CORPORATE SOCIAL RESPONSIBILITY

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Corporate social responsibility (CSR) can be defined as the "economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll and Buchholtz 2003, p. 36). The concept of corporate social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A traditional view of the corporation suggests that its primary, if not sole, responsibility is to its owners, or stockholders. However, CSR requires organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, local, state, and federal governments, environmental groups, and other special interest groups. Collectively, the various groups affected by the actions of an organization are called "stakeholders." The stakeholder concept is discussed more fully in a later section.

Corporate social responsibility is related to, but not identical with, business ethics. While CSR encompasses the economic, legal, ethical, and discretionary responsibilities of organizations, business ethics usually focuses on the moral judgments and behavior of individuals and groups within organizations. Thus, the study of business ethics may be regarded as a component of the larger study of corporate social responsibility.

Carroll and Buchholtz's four-part definition of CSR makes explicit the multi-faceted nature of social responsibility. The economic responsibilities cited in the definition refer to society's expectation that organizations will produce good and services that are needed and desired by customers and sell those goods and services at a reasonable price. Organizations are expected to be efficient, profitable, and to keep shareholder interests in mind. The legal responsibilities relate to the expectation that organizations will comply with the laws set down by society to govern competition in the marketplace. Organizations have thousands of legal responsibilities governing almost every aspect of their operations, including consumer and product laws, environmental laws, and employment laws. The ethical responsibilities concern societal expectations that go beyond the law, such as the expectation that organizations will conduct their affairs in a fair and just way. This means that organizations are expected to do more than just comply with the law, but also make proactive efforts to anticipate and meet the norms of society even if those norms are not formally enacted in law. Finally, the discretionary responsibilities of corporations refer to society's expectation that organizations be good citizens. This may involve such things as philanthropic support of programs benefiting a community or the nation. It may also involve donating employee expertise and time to worthy causes.

HISTORY

The nature and scope of corporate social responsibility has changed over time. The concept of CSR is a relatively new one—the phrase has only been in wide use since the 1960s. But, while the economic, legal, ethical, and discretionary expectations placed on organizations may differ, it is probably accurate to say that all ‹s at all points in time have had some degree of expectation that organizations would act responsibly, by some definition.

The viewpoint expressed by Adam Smith over 200 years ago still forms the basis for free-market economies in the twenty-first century. However, even Smith recognized that the free market did not always perform perfectly and he stated that marketplace participants must act honestly and justly toward each other if the ideals of the free market are to be achieved.

In the century after Adam Smith, the Industrial Revolution contributed to radical change, especially in Europe and the United States. Many of the principles espoused by Smith were borne out as the introduction of new technologies allowed for more efficient production of goods and services. Millions of people obtained jobs that paid more than they had ever made before and the standard of living greatly improved. Large organizations developed and acquired great power, and their founders and owners became some of the richest and most powerful men in the world. In the late nineteenth century many of these individuals believed in and practiced a philosophy that came to be called "Social Darwinism," which, in simple form, is the idea that the principles of natural selection and survival of the fittest are applicable to business and social policy. This type of philosophy justified cutthroat, even brutal, competitive strategies and did not allow for much concern about the impact of the successful corporation on employees, the community, or the larger society. Thus, although many of the great tycoons of the late nineteenth century were among the greatest philanthropists of all time, their giving was done as individuals, not as representatives of their companies. Indeed, at the same time that many of them were giving away millions of dollars of their own money, the companies that made them rich were practicing business methods that, by today's standards at least, were exploitative of workers.

Around the beginning of the twentieth century a backlash against the large corporations began to gain momentum. Big business was criticized as being too powerful and for practicing antisocial and anticompetitive practices. Laws and regulations, such as the Sherman Antitrust Act, were enacted to rein in the large corporations and to protect employees, consumers, and society at large. An associated movement, sometimes called the "social gospel," advocated greater attention to the working class and the poor. The labor movement also called for greater social responsiveness on the part of business. Between 1900 and 1960 the business world gradually began to accept additional responsibilities other than making a profit and obeying the law.

In the 1960s and 1970s the civil rights movement, consumerism, and environmentalism affected society's expectations of business. Based on the general idea that those with great power have great responsibility, many called for the business world to be more proactive in (1) ceasing to *cause* societal problems and (2) starting to participate in *solving* societal problems. Many legal mandates were placed on business related to equal employment opportunity, product safety, worker safety, and the environment. Furthermore, society began to expect business to voluntarily participate in solving societal problems whether they had caused the problems or not. This was based on the view that corporations should go beyond their economic and legal responsibilities and accept responsibilities related to the betterment of society. This view of corporate social responsibility is the prevailing view in much of the world today.

The sections that follow provide additional details related to the corporate social responsibility construct. First, arguments for and against the CSR concept are reviewed. Then, the stakeholder concept, which is central to the CSR construct, is discussed. Finally, several of the major social issues with which organizations must deal are reviewed.

ARGUMENTS FOR AND AGAINST CORPORATE SOCIAL RESPONSIBILITY

The major arguments for and against corporate social responsibility are shown in Exhibit 1. The "economic" argument against CSR is perhaps most closely associated with the American economist Milton Friedman, who has argued that the primary responsibility of business is to make a profit for its owners, albeit while complying with the law. According to this view, the self-interested actions of millions of participants in free markets will, from a utilitarian perspective, lead to positive outcomes for society. If the operation of the free market cannot solve a social problem, it becomes the responsibility of government, not business, to address the issue.

Exhibit 1
Arguments For and Against CSR

FOR	AGAINST
The rise of the modern corporation created and continues to create many social problems. Therefore, the corporate world should assume responsibility for addressing these problems.	Taking on social and moral issues is not economically feasible. Corporations should focus on earning a profit for their shareholders and leave social issues to others.
In the long run, it is in corporations' best interest to assume social responsibilities. It will increase the chances that they will have a future and reduce the chances of increased governmental regulation.	Assuming social responsibilities places those corporations doing so at a competitive disadvantage relative to those who do not.
Large corporations have huge reserves of human and financial capital. They should devote at least some of their resources to addressing social issues.	Those who are most capable should address social issues. Those in the corporate world are not equipped to deal with social problems.

Exhibit 1
Arguments For and Against CSR

» Swipe table left to read more »

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The "competitive" argument recognizes the fact that addressing social issues comes at a cost to business. To the extent that businesses internalize the costs of socially responsible actions, they hurt their competitive position relative to other businesses. This argument is particularly relevant in a globally competitive environment if businesses in one country expend assets to address social issues, but those in another country do not. According to Carroll and Buchholtz, since CSR is increasingly becoming a global concern, the differences in societal expectations around the world can be expected to lessen in the coming years.

Finally, some argue that those in business are ill-equipped to address social problems. This "capability" argument suggests that business executives and managers are typically well trained in the ways of finance, marketing, and operations management, but not well versed in dealing with complex societal problems. Thus, they do not have the knowledge or skills needed to deal with social issues. This view suggests that corporate involvement in social issues may actually make the situation worse. Part of the capability argument also suggests that corporations can best serve societal interests by sticking to what they do best, which is providing

There are several arguments in favor of corporate social responsibility. One view, held by critics of the corporate world, is that since large corporations create many social problems, they should attempt to address and solve them. Those holding this view criticize the production, marketing, accounting, and environmental practices of corporations. They suggest that corporations can do a better job of producing quality, safe products, and in conducting their operations in an open and honest manner.

A very different argument in favor of corporate social responsibility is the "self-interest" argument. This is a long-term perspective that suggests corporations should conduct themselves in such a way in the present as to assure themselves of a favorable operating environment in the future. This view holds that companies must look beyond the short-term, bottom-line perspective and realize that investments in society today will reap them benefits in the future. Furthermore, it may be in the corporate world's best interests to engage in socially responsive activities because, by doing so, the corporate world may forestall governmental intervention in the form of new legislation and regulation, according to Carroll and Buchholtz.

Finally, some suggest that businesses should assume social responsibilities because they are among the few private entities that have the resources to do so. The corporate world has some of the brightest minds in the world, and it possesses tremendous financial resources. (Wal-Mart, for example, has annual revenues that exceed the annual GNP of some countries.) Thus, businesses should utilize some of their human and financial capital in order to "make the world a better place."

THE STAKEHOLDER CONCEPT

According to Post, Lawrence, and Weber, stakeholders are individuals and groups that are affected by an organization's policies, procedures, and actions. A "stake" implies that one has an interest or share in the organization and its operations, per Carroll and Buchholtz. Some stakeholders, such as employees and owners, may have specific legal rights and expectations in regard to the organization's operations. Other stakeholders may not have specific rights granted by law, but may perceive that they have moral rights related to the organization's operations. For example, an environmental group may not have a legal right in regard to a company's use of natural resources, but may believe that they have a moral right to question the firm's environmental policies and to lobby the organization to develop environmentally friendly policies.

All companies, especially large corporations, have multiple stakeholders. One way of classifying stakeholder groups is to classify them as primary or secondary stakeholders. Primary stakeholders have some direct interest or stake in the organization. Secondary stakeholders, in contrast, are public or special interest groups that do not have a direct stake in the organization but are still affected by its operations. Exhibit 2 classifies some major stakeholder groups into primary and secondary categories.

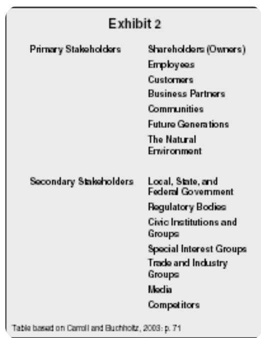

Exhibit 2

Primary Stakeholders	Shareholders (Owners)
	Employees
	Customers
	Business Partners
	Communities
	Future Generations
	The Natural Environment
Secondary Stakeholders	Local, State, and Federal Government
	Regulatory Bodies
	Civic Institutions and Groups
	Special Interest Groups
	Trade and Industry Groups
	Media
	Competitors

Table based on Carroll and Buchholtz, 2003: p. 71

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The owners of a firm are among the primary stakeholders of the firm. An organization has legal and moral obligations to its owners. These obligations include, but are not limited to, attempting to ensure that owners receive an adequate return on their investment. Employees are also primary stakeholders who have both legal and moral claims on the organization. Organizations also have specific responsibilities to their customers in terms of producing and marketing goods and services that offer functionality, safety, and value; to local communities, which can be greatly affected by the actions of resident organizations and thus have a direct stake in their operations; and to the other companies with whom they do business. Many social commentators also suggest that companies have a direct responsibility to future generations and to the natural environment.

An organization's responsibilities are not limited to primary stakeholders. Although governmental bodies and regulatory agencies do not usually have ownership stakes in companies in free-market economies, they do play an active role in trying to ensure that organizations accept and meet their responsibilities to primary stakeholder groups. Organizations are accountable to these secondary stakeholders. Organizations must also contend with civic and special interest groups that purport to act on behalf of a wide variety of constituencies. Trade associations and industry groups are also affected by an organization's actions and its reputation. The media reports on and investigates the actions of many companies, particularly large organizations, and most companies accept that they must contend with and effectively "manage" their relationship with the media. Finally, even an organization's competitors can be considered secondary stakeholders, as they are obviously affected by organizational actions. For example, one might argue that organizations have a social responsibility to compete in the marketplace in a manner that is consistent with the law and with the best practices of their industry, so that all competitors will have a fair chance to succeed.

CONTEMPORARY SOCIAL ISSUES

Corporations deal with a wide variety of social issues and problems, some directly related to their operations, some not. It would not be possible to adequately describe all of the social issues faced by business. This section will briefly discuss three contemporary issues that are of major concern: the environment, global issues, and technology issues. There are many others.

ENVIRONMENTAL ISSUES.

Corporations have long been criticized for their negative effect on the natural environment in terms of wasting natural resources and contributing to environmental problems such as pollution and global warming. The use of fossil fuels is thought to contribute to global warming, and there is both governmental and societal pressure on corporations to adhere to stricter environmental standards and to voluntarily change production processes in order to do less harm to the environment. Other issues related to the natural environment include waste disposal, deforestation, acid rain, and land degradation. It is likely that corporate responsibilities in this area will increase in the coming years.

GLOBAL ISSUES.

Corporations increasingly operate in a global environment. The globalization of business appears to be an irreversible trend, but there are many opponents to it. Critics suggest that globalization leads to the exploitation of developing nations and workers, destruction of the environment, and increased human rights abuses. They also argue that globalization primarily benefits the wealthy and widens the gap between the rich and the poor. Proponents of globalization argue that open markets lead to increased standards of living for everyone, higher wages for workers worldwide, and economic development in impoverished nations. Many large corporations are multinational in scope and will continue to face legal, social, and ethical issues brought on by the increasing globalization of business.

Whether one is an opponent or proponent of globalization, however, does not change the fact that corporations operating globally face daunting social issues. Perhaps the most pressing issue is that of labor standards in different countries around the world. Many corporations have been stung by revelations that their plants around the world were "sweatshops" and/or employed very young children. This problem is complex because societal standards and expectations regarding working conditions and the employment of children vary significantly around the world. Corporations must decide which is the responsible option: adopting the standards of the countries in which they are operating or imposing a common standard world-wide. A related issue is that of safety conditions in plants around the world.

Another issue in global business is the issue of marketing goods and services in the international marketplace. Some U.S. companies, for example, have marketed products in other countries after the products were banned in the United States.

TECHNOLOGY ISSUES.

Another contemporary social issue relates to technology and its effect on society. For example, the Internet has opened up many new avenues for marketing goods and services, but has also opened up the possibility of abuse by corporations. Issues of privacy and the security of confidential information must be addressed. Biotechnology companies face questions related to the use of embryonic stem cells, genetic engineering, and cloning. All of these issues have far-reaching societal and ethical implications. As our technological capabilities continue to advance, it is likely that the responsibilities of corporations in this area will increase dramatically.

Corporate social responsibility is a complex topic. There is no question that the legal, ethical, and discretionary expectations placed on businesses are greater than ever before. Few companies totally disregard social issues and problems. Most purport to pursue not only the goal of increased revenues and profits, but also the goal of community and societal betterment.

Research suggests that those corporations that develop a reputation as being socially responsive and ethical enjoy higher levels of performance. However, the ultimate motivation for corporations to practice social responsibility should not be a financial motivation, but a moral and ethical one.

SEE ALSO: Ethics (../Em-Exp/Ethics.html)

Tim Barnet