Introducing corporate social responsibility

A book about corporate social entrepreneurship cannot begin without some discussion of the wider corporate social responsibility construct in which it is embedded. Thus it is logical to begin this book by defining corporate social responsibility (CSR) and at the same time addressing the controversial debate concerning who should be responsible for social provision and how far this should extend, in terms of who and what should be included in it. However, my starting point is to look at some examples of corporate *ir*responsibility, in order to begin to address these normative questions about the role of business in society.

What is CSR and why is it necessary?

In contemporary capitalist society, corporations are ubiquitous and so they impact on everyone. Corporate social responsibility (CSR) is therefore a subject of interest to management practitioners and consultants and to the gamut of the academic business and management disciplines, as well as to the academic study of environmental science, law and politics and also to the general public. This is not least because of the prevalence of newsworthy examples of corporate *ir*responsibility (Hemingway 2005), which can provide an entry point for debates about the role of business in society.

A recent example of corporate misdemeanour was the case of Toyota GB. The management, based at headquarters in Surrey (UK), had decided to fine their car dealerships if a fault discovered by their mechanics was reported to the customer whilst the car was still under warranty. The warranty policy and procedures manual (seen only by the dealerships) stated that only faults that affect safety and reliability could be reported to customers. But the dealerships voiced their concerns to senior management that there was a grey area where other faults which could not be reported could indirectly affect safety and that the policy was unethical. Such managerial decisions, which were rescinded after the issue was broadcast in a Sunday newspaper (Insight, 2012), can be understood as a strategic need to reduce business costs. But this can sometimes involve cutting corners as a consequence of the imperative to increase profits, year on year.

Paradoxically (because it is another example of business cost), another contemporary issue in business ethics is excessive executive renumeration across both the public and the private sectors. This is currently being investigated in the UK by the High Pay Commission. Indeed, the so-called ‘fat cat scandals’ have been numerous, the most infamous example of this being the ‘grotesque pension arrangements’ of Sir Fred Goodwin (Paxman, 2009), who retired as CEO from the Royal Bank of Scotland at fifty years of age. With a reputation for cost cutting, Goodwin exited with a pension of £635,000 p.a. (£12,000 per week) for the rest of his life, after presiding over the bank’s unprecedented annual loss of £24.1 billion – the biggest loss in British corporate history. Goodwin left 20,000 in danger of losing their jobs and the government with £325 billion of ‘toxic assets’ (Ginns, 2009). These may be seen as examples of corporations acting irresponsibly.

Thus CSR can be defined ‘in terms of the social and environmental impact of systemic organisational activity’ (Maclagan, 1999: 43). This thick construction was broadly illustrated by Gond (2006), whereby CSR represents the interface between business and society (see Figure 0.1 below).

Figure 0.1 also illustrates that there are other concepts related to CSR in the management literature. These are social responsibility, business ethics, philanthropy, corporate citizenship, corporate governance, corporate social performance, prosocial performance, socially responsible behaviour, cause-related marketing, sustainability and green business. There are other related terms. But here CSR is the generic term which I have used to discuss any activity at this interface between business and society, and therefore it also encompasses corporate misdemeanour and corporate irresponsibility. Thus the topical and political natures of corporate social responsibility are two important themes. This is because CSR encompasses normative and therefore inherently controversial arguments regarding the role of corporations in society. And these debates have produced three different perspectives on CSR: first, market fundamentalism, sometimes referred to as the theory of the firm, grounded in neoclassical economic theory; second, the business case for CSR, sometimes known as enlightened self-interest; and third,

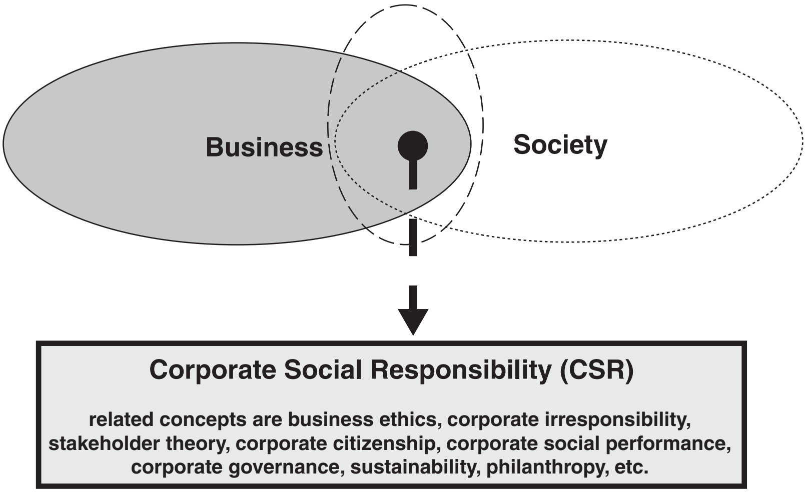

Figure 0.1 A simple representation of CSR (Adapted from Gond, 2006)

a multifiduciary perspective. At the core of these debates lies the voluntary, discretionary nature of CSR.

CSR may also be seen as a function of the corporation's changing environment, again producing controversial debates regarding who the corporation's responsibilities should extend to (Mitchell, Agle and Wood, 1997), against a background of growing corporate power and debates about globalisation (Achbar and Abbott, 2004; Held, 2002; Hertz, 2001). This has resulted in calls for corporations to take their social responsibilities as seriously as they pursue their economic objectives; in some cases, social responsibilities may be considered to be even more important (Carroll, 1979; Goodpaster, 1991; Klein, 2000). Indeed, capitalism's key tenet and what is seen as its sole focus, i.e. the maximisation of wealth, is considered by some to have gone too far, with the gap between the rich and the poor ever widening (Skidelsky and Skidelsky, 2012).

But these concerns are not new. For example, the economic historian Tawney emphasised 'the social purpose' as a duty of industry (Tawney, 1926: 242), and was highly critical of how he saw the development of industrialism, when he said that 'its teaching is that each individual or group has a right to what they can get, and denies that there is any principle, other than the mechanism of the market, which determines what they ought to get' (Tawney, 1926: 43). Tawney was greatly opposed to what he saw as a modern society with no limits on personal acquisition, sentiments that were also echoed over forty years ago by the management theorist Peter Drucker, who insisted that managers' responsibilities were:

> for the public good, that he subordinate his actions to an ethical standard of conduct, and that he restrain his self-interest and his authority wherever their exercise would infringe upon the common weal and upon the freedom of the individual. (Drucker, 1968: 454)

But other scholars have rejected this interpretation of the role of business and advocate that the pursuit of self-interest is also in society's interest. These scholars align themselves with the theory of the firm, or neoclassical economic theory, whereby *all* activity has to be directed towards delivering shareholder value:

> The classical view of the role of business in society is based on the economic principle that human well-being is served by the efficient use of society's resources and that the free enterprise system is the best means of achieving that efficiency. (Baron, 2003a: 645)

In this regard, CSR has been condemned as a 'fundamentally subversive doctrine in a free society' (Friedman, 1970: 8), or it may be dismissed as an inefficient way to run a business. For example, Baron referred to stakeholders as 'the non-market environment', which 'is populated by numerous interest groups and activist organizations that raise concerns about the practices of firms and pressure them to change those practices'. (Baron, 2003b: 108)

Another perspective on CSR is referred to as 'the business case', whereby CSR has increasingly been adopted as part of strategic business management practice. In these instances, CSR is often handled via public relations, whereby the focus of CSR is to manage stakeholder perceptions, the aim being for the corporation to be seen to be taking its social responsibilities seriously, in the long-term interests of the firm (Brown and Dacin, 1997; McWilliams and Siegel, 2001). Clearly, a strategic business perspective of CSR would adopt an instrumental, 'means-to-an-end', orientation, whereby the emphasis is on corporate image management with stakeholders, for competitive advantage. The business case, however, has increasingly been adopted by corporations who subscribe to the view that 'good ethics is good business'. This is also referred to as enlightened self-interest (Moir, 2001; Stormer, 2003), whereby greater emphasis is placed on the integration of CSR into the modus operandi of the firm, as well as into its corporate communications. Thus a stakeholder approach to CSR can be viewed in one of three ways: solely as a PR exercise, as business strategy or from a multifiduciary (social duty) perspective.

Third, the multifiduciary approach to business ethics and CSR (Goodpaster, 1991) is concerned with a firm's *duty* to its stakeholders. Here, the firm is regarded as having ethical responsibilities 'to do what's right and avoid harm . . . going beyond legal requirements' (Treviño and Nelson, 2004: 32). This may be understood as a different approach to capitalism. The approach emphasises a discourse with all the firm's stakeholders regarding what might constitute ethically correct corporate behaviour, because it is regarded as the morally right thing to treat all stakeholders fairly and not simply to include them for tactical reasons, due to a potential impact on the firm's commercial achievements (Maclagan, 1999).

Who is responsible for social provision and who and what should be included?

All this implies controversy with regard to the attribution of the responsibility for social considerations. Since the Thatcher years in the UK, government has increasingly sought the support of business for elements of social provision (Moon, 2004). However, this has attracted criticism from both the left and the right. On the one hand, the economist Milton Friedman (1970) expressed his view that social provision was the role of elected governments and that social responsibility was not and should not be a concern of business. Any suggestion otherwise, he said, was 'subversive' and a manifestation of socialism. On the other hand, the environmental and political activist George Monbiot (2000) worried about the idea of corporations subversively taking over the role of social provision that had traditionally been the domain of governments, observing this as an ominous shift of power, with corporations dictating and shaping new international legal frameworks:

> Before long . . . only a minority of nations will lie outside a single, legally harmonized global market, and they will swiftly find themselves obliged to join. By the time a new world trade agreement has been negotiated, it will

be irrelevant, for the WTO's job will already have been done. Nowhere on earth will robust laws protecting the environment or human rights be allowed to survive. Elected representatives will, if these plans for a new world order succeed, be reduced to the agents of a global government: built, coordinated and run by corporate chief executives. (Monbiot, 2000: 330)

Both scholars expressed grave concerns about governance issues, perceiving the shift of any kind of social responsibility from government to corporations as undemocratic. The influence of government as a driver of CSR will be dealt with more fully in the next section. But this also introduces a further facet to the notion of corporate social responsibility.

It is connected with the question surrounding the voluntary, discretionary element of CSR, in terms of actions that might *exceed* legal standards. For example, a firm's orientation towards CSR can be understood by examining its strength within or degree of adoption by the firm – is CSR regarded by a firm as part of its legal responsibilities, or part of a wider social duty? Is CSR regarded as strategically important? For example, is it socially responsible to comply with minimum health and safety or environmental standards? In this vein, Fred Goodwin's defence of his pension pot, referred to at the beginning of this Introduction, was that he had done nothing illegal. Similarly, UK Members of Parliament justified their highly extravagant expenses claims in the same way in their defence against charges of wasting taxpayers' money. This has led to CSR being described as either 'implicit' or 'explicit', determined by differing levels of formalisation of CSR within corporations either in terms of formal policies or strategies ('explicit' CSR), or in terms of an ad hoc approach ('implicit' CSR). The distinction stems from a comparison between corporate involvement in social programmes in the USA and Europe, due to established continental differences in both taxation levels and in the social provision provided by respective governments:

Many of the firm-based policies which in the USA are described as CSR are simply redundant in European institutional frameworks as it is mandatory or customary for corporations to fulfil such measures . . . [although] there is ample evidence that CSR in the 'explicit' sense is gaining momentum and spreading all over Europe (and beyond) . . . (Matten and Moon, 2004: 16)

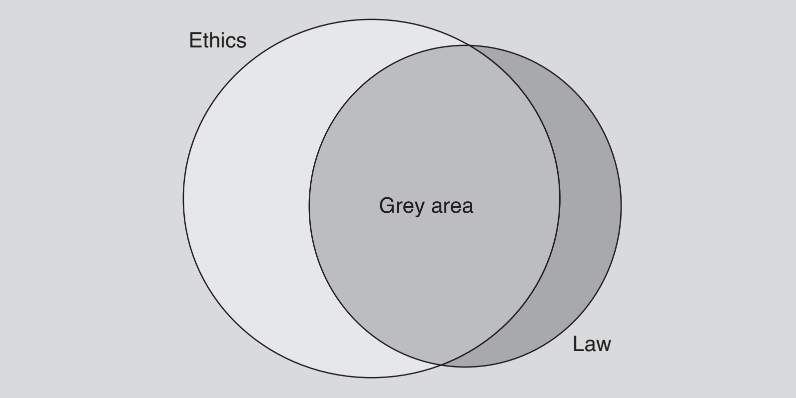

Figure 0.2 The relationship between CSR, ethics and the law (Crane and Matten, 2010, Oxford University Press)

Hence the concept of CSR may be perceived as having a longer tradition in the USA than elsewhere in the world. For example, the concluding chapter in Drucker's seminal text *The Practice of Management* is entitled 'The Responsibilities of Management' and serves to remind the reader that CSR is not a new idea. Drucker (an American) stated that 'Even the most private of private enterprises is an organ of society and serves a social function' (Drucker, 1968: 453). It appears that Drucker was an early protagonist of sustainability, in the enlightened self-interest (instrumental, or strategic) sense, because, he said, the adoption of a social responsibility in management is necessary 'for management's public standing, its success and status, for the very future of our economic and social system and the survival of the enterprise as an autonomous institution' (Drucker, 1968: 455). Consequently, CSR can also be understood in terms of *discretionary* or voluntary actions that anticipate public opinion, depicted as a 'grey area' by Crane and Matten (2010: 9). See Figure 0.2.

Hence the business ethicist Archie Carroll advocated business's responsibility in four forms: economic, legal, ethical and philanthropic, with philanthropic responsibilities described as 'purely voluntary' (Carroll, 1996: 35). Thus exceeding the requirements of the law remains a dominant feature of the CSR literature and it is an important theme in this book, because it signifies the inherent difficulties with CSR in that the values and objectives of society are varied.

Thus CSR as a social agenda at work can be interpreted as an antisocial agenda by Friedmanites. Moreover, CSR's connection with stakeholder theory, referred to above, implies the inevitability of competing values and enormous potential for moral dilemmas: 'Moral dilemmas occur when values are in conflict' (Treviño and Nelson, 2004: 3). This leads to 'stakeholder dynamism', whereby who or what really counts to managers varies, and such

> that stakeholders change in salience, requiring different degrees and types of attention depending on their attributed possession of power, legitimacy, and/or urgency, and that levels of these attributes (and thereby salience) can vary from issue to issue and from time to time. (Mitchell, Agle and Wood, 1997: 879)

Clearly, then, in attempting to assess a corporate moral dilemma, or in a discussion of corporate rights and responsibilities, the social role of business has to be clarified by the participants, hence the idea of CSR as an *essentially contested* concept (Moon, 2002). That is, there are many domains of CSR, in terms of who affects and is affected by the corporation. Not only this, but as an academic discipline, 'the field of CSR is best described as being in a state of on-going emergence, one that lacks a dominant paradigm' (Lockett, Moon and Visser, 2006). In other words, 'CSR is a difficult concept to pin down' (Moon, 2004: 2). Therefore any interpretation of CSR is problematic, because it encompasses debates regarding what constitutes moral behaviour at work and what we mean by 'doing the right thing'. Nevertheless we can presuppose the existence of different levels of involvement in CSR, different motivations for that involvement and different values driving the particular type of involvement. This perspective is congruent with the idea of a stratified ontology, different levels of reality and the interconnectedness of the world, which is inherent within the critical-realist philosophy of research (Archer, 2000; Sayer, 2000). Thus, in Chapters 1 and 2, I have unpacked a combination of motives for CSR, themed under structural and agential forces. I begin with the structural drivers for CSR.

PART I

Values and corporate social responsibility