Corporate social responsibility

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DEFINING CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) refers to business activities that take into account their social and environmental impacts. Socially responsible companies adopt voluntary codes of conduct and promote business practices that are sustainable with regard to nature and the social fabric of local communities. CSR requires the corporation to consider its impact on, and responsibility toward, a more broadly defined stakeholder group, adding to owners or shareholders its workers, consumers, the concern for the larger public, and the planet.

Four kinds of responsibilities have been defined as encompassing CSR: economic, legal, ethical, and philanthropic (Carroll 1979, 1991). The economic responsibility of creating profits is considered the foundation on which all other responsibilities rest. Equally fundamental is that companies are law-abiding and follow societal definitions of right and wrong as laid out in the legal code. The ethical responsibility of corporations is to avoid harm and to conduct business in a fair and just way. Ethical duties include following society's norms and doing what is expected as opposed to doing merely what is required. Finally, good corporate citizens assume philanthropic responsibilities: doing what is desired by society, including contributing resources to the community and ameliorating harm inflicted by the company's conduct. These four areas of CSR are reflected in corporate codes of conduct and responsibility statements by corporations. The majority of large transnational corporations (TNCs) devote a section in their annual reports to CSR principles and actions. Many TNCs also publish a separate annual responsibility report and devote parts of their website to matters of CSR.

HISTORICAL DEVELOPMENTS OF CSR

CSR is not a new phenomenon. The emergence of CSR was most significantly defined by growing interest in responsible business behavior in the United States in the 1960s and 1970s. The context of various social movements, including the civil rights, antiwar, and new left movements, shaped changes in expectations toward TNCs. The divestment from South Africa campaign, seeking to end the apartheid regime by economically isolating South Africa, is particularly noteworthy in the development of CSR norms. One of the key instruments put forward by the campaign was the Sullivan Principles. Written in 1977 by Rev. Leon Sullivan, those principles required corporations to treat their workers equally, irrespective of their race. The goal was to pressure US companies not to conduct business in South Africa, where these principles were violated under apartheid rules. Twenty years later, Rev. Sullivan and former UN Secretary General Kofi Annan introduced the Global Sullivan Principles, which are endorsed by about 100 companies worldwide.

Similarly, the socioeconomic and political contexts of the 1980s helped shape how companies defined their goals and responsibilities toward society. The continued growth of CSR principles in the United States can be attributed to limited state provisions in the areas of health care and pensions. While in Europe governments were providing such services, larger US companies increasingly extended these social benefits to their employees and families (Vogel 2005). In addition, anti-corporate sentiments became more pronounced in this "Decade of Greed" (1980s), and corporate wrongdoings also fed those attitudes. The most significant corporate disaster was Union Carbide's Bhopal

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explosion, which killed thousands of people in 1984. The Nestlé boycott, protesting the promotion of infant formula over breastfeeding to mothers in poor countries, also raised awareness of unethical behavior by a global conglomerate.

The 1990s saw tremendous growth of CSR norms, including the proliferation of global reporting standards, which are further discussed in this entry. While in previous decades corporate giving was largely framed in terms of philanthropy and "doing good," in the 1990s arguments of morality and profits blended and "doing well by doing good" became a leitmotif. CSR increasingly became defined in terms of the triple bottom line – people, planet, profits – linking corporations' responsible behavior with their profit motive.

MOTIVATIONS FOR CSR

There is a range of motivating factors for adopting ethical and philanthropic responsibilities. At times, the adoption of voluntary CSR principles is a preemptive strike to avoid more heavy-handed state regulation, which would likely be more far-reaching, requiring transparency and accountability. In other instances, altruistic business leaders or social entrepreneurs support and pursue causes that they genuinely care about. Companies like The Body Shop, Ben and Jerry's, or Patagonia have emerged based on responsible principles, developing "ethical" brand names. These companies have frequently performed quite well and blurred the line between altruism and self-interest. This, in part, has helped spur CSR by associating it with financial profits and material success (Vogel 2005).

Although the empirical evidence on it is not conclusive, that CSR makes business sense has become the quintessential justification for engaging in responsible behavior. What is argued is that responsible companies benefit from attracting better workers and retaining them. Similarly, investors react positively, so that responsible firms can get greater access to finance. Moreover, consumers reward responsible companies. Therefore firms, especially in retail where reputation vis-à-vis consumers matters, can benefit from being responsible.

At the same time, irresponsible companies can suffer financially due to a loss of reputation and the declining confidence of consumers, workers, and investors. Irresponsible companies are targeted by consumer campaigns that publicize ethical and environmental violations and can pose a threat to corporate well-being. Examples are the anti-sweatshop movement targeting Nike, Levis, and Gap or anti-GMO (genetically modified organism) campaigns accusing agribusinesses, like Monsanto, of creating "frankenfoods." Awareness campaigns or boycotts are particularly problematic for companies with brand name recognition. Such anti-corporate campaigns frequently lead to the adoption of corporate codes of conduct and a more pronounced commitment to CSR in attempts to restore the company image.

Particular events such as environmental disasters can similarly trigger the adoption of CSR. A case in point is the *Exxon Valdez* oil spill in 1989. This major natural disaster put into motion the creation of the Coalition for Environmentally Responsible Economies (CERES) and an environmental corporate code of conduct, the CERES principles. The 10-point code has been endorsed by over 70 companies and CERES has subsequently launched the Global Reporting Initiative (GRI), which to date is the most prominent global framework to measure economic, environmental, and social performance. The adoption of codes of conduct, even if initially aimed at restoring legitimacy and public trust, can translate into expansive institutional CSR endeavors.

Empirical evidence on whether or not CSR adds to the bottom line is inconclusive (e.g., Porter & Kramer 2006; Margolis et al. 2007), with some research showing extensive financial benefits and others reporting negative effects of CSR on financial performance. Most studies conclude either no significant relationships or moderate positive effects of CSR on profits. Debates on profitability withstanding, fueled by globalization, CSR has emerged prominently on the agenda of TNCs, states, international organizations, and nongovernmental organizations (NGOs).

GLOBALIZATION AND CSR

Globalization has helped spur the spread of CSR through two mechanisms. First, economic globalization and neoliberal expansion created a fertile environment for CSR. The growing global reach of TNCs as well as their scope and size of economic activities around the world created the need for new regulations. But increasingly those activities fell outside the direct scope of states' regulative mechanism. Moreover, global economic institutions like the WTO liberalized economic activity. This absence of a legally binding global regulative framework on social or environmental matters facilitated the growing prominence of voluntary CSR. At the same time, economic globalization, the growth of TNCs, and overall neoliberalism have led to the emergence of counter-globalizations, oppositional views to capitalist logics, and the condemnation of TNCs in particular. Blaming TNCs for various social problems and ills helped redefine corporate responsibilities in the age of globalization.

Second, globalization has bolstered global organizational structures, communication networks, and global consciousness. Via these cultural and political processes, CSR norms have increasingly become institutionalized globally. A growing number of international organizations promote CSR by creating, disseminating, and implementing new standards on how to conduct business. For instance, the OECD's *Guidelines for Multinational Enterprises*, initially created in 1976 and most recently revised in 2011, define global CSR principles and standards. The *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy* was adopted by the International Labour Organization in 1977 and was updated in 2006. The EU has formalized its commitment to CSR with the publication of the European Commission's White Paper *Communication on CSR* and the creation of the European Alliance for CSR in 2006. The UN Global Compact, established in 2000 by Kofi Annan, involves corporate and civil society actors and specifies CSR principles in the areas of human rights, labor, the environment, and anticorruption. To date, over 8000 corporate entities have joined the initiative. Reinforcing the Global Compact, the United Nations Human Rights Council endorsed a set of *Guiding Principles on Business and Human Rights* developed by John Ruggie in 2011.

There are numerous other significant global CSR accounting and reporting standards that have been developed by NGOs: AccountAbility's AA1000; the Global Reporting Guidelines; Social Accountability International's SA 8000; or the International Standardization Organization's ISO 26000. In addition to creating and implementing CSR standards, NGOs have also served as monitors of those standards and as corporate watchdogs more generally. Business NGOs and global trade associations too have been important in promoting CSR principles across industries. Most notably, the International Business Leaders Forum (IBLF), founded in 1990 by the Prince of Wales, focuses on advancing CSR practices in emerging economies.

Jointly, these global governance efforts creating voluntary guidelines to corporate behavior facilitate the continued growth of CSR norms around the world. TNCs and their managers are taught to value CSR as a significant component of their corporate activities and are instructed on how to become more moral and ethical executives. Despite this significant growth of CSR-related institutional efforts, CSR norms and practices are not uncontroversial.

DEBATING CSR

CSR is by no means an uncontested phenomenon. There is a wide range of arguments made by CSR supporters on its beneficial effects. Some perceive the potential benefits to society and the planet as quite extensive, while less optimistic proponents are skeptical about the extent of positive impacts and the voluntary nature of CSR. Still others view voluntary CSR codes of conduct as a better alternative to more heavy-handed state enforcement.

But critics suggest that CSR has negative consequences for society. On the one hand, CSR skeptics argue that by jeopardizing the most essential corporate responsibility – profitability – companies end up doing more harm than good. A business's key function is to create profits for its shareholders, and losing sight of this goal harms productivity and economic output. Based on this logic, former OECD chief economic officer David Henderson (2001) argued that as a consequence CSR inflicts societal harm, including lower incomes, less employment, and more poverty.

While these critics object to CSR because it hampers the bottom line, there are those who lament precisely the opposite: the problem with voluntary corporate responsible actions, they argue, is that they are profit driven and not based on genuine ethical and moral motivations. CSR commitments by companies are smokescreens and codes of conduct are self-serving promises that are rarely fulfilled. In addition, skeptics argue that CSR distorts reality because companies may do many significant irresponsible things in the pursuit of profit, while touting their image with minor responsible acts.

Particularly because it is difficult to quantify or empirically determine the precise effects of CSR, this debate will likely continue. Nevertheless, given the cultural, political, and institutional efforts regarding CSR, corporations will find it increasingly difficult to ignore social and environmental responsibilities, forgoing the endeavor of good corporate citizenship.

SEE ALSO: Accountability; Consumer movements; Economic globalization; Fair trade; Multinational corporations; Neoliberalism; Sustainability; Sweatshops; Transnational corporations; Transparency.

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