

CHAPTER 23

CORPORATE
SOCIAL
RESPONSIBILITY

DEEP ROOTS,
FLOURISHING GROWTH,
PROMISING FUTURE

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WHAT are Corporate Social Responsibility's (CSR) prospects for the future? Will it, and should it, guide business decisions and policies during the 21st century? This chapter argues that CSR's prospects are anchored in its early beginnings, in its ever-expanding acceptance as a legitimate business practice, and in the looming necessities and crises spawned by unprecedented global expansion of economic enterprise.

CSR'S MEANING

CSR occurs when a business firm, through the decisions and policies of its executive leaders, consciously and deliberately acts to enhance the social well-being

Corporation As Organic Unit/Institution/Entity: Societal Function to Create Economic Value

CSR = Corporation–Society Interactions Benefiting Both

CSR = Public Policy/Regulation/Law Defining Public Interest

CSR = Shareholder–Stakeholder Balance of Interests

CSR = Integrity of Business Functions

- Capital acquisition and management: Transparency, full disclosure
- Production: Product integrity, job creation, environmental impact
- Marketing: Fair pricing, honest advertising
- Finance/Accounting: GAAP, audits, operational safeguards
- Supply-chain relations: Competitive, non-coercive, non-exploitive
- Human resources: Wages, hours, workplace safety–health, pensions, etc.
- Corporate governance: Diversity, insider–outsider balance
- Corporate strategy: Location, sourcing, sustainability

*Company's CSR status = f (Institutional Actions of Board of Directors and Top Executives)**Individual Managers and Employees as Corporate Agents: Personal Actions, Motives, and Intentions*

CSR = Agents act virtuously to create a good company and society: Aristotelian ethics

CSR = Agents respect rights, duties, and obligations to all stakeholders: Kantian ethics

CSR = Agents favor social equity, fairness, and justice in the workplace: Rawlsian ethics

CSR = Agents create and support an ethical corporate mission, goals, and strategies

Company's CSR status = f (Personal Actions of individual agents)

Fig. 23.1 The dual meaning of CSR

of those whose lives are affected by the firm's economic operations. In this way, CSR blends and harmonizes economic operations with a human community's social systems and institutions, creating an organic linkage of Business and Society. The goal of this relationship is to achieve a balance between the firm's economic operations and the society's aspirations and requirements for community welfare.

Social responsibility takes many different forms and is expressed in numerous ways, varying from firm to firm. As Figure 23.1 reveals, a company that enjoys mutually beneficial relations with its host communities, obeys laws and public policies, balances stakeholder claims, and conducts business with integrity would be considered to be a socially responsible corporate citizen. Some corporations score well on all counts while others attain a CSR stature in fewer areas.

Figure 23.1 also identifies two distinct ways of determining a company's CSR standing: looking at *the company as a whole*, or examining *the individuals* who make decisions and set policies for the company. When things go wrong, who should be blamed—the company? or the executives who made the wrong decisions? When the auditing firm, Arthur Andersen, was convicted of condoning illegal behavior by its officials, federal court action put the whole company out of business. In such cases, a firm's CSR status is an outcome of *institutional/organizational actions* taken by the company as a distinct, identifiable legal entity.

On the other hand, individual top executives of Enron, Tyco, and WorldCom—not the companies themselves—were jailed and fined for criminal acts these executives committed in the company's name. Here, the companies' CSR status

is an outcome of the *personal actions and character* of the offending executives. When a company's agents or representatives act legally and ethically, that could be counted as a form of CSR as shown in the lower half of Figure 23.1. Encouraging and rewarding virtuous behavior toward others, respecting their rights, treating employees and customers fairly, and supporting ethical corporate goals mark a company and its leaders as being ethically and socially responsible.

CSR'S STAGES OF DEVELOPMENT

CSR has a longer history in the United States than in most other nations. The primary reason is the prevalence of a market-style economy, supported by free-market ideology and limited government regulations. These conditions generate an increased expectation of social awareness and social services from private enterprise rather than from government-provided social guidance. CSR ideas in the United States emerged in the early decades of the 20th century—coming from the corporate sector itself, especially the top executives of major companies (Heald, 1970; Frederick, 2006).

From that early beginning, CSR evolved in four chronological phases described next and illustrated in Figure 23.2. In this four-stage emergence of CSR, individual firms may be positioned at different points on the phased trend line. Not all companies pass through all four phases, although many of today's leading CSR enterprises manifest all of them simultaneously.

CSR₁: Corporate Social Stewardship (1950s–1960s)

The Basic Idea: Corporate Managers as Public Trustees and Social Stewards

In this early version of CSR, three core principles stand out: corporate managers as public trustees and stewards of broad-scale economic interests; an executive duty to balance the competing claims of employees, customers, owners, and the public; and philanthropic support of worthy social causes. These duties and obligations, carried out by top-level executives, are entirely voluntary, supporting a belief that those who hold power incur reciprocal responsibilities to society (Abrams, 1951).

The mainstay of this first, and voluntarily assumed, approach to CSR is philanthropy—the allocation of company funds to support worthy community projects. Philanthropic contributions could, in a marginal way, help reduce the

- CSR₁: CORPORATE SOCIAL STEWARDSHIP (1950s–1960s)**
 Guiding CSR Principle: Corporate managers are public trustees and social stewards
 Main CSR Action: Corporate philanthropy
 CSR Drivers: Executive conscience and company reputation
 CSR Policy Instruments: Philanthropy and public relations
- CSR₂: CORPORATE SOCIAL RESPONSIVENESS (1960s–1970s)**
 Guiding CSR Principle: Corporations should respond to legitimate social demands
 Main CSR Action: Interact with stakeholders and comply with public policies
 CSR Drivers: Stakeholder pressures and government regulations
 CSR Policy Instruments: Stakeholder negotiations and regulatory compliance
- CSR₃: CORPORATE/BUSINESS ETHICS (1980s–1990s)**
 Guiding CSR Principle: Create and maintain an ethical corporate culture
 Main CSR Action: Treat all stakeholders with respect and dignity
 CSR Drivers: Human rights and religio-ethnic values
 CSR Policy Instruments: Mission statements, ethics codes, social contracts
- CSR₄: CORPORATE GLOBAL CITIZENSHIP (1990s–2000s)**
 Guiding CSR Principle: Accept responsibility for corporate global impacts
 Main CSR Action: Adopt and implement global sustainability programs
 CSR Drivers: Globalization disruptions of economy and environment
 CSR Policy Instruments: International code compliance, sustainability policy

Fig. 23.2 Four stages of CSR

gap between rich and poor, the haves and have-nots, thereby moving towards a more just and balanced social outcome. Authorizing these redistributive gifts from corporate treasuries is a responsibility, not to say a privilege, of public trusteeship (Bowen, 1953).

CSR₂: Corporate Social Responsiveness (1960s–1970s)

The Basic Idea: Responding to Social Demands

CSR took on an entirely new meaning during the 1960s and 1970s. Under the hammer blows of rising social protests, corporations were expected to go beyond voluntary philanthropy and take practical steps to help solve society's problems. The general public demanded *response* to their social demands, not just a continuation of the *voluntary* stewardship of CSR₁.

This new social agenda required businesses to correct racial and sexual discrimination in the workplace, reduce industrial pollution, upgrade health and safety conditions in plants and offices, charge fair prices for consumers, insure the reliability and effectiveness of products, provide full information for investors, avoid bribery of foreign officials, treat suppliers fairly, and refuse to engage in price-fixing with competitors. Other critics condemned weapons production, war profiteering, and business support of militant foreign policy. Some reformers

proposed federal chartering of corporations and a more socially diverse board of directors.

In all of this social turmoil, business was expected to *do something tangible* in response to these social demands. Executive minds reacted by adopting a socially pragmatic attitude emphasizing *response* rather than a passive, voluntary *responsibility*. No longer was it a question of *whether* business should pay attention to social issues because public opinion and new government regulations had answered affirmatively.

This new social activism by business firms led to big changes internally. New incentives and sanctions encouraged socially responsible behavior by managers and employees. Corporate strategy incorporated socially responsible goals. Stakeholders affected by company operations were identified and brought into negotiations. Newly enacted government regulations aimed at curbing social ills became a new managerial mandate. Leading corporations moved from passive responsibility to active social response (Ackerman, 1975; Preston and Post, 1975; Freeman, 1984).

CSR₃: Corporate/Business Ethics (1980s–1990s)

The Basic Idea: Fostering Ethical Corporate Culture

Beginning around 1980, CSR took on a new meaning that went beyond CSR₁'s philanthropy and CSR₂'s social activism. A CSR₃ company could be recognized by the quality of its corporate culture, the type of ethical climate it displays, and the normative principles that guide the company's policies, strategies, and decisions.

Every business firm has a distinctive organizational culture that exerts a strong influence on the company's behavior, the goals it seeks, and the human beings who work there (Deal and Kennedy, 1982). Since it plays such a dominant role in shaping company practices, culture holds the key to charting a socially responsible path for the firm. Especially influential is the ethical climate present in the workplace, i.e. managers' and employees' beliefs and attitudes about what constitutes right and wrong on-the-job behavior (Victor and Cullen, 1988).

A CSR₃ company strives to create an ethical climate based on the ethics principles shown previously in Figure 23.1: positive outcomes in community relationships; respect for stakeholders' rights; fairness and justice in all business transactions, and promoting socially responsible goals (Phillips, 2003). Companies that explicitly and consciously make these principles an integral part of their culture and organizational climate move well beyond the two earlier CSR phases to become normatively focused CSR₃ corporations. A whole array of tools is available for these purposes: mission statements committing the company to ethical goals; a company

code of ethics defining the core values and ethical principles to be followed by all employees; a chief ethics officer to police wrongful actions; ethics audits, ethics training workshops, ethics hot-lines for reporting misconduct; and positive rewards for outstanding ethical behavior on the job (Murphy, 1998).

This panoply of CSR₃ policy instruments invokes the concept of a 'social contract' between company and community where specific responsibilities are defined for each side. Donaldson and Dunfee (1999) propose a unique kind of social contract between business and society that embodies universal human rights principles vital to society while granting economic enterprises the degree of flexibility and practicality needed for successful market operations.

CSR₄: Corporate Global Citizenship (1990s–2000s)

The Basic Idea: Accept and Attain Global Citizenship Responsibility

Corporations, as legal entities, have the same duties and obligations as other members of civil society: to obey the law, contribute to the commonweal, participate in governance, and demonstrate respect for other citizens. As citizens, they are responsible for their actions, and their owners and directors are charged with fiduciary oversight of company operations and assets. This basic meaning of Corporate Citizenship is present in all three of the CSR phases described above. However, globalization of trade has greatly expanded the citizenship duties of corporations. Today's multinational corporations are citizens, not just of one or two nations, but of all the societies where they conduct business. Their social responsibility has become worldwide in scope and magnitude, going far beyond philanthropy (CSR₁), social activism (CSR₂), and organizational ethics (CSR₃). CSR₄ companies are truly Corporate *Global Citizens* (McIntosh *et al.*, 2003; Waddock, 2006).

Globalization—the penetration of market-driven corporate enterprise into societies everywhere—has been accompanied by disruptive and often ruinous environmental and ecological damage: despoliation of air, rivers, oceans, arable land, forests, natural habitats, potable water supplies, food stocks, and depletion of mineral caches. Small and medium-sized local firms (SMEs) are driven out by the competition of bigger, more powerful multinational enterprises (MNEs). National labor policies, social welfare programs, health care institutions, public taxes, currency systems, communication and transportation networks face review and painful reform by local governments. Some lesser developed regions are lifted up economically by a surge of new jobs while formerly prosperous locales suffer precipitous decline. The consequent political unrest and instability following these massive economic transitions render the governance of civil society increasingly complicated.

An issue of even greater importance generated by globalization—perhaps even the central issue—is the quest for the long-term *sustainability* of individual companies, national economies, and the world’s ecological systems that nurture life on the entire planet.

Corporate Global Citizens respond to these complex challenges in several ways: seeking solutions through a collective dialogue with affected stakeholders, government representatives, and non-governmental organizations (NGOs); and by pledging compliance with global codes of conduct regarding human rights, environmental impacts, transparency of operations, and financial integrity (McIntosh *et al.*, 2003). Some scholars have proposed a new role for global corporations as peacemakers in a world of rising tensions (Fort and Schipani, 2002).

CSR’S GLOBAL PROSPECTS

CSR is an idea whose time has arrived, not just in the United States but wherever markets and corporate enterprise comprise the foundation of a society’s economic endeavors. Unevenly developed and experienced across the grand arc of 21st century societies, CSR is infiltrating into corporate consciousness and corporate culture, finds expression in the workplace, sparks stakeholder involvement, molds company strategy, enriches the quality of community life, broadens business vision, and seeks to humanize economic enterprise wherever it is found.

A cardinal principle of CSR’s spread throughout the globe is that each society and each business firm shall, and indeed should, find its own unique way of expressing and realizing CSR’s core meaning. In achieving an integrity of business operations, equal regard should be had for the integrity of each society’s core values and moral standards. While globalization has forcefully thrust the face of corporate enterprise into societies everywhere, CSR continues, as it should, to be discovered and expressed in varying ways that parallel the sociocultural diversity of values found throughout the world. For these reasons, it would be unwise to embrace the four stages of CSR development found in the United States as a model to be followed everywhere.

As Figure 23.3 reveals, there is a complex mosaic of forces both permitting as well as discouraging the emergence of CSR. What is thought to be socially responsible business behavior in Poland, Estonia, or Turkey varies greatly from US experience, while sharing some similarities (Habisch *et al.*, 2005; Kooskora, 2006). The same can be said of business enterprise in the nations of Asia, Africa, and Latin America (Minus, 1993; Dunfee and Nagayasu, 1993; Werhane and Singer, 1999). Diverse

- Firm size: MNE/SME differences
 - Scale and magnitude of corporate social impact
 - Comparative resource capability
 - Competitive pressures and market strength
- Politico-governmental system
 - Government-sponsored social programs
 - Private business-sponsored CSR activities
- Economic-development-stage
 - CSR affordability in developed nations
 - Marginal CSR focus in developing nations
- Geopolitical events and transitions
 - North-South prosperity/poverty gap
 - East-West religio-political tensions
 - Development pressures on resources and environment
- Diverse societal value systems
 - Differential commitment to utilitarian-instrumental values
 - Historical experience with market-centered business practice
- Environmental and natural forces
 - Climatological disasters
 - Human habitat preservation
 - Viral pandemics

Fig. 23.3 Factors shaping CSR's future

religious traditions alone powerfully shape both private and public conceptions of right and wrong business behavior. Smaller businesses (SMEs)—by far the largest number of firms worldwide—necessarily confront CSR issues in ways distinct from multinational firms (MNEs) (Spence, 1999; Enderle, 2004; Worthington *et al.*, 2006). Recently, an enlivened philanthropic impulse among leading corporate executives promises to drive CSR more forcefully to broader levels and higher purposes (Hechinger and Golden, 2006).

Common problems and shared ways of coping with them do exist in the midst of sociocultural diversity, signaling that a global CSR consciousness is needed and achievable. Global compacts, policy regimes, and codes of conduct—all of them forms of social contracts between Business and Society—are a first step (Williams, 2000; Leipziger, 2003; Sethi, 2003), but see Roger Scruton's warning that this Western concept lacks the needed behavioral underpinning in large swaths of the world (Scruton, 2002). CSR, as a concept and as operational practice, now far exceeds in planetary significance its earlier struggles to gain acceptance of social justice and community well-being. Foremost now is the gargantuan struggle to balance business's economizing impulse and the world's ecologizing communitarian needs—that is, to secure and sustain not just the economic base, the business firms, and the moral systems of each nation but to preserve and prolong planetary life itself (Frederick, 1995). The prospect of not rising to this challenge is as frightening as it is unlikely, so long as businesses everywhere continue to cultivate the seeds of CSR planted long ago and in many lands.

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