%20Barometer%20Global%20Report_FINAL.pdf

Indeed, studies have shown that a CSR strategy, tied to the societal needs of the community, presents an especially compelling brand image and spurs better firm performance.[10] The link between CSR strategy and positive brand image is well established and an important consideration in creating an effective CSR strategy.

Developing a CSR strategy also helps an organization build a better reputation among both market and non-market stakeholders. Through attracting talent, motivating, recruiting and retaining employees, CSR can help build organizational reputation among customers and business partners alike. An enhanced reputation can also act as a sort of insurance policy against accusations of corporate greed or negligence by countering the perceptions of corporate dishonesty and self-indulgence.[11] In Case Study 2.1, we examine a CSR strategy related to literacy. We discuss the ways companies can utilize CSR as a strategic initiative. This case study illustrates how a company can enhance their brand and develop their market through CSR activities.

Case Study 2.1: Dollar General Literacy Foundation

Dollar General, headquartered in Goodlettsville, Tennessee, is a leader in the low-cost housing goods marketplace with more than 19,000 retail stores in 47 states. The company's major CSR initiative is adult English literacy. To this end, the company has established the Dollar General Literacy Foundation to raise and distribute funding to local nonprofits providing adult literacy service in Dollar General's primary business market locations.

Over the past 30 years, the Dollar General Literacy Foundation has awarded more than $203 million in grants to nonprofit organizations and schools that have helped increase literacy throughout the United States. Approximately 14 million individuals have benefited from these grants, resulting in learning to read, preparing for the high school equivalency test, or learning to speak English. The end result has been a significant impact on literacy service provision as well as an increase in Dollar General's image as a good corporate citizen.

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Dollar General believes its decision to enter the adult literacy service arena is a sound business decision as well as a demonstration of social responsibility. Dollar General feels it is contributing to the economic vitality of its work environment while building its customer base. Dollar General sees these activities as part of a long-term investment that will contribute to enhancing its employee base as well as growing its revenue.

Discussion Questions

1. Many experts say the literacy gap has widened since the Covid-19 pandemic. Is literacy a problem in America?
2. Why did Dollar General chose adult literacy as a cause?
3. How can this cause enhance the attractiveness of the company for potential employees? How can this cause expand Dollar General's customer base?
4. What view of CSR (broad, moderate or narrow) is Dollar General using with its program on literary?

Critical Thinking

Critics of CSR warn these activities can distract companies from their core mission to increase profits, while supporters feel that well-chosen CSR efforts can contribute significantly to a company's bottom line.

1. What are the strongest arguments on each side of this issue? Which argument is most compelling? Explain.
2. What advice would you provide to corporate leaders on choosing an appropriate CSR initiative?

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Reporting Corporate Social Responsibility Efforts

Organizations with a CSR strategy typically record their efforts in some form ranging from disclosures in government compliance documents to including it in organizational mission statements and marketing materials. While some critics view CSR reporting as a form of publicity to improve company reputation, there is a clear expectation by stakeholders that companies will communicate CSR efforts. In fact, according to accounting firm KPMG, which provides assurance for these reports, disclosure of CSR activities by large, global firms has become a widespread practice.[12] The spike in issuing these reports is in direct response to pressure from consumers, regulators, employees, and shareholders who are demanding more social and environmental responsibility from companies than in the past. From the company's perspective, the reporting serves as evidence of their adherence to CSR and sustainable development concepts. When reporting CSR activities, businesses must embrace the kind of transparency that clearly, fully, and publicly reports the information because doing so is essential to improving organizational contributions to society. By issuing uniform CSR information, companies can measure and validate their commitment to sustainable activities and stakeholders can monitor CSR performance over time. The future challenge for companies' reporting CSR efforts is how to report to stakeholders not just their financial results—as in the traditional annual report to stockholders—but also their environmental and social impacts.

The Global Reporting Initiative (GRI) is the most widely used framework for CSR/ESG reporting. The framework, called the *Sustainability Reporting Guidelines*, "sets out the principles and indicators that organizations can use to measure and report their economic, environmental,

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and social performance." GRI is an independent international organization that has pioneered sustainability reporting since 1997. According to the GRI website, it received information from over 1,500 companies from 60 different countries voluntarily reporting on their social and environmental performance. It has become the official standard in global reporting.[13] Another growing trend is to tie together various aspects of the business such as those that effect people, profits, and the planet—or the **triple bottom line**. The International Sustainability Standards Board (ISSB) framework is designed to integrate these types of financial and nonfinancial information metrics by taking a broader view of how firms create value. In February 2023, ISSB voted to release global guidelines that attempt to harmonize environmental disclosures available for regulatory purposes, which would go into effect in January of 2024. We discuss reporting more fully in chapter 10.

The pressure to commit to CSR comes from different stakeholders. In the Law and Society 2.1 section, we see a case to go to trial brought by consumers claiming a company made false and misleading statements while marketing various socially responsible business practices. This suit highlights the inconsistencies between what a company says are its CSR priorities and what it actually does.

Law and Society 2.1: Earth Island Institute v. Coca-Cola Company, 2022 D.C. Super. LEXIS 59

Facts: The non-profit environmental group Earth Island sued Coca-Cola (Coke) claiming the marketing materials and statements regarding its sustainability initiatives and partnerships were false and misleading in violation of the District of Columbia's Consumer Protection Act (DCCPA). Earth Island challenged statements from Coke's Twitter account (now known as X) and website, such as:

> "*Our planet matters, we act in ways to create a more sustainable and better shared future. To make a difference in people's lives, communities and our planet by doing business the right way*"

> "*Scaling sustainability solutions and partnering with others is a focus of ours.*"

> "*Because our company is in so many communities globally, we can share our best practices. We can collaborate with governments, communities, the private sector, and NGO's to help develop more effective recycling systems to meet each community's unique needs.*"

Earth Island claims these statements lead consumers to believe that Coke is dedicated to reducing plastic pollution, reinforcing the idea that the company is taking personal responsibility for the plastic waste it produces.

Source: Earth Island Institute v. The Coca-Cola Company, 2021 CA –1846 B, Superior Court of the District of Columbia.

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Throughout its advertising and other marketing, Coke portrays itself as committed to taking responsibility for its waste. The reality of Coke is much different. According to Earth Island Coke is the world's leader in creating plastic waste - 2.9 million metric tons a year and is responsible for 200,000 tons of plastic pollution per year. It is not a sustainable company and misleads consumers with its marketing materials.Coke filed a motion to dismiss Earth Island's complaint stating its marketing materials conveyed the company's aspirational goals and not factual representations as required by the DCCPA.

Issue: Whether the statements made by Coke in its marketing materials are aspirational statements and not measurable facts required by DCCPA?

Decision: Yes, the statements made by Coke are aspirational statements and not measurable facts required by DCCPA. The first, threshold, matter noted that all the statements Earth Island claims violate DCCPA are statements of general, aspirational corporate ethos. Using words and phrases like "a more sustainable and better shaped future" and "a focus of ours" are vague, and while they might refer to a general theme of sustainability and corporate improvement, there are no promises made or data points offered that would make the statements true or false. Even more specific statements identified by Earth Island fail to raise a measurable fact. "Part of our sustainability plan is to help collect and recycle a bottle or can for everyone we sell globally by 2030" and "Make 100% of our packaging recyclable by 2025." These are goals set for the future, also the word "help" muddles the promise. These goals cannot be measured until the future and thus are not actionable until such time as it can be measured whether they have been achieved.

Law and Management Questions

1. The court found that Coke's statements on social media were not misleading because they were aspirational rather than statements of fact. Do you think the average consumer would believe Coke's marketing claims were actually statements of facts? If such statements are legal if they are aspirational, how does this affect your perception of a company's socially responsible business practices?
2. How do you think other companies will react to the suit in terms of crafting their own socially responsible business practices and aspirational statements made to the public?
3. Is Coke's conduct an example of CSR, corporate irresponsibility or corporate hypocrisy (see below)? Why or why not?

KEY TAKEAWAYS

CORPORATE SOCIAL RESPONSIBILITY AS A STRATEGY

- Managers must take public perceptions about corporate power into account as part of their overall strategy, and CSR allows them to challenge and influence these perceptions.
- CSR has also now developed as a strategic concept to the point where it has become as important to an organization as its financial strategy.
- When CSR is integrated into a business's operations, it becomes a strategic branding tool to manage customer expectations.
- Reporting CSR activities embraces transparency that is essential to improving organizational contributions to society.

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DIFFERENT CORPORATE SOCIAL RESPONSIBILITY VIEWS AND SCHOOLS OF THOUGHT

Most commentators and scholars view CSR in one of three general ways. The economic model recognizes that CSR can lead to differentiation and competitive market advantage for the business—something that can be branded for the present and future. Viewing profits as a sole outcome of social responsibility is considered a **narrow view**. Some researchers, like Professor John Hasnas, believe this type of social responsibility refers exclusively to expenditures that are not designed to help the business achieve the ends for which it was organized.[14] At the other end of the spectrum, some urge businesses to embrace a **broad view** of CSR in which the starting point is a socially defined goal rather than a business objective. In the middle, businesses that operate under a **moderate view** believe that social responsibility objectives are met through a combination of creating economic value, solving social issues, and obeying the law.

The Narrow View: Profit First

Nobel Prize-winning economist Milton Friedman proposed that the only responsibility a business has is to produce shareholder wealth.[15] Moreover, in his classic condemnation of the broad view of CSR, Friedman further argued managers who pursue social initiatives with corporate funds are violating their fiduciary duties to the owners of the corporation. This more narrowly defined view of CSR emphasizes a corporation's duties to its shareholders and views CSR as a way to create competitive advantage and, as a result, more profits. While individuals are free to act morally and behave in a socially responsible manner on their own time and with their own resources, managers are responsible solely to the shareholders to make a profit, within the prevailing legal and ethical guidelines. As for society's well-being, the argument goes, the "invisible hand" of the market will end up producing the most benefits overall to society. According to Adam Smith's famous "invisible hand" metaphor, the common good is best served when people and businesses pursue not the common good but rather their self-interest.

The Moderate View: Shared Value

Advocates of a more moderate view of CSR focus on the importance of "doing good to do well"[16] so that both business and society benefit from managements' actions—sometimes referred to as "shared value" by researchers Michael Kramer and Michael Porter. The shared value approach draws on stakeholder theory mentioned in Chapter 1. This moderate view looks to create economic value in a way that also creates value for society by addressing its needs and challenges, and it is typically highly integrated into the firm's overall strategy.

In this view, businesses are not responsible for all the world's problems, nor do they have the resources to solve them all. Rather, each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the best competitive synergy. An integral part of the moderate CSR perspective is the focus on the triple bottom line mentioned earlier. Essentially, the triple bottom line emphasizes not only the conventional creation of economic value (profits) but also a company's creation (or destruction) of environmental and social value. The triple-bottom-line approach thus places a great deal more pressure on managers to perform, as it is not uncommon for these three sets of bottom-line issues to conflict. Recall that a majority of the respondents from the Bentley/Gallup poll, didn't see a tradeoff - about 7 in 10 respondents (69%) said businesses that prioritize making a positive impact on society are just as profitable or more profitable than their competitors. It is not enough, then, for

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managers to aggressively pursue a social agenda; they must also not lose sight of financial goals or environmental performance.

Consistent with this moderate view, the government's job is to establish legal and regulatory guidelines for business because the government already represents public opinion, in aggregate. This view is especially common in Scandinavia and Europe. Under this view, a business's ethical responsibility is to comply with the law and pursue objectives that are legal, at a minimum. The regulatory hands of the law and the political process, rather than Adam Smith's invisible hand, provide the basis for ethical decision-making.

The Broad View: Good Corporate Citizenship

Business organizations committed to a broad view of CSR aim to achieve commercial success in ways that honor ethical values and respect people, communities, and the natural environment in a sustainable manner while recognizing the interests of stakeholders. A rich body of research argues that normative reasons—"doing good to do good"[17]—are the heart of CSR, as companies *ought* to be socially responsible. Stakeholders include investors, customers, employees, business partners, local communities, the environment, and society at large. The broad view of CSR also involves the notion of "corporate citizenship," which means a business is part of a social web, a citizen of the society in which it operates. As a member of this community, its profit motive does not trump its other ethical obligations to society. Furthermore, the broadest view of CSR is that corporations have a social responsibility and that profitability is secondary. Indeed, some business ethicists argue that corporations are allowed to exist only because they can serve some public good. These business ethicists also invoke the concept of a "social license to operate," which include the demands on, and expectations for, a business that emerge from environmental groups, community members, and other elements of civil society.[18] Businesspeople should realize that in some instances the conditions demanded by "social licensors" may be tougher than those imposed by regulation, resulting in a "beyond legal compliance" approach.

Others point to CSR being in the public's interest and a company's self-interest *and* that a company does well by employing socially responsible principles in its business operations. In this way, CSR may be thought of as a form of enlightened self-interest because the long-term prosperity of a firm depends not on short-term profits but on societal well-being.

Table 2.2 summarizes the three schools of thought on CSR.

TABLE 2.2 ■ Summary of Corporate Social Responsibility Schools of Thought

Narrow	Moderate	Broad
Profit-driven	Shared value-driven	Society-driven license to operate
Competitive advantage alone	Create economic value and solve social issues; integrated	Business as a global citizen

The Explicit and Implicit Corporate Social Responsibility Framework

Another framework has been developed to offer comparisons of CSR across international settings, by scholars Dirk Matten and Jeremy Moon.[19] Matten and Moon first introduced the concept of implicit versus explicit CSR as a way to compare and contrast the different forms of

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business responsibility to society. Based on the idea that practices of CSR are diverse across different country settings, they developed a theoretical framework of business responsibility. In this framework, they argue that national business systems help to define the explicit versus implicit nature of CSR because the country government, its corporations, and its markets define the norms, incentives, and rules of CSR. As such, the U.S.-style CSR is explicit; it is embedded in a system that provides incentive and opportunity for corporations to assume and take responsibility for social interests through voluntary programs and strategies to address issues considered to be the social responsibility of the company. The intent of explicit CSR is also different because it is deliberate, voluntary, and often strategic. Therefore, explicit CSR is reliant on firm-level discretion versus formal institutions like the government.

In contrast, CSR in Europe is implicit in that corporations in Europe do not normally articulate their own CSR agendas; rather, their country-level norms, values, and rules are the result of "coordinated approaches to economic and social governance" through mainly government–led partnerships.[20] The intent of implicit CSR is not reflective of a corporate decision; rather, it is a reaction to, or reflection of, the corporation's institutional environment such that codified norms, rules, and laws already reflect society's broader interests. Therefore, implicit CSR is reflective of the collective country obligations rather than of individual firms. Table 2.3 provides a comparison between explicit and implicit CSR.

TABLE 2.3 ■ Explicit Versus Implicit CSR

Explicit	Implicit
Style practiced in the United States	Style practiced in Europe
Corporations take responsibility Incentives are provided Opportunities are provided	Country-level responsibility Government-led partnerships
Voluntary, strategic, and deliberate	Based upon social governance
Not formalized	Formalized through norms, rules, and laws

KEY TAKEAWAYS

DIFFERENT CORPORATE SOCIAL RESPONSIBILITY VIEWS AND SCHOOLS OF THOUGHT

- There are three schools of thought that define CSR in practice: the narrow view, the moderate view, and the broad view.
- A narrow view of CSR emphasizes a corporation's duties to its shareholders.
- A moderate view of CSR focuses on a business's responsibility to create economic value and solve social issues at the same time.
- Businesses committed to a broad view of CSR aim to solve global social issues in ways that honor ethical values and respect people, communities, and the natural environment in a sustainable manner.
- Explicit CSR is different from implicit CSR; the former is more firm driven, and the latter is more culturally driven.

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CORPORATE SOCIAL RESPONSIBILITY AND ITS LIMITATIONS

On its face, to some managers and researchers, the concept of CSR is straightforward and noncontroversial: Business should strive to contribute to various societal interests as well as to give back to society through philanthropy. Yet a more critical examination of CSR exists and focuses on its potential to be costly and perhaps even hypocritical. For example, could a company's CSR strategy harm its own shareholders? What are the costs of CSR, and who bears them? Let's consider some of the downsides to CSR alongside its benefits.

While the majority of CSR conceptualizations are from a positive approach and are focused primarily on the benefit to society, there is a growing literature on **corporate social irresponsibility** and **corporate hypocrisy**.[21] And while reporting on a firm's positive acts is common, as mentioned previously, so is media coverage of socially irresponsible business practices—causing some doubt about the integrity of these socially responsible acts and leading to greater skepticism about corporate intentions. It likely goes without saying that firms want to steer clear of appearing hypocritical, or deceptively claiming to be what they are not, or issuing statements that are in fact false representations of the true reality.[22] Likewise, managers need to avoid the social harm caused by being irresponsible.

Advantages of CSR

There are multiple benefits of a clear CSR strategy, and many of its proponents point to cost savings based on reforming internal and external practices as a justification for a CSR program. Often, these efforts result in less of a need for government regulation of business, saving both the company and society the costs associated with regulation. Doing so can also promote long-term profits and savings for the business. Let's suppose, for example, the management team at High Flyers Corp. start the planning phase for a new facility with the objective that its design and use is aligned with the company's commitment to a sustainable environment. However, implementing this policy may result in extra upfront costs during a new construction project. High Flyers' challenge is to focus on *long-term* cost savings yielded by energy efficiency practices, such as natural light design and use of smart systems to control power output. If the extra up-front costs reach a break-even point in the foreseeable future, then High Flyers ultimately returns long-term value to shareholders (via the energy cost savings) while reducing its pollution output and contributing to an overall reduction in environmental harm. One could argue these efforts result in better relationships with stakeholders too. In fact, as we have discussed earlier in this chapter, some managers see CSR strategy as an investment similar to investing in a marketing campaign that promotes and strengthens their brand.

Disadvantages of CSR

Opponents of CSR argue that only large corporations have the luxury to engage in CSR strategies because they are costly to run, so they may not yield costs savings in the long-term and are not as feasible for certain businesses. As a practical matter, small and midsized businesses may not have sufficient assets to wait for a return, such as energy costs savings. Given this, one primary criticism of CSR is that it disproportionately favors wealthier companies over start-ups, small, and midsized businesses. Likewise, some stakeholders do not view CSR favorably. Consumers are often bearing the costs of the CSR program as the real cost is passed on to them through higher prices for products and services. And there is considerable subjectivity of how and when, for example, philanthropic CSR strategies should end—having achieved their intended impact—and how much of the firm's resources should be devoted to it at any given time.[23]

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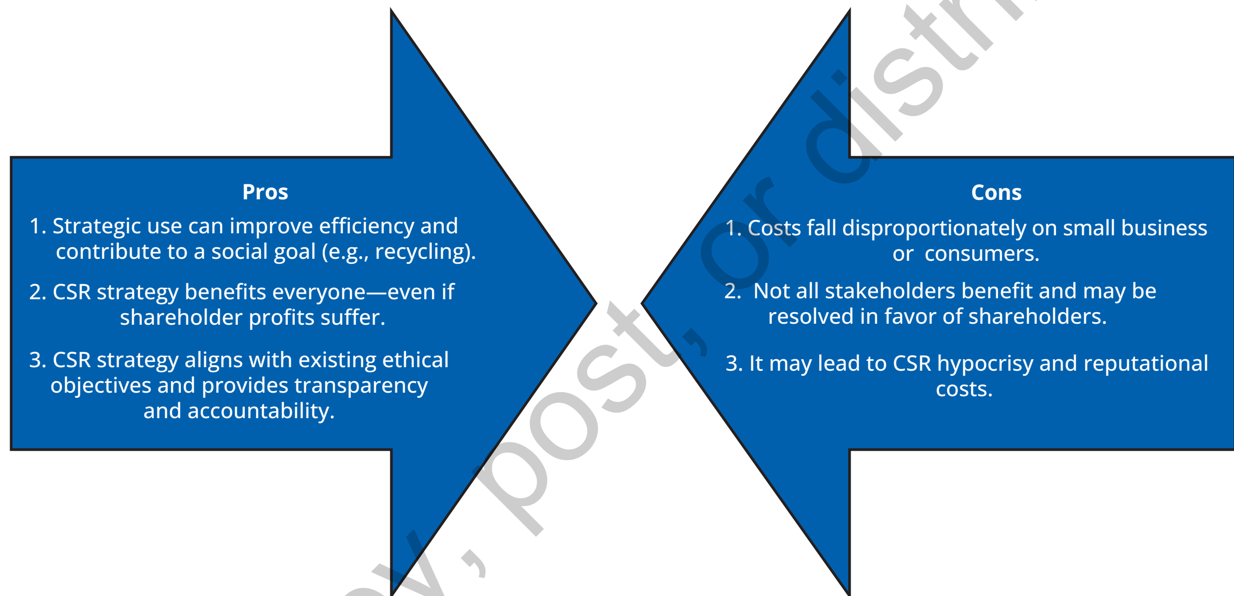
Others believe the onus of social responsibility is on the individual and not the corporation because the company has primary responsibilities to the shareholders, as discussed in Chapter 1 and earlier in this chapter. Some commentators also question the inherent ability of a management team to develop a CSR strategy in accordance with the moral standards of both the internal and external stakeholders.[24] Even in relatively small companies where managers and shareholders are one in the same, there can be a moral disconnect on how CSR resources should be allocated. Lastly, critics view CSR as potentially leading to perceptions of corporate hypocrisy at worst and CSR skepticism at best. Figure 2.3 illustrates primary arguments for and against CSR.

FIGURE 2.3 ■ Point–Counterpoint: Corporate Social Responsibility



KEY TAKEAWAYS

CORPORATE SOCIAL RESPONSIBILITY AND ITS LIMITATIONS

- *Advantages of CSR*: Cost savings, decreased need for government regulation, promotion of long-term profits, improved relationships with stakeholders, improvement in societal need
- *Disadvantages of CSR*: Favors larger businesses, higher costs to consumers, not all benefit equally, may have an adverse impact on brand and reputation

CORPORATE SOCIAL RESPONSIBILITY STRATEGIES AND TRENDS

CSR strategies vary widely because organizations are so different in terms of size, resources, culture, geography, and other factors that influence strategic decision-making. Workforces that are largely from the millennial generation tend to favor volunteerism over corporate giving. Smaller

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and midsized business must be cost conscious, so they tend to favor low-cost strategies such as strategic partnerships. We discuss some of the current trends in CSR strategies here, but it is important to note that new strategies often grow from existing strategies.

Cause Marketing

Cause marketing is a form of CSR that raises awareness for a particular cause through the provision of marketing, sponsorship, and promotional activities. For example, the Subaru Loves Pets initiative is part of a cause marketing strategy because participating Subaru retailers across the country work alongside the automaker's established network of local animal organizations (e.g., the ASPCA) to collect supplies needed to keep animals healthy, happy, and ready to find homes. Subaru has donated over $42 million to national and local organizations helping in the adoption, rescue, transport, and health care of nearly 350,000 animals and pets. Colgate-Palmolive committed more than $700,000 to support The Nature Conservancy in its mission to protect and restore the health of rivers, lakes and wetlands.

Corporate Philanthropy

Philanthropy is the voluntary raising and distributing of money by an organization to a variety or focused set of business-relevant causes, most commonly through a re-grant program or direct partnerships with service providers in the community. For example, Google provided a $2.4 million grant to GiveDirectly, a nonprofit organization that distributes direct monetary contributions to the poor. And, in collaboration with the Consortium of Cybersecurity Clinics, Google supports selected colleges, universities, and community colleges with up to $1M each to increase access and opportunities for students interested in pursuing careers in cybersecurity. Table 2.4 provides an illustration of how much the top 5 corporations give as part of their CSR strategies. Curious about who else is on the list? Check out the other 10 in the source link provided.

TABLE 2.4 ■ Top 5 Most Philanthropic Companies

Name	Total Giving
Toms	Since 2011, TOMS, in partnership with Save the Children, has provided approximately one million pairs of shoes for every pair of shoes purchased. TOMS contributes one-third of its income to grassroots organizations and non-profits, investing in three crucial areas: mental health promotion, the elimination of gun violence, and expanding access to opportunity.
Build-A-Bear	Over the years, the Build-A-Bear Foundation has donated over $50 million to support local charities and organizations, in addition to forming other charity collaborations. Build-A-Bear also gives in-kind donations, donating 65,000 teddy bears to children's organizations since 2016.
Nike	Through its Nike Community Impact Fund the corporation invested approximately $23.2 million - and over $89.8 million in 2020 alone. It supports organizations that improve communities and address challenges such as education, leadership development, coaching, youth empowerment, and mentoring.
Free People	Through Girls, Inc. it donates 1 percent of all activewear sales (over $1 million from 2018-2022). Another focus is restoring and preserving America's national parks, it contributes $0.10 from each transaction to the National Park Foundation when customers forego or re-use a reusable cloth FP shopping bag

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Name	Total Giving
ThriftBooks	ThriftBooks donated over $100 million to their charity partners over the past decade by purchasing reading materials. It focuses on three pillars of social responsibility: philanthropic contribution, literacy, and environmental effect. It collaborates with non-profit organizations to develop worldwide literacy programs and provides assistance to underserved communities.

Source: 15 Most Philanthropic Companies in the World by Adegbite Sheriff, 15 November 2022. https://worldscholarshipvault.com/philanthropic-companies-in-the-world/Accessed August 17, 2023

Strategic Partnerships

Strategic partnerships are a common methods for developing a CSR strategy. For example, in 2022, Alphabet, Meta, Shopify, Stripe, and McKinsey created an almost $1 billion public benefit corporation called Frontier – effectively a nonprofit with an ownership structure to accelerate innovation and rapidly scale an affordable carbon removal market to help the environment.

Volunteerism

Organizations deploy volunteerism as a CSR strategy by providing an incentive or permission for employees to volunteer for a business relevant cause. For example, State Street Corp. offers 4 annual paid release days to every employee to volunteer at an organization of their choice. The company also recently partnered with the nonprofit organization Common Impact to host its "*Day of Service*." Employee volunteers are partnered with a charity and a team of fellow State Street professionals to tackle a specific challenge in one day.

Socially Responsible Business Practices

Socially responsible business practices as a CSR strategy involves an examination of current and planned business operations. As part of the planning process, managers aim to engage in specific socially responsible activities that are consistent with the values and preference of customers, suppliers, employees, or the local community. The goal is to ensure third parties, who represent the business, are aware of the business's CSR commitment and follow certain practices that align with the business's values. For example, as part of a holistic CSR strategy, some businesses have imposed guidelines on their outside attorneys in an effort to harmonize legal representation with social values. For example, Walmart has specific internal CSR guidelines that instruct its attorneys to behave ethically during litigation. Keep in mind that when a business is a good citizen in the communities where it is located, pays taxes on the profits it makes and compensates employees fairly, these things are in line with being a responsible business. Some have recently argued in a Wall Street Journal article that the term responsible business should be used instead of both CSR or ESG.[25]

Case Study 2.2: Airbnb and Housing Refugees and Asylum Seekers

According to the United Nations a hundred million people were forced to leave their homes in 2022 and this number is only projected to rise.[26] While countries and politicians argue about who should take them, some companies have decided to take the issue on. On World Refugee Day, in June 2017, Airbnb announced its Open Homes program to help house people fleeing disasters or seeking medical treatment by partnering with Federal Emergency

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Management Agency (FEMA), Hospitality Homes and Make-A-Wish Foundations. Since its founding in December 2020, Airbnb.org has worked with organizations around the world to connect nearly 200,000 refugees and asylum seekers with free, temporary stays including more than 135,000 refugees from Ukraine and over 34,000 refugees from Afghanistan.[27]

Airbnb as a platform allows private owners, "hosts", to rent out part or all of a property to short term tenants via the Airbnb app. The quality of the accommodations is managed both by an in-built complaints process within the app, as well as a rating system which lets other users know the quality of the lodging and the host before they book.

Airbnb does not make money from this program, explained Liz DeBold Fusco, senior lead of product and launch communications. The program will be funded by contributions to Airbnb.org from Airbnb and CEO and co-founder Brian Chesky, as well as donors to the Airbnb.org Refugee Fund. Airbnb waives all of its fees for Airbnb.org stays, including these refugee stays. Airbnb also provides technology, services and other resources to Airbnb.org at no cost.[28] These donors include $17 million from a GoFundMe campaign launched by actors Mila Kunis, who was born in Ukraine, and Ashton Kutcher, an early investor in Airbnb, as well as $20 million from Tech for Refugees.[29]

But, according to Forbes, the program relies on volunteers from among its current and prospective Airbnb hosts to offer temporary accommodation either for free or at a discounted rate.[30] Airbnb hosts who volunteer to offer their accommodations to refugees aren't charged Airbnb's usual 3% service fee, but they aren't compensated beyond that.[31] The company has created a "host a refugee" site at www.airbnb.org/refugees. Airbnb.org partners with resettlement agencies that screen refugee guests for eligibility and assist them before, during, and after their stays. Critics have expressed concern that refugees will be housed in areas where their safety is not protected.[32]

Discussion Questions

1. Which CSR strategy describes Airbnb's actions best (cause marketing, strategic partnerships, volunteerism or philanthropy)? Explain.
2. Employees are one set of stakeholders impacted by Airbnb's decision. What other stakeholders might have been involved, and what were their interests? Did all stakeholders have the same interests in solving this issue?
3. How can Airbnb sustain this free housing for migrants when its business is to profit from renting out all or part of a property? Do you think hosts will continue to offer accommodation for free when they use the Airbnb app to make money for themselves? Explain.

Critical Thinking

1. It seems like this Airbnb program is helping provide housing to those who need it most – when they need it most. And, perhaps solving a housing crisis. But as more people convert apartments and homes into short-term rentals, researchers have found that one of the factors that makes housing unaffordable is Airbnb itself, according to an academic paper published in 2021. That study noted that as Airbnb takes housing units off the market, it drives up overall rents. Likewise, the company may not be helping the refugees in the long run when its temporary housing ends.[33]
2. Is there any contradiction in their CSR strategy? Is it consistent with a broad-based view of CSR, a moderate view, or a narrow view? Explain.

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KEY TAKEAWAYS

CORPORATE SOCIAL RESPONSIBILITY STRATEGIES AND TRENDS

Businesses put into practice a variety of strategies to achieve CSR objectives. Those discussed in this chapter are as follows:

- *Cause marketing:* Raising awareness for a particular cause through the provision of marketing, sponsorship, and promotional activities
- *Corporate philanthropy:* The voluntary raising and distributing of money by an organization to a variety or focused set of business relevant causes, most commonly through a re-grant program or direct partnerships with service providers in the community
- *Strategic partnerships:* Partnering with a social organization to raise funds for that organization
- *Volunteerism:* Incentivizing employees to volunteer time or services to a business relevant cause
- *Socially responsible business practices:* Establishing business operations standards that are in line with the business and societal values

Ethics in Context

USING CORPORATE SOCIAL RESPONSIBILITY AS A BUSINESS STRATEGY

For many Fortune 500 corporations, CSR has become a big business. Combined, such companies now spend billions of dollars doing good deeds and self-promoting those myriad efforts to the public. The expectation, of course, is that ethically minded consumers will prefer the products and services of these companies over others. But is it ethical for such companies to use CSR strategically? Should business and social responsibility mix in this way? Many companies now claim that their products are made with high ethical standards or eco-friendly production methods.

Starbucks, for instance, has invested over $150 million to promote sustainable coffee harvesting according to Conservation International, a US non-profit that has partnerships with dozens of multinational corporations, including Walmart, Amazon, McDonald's and Shell. Through verification by the Coffee and Farmer Equity (CAFE), a set of guidelines to evaluate the supply chains through which it makes purchases, Starbucks ethically sources 94.86% of its coffee. The reduction from its goal of 100% by 2020 is due to CAFE auditing teams not being able to get to some coffee farms due to Covid-19.[34] Ethically sourced coffee takes social and environmental impact into consideration during the sourcing of the beans.

Let's consider, more closely, Starbucks's highly touted ethical-sourcing program.[35] Although the company has invested significant resources in this campaign, it's not clear how much of this money has been devoted to advertising. Also, for what it's worth, Starbucks generated well over $26 billion in revenue in 2022. Critics argue that Starbucks has invested a mere 0.005769% of its annual revenue to do what it should be doing anyway.

As John Mackey, Whole Foods cofounder and co-CEO, likes to say, "There's no inherent reason why business cannot be ethical, socially responsible, and profitable." Despite its acquisition by Amazon in 2017, Whole Foods remains committed to its high standards involving sustainability. Each region has a team of full-time buyers, called "foragers," who

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scour the market for new locally-sourced products. Whole Foods said the model gives it flexibility to buy smaller brands. In reality, although there are a lot of small, family-run organic farmers, their share of the organic crop—and their share of the produce sold at Whole Foods—is minuscule. Even if Whole Foods' claim that small family farmers make up a large percentage of organic food producers, Whole Foods itself only accounts for slightly more than 1% of the national grocery market, according to Numerator.[36] But even if a company can be ethical and profitable at the same time, are Starbucks, Whole Foods, and other such ethically minded companies any more virtuous than their competitors?

Discussion Questions

1. *Stakeholder theories:* What is the impact of CSR on the internal and external stakeholders of businesses that deploy CSR as part of their business strategy? Could it backfire if consumers object to what appears to be using social responsibility as a marketing ploy? Can you think of other examples of CSR efforts by organizations as part of their branding efforts? Has it helped or hurt the public's perception of the business?
2. *Ethical decision-making:* Is it ethical to use CSR strategically to promote a company's "ethical brand" or attract new customers? What measures could managers use to ensure that companies are truly committed to social responsibility that they tout as part of their brand?

Take a Position: Corporate Social Responsibility as a Strategy

Issue: Should organizations integrate CSR into their overall strategic planning process?

Sub-Issues

1. Are there any examples of CSR efforts that should stand alone and not be a part of a strategy?
2. Is CSR just a way for managers to "check a box" for stakeholders, or is there a genuine desire on the part of most managers to benefit society through their business operations?

SUMMARY

This chapter continues our discussion presented in Chapter 1 by focusing on how managers sometimes use stakeholder and shareholder perspectives to carry out their daily operations by incorporating CSR. Organizations are faced with challenges that often require managers to take an integrated approach which balances legal, economic, ethical, and societal concerns. While many agree that integrating CSR is an important goal for any business, some also debate the *degree* to which a business and its managers prioritize its societal objectives and the resources allocated to CSR initiatives.

KEY TERMS

broad view (CSR)
corporate hypocrisy
corporate social irresponsibility
corporate social responsibility (CSR)
moderate view (CSR)
narrow view (CSR)
triple bottom line

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REVIEW QUESTIONS

1. In your own words, define *corporate social responsibility (CSR)*.
2. Give an example of a business practice that represents each of the four pillars of CSR.
3. Provide an example of how CSR can be an effective business strategy.
4. Describe and provide an example of each of the three views of CSR discussed in the chapter.
5. Explain how a CSR strategy can backfire on a company. Provide an example.
6. Choose one of the strategies discussed to achieve CSR objectives, and using a current company, provide an example of how they could implement that strategy.

MANAGER'S CHALLENGE

Employee Participation in Corporate Volunteer Efforts

Data Metrics, a privately held corporation, is in the process of planning a fundraising event in partnership with the American Heart Association. The event will consist of a 5K run along with a dinner whereby participants will be asked to pledge $150 per person to attend. The top management is very supportive of this cause and strongly encourages participation from the employees of Data Metrics. All employees have been given 20 hours of company paid time to work on organizing and promoting this event. However, not all of the employees are on board with this cause.

Some feel that it is a very personal decision to participate in these types of charitable events and would rather not see this type of thing enter their workplace environment. In addition, other employees feel a closer allegiance toward other causes, such as breast cancer or gun control. However, these employees fear they will be viewed negatively by management if they do not participate.

Source: Dawn R. Elm, PhD, David A. & Barbara Koch Distinguished Professor of Business Ethics and Leadership, University of St. Thomas, Opus College of Business. 2018 Global Business Ethics Teaching Workshop, Bentley University, 2018. Used with Permission.

Framing Questions

1. Should all employees be required to participate in Data Metrics's volunteer efforts?
2. How can managers ensure that Data Metrics's fundraising event will not distract employees from their "regular" work?
3. What things should management consider in selecting a cause that will be both acceptable to participating employees and impactful?

Assignment

Have a team present a two-page internal communication plan that would help managers roll out this initiative in a way that encourages participation while discouraging employees from feeling forced to participate or is outside of their level of comfort. Be sure to include a checklist of specific actions that managers can take to implement this fundraising project.

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