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The Changing Role of Business in Global Society: CSR and Beyond

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Learning Objectives

- Understand how globalisation has impacted corporate social responsibility (CSR).
- Explain and criticise the concept of CSR.
- Reflect on the implications of different CSR approaches.
- Differentiate CSR from other related concepts (e.g. sustainability).
- Understand different motivations that firms have to adopting CSR.

1.1 The Corporation in Society: Shifting Perspectives

Consider the following three facts: The revenue of the largest corporation in the world, Wal-mart Stores (\$482 billion in 2014), is worth more than the gross domestic product (GDP) of all but twenty-seven of the world's economies. The world's largest asset management firm, a New York-based company called Black Rock, currently manages \$4.5 trillion of assets and thus invests more money than the total monetary reserves of any country in the world (China having the largest reserves with \$3.9 trillion in 2015). The Bill and Melinda Gates Foundation, a private philanthropic organisation, spends about \$3.9 billion annually on healthcare and development work, about the same amount as is spent by the World Health Organization (see also Rothkopf, 2012). What do these three facts suggest? They show that the relationship between public and private authority has taken an interesting turn in recent years. Globalisation together with an emerging privatisation of public goods/services has given rise to a situation where the state has withdrawn from many areas where it traditionally exercised a regulatory monopoly, such as in many Western countries. Nowadays corporations provide goods such as water, transport, education and healthcare. Private firms even run prisons, provide security and have become important actors in the conduct of war. In short, corporations are increasingly critical to a number of aspects of society, including

many which are fundamental to security and welfare. As a result, they have become more powerful actors and often assume a political role, either directly or indirectly. This shift in power has important implications for how we understand and manage firms' responsibilities towards society.

Due to their increased size and reach, corporations contribute significantly to some of the world's most vital social and environmental problems, such as overfishing of the oceans, water scarcity, violation of human rights, corruption and deforestation. While business activity is at the heart of these (and other) problems, private businesses are also increasingly seen as part of the solution. The United Nations (UN) Sustainable Development Goals, launched in 2015, which cover key targets such as ending poverty, safeguarding gender equality and ensuring sustainable management of natural resources, emphasise the importance of capacity-building through the private sector. Corporations are increasingly seen as reliable partners that mobilise resources and voluntarily comply with new standards. But the hope that corporations can help to solve some of today's biggest problems also creates risk. For instance, it furthers our dependence on corporations as the dominant institution in modern life. For example, Enron, which proved a fundamentally fraudulent company, was once a key player in the US energy market. Reliance on corporations to solve public problems also creates trade-offs that are sometimes difficult to judge. In 2015, Facebook's Mark Zuckerberg announced that he would donate 99 per cent of his Facebook stock (currently worth around \$45 billion) to advance the public good. Critics pointed out that this would lead to enormous tax advantages for him, as a donor receives a charitable contribution deduction when donating stock.

The relationship between corporations and (global) society has also shifted because of the rise of the digital economy. We are increasingly living in a 'datafied' society, and this has significant consequences for the responsibilities of corporations. To 'datafy' something implies to put it into a quantified format so that it can be analysed through digital means (Mayer-Schönberger and Cukier, 2013). Google datafies an enormous amount of books through its Google Books project, Facebook datafies friendships through 'like' buttons and LinkedIn datafies human resources through online CVs. This datafication impacts corporations' responsibilities in numerous ways. On the one hand, it increases public scrutiny and makes responsible as well as irresponsible corporate conduct more transparent. Datafication has increased the connectivity of people who share more content in faster ways (e.g. stories about corporate misconduct). Some apps even give consumers direct access to a product's responsibility score, while other apps measure air pollution and allow for tracking deforestation. On the other hand, datafication has created new powerful corporations with a new set of responsibilities. Tech giants like Apple, Google, Microsoft and Facebook belong to the most valuable corporations in the world (when comparing the market capitalisation of all public traded companies). These firms impact peoples' rights in new and often unforeseen ways. In early

2006, Google announced that it would censor the Chinese version of its search engine upon request by the Chinese government. Similarly, Yahoo was asked to disclose information on at least two email customers to the Chinese government. Both customers, who were known to be government critics, were later jailed for revealing state secrets.

This book takes you on a journey to study CSR against the background of the changing role of business in global society. The blurring of boundaries between the public and private, and the rise of the digital economy are just two important examples of how the roles and responsibilities of corporations in global society are changing. Throughout the book we will touch upon many debates, which extend this picture. This introductory chapter will first look at how globalisation has impacted CSR. We then discuss how best to frame CSR in conceptual terms and how to understand its relationship to other (partly competing) concepts, such as **corporate citizenship** and sustainability. The next section debates why firms engage in CSR, especially when considering the changing context of doing business that we discussed above. Finally, we will look at the three main conceptual pillars of this textbook: strategy, communication and **governance**. We show why these topics matter when it comes to CSR and how the book is organised around them.

1.2 Globalisation and CSR

The regulation of global business activity remains a challenge. There is an imbalance between the flexibility of multinational corporations (MNCs) to spread their value chain activities across different countries and the limited capacity of civil societies and nation states to adequately regulate corporate conduct across borders. Scherer and Palazzo call this the ‘regulatory vacuum effect’ (Scherer and Palazzo, 2008a). Such a vacuum exists because the sovereignty of political authorities is greatest within their national borders and more tenuous outside them, while businesses have become transnational actors. This makes it difficult for the governments of individual countries to address social and environmental problems that reach beyond single state boundaries. The failure to address global warming is a case in point. MNCs also have the chance to arbitrate among alternative regulations; i.e., they escape strict regulations by moving their operations or supply activities to countries with rather low standards (e.g. to lower their tax burden or cost of production). All of this has led to a ‘globalisation of responsibility’ and calls for alternative ways to regulate global business activity.

Existing political institutions, which reach beyond individual nation states (e.g. the UN system or the World Bank), lack the formal powers or political support to develop and enforce any binding rules or even sanction corporate

misconduct. The UN system was mostly designed for state actors, and falls short when it comes to regulating non-state actors. International law and UN-based treaties and conventions have been designed as a legal framework to direct the behaviour of nation states. It is rarely possible to apply these legal frameworks *directly* to corporations, especially when it comes to regulating their impact on social and environmental issues. In principle it is technically possible to craft legally binding international frameworks applying to corporations, but political interests and business lobbying have curtailed such efforts until now.

While the UN has been successful in developing, and winning support for, norms of responsible business, investment and business education, through the UN Global Compact (see Chapter 7), attempts by intergovernmental institutions to design more binding rules to control the obligations of private actors have so far failed. In 2004, the UN Commission on Human Rights rejected a proposal for human rights norms (officially called ‘UN Norms on the Responsibilities of Transnational Corporations and Other Enterprises with Regard to Human Rights’), which might have developed into binding rules. One argument leading to the rejection of the Draft Norms was that they would place state-like obligations on non-state actors. That argument was raised by states who had been lobbied by some powerful business associations that felt they had been excluded from the process leading to the text of the Norms. In 2011, the UN Human Rights Council adopted the UN Guiding Principles on Business and Human Rights, which were developed with broad stakeholder involvement (see Chapter 15).

Some have argued that the missing direct applicability of international law to corporations can at least partly be compensated by stronger **extraterritorial regulation**. Extraterritorial jurisdiction refers ‘to the ability of a state, via various legal, regulatory and judicial institutions, to exercise its authority over actors and activities outside its own territory’ (Zerk, 2010: 13). Put differently, states can apply certain domestic legal instruments beyond their own territory and hence can regulate the activities of corporate actors ‘abroad’. Although the application of extraterritorial law has given rise to tensions between nation states, which see their sovereignty endangered, the use of such legal instruments is commonplace in a few areas relevant to the CSR debate. For instance, the US Foreign Corrupt Practices Act allows the US government to sue corporations (even non-US ones) for offering or accepting bribes in another country (see Chapter 16). The UK Bribery Act, which was launched in 2011, can also be applied as extraterritorial jurisdiction. Even though the extraterritorial nature of certain domestic laws has helped to better regulate anti-corruption, it has not much affected other areas relevant to the CSR debate. In 2013, the US Supreme Court rolled back the impact of the Alien Tort Claims Act (ATCA), which allowed the prosecution of human rights violations by corporate actors in other countries. Many proceedings under ATCA were objected, based on the argument that the cases raise ‘political questions’, and

that judicial action by a US court in this area would interfere with ‘foreign policy interests’ (Zerk, 2010: 152). Overall, we can state that extraterritorial law has improved the regulation of global business activity in some selected areas, but it has not sufficiently closed the general ‘regulatory vacuum’ that surrounds the conduct of MNCs.

CSR is often conceptualised as an alternative and more pragmatic way to regulate the conduct of private actors in a global economy, especially as national and international legal frameworks remain limited in many respects. Although CSR remains primarily a voluntary construct, focused on self-regulation or on regulation that is exercised by multiple **stakeholders**, it offers a point of orientation for companies when thinking about their social and environmental responsibilities. Such orientation is needed as corporations increasingly operate in a global playing field that is characterised by a heterogeneous set of norms, values and interests. Moreover, for the many millions of citizens who do not live in democratic political systems, business organisations may sometimes prove more responsive to their values and interests than are their governments. The pluralisation of modern societies, which we can understand as an ongoing process of increasing individualisation, the devaluation of traditions and the globalisation of society, has increased the cultural heterogeneity that corporate actors in general, and MNCs in particular, have to cope with (Scherer and Palazzo, 2008a). What is a fair wage in Vietnam? Can petty bribes be culturally accepted? Do we need to support collective bargaining even though national legislation does not require it? Corporations need to find convincing answers to these (and other) questions while at the same time acknowledging that such answers are not defined once and for all. CSR is a concept in ‘ongoing emergence’ and managers need to develop an alert ‘sensory apparatus’ to understand how best to navigate. If exercised in the right way, CSR can help to develop a moral compass for firms to operate in a changing global society.

1.3 CSR: Framing the Debate

1.3.1 What is CSR?

Defining CSR is not a simple task. There are at least three reasons for this (Matten and Moon, 2008: 405). First, CSR is a contested concept that is defined (and applied) differently by different groups of people. We could even argue that this ambiguity is part of the reason why CSR has been so successful; under the label of CSR yet across a variety of (often disagreeing) stakeholders, people have for decades agreed on the importance of debating the role of business in society. However, this ambiguity has also caused criticism.

If the meaning of CSR cannot be agreed upon and specified precisely, corporations can easily exploit the concept by selectively applying the concept to those issue areas they can conveniently address. Second, CSR overlaps with other conceptions that describe business–society relations (e.g. business ethics, sustainability, accountability). Finally, like forms of business organisation and governance, CSR is a dynamic phenomenon. What counts as an issue relevant to the CSR debate changes over time, as new problems emerge and formerly novel practices become routine.

Despite these challenges we need a working definition for CSR. The term ‘CSR’ is used as follows throughout this book, even though some individual chapters have a more particular focus:

CSR refers to the integration of an enterprise’s social, environmental, ethical and philanthropic responsibilities towards society into its operations, processes and core business strategy in cooperation with relevant stakeholders.

This definition emphasises a number of important aspects of CSR. It stresses that CSR is not entirely about **philanthropy** (e.g. companies’ charitable donations). While a firm’s CSR strategy can include philanthropic activities, and may have been built on these, it is much more than that. Well-designed CSR goes into the very core of a corporation; it influences its everyday practices and business processes, and is aligned with its overall business strategy. Corporate philanthropy is sometimes detached from a firm’s core activities, while CSR is about reflecting on the social, environmental and ethical impact of these activities. This is not to say that CSR always has to be ‘strategic’ (a term that is often used as a synonym for ‘being profitable’; Porter and Kramer, 2006). Rather, it means that CSR should be embedded into what a firm does on a day-to-day basis, and it should also be reflected upon when deciding upon a firm’s strategic direction (e.g. which markets or regions it wants to enter).

It is also important to note what the definition does *not* mention. The definition does not explicitly indicate that CSR is a voluntary concept. We believe it would be misleading to exclusively conceptualise CSR in this way. Social and environmental responsibility is a de facto requirement among larger firms in some industries and countries. It is hard to find firms in the automotive or extractive industries without any CSR activities, because their sectors have developed industry-wide standards. In many business systems, companies observe ‘implicit’ obligations to undertake certain responsibilities simply by virtue of being members of those societies, as Matten and Moon revealed in their comparison of US and European CSR (Matten and Moon, 2008). Also, some governments have started to incentivise or even regulate CSR-related activities (e.g. the disclosure of relevant non-financial information; see Chapter 8). This has pushed the CSR debate beyond talking about purely voluntary actions.

It would also be misleading to define CSR as a completely voluntary concept, as a company's responsibilities towards society also include its legal obligations (Carroll, 1979, 1991). Sometimes meeting this legal minimum already is a challenge, especially as the regulatory environment is in a constant state of flux. One of the reasons for Siemens' large-scale corruption scandal, which started to unfold in 2006, was that the company underestimated the changing nature of the legal environment. Until 1999, it was legal in Germany to pay bribes abroad (it was even possible for firms to deduct bribes from their taxable income). Siemens found it hard to break the habit when German legislators changed relevant laws.

We explicitly use the term 'enterprise' in our definition. With this we want to highlight that CSR is not only a concept that is relevant for larger (multi-national) corporations, but that discussing businesses' responsibilities towards society also includes small and medium-sized enterprises (SMEs). SMEs are defined as firms with fewer than 250 employees. They make up the vast majority of businesses in an economy and provide the most jobs. The CSR activities of SMEs differ in a number of ways from those of larger firms (Baumann-Pauly, Wickert, Spence and Scherer, 2013). Often, the main motivation to integrate CSR is influenced by the personal beliefs and values of the founder (who in many cases is also the owner and manager of the firm). By contrast, CSR in larger firms is more driven by the hope that responsible business practices will yield some positive financial return and hence satisfy shareholder interests. SME's activities in the area of CSR are also more connected to the specific needs of the local communities in which they are embedded, while larger firms usually operate a portfolio of social and environmental practices that cut across different geographic contexts. Although there are significant differences in the way CSR is understood and operationalised in SMEs and larger corporations, there are also similarities. Most importantly, the issue areas relevant to the CSR debate rest on the same basic principles. For instance, human rights rest on universal principles, which equally apply to all corporations regardless of their size or the geographic location of their activities.

Our definition also emphasises that CSR is a multidimensional construct. Despite the term 'corporate *social* responsibility', CSR also includes discussions about firms' environmental footprint. The discussions throughout this book follow the internationally agreed view that CSR encompasses corporate responsibilities in at least four key issue areas: human rights (as agreed upon in the Universal Declaration of Human Rights), labour rights (as agreed upon in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work), environmental principles (as fixed in the Rio Declaration on Environment and Development), as well as anti-corruption (as stated in the UN Convention Against Corruption). These four issue areas should not be seen as an exhaustive and definite list of responsibilities. They form a moral compass, outlining a minimum standard when discussing what should be

expected from corporations. One advantage of this textbook is that it introduces you directly to debates and principles in these four areas (see Chapters 15–18). We do not want to treat CSR as an abstract concept. CSR comes to life and is filled with practical meaning when we start to discuss how firms address specific problems in the four issue areas.

There is no one-size-fits-all approach towards CSR. Discussing a firm's social, environmental, ethical and philanthropic responsibilities is contextually dependent and multidimensional by nature. It depends, among other things, on what kind of firm is being analysed (e.g. its size and ownership structure), what sector the firm operates in, and the location of relevant business activities. *Contexts and events matter* when it comes to CSR and that is why general recipes need to be treated with care (see Chapter 2)!

1.3.2 Other CSR Definitions

While our definition highlights certain aspects of CSR, other definitions describe the phenomenon differently. We offer an overview of five conceptualisations of CSR (although we do not claim this to be exhaustive). The existing range of definitions reflects the ambiguous, dynamic and contested nature of CSR. We group existing definitions into five main clusters (see similar Garriga and Melé, 2004), keeping in mind that these clusters reflect analytical distinctions and that most CSR definitions possess elements of more than one cluster.

Some scholars have emphasised the *normative dimension* of CSR. Their definitions usually highlight CSR's ethical foundations. Firms need to accept their social and environmental responsibilities because it is their ethical obligation to align their activities with the values of society. For instance, Bowen defined CSR as referring 'to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society' (Bowen, 1953: 6). Of course, one can use different ethical principles to evaluate how managers ought to act. Some have emphasised the universal nature of rights underlying CSR (reflecting a Kantian perspective), while others have suggested that businesses, like other societal actors, have to contribute to 'the common good' of society (reflecting an Aristotelian perspective). Chapter 2 presents ethical underpinnings of CSR from a variety of cultures.

Another group of scholars has stressed that firms *integrate social and environmental demands* via CSR practices (Garriga and Melé, 2004). Such an integrative view highlights that corporations depend on society for their existence; CSR then is a way to integrate different societal demands into business operations. Carroll's classic definition of CSR reflects this perspective: 'The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time.' (Carroll, 1979: 500) CSR is here defined with regard to

the different kind of expectations that society has vis-à-vis a corporation. Instead of looking at the generic responsiveness to certain expectations, some scholars have emphasised integrating the demands of those who have a legitimate stake in a firm (i.e. its stakeholders; see Chapter 5). Campbell, for instance, views ‘corporations as acting in socially responsible ways if they do two things. First, they must not knowingly do anything that could harm their stakeholders. Second, if they do harm to stakeholders, then they must rectify it whenever it is discovered and brought to their attention’ (Campbell, 2006: 928).

Some of the literature on CSR adopts an *instrumental perspective* (see also Chapter 3). Definitions in this direction emphasise an economic approach to business responsibility. CSR becomes a means to an end, a strategic tool to achieve competitive advantage. Although CSR is rarely defined in a purely economic fashion (for an exception see Friedman, 1970, 1987), many scholars have emphasised its instrumental character. McWilliams and Siegel (2001: 119), for example, state that ‘CSR can be viewed as a form of investment’ and that managers need to ‘determine the appropriate level of CSR investment’ (118). Understanding CSR in this way stresses that a firm should only accept responsibilities if this advances its economic self-interest. The assumption behind this type of thinking is that managers are legally obliged to fulfil their fiduciary duties (i.e. to protect the investment of shareholders). A number of scholars have challenged this perspective by highlighting that managers also bear a fiduciary relationship to other stakeholders (Freeman, 1984).

Increasingly, definitions of CSR that highlight its *political nature* have gained prominence (see also Chapter 6). There has been a long-standing, if often understated, political theme in CSR, as evidenced by Bowen’s (1953) references to CSR as being a delegated power directed at social welfare. In part, **political CSR** has been explored under the aegis of ‘corporate constitutionalism’, ‘integrative social contract theory’ and ‘corporate citizenship’ (Garriga and Melé, 2004: 55–57). We can add the contribution of CSR scholars investigating ‘public responsibility’, by which they meant ‘not only the literal text of law and regulation but also the broad pattern of social direction reflected in public opinion, emerging issues, formal legal requirements and enforcement or implementation practices’ (Preston and Post, 1981: 57). A more recent version of political CSR suggests that CSR ‘entails those responsible business activities that turn corporations into providers of public goods in cases where public authorities are unable or unwilling to fulfil this role’ (Scherer, Rasche, Palazzo and Spicer 2016: 3). This definition emphasises that corporations are often entering the political sphere, as they directly or indirectly become involved in the regulation of social and environmental problems (e.g. by joining voluntary multi-stakeholder initiatives (MSIs)). Such a view of CSR presupposes a new understanding of global politics and the role of business in society. Rather than only focusing on the interaction of governmental actors,

business firms and civil society actors become active participants in the regulation of market transactions.

Finally, we present an *emergent perspective* on CSR in which the flux and changing nature of CSR is emphasised. According to this perspective, CSR is best described as ‘a permanent issue and an area of debates in management theory and practice, rather than a well stabilized construct with a clear and constant operationalization’ (Gond and Moon, 2011: 4). Across practice and theory there is a general agreement that no single authoritative concept has succeeded in defining the field. In fact, some scholars have argued that it makes ‘little sense to talk about CSR as if it possessed a definition that is stable and fixed and only has to be discovered and applied’ (Cantó-Milà and Lozano, 2009: 158). Others have proposed that knowledge about CSR is in a ‘continuing state of emergence’ (Lockett, Moon and Visser, 2006: 133), and that CSR accordingly is an essentially contested concept (Gond and Moon, 2011). Such acknowledgment of the ambiguous and evolving nature of CSR has caused considerable confusion and concern across practitioners and scholars who have agreed that a clear and consistent definition on CSR is needed to gain influence and impact across a wide range of stakeholders. However, it is also acknowledged that CSR needs to conform to culturally and contextually bound ambiguities that change over time. Rather than agonising over the lack of consistency, scholars have started to inquire to what extent the discursive openness of CSR may be an advantage for firms but also importantly for society. From this perspective, it is suggested that CSR is ‘best understood not as a clear or consistent agenda, but rather as a forum for sensemaking, diversity of opinion, and debate over the conflicting social norms and expectations attached to corporate activity’ (Guthey and Morsing, 2014: 555). CSR becomes an undisputed yet contested precondition for business development, where managers need to proactively engage rather than respond.

Table 1.1 summarises the five perspectives on CSR. Whatever definition one might adopt, CSR needs to be distinguished from corporate social irresponsibility (CSIR). CSIR is more than the failure of a firm to perform CSR. Corporations can deliberately decide to become engaged in CSIR (e.g. when paying bribes), but firms can also ‘stumble into’ acts of irresponsible behaviour without any direct intention (e.g. when underestimating business risks). We refer to CSIR as corporate activity that ‘negatively affects an identifiable social stakeholder’s legitimate claims (in the long run)’ (Strike, Gao and Bansal, 2006: 852). Some would argue that CSR and CSIR are extreme ends on a continuum and thus mutually exclusive. This, however, neglects that CSR and CSIR can exist simultaneously in a corporation. Kotchen and Moon find in a study of 3,000 publicly traded companies that firms that do more ‘harm’ (CSIR) also do more ‘good’ (CSR) (Kotchen and Moon, 2012). In other words, firms often invest in CSR to compensate for past, present or anticipated irresponsible acts. For instance, the US supermarket chain Whole Foods is often praised for its proactive CSR behaviour, while it also neglects unions and