



## Chapter 4

# CORPORATE SOCIAL RESPONSIBILITY



## CHAPTER OBJECTIVES

- After exploring this chapter, you will be able to:
  1. Describe and explain *corporate social responsibility* (CSR).
  2. Distinguish between *instrumental* and *social contract* approaches to (CSR).
  3. Explain the business argument for “doing well by doing good.”
  4. Summarize the five driving forces behind CSR.
  5. Explain the *triple bottom-line* approach to corporate performance measurement.
  6. Discuss the relative merits of carbon-offset credits



## CORPORATE SOCIAL RESPONSIBILITY (CSR) (1 of 2)

- **Corporate Social Responsibility (CSR)**
  - The actions of an organization that are targeted towards the achievement of a social benefit over and above maximizing profits for its shareholders and meeting all its legal obligations.
    - This definition assumes that the corporation is operating in a competitive environment and that the managers of the corporation are committed to an aggressive growth strategy while complying with all federal, state, and local legal obligations, including:
      - Tax payments related to profitable business operations.
      - Payment of all employer contributions for its workforce.
      - Compliance with all legal industry standards in operating a safe working environment for its employees.
      - Delivering safe products to consumers.



## CORPORATE SOCIAL RESPONSIBILITY (CSR) (2 of 2)

- **Corporate citizenship** is an alternative term for corporate social responsibility, implying that the organization is a responsible citizen in meeting all its obligations.
- **Corporate conscience** is another alternative term for corporate social responsibility, implying that the organization is run with an awareness of its obligations to society.
- Porter and Cramer pointed out that the growing prominence of CSR has come at the expense of organizations that found themselves facing boycotts and focused media attention on issues that previously were not considered as part of a traditional strategic plan:
  - Nike faced an extensive consumer boycott after *The New York Times* and other media outlets reported abusive labor practices at suppliers in Indonesia in the early 1990s.
  - Shell Oil's decision to sink the Brent Spar, an obsolete oil rig, in the North Sea resulted in Greenpeace protests in 1995.
  - Pharmaceutical companies discovered they were expected to respond to the AIDS pandemic in Africa even though it had been removed from their primary product lines and markets.
  - Fast food and packaged food companies are now being held responsible for poor nutrition.



## Distinguish Between *Instrumental* and *Social Contract* Approaches to CSR (1 of 2)

- The **instrumental approach** is the perspective that the only obligation of a corporation is to maximize profits for its shareholders in providing goods and services that meet the needs of its customers.
  - The most famous advocate of this “classic” model is the Nobel Prize-winning economist Milton Friedman.
  - Friedman argues it would be unethical for a corporation to do anything other than deliver the profits for which its investors have entrusted it with their funds in the purchase of shares in the corporation.
  - Friedman also argues that, as an employee of the corporation, the manager has an ethical obligation to fulfill his role in delivering on the expectations of his employers.

5

MGT404



## Distinguish Between *Instrumental* and *Social Contract* Approaches to CSR (2 of 2)

- The **social contract approach** is the perspective that a corporation has an obligation to society over and above the expectations of its shareholders.
  - Originally, the primary focus of the social contract was an economic one, assuming that continued economic growth would bring an equal advancement in the quality of life.
  - The modern social contract approach argues that since the corporation depends on society for its existence and continued growth, there is an obligation for the corporation to meet the demands of that society rather than just the demands of a targeted group of customers.

6

MGT404



## Explain the Business Argument for "Doing Well by Doing Good." (1 of 2)

- Corporations do not operate in an isolated environment.
  - In 1969, Henry Ford, II recognized that industry and society were changing.
    - Change included serving a wider range of human values.
    - Change also included accepting an obligation to noncustomers in the community and to the general public.
  - The actions that companies implement impact:
    - Customers
    - Suppliers
    - Communities
  - Actions have both positive and negative outcomes.
    - Corporations that operate without profit in a competitive market can't raise profits to increase profits.
    - Corporations lower costs to increase profits and layoff its employees.
    - Loss of jobs decrease economic spending in the community.

7

MGT404



## Explain the Business Argument for "Doing Well by Doing Good." (2 of 2)

- Corporations that shut down plants create a loss of property tax revenue from the factory, and this impacts the community services offered to:
  - Schools
  - Roads
  - Police force
- Local suppliers also lose business as a result of company closures.
- Layoffs help the company remain competitive.
- Layoffs also permit the company to lower prices to its competitors.
- Organizations that demonstrate a sense of conscience draws public attention.
- Jim Roberts thought of corporate social responsibility as "doing well by doing good."
  - Doing what's in the best long-term interest of the customer is ultimately doing what's best for the company.
  - "Doing good for the customer is just good business."

8

MGT404



## The Five Driving Forces Behind CSR

1. Transparency
2. Knowledge
3. Sustainability
4. Globalization
5. The Failure of the Public Sector
  - Many CSR initiatives do not generate immediate financial gains to the organization.
  - Corporations that choose to experiment with CSR initiatives run the risk of creating adverse results and ending up worse off than when they started.
    - Employees feel that they are working for an insincere, uncaring organization.
    - The public sees little more than a token action concerned with publicity rather than community.
    - The organization does not perceive much benefit from CSR and so sees no need to develop the concept.

9

MGT404



## Explain the Triple Bottom-Line Approach to Corporate Performance Measurement

- Organizations pursue operational efficiency through detailed monitoring of their bottom line—how much money is left after bills are paid from the revenue generated from sale of product or service.
- In the **triple bottom-line** approach the company provides **social** and **environmental** updates alongside their primary bottom-line **financial** performance

10

MGT404



## CSR APPROACHES

- **Ethical CSR** represents the purest or most legitimate type of CSR in which organizations pursue a clearly defined sense of social conscience in managing their financial responsibilities to shareholders, their legal responsibilities to their local community and society as a whole, and their ethical responsibilities to do the right thing for all their stakeholders.
- **Altruistic CSR** takes a philanthropic approach by underwriting specific initiatives to give back to the company's local community or to designated national or international programs.
  - Critics argue this type of CSR is immoral since it represents a violation of shareholder rights if they are not given the opportunity to vote on the initiatives launched in the name of corporate social responsibility.
  - The relative legitimacy of altruistic CSR is based on the argument that the philanthropic initiatives are authorized without concern for the corporation's overall profitability.
- **Strategic CSR** is a type of philanthropic activity which targets programs that will generate the most positive publicity or goodwill for the organization.
- ❖ By supporting these programs, companies can claim to be doing the right thing and they also can meet their fiduciary obligations to their shareholders.
  - Critics can argue that strategic CSR is ethically commendable because these initiatives benefit stakeholders while meeting fiduciary obligations to the company's shareholders.

11

MGT404



## Discuss the Relative Merits of Carbon Offset Trading

- ❖ New and questionable practice: Making your operation carbon neutral
  - Your carbon footprint consists of the carbon dioxide emissions from your home, your car, and any air travel you complete.
    - » The calculation of these numbers can be used to determine your total emissions on an annual basis.
    - » The result is your "footprint."
    - » Individuals can purchase credits to offset emissions and to render oneself "carbon neutral."
  - Companies—Dell Computer, British Airways, Expedia Travel, and BP—experiment with programs that permit consumers to pay fees to offset the emissions spent in manufacturing products and services.
- ❖ **Kyoto Protocol Ratification**
  - The Kyoto Protocol is an agreement between 160 countries that was implemented in 2005.
  - The Protocol requires developed nations to reduce their greenhouse gas emissions not only by modifying their domestic industries, but also funding projects in developing nations in return for carbon credits.
  - The USA is not yet part of the Protocol, but an infrastructure was developed to facilitate the trading of carbon credits.
- **Carbon offset credits**
  - Carbon credits are essential because the organizations with high emissions can purchase the credits in greater volumes than most individual projects would provide

12

MGT404



## IS CSR GOOD FOR BUSINESS? (1 of 3)

- There is evidence that good ethics is good business; yet if it cannot be measured, it is not important.
- Efforts have been made to measure the bottom-line impact of ethical decision making.
- According to David Vogel, a political science professor at Berkeley:
  - There is a market for firms with strong CSR missions.
  - It is a niche market: Caters to only a small group of consumers or investors.
  - Contrary to a global shift in the business environment, CSR instead should be perceived as just one option for a business strategy that might be appropriate for certain types of firms under certain conditions.

13

MGT404



## IS CSR GOOD FOR BUSINESS? (2 of 3)

- He warns of the exposure a firm might suffer if it then does not live up to its CSR promises.
- He cautions against investing in CSR when consumers are not willing to pay higher prices to support that investment.
- Recent study titled “Developing Value: The Business Case for Sustainability in Emerging Markets,” based on a study produced jointly by SustainAbility, the Ethos Institute, and the International Finance Corporation concluded:
  - It does pay for businesses in emerging markets to pursue a wider role in environmental and social issues, citing cost reductions, productivity, revenue growth, and market access as areas of greatest return for multinational enterprises (MNEs).

14

MGT404



## IS CSR GOOD FOR BUSINESS? (3 of 3)

- A landmark study by Professors Stephen Erfle and Michael Frantantuono found that firms that were ranked highest in terms of their records on a variety of social issues had greater financial performance as well.
- Study by Murphy and Verschoor reports that the overall financial performance of the 2001 Business Ethics Magazine Best Corporate Citizens was significantly better than that of the remaining companies in the S&P 500 index.
- Despite substantial differences among companies, research demonstrates that almost all companies will confront CSR issues from stakeholders at some point in the near future.

### **Review Questions**

1. Define corporate social responsibility (CSR) and briefly discuss the *instrumental* and *social contract* approaches to CSR .
2. Briefly explain if CSR is good for business.