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CORPORATE SOCIAL RESPONSIBILITY

Ethics in Context

Using Corporate Social Responsibility as a Business Strategy

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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.

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.

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.

CORPORATE SOCIAL RESPONSIBILITY DEFINED

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

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) 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] 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]

corporate social responsibility (CSR): Actions that appear to further some social good, beyond the interests of the firm and that which is required by law.

Origins

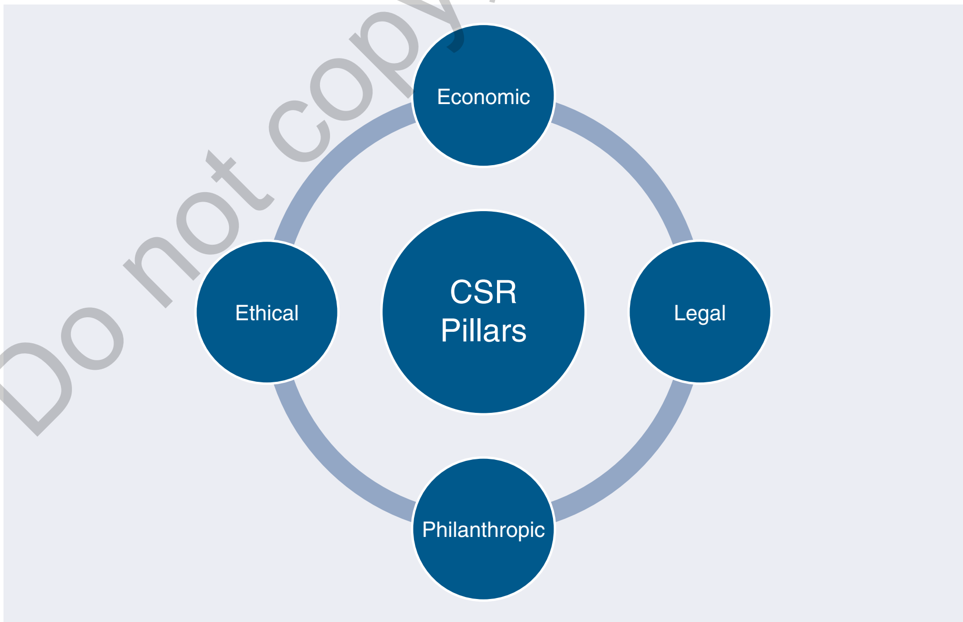
While one could trace the European origins of the social responsibility of business to before World War II, the 1950s is a logical starting point because its growth took a noticeable uptick at that time, especially in the United States, and continues to do so globally. Initially, this social responsibility 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 business strategy. The stakeholder model 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 its profits.[4] Most recently, corporate financial performance and the emphasis on measuring the impact of CSR activities reflects businesses' understanding of the strategic value of CSR.[5] The origins of CSR also illustrate why it is so difficult to define CSR in a global context. In other words, managers seeking to integrate CSR throughout the firm must align that strategy with contextual differences including national or regional culture, geography, or social and economic practices. How managers ultimately conceptualize their CSR strategy varies.

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).[6] The pillars help us begin to ask the right questions when designing a CSR strategy.

- *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

Figure 2.1 The Four Pillars of Corporate Social Responsibility (CSR)



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 will 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.[7]

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 that 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.

CORPORATE SOCIAL RESPONSIBILITY AS A STRATEGY

LO 2.2 Articulate the fundamental reasons why CSR is an effective organizational 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 CNBC/Burson-Marsteller Corporate Perception Indicator, the first word that most Americans think of when they hear the word *corporation* is "greed," and more than half think of corporate power as a "bad thing." More than 70% of the survey's respondents believe that corporations take advantage of tax loopholes and do not pay their fair share.[8] Whether or not these perceptions are based in fact hardly matters. Managers must take these perceptions 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. In a study by McKinsey & Company, executives stated overwhelmingly that corporations must balance shareholder needs while making contributions that benefit society. Most even disagree with Friedman's assertion that companies' sole responsibility is to shareholders. CSR is 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.[9] Edelman, an American public relations firm, surveyed a global group of high-level executives from 23 countries in their annual Edelman Trust Barometer survey and found the global business community sees CSR activities as a "requirement." In their view, a corporation's reputation is based on key factors such as transparency, honesty, and whether it treats employees well and is a good corporate citizen.

Branding and Reputation

Given the public's sentiment about corporate greed and increased awareness of the importance of CSR, it is not surprising that one of the ways that organizations use a CSR strategy is for purposes of promoting or strengthening their brand. When CSR is integrated into a business's operations, it becomes a strategic branding tool to manage customers' expectations. 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 internal and external stakeholders. Through attracting talent, motivating employees, recruiting employees, and retaining employees, CSR can help build organizational reputation among customers and business partners alike. An enhanced reputation can also act as a

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 15,000 retail stores in 44 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 25 years, the Dollar General Literacy Foundation has awarded more than $127 million in grants to nonprofit organizations and schools that have helped increase literacy throughout the United States. Approximately 8 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.

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. Why did Dollar General chose adult literacy as a cause?
2. How can this cause enhance the attractiveness of the company for potential employees?
3. How can this cause expand Dollar General's customer base?

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?

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 discussed 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.

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. For the companies, 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 comparing the CSR strategy reporting of different organizations, this information can be used by companies to validate their commitment to sustainable activities, for measuring and benchmarking existing CSR programs, and monitoring 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 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, 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 Integrated Reporting Council (IIRC), formed in 2010, has proposed a framework to integrate these types of financial and nonfinancial information metrics by taking a broader view of how firms create value. According to the IIRC, firms create value via six capitals: financial, manufactured, intellectual, human, social, and natural.

The pressure to commit to CSR comes from different stakeholders. In the Law and Society 2.1 section, we see one of the first cases to go to trial brought by shareholders claiming a company committed **securities fraud** when it misled them by underrepresenting the dangers of climate change and their carbon emissions to the financial health of the company. This suit highlights the inconsistencies between what a company says are its CSR priorities and what it actually does in terms of effectively managing the economic risks of complying with ever-increasing regulation.

triple bottom line: Financial, social, and environmental results, taken together as an integrated whole, constitute a company's triple bottom line.

securities fraud: Deception that induces an investor to make a purchase or sale decision based on a false or deceptive statement.

LAW AND SOCIETY 2.1

Ramirez v. Exxon Mobil Corp., 334 F. Supp. 3d 832 (2018)

Facts: Mr. Ramirez is a member of the Greater Pennsylvania Carpenters Pension Fund (Fund). He filed this securities fraud case on behalf of the Fund and all people who purchased Exxon Mobil stock between March 31, 2014, and January 30, 2017. The Fund claims executives at ExxonMobil made material misrepresentations or omissions in their securities filings about the dangers of climate change and its carbon emissions to the financial well-being of ExxonMobil.

On March 31, 2014, ExxonMobil released its report "Energy and Carbon—Managing the Risks" (Report), which addressed shareholder concerns regarding global energy demand and supply, climate change policy, and carbon asset risk. The Report stated that ExxonMobil considers the

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impact on the business of possible government regulations on climate controls and carbon emissions by factoring in to its projections a virtual cost of compliance, called a proxy cost of carbon. On March 31, 2014, ExxonMobil also released a report titled "Energy and Climate," which stated ExxonMobil applied a proxy cost of approximately $60 per ton in 2030 and $80 per ton in 2040 as its cost of complying with environmental controls. The Fund alleges that despite this public statement, internal documents state the actual proxy cost for 2030 was closer to $40 per ton. This means that internally ExxonMobil was using a lower number when planning how much to invest in carbon reduction efforts.

In mid-2014, oil and gas prices began to fall worldwide; nevertheless ExxonMobil reassured investors that it had superior investment processes and project management that allowed it to continue operating without a loss. The Fund alleges these representations were materially misleading because ExxonMobil knew it could not survive the historic drop in oil and gas prices without losses. The Fund alleges ExxonMobil made these misrepresentations to maintain its AAA credit rating and allow it to move forward on its $12 billion public debt offering scheduled for March 2016. On January 31, 2017, ExxonMobil announced its fourth quarter and full-year financial results for 2016. In the announcement, ExxonMobil stated it would be recording "an impairment charge of $2 billion largely related to dry gas operations."

The Fund sued for securities fraud, and ExxonMobil filed a motion to dismiss, claiming the Fund did not allege enough facts to support the claim that ExxonMobil materially misled investors nor that ExxonMobil executives made any material misstatements with the intent to deceive or defraud investors.

Issue: Did the Fund have enough evidence to support the claims that ExxonMobil materially misled investors and that they did this with the intent to deceive them?

Decision: Yes, the Fund had enough evidence in their complaint to support the claims that ExxonMobil materially mislead investors and that they did this with the intent to deceive them. A complaint must allege facts upon which the claims are based and not simply recitations of the law they think has been violated. When determining whether statements amounted to material misstatements intentionally made to defraud investors, we must look at all of the statements taken together and not each individual statement read alone, and decide whether a reasonable person would be misled by those statements. A statement is material if a reasonable investor would have found the fact important in making her decision to invest.

ExxonMobil claims the Fund is confusing two separate proxy costs in its allegation—the proxy cost of carbon and the proxy cost of greenhouse gas emissions—and therefore cannot show they misrepresented the figure. Whether the different proxy costs represent two different costs or the same cost but with two different values as applied internally is irrelevant because ExxonMobil's public statements indicate to investors that only one proxy cost was used in making investment decisions, thus investors could have been materially mislead.

Next, ExxonMobil alleges that valuation of the proxy cost is more like an opinion than a statement of fact. If that is the case, the Fund must show that the speaker, in this case Chairman of the Board and CEO Rex Tillerson at the 2016 annual shareholder meeting, did not genuinely hold that opinion. As a member of the Management Committee, Tillerson extensively reviewed and discussed ExxonMobil's Report, which describes the company's investment planning for carbon emissions and greenhouse gases including the use of proxy costs to anticipate current and future government regulation. Thus, Tillerson would have had knowledge of the proxy cost of carbon and would have known that a different number than what was stated was actually used and therefore at the time he made the public statement he knew a different proxy cost was used internally.

Lastly, ExxonMobil claims the Fund cannot show that it intentionally misled investors by stating the carbon proxy numbers in the Report in order to maintain its AAA credit rating. ExxonMobil claims that all companies try to maintain a good credit rating, so ExxonMobil's desire cannot be used to show it intentionally misled investors. The Fund claims that at the time of the $12 billion debt offering, the company was in a dire financial condition, and this offering was "the single biggest offering in Exxon's history" and would allow the company to pay shareholder dividends. Because Tillerson was the chairman of the board and on the Management Committee, he received in-depth briefings on and actively engaged in discussions of ExxonMobil's financial position and the risks of climate change. Thus, he had the motivation to maintain the AAA rating by using a lower internal proxy cost in order to make the debt offering and pay dividends.

Law and Management Questions

1. The court found that ExxonMobil's use of different proxy costs internally could make the company's assets appear more financially secure than they actually were. Isn't the job of a CEO to advocate for his or her company? How did Tillerson's conduct cross the line?
2. Do you think the average investor would understand what a proxy cost of carbon represented? If not, how can this be securities fraud?
3. Is ExxonMobil's conduct an example of corporate irresponsibility or corporate hypocrisy? Why or why not?
4. How do you think other companies will react to the suit in terms of their CSR priorities and what they report to the public?

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.

DIFFERENT CORPORATE SOCIAL RESPONSIBILITY VIEWS AND SCHOOLS OF THOUGHT

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

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.

narrow view (CSR): Focusing on profits as a sole source of social responsibility.

broad view (CSR): View of CSR in which the starting point is a socially defined goal rather than a business objective.

moderate view (CSR): Social responsibility is a balance between being a good corporate citizen and creating economic value.

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. It is not enough, then, for 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 the aggregate moral views of the public. 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.

Figure 2.2 summarizes the three schools of thought on CSR.

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 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 2.1 provides a comparison between explicit and implicit CSR.

Figure 2.2 Summary of Corporate Social Responsibility Schools of Thought

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

Table 2.1 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

ETHICS IN CONTEXT

Using Corporate Social Responsibility as a Business Strategy

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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. 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, recently declared it has invested over $70 million to promote sustainable coffee harvesting and that 99% of the coffee beans in its beverages are "ethically sourced." Meanwhile, other companies are starting to tout their living wage and health care policies. At Whole Foods, for example, the average hourly wage was $18.89 in 2013. As John Mackey, the company's cofounder and co-CEO, likes to say, "There's no inherent reason why business cannot be ethical, socially responsible, and profitable." 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?

Consider Starbucks's highly touted ethical-sourcing program. Although Starbucks has invested significant resources ($70 million) 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 $16 billion in revenue in 2014, the year before it announced it reached its 99% ethical-sourcing plateau. Critics argue that Starbucks has invested a mere 0.0003% of its annual revenue to do what it should be doing anyway.

For its part, Whole Foods claims that, "Buying organic supports the small, family farmers that make up a large percentage of organic food producers." But this claim is misleading at best. 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. Whole Foods, of course, knows this, so its claim about the "small family farmers that make up a large percentage of organic food producers" is dubious, if not downright fraudulent.

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?

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.

CORPORATE SOCIAL RESPONSIBILITY AND ITS LIMITATIONS

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

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.

Benefits and Costs

corporate social irresponsibility: When the firm causes some social harm and should be held in contempt for the harm.

corporate hypocrisy: When a firm deceptively claims to be what it is not or to be doing something it is not.

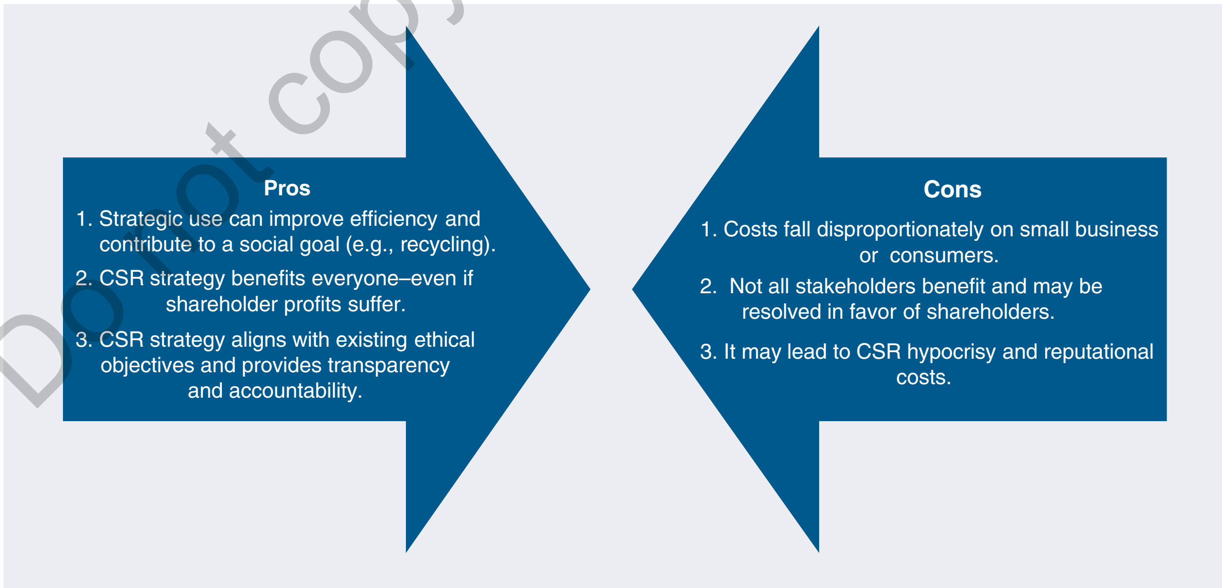
While the majority of CSR conceptualizations are from a positive approach and are focused primarily on the benefit to society, there is a growing literature on **corporate social irresponsibility** and **corporate hypocrisy**.[21] And while reporting on a firm's positive acts is common, as mentioned 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.

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.

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]

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



CASE STUDY 2.2

Amazon Ups the Ante

As Amazon became only the second company in history to reach $1 trillion dollars in market during 2018, it remained haunted by press reports of low employee wages and poor warehouse working conditions. Despite having substantial CSR efforts such as the Amazon Career Choice Program that prepays 95% of tuition for employees to take courses for in-demand fields regardless of whether the skills are relevant to a career at Amazon, the public's perception of Amazon as a good corporate citizen was waning. After the *New York Times* published a report detailing Amazon's negative workplace culture and mistreatment of its workforce, the company, while denying the most serious allegations, increased its oversight of third-party providers and affirmed that the well-being of its employees was a top priority. Still, Jeff Bezos, Amazon's famous founder and CEO, had become a target of politicians and commentators that decried the wealth inequality between Amazon's executive management and their labor force and compared Bezos to the robber barons of a bygone era. Senator Bernie Sanders cosponsored a bill called the Stop BEZOS Act that would tax corporations for every dollar of public assistance that their workers received. Faced with criticism and a shortage of workers in retail generally, Amazon announced it would boost its minimum hourly rate to $15, surpassing all other major retailers and the highest minimum wage required by a state.

Discussion Questions

1. What factors were at work in Amazon's decision to raise its minimum wage?
2. Is $15/hour a fair wage? Should Amazon raise the wages of mid-level workers as well? Explain.

Critical Thinking

1. Use your favorite search engine to find Amazon's statements on CSR. Interestingly, despite the size and the scope of its business, Amazon does not release an annual sustainability or CSR report. The website remains the only source of information about the range of sustainability programs and measures initiated by the company. Why do you think Amazon doesn't follow the practices of others in reporting its CSR efforts?
2. Based on your Amazon CSR research, what type of CSR strategy does it employ? Could it be perceived as an example of CSR hypocrisy? Explain your answers.

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

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

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 and midsized business have to 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. Retailers will also provide Subaru Loves Pets shelter supply kits, created in partnership with BarkBox.

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, Alphabet (Google) provided a $2.4 million grant to GiveDirectly, a nonprofit organization that distributes direct monetary contributions to the poor. Table 2.2 provides an illustration of how much other corporations give as part of their CSR strategies.

Strategic Partnerships

Strategic partnerships are one of the most common methods for developing a CSR strategy. For example, Michelin's Uniroyal tires partnered with the World Wildlife Fund (WWF) to form the Tx2 alliance, which aims to reduce poaching and habitat loss for tigers in Asia and Africa. Their goal is to double the number of tigers in the wild by 2022, and the effort is funded through a Uniroyal tire rebate. For every Uniroyal tire rebate redeemed during the promotional period, Michelin donates $20 to the WWF wild tiger efforts, with no set limit. The Uniroyal rebate customer receives a WWF/Uniroyal co-branded "Save the Tiger" kit, which includes a plush tiger, a tiger decal, a species card, and a save-the-tigers-themed reusable tote bag.

Table 2.2 Largest Corporate Foundations by Total Giving

Name	Total Giving
Gilead	$446,700,000
Walmart	$301,000,000
Wells Fargo	$286,500,000
JPMorgan Chase	$250,000,000
Microsoft	$169,000,000
Goldman Sachs Group	$168,500,000
ExxonMobil	$168,500,000
Chevron	$168,500,000
Bank of America	$168,500,000
Alphabet (Google)	$167,800,000
Citigroup	$142,800,000
Merck	$132,500,000
Coca-Cola	$117,300,000

Source: The 13 Most Philanthropic Companies in the World, by Sion Phillpott, 16 July 2018. https://www.careeraddict.com/corporate-philanthropy. Accessed October 16, 2019.

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, Starbucks encourages its employees to volunteer in local community projects through its VolunteerMatch program. PriceWaterhouseCoopers (PwC) introduces new hires to their employee volunteer program during their orientation. New hires work together to build a bike that they then donate to a local youth organization.

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. One example of a third party who regularly represents organizations are attorneys. 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.

Google's Corporate Social Responsibility Strategy and Project Maven

The announcement by Google in June 2018 that it would not seek another contract for its work providing artificial intelligence (AI) for a U.S. Department of Defense project was a culmination of months of internal struggle that pitted shareholder interests against stakeholder interests. However, after a backlash from employees and other stakeholders, Google updated its CSR strategy to include specific policies on AI research. These policies include a specific prohibition of deploying Google technologies that "cause or are likely to cause overall harm." Nor will Google participate in developing "weapons or other technologies whose principal purpose or implementation is to cause or directly facilitate injury to people."[25]

The origins of Google's AI controversy began in September 2017 after its management team announced that Google was awarded a contract for $28 million to work with the Pentagon on a program dubbed "Project Maven." The project required Google to develop and support AI algorithms that the Department of Defense used to analyze footage from military drones. It was touted by Google as "a large government program that will result in improved safety for citizens and nations through faster identification of evils such as violent extremist activities and human right abuses." According to the *New York Times*, two sets of e-mails reveal that Google's senior leadership was enthusiastically supportive of Project Maven primarily because it would help pave the way for larger Pentagon contracts. Privately, though, the e-mails showed a deep concern about how the company's involvement would be perceived. Google's chief AI scientist urged colleagues in an internal e-mail to avoid "any mention or implication of AI" in public statements about the Pentagon contract and warned that it may become "red meat to the media" and ultimately damage Google.[26]

News of the Pentagon contract and Google's AI efforts fueled an extraordinary internal debate and protest. Employees feared the partnership would pivot toward developing weaponry and other offensive technology. Its top technical talent complained the Pentagon contract betrayed its principles, while profit-oriented officials at Google worried the protests would damage its chances to secure more business from the Department of Defense. Several AI scientists resigned in protest, while others called for the company to cancel the Maven contract. The growing protests resulted in a petition signed by about 4,000 employees who demanded a clear policy stating that neither Google nor its contractors will ever build warfare technology.

Discussion Questions

1. Given Google's reaction to the petition and protests, which CSR strategy did Google follow to resolve their dilemma? Explain.
2. Employees are one set of stakeholders impacted by Google's decision. What other stakeholders might have been involved, and what were their interests? Did all stakeholders have the same interests?
3. What did Google's chief scientist mean by warning her colleagues of AI being "red meat to the media"? How could the use of the term AI damage Google? Explain.

Critical Thinking

1. Critics of the protests and of Google's reaction point out that Google's actions will ultimately make no difference to society because plenty of other tech companies are waiting to fill Google's shoes with a Pentagon contract. Does that strike you as convincing? Explain.
2. Use your favorite search engine to find Google's current AI policies and principles. While it makes clear that although Google will not engage in contracts for use of its AI research to develop weapons, it also specifically affirmed that Google would pursue contracts with the Pentagon in the future so long as it was consistent with its principles. 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.

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's values

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

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 diabetes. 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

Prepare 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.