CHAPTER THREE

The Corporation's Social Responsibilities

The idea that businesses bear broad responsibilities to society as they pursue economic goals is an age-old belief. Both market and nonmarket stakeholders expect businesses to be socially responsible, and many companies have responded by making social goals a part of their overall business operations. Some businesses have even integrated social benefit with economic objectives as their primary mission. With these dramatic changes in the mission and purpose of a business organization, what it means to act in socially responsible ways is not always clear, thus producing controversy about what constitutes such behavior, how extensive it should be, and what it costs to be socially responsible.

This Chapter Focuses on These Key Learning Objectives:

- Understanding the role of big business and the responsible use of corporate power in a democratic society.
- Knowing when the idea of corporate social responsibility originated and the phases through which it has developed.
- Investigating how a company's purpose or mission can integrate social objectives with economic objectives.
- Examining the key arguments for and against corporate social responsibility.
- Defining a social enterprise and understanding its role in solving social problems.
- Evaluating business's social obligations to help the world's poorest members.
- Recognizing socially responsible best practices.

Do managers have a responsibility to their stockholders? Certainly they do, because the owners of the business have invested their capital in the firm, exhibiting the ownership theory of the firm presented in Chapter 1. Do managers also have a responsibility, a *social* responsibility, to their company's other market and nonmarket stakeholders—the people who live where the firm operates, who purchase the firm's product or service, or who work for the firm? Does the stakeholder theory of the firm, described in detail in Chapter 1, expand a firm's obligations to include multiple stakeholders present in an interactive social system? Generally, yes, but while managers may have a clear responsibility to respond to all stakeholders, just how far should this responsibility go?

Hewlett-Packard's vice president of Global Social Innovation stated, "It's no small feat to overcome the challenges we face as a global community. But at HP, we have the expertise, technology, and resources to make a real difference. And we're working with organizations around the world to innovate solutions that we believe will create lasting change for millions of people." HP followed up this pledge for global change by committing nearly $45 million in monetary contributions, product donations, and employee time. Employees volunteered more than 102,000 hours annually in communities worldwide. A half a million students, recent graduates, and young entrepreneurs were given help through HP's education and entrepreneurship assistance programs.

In 2010, British pharmaceutical firm GlaxoSmithKline (GSK) announced that it was making thousands of drugs publicly available that potentially could lead to a cure for malaria, a disease that kills nearly one million children every year. Although GSK held the patents on these drugs and typically would keep the product away from its competitors and other scientists, "this is a chance to get thousands of researchers involved—just like software companies encourage thousands of people to contribute to their new ideas for software—and we'll see what comes of it," explained GSK's chief executive officer (CEO). GSK also announced that it had created an $8 million fund to pay scientists to explore these chemicals in an "open lab" at GSK's research center in Spain, which is dedicated to work on malaria and other diseases predominantly found in developing countries around the world.[1]

Are the efforts described above examples of a corporation's social responsibility, how businesses merge their social goals with solid economic objectives, or are these inappropriate uses of corporate assets—finances, personnel, and product? If these are examples of good business practice, how far should an organization go to help those in society in need of their support? How much is too much?

New, innovative methods are being created all the time to promote the corporation's social responsibilities, including using social media, as described in Exhibit 3.A.

This chapter describes the role business plays in society, introduces the notion of corporate social responsibility, and describes how this obligation began. How organizations should balance their multiple responsibilities—economic, legal, and social—is an ongoing challenge. What are the advantages and drawbacks of being socially responsible? Should the purpose or mission of the business integrate social objectives with economic objectives? What responsibility do businesses have to help those who are the poorest of the world? Whether businesses are large or small, make goods or provide services, operate at

[1] "Social Innovation," Hewlett-Packard's website, *www.hp.com;* and "Glaxo Offers Free Access to Potential Malaria Cures," *The Guardian*, January 19, 2010, *www.guardian.co.uk*.

Exhibit 3.A Social Responsibility at Pepsi-Cola Meets Social Media

In 2010, Pepsi-Cola committed $20 million to "doing well by doing good." The Pepsi Refresh Project asked Facebook and Twitter users to nominate programs worthy of the company's funding. The ideas for Pepsi Refresh grants were submitted each month to a website—refresheverything.com, where members of the public could vote for their favorite program using their cell phone or computer. Pepsi teamed with media partners AOL, Hulu, MTV Networks, Facebook, and Parade, and the project was featured on NBC, ABC, CBS, 30 cable channels, 10 print publications, and on websites like Yahoo!. The project was an extension of Pepsi's "Every generation refreshes the world—now it's your turn" campaign. According to the chief creative officer at Pepsi, "The goal is to develop a mechanism for young people to create ideas to make things better."

One of the first to receive a Pepsi Refresh grant was KIDDS Dance Project in Lithonia, Georgia. This program focused on teaching children the right moves on the dance floor and for their future. With help from a $50,000 Pepsi Refresh grant, they opened the doors of their Performing Arts and Youth Development Center to the community last year. Parents can sign their kids up to get tutoring, take dance lessons, participate in music workshops, and more. A different project funded by a Pepsi Refresh grant was Bikeloc, an initiative spearheaded by two young bicycle enthusiasts who used their $5,000 Pepsi Refresh Project grant to bike 4,000 miles. During their trek across the United States, the cyclists hosted community potlucks that engaged and educated 500 people across the country on the benefits of cycling and exercise. They documented all the action for a self-published book and website.

Pepsi also developed other innovative channels to promote this theme. The company launched the "If I Can Dream" reality show on hulu.com to promote the campaign. MTV Networks agreed to include the Pepsi campaign in their awards shows that aired on Comedy Central, Spike, and VH1. The campaign was prominently featured when Pepsi purchased the lead advertising position on face-book.com on Super Bowl Sunday.

Sources: "Pepsi Invites the Public to Do Good," *The New York Times,* February 1, 2010, *www.nytimes.com;* and "Check Out Past Pepsi Refresh Project Winners—And Vote to Fund the Next Inspiring Ideas!" *Huffington Post,* December 22, 2011, *www.huffingtonpost.com.*

home or abroad, willingly try to be socially responsible or fight against it all the way, there is no doubt that the public expects businesses to understand and act on their responsibility to all of their stakeholders in the society in which they operate.

Corporate Power and Responsibility

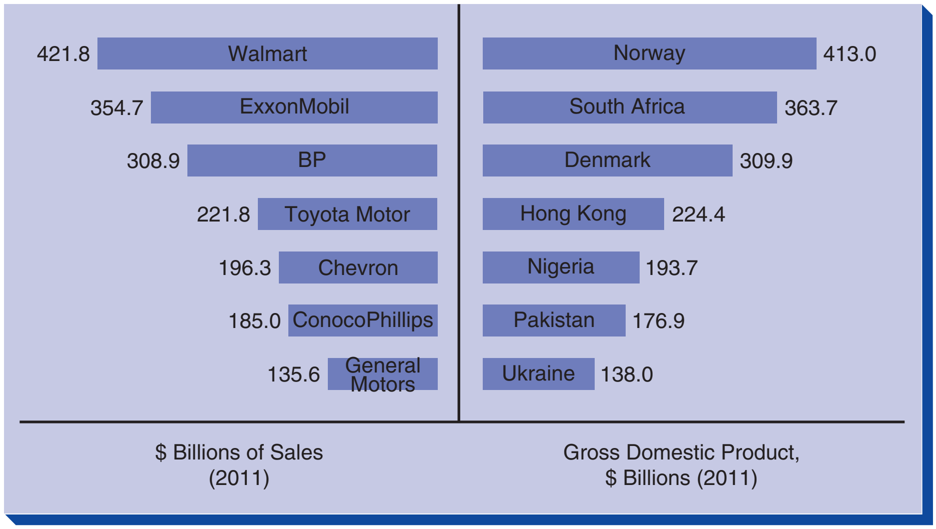
Undeniably, businesses, especially large corporations—whether by intention or accident, and whether for good or evil—play a major role in all that occurs in society. The power exerted by the world's largest business organizations is obvious and enormous. This influence, termed **corporate power**, refers to the capability of corporations to influence government, the economy, and society, based on their organizational resources.

One way to get a sense of the economic power of the world's largest companies is to compare them with nations. Figure 3.1 shows some leading companies alongside countries whose total gross domestic product is about the same as these companies' revenue. The revenues of automaker Toyota Motor, for example, are about equal to the entire economic output of Hong Kong; Walmart's are about the size of the economy of Norway; and BP's are about the size of the economy of Denmark.

The size and global reach of major transnational corporations such as Walmart and the others listed in Figure 3.1 give them tremendous power. Through their ever-present

FIGURE 3.1
Comparison of Annual Sales Revenue and the Gross Domestic Product for Selected Transnational Corporations and Nations, 2011, in $ Billions*

Sources: "*Fortune* Global 500," CNN Money.com, *oney.cnn.com/magazines/fortune/global500/2011/full_list*; and World Bank data, *data worldbank.org/indicator/NY.GDP.MKTP.CD.*



*2011 $ billions of sales compared to 2011 gross domestic product in $ billions.

marketing, they influence what people want and how they act around the world. We count on corporations for job creation; much of our community well-being; the standard of living we enjoy; the tax base for essential municipal, state, and national services; and our needs for banking and financial services, insurance, transportation, communication, utilities, entertainment, and a growing proportion of health care. These corporations have the resources to make substantial contributions to political campaigns, as discussed in Chapter 9, thus influencing the policies of governments. They dominate not only the traditional domains of product manufacture and service delivery, but also increasingly reach into such traditionally public sector activities as education, law enforcement, and the provision of social services.[2]

The following well-known quotation, frequently appearing in journals for business executives, challenges its readers to assume a responsible role for business in society:

> Business has become . . . the most powerful institution on the planet. The dominant institution in any society needs to take responsibility for the whole. . . . Every decision that is made, every action that is taken, must be viewed in light of that kind of responsibility.[3]

The tremendous power of the world's leading corporations has both positive and negative effects. A big company may have definite advantages over a small one. It can command more resources, produce at a lower cost, plan further into the future, and weather business fluctuations somewhat better. Globalization of markets can bring new

[2] For two classic analyses of corporate power, see Alfred C. Neal, *Business Power and Public Policy* (New York: Praeger, 1981); and Edwin M. Epstein and Dow Votaw, eds., *Rationality, Legitimacy, Responsibility: Search for New Directions in Business and Society* (Santa Monica, CA: Goodyear, 1978). More recent treatments may be found in David C. Korten, *When Corporations Rule the World* (San Francisco: Berrett-Koehler, 1996); Carl Boggs, *The End of Politics: Corporate Power and the Decline of the Public Sphere* (New York: Guilford Press, 2000); and Alastair McIntosh, *Soil and Soul: People versus Corporate Power* (London: Aurum Press, 2004).

[3] David C. Korten, "Limits to the Social Responsibility of Business," *The People-Centered Development Forum,* article 19, June 1, 1996.

products, technologies, and economic opportunities to developing societies, and help those in need. After Hurricane Katrina and the Haitian earthquake ravaged their respective regions, for example, Google's Person Finder provided emergency responders with a powerful tool with which to track missing persons. Google's global network enabled dozens of disaster relief organizations and government agencies to coordinate their work.[4]

Yet, the concentration of corporate power can also harm society. Huge businesses can disproportionately influence politics, shape tastes, and dominate public discourse. They can move production from one site to another, weakening unions and communities. These companies can also use their economic influence to collude to fix prices, divide markets, and quash competition in ways that can negatively affect consumer choices, employment opportunities, or the creation of new businesses. A United Nations report estimated that the world's largest 3,000 businesses were responsible for $2.2 trillion in environmental damage. That was one-third of the firms' annual profits in 2010.[5]

Many people are concerned about the enormous influence of business. Since 1994, between 80 and 90 percent of the Americans polled every year or so said that big business had too much power. The focused power found in the modern business corporation means that every action it takes can affect the quality of human life—for individuals, for communities, and for the entire globe.[6] The obligation this gives rise to is what is often referred to as the *iron law of responsibility*. The **iron law of responsibility** says that in the long run those who do not use power in ways that society considers responsible will tend to lose it.

Given the virtually immeasurable power in the hands of the leaders of large, global corporations, stakeholders throughout the social system expect business to take great care in wielding its power responsibly for the betterment of society. As a result, social responsibility has become a worldwide expectation.

The Meaning of Corporate Social Responsibility

Corporate social responsibility (CSR) means that a corporation should act in a way that enhances society and its inhabitants and be held accountable for any of its actions that affect people, their communities, and their environment. This concept is based in the root of the term *responsibility*, meaning "to pledge back," creating a commitment to give back to society and the organization's stakeholders.[7] It implies that harm to people and society should be acknowledged and corrected if at all possible. It may require a company to forgo some profits if its social impacts seriously hurt some of its stakeholders or if its funds can be used to have a positive social impact.

[4] The Google story is found in "Innovations in Corporate Global Citizenship: Responding to the Haiti Earthquake," *World Economic Forum*, 2010, p. 13.

[5] "World's Top Firms Cause $2.2tn of Environmental Damage, Report Estimates," *The Guardian*, February 18, 2010, *guardian .co.uk*.

[6] "Very Large Majorities of Americans Believe Big Companies, PACs, Political Lobbyists and the News Media Have Too Much Power and Influence in D.C.," *The Harris Poll*, Harris Interactive, March 12, 2009. The iron law of responsibility concept first appeared in Keith Davis and Robert Blomstrom, *Business and Its Environment* (New York: McGraw-Hill, 1966).

[7] For a more complete discussion of the roots of corporate social responsibility and how it is practiced, see Jerry D. Goldstein and Andrew C. Wicks, "Corporate and Stakeholder Responsibility: Making Business Ethics a Two-Way Conversation," *Business Ethics Quarterly* 17 (2007), pp. 375–98. Also see Florian Wettstein, "Beyond Voluntariness, beyond CSR: Making a Case for Human Rights and Justice," *Business and Society Review*, 2009, pp. 125–52.

Being socially responsible does not mean that a company must abandon its other missions. As discussed later in this chapter, a business has many responsibilities: economic, legal, and social; the challenge for management is to integrate them all into a coherent and comprehensive mission. In a worldwide survey of CEOs, for example, 72 percent of executives polled said they sought to *embed* social and environmental issues into the organization's core strategies and operations.[8] At times these responsibilities will be in tension; at other times they will blend together to better the firm and actually make it more profitable. Thus, having multiple and sometimes competing responsibilities does not mean that socially responsible firms cannot be as profitable as others that are less responsible; some are and some are not.

The Origins of Corporate Social Responsibility

In the United States, the idea of corporate social responsibility appeared around the start of the 20th century. Corporations at that time came under attack for being too big, too powerful, and guilty of antisocial and anticompetitive practices. Critics tried to curb corporate power through antitrust laws, banking regulations, and consumer protection laws.

Faced with this social protest, a few farsighted business executives advised corporations to use their power and influence voluntarily for broad social purposes rather than for profits alone. Some of the wealthiest business leaders—steelmaker Andrew Carnegie is a good example—became great philanthropists who gave much of their wealth to educational and charitable institutions. (A recent example of this was the "Giving Pledge" made by 16 billionaires, including Facebook's Mark Zuckerberg and Oracle's Larry Ellison, who publicly pledged to give away a majority of their wealth to charitable causes or organizations. Corporate philanthropy is discussed in more detail in Chapter 18.) Other business leaders, like automaker Henry Ford, developed paternalistic programs to support the recreational and health needs of their employees. These business leaders believed that business had a responsibility to society that went beyond or worked along with their efforts to make profits.[9]

William C. Frederick, a leading scholar and a coauthor of several earlier editions of this textbook, described in a recent book how business's understanding of corporate social responsibility has evolved over the past half century. During each of four historical periods, corporate social responsibility has had a distinct focus, set of drivers, and policy instruments, as shown in Figure 3.2. Corporate social responsibility is defined in its most basic form as "learning to live with, and respect, others" with deep roots in business. How corporate social responsibility was manifested evolved from a stewardship notion, then strategic responsiveness, to an ethics-based understanding found in culture to what Frederick calls the most recent phase of corporate social responsibility: *corporate citizenship.* (Chapter 7 will explore this concept more fully.)

[8] "CEOs on Strategy and Social Issues," *The McKinsey Quarterly*, October 2007, p. 7. The understanding of the interrelations among business's obligations is discussed in Jared D. Harris and R. Edward Freeman, "The Impossibility of the Separation Thesis," *Business Ethics Quarterly* 18 (2008), pp. 541–48. Michael E. Porter and Mark R. Kramer also discuss the link between competitive advantage and corporate social responsibility in "Strategy and Society," *Harvard Business Review*, December 2006, pp. 78–92.

[9] Harold R. Bowen, *Social Responsibility of the Businessman* (New York: Harper, 1953); and Morrell Heald, *The Social Responsibility of Business: Company and Community, 1900–1960* (Cleveland: Case Western Reserve Press, 1970). For a history of how some of these business philanthropists acquired their wealth, see Matthew Josephson, *The Robber Barons: The Great American Capitalists* (New York: Harcourt Brace, 1934).

FIGURE 3.2
Evolving Phases of Corporate Social Responsibility

	Phases of Corporate Social Responsibility	CSR Drivers	CSR Policy Instruments
CSR_1 Early in the 20th century but formally in the 1950s–1960s	**Corporate Social Stewardship** Corporate philanthropy—acts of charity Managers as public Trustee-stewards Balancing social pressures	Executive conscience Company image/reputation	Philanthropic funding Public relations
CSR_2 1960s–1970s	**Corporate Social Responsiveness** Social impact analysis Strategic priority for social response Organizational redesign and training for responsiveness Stakeholder mapping and implementation	Social unrest/protest Repeated corporate misbehavior Public policy/government regulation Stakeholder pressures Think tank policy papers	Stakeholder strategy Regulatory compliance Social audits Public affairs function Governance reform Political lobbying
CSR_3 1980s–1990s	**Corporate/Business Ethics** Foster an ethical corporate culture Establish an ethical organizational climate Recognize common ethical principles	Religious/ethnic beliefs Technology-driven value changes Human rights pressures Code of ethics Ethics committee/officer/audits Ethics training Stakeholder negotiations	Mission/vision/values Statements CEO leadership ethics
CSR_4 1990s–present	**Corporate/Global Citizenship** Stakeholder partnerships Integrate financial, social, and environmental performance Identify globalization impacts Sustainability of company and environment	Global economic trade/investment High-tech communication networks Geopolitical shifts/competition Ecological awareness/concern NGO pressures	Intergovernmental compacts Global audit standards NGO dialogue Sustainability audits/reports

Source: Adapted from William C. Frederick, *Corporation, Be Good! The Story of Corporate Social Responsibility* (Indianapolis, IN: Dog Ear Publishing, 2006). Used with permission.

Balancing Social, Economic, and Legal Responsibilities

Being socially responsible by meeting the public's continually changing expectations requires wise leadership at the top of the corporation. Companies with the ability to recognize profound social changes and anticipate how they will affect operations have proven to be survivors. They get along better with government regulators, are more open to the needs of the company's stakeholders, and often cooperate with legislators as new laws are developed to cope with social problems.

Avon, the world's largest seller of cosmetics and beauty products for women, espouses the balancing of multiple responsibilities in their guiding principle: "To meet fully the obligations of corporate citizenship by contributing to the well-being of society and the environment in which it functions." Avon puts this principle into practice by being the leading corporate supporter globally of the fight against breast cancer. Starting in 1992, Avon has raised and donated nearly $700 million to breast cancer programs around the world. In addition, Avon and the Avon Foundation for Women responded swiftly to the September 11, 2001, disaster in the United States by providing $7 million in charitable aid and made available $1 million to the victims of the Haiti earthquake in 2010. Avon has supported people affected by natural disasters or other crises around the world by giving more than $17.7 million since 2001. The attention to corporate citizenship addressed the company's mission: "doing well by doing good." The company reported that revenues were up 4 percent at year-end 2011, along with other strong financial performance measures, while also maintaining its annual dividend for its investors.[10]

The actions taken by Avon are an example of a business organization's leaders being guided by **enlightened self-interest**. Avon recognizes the long-term rewards to the company from its global involvement, through an enhanced reputation, customer loyalty, employee satisfaction, and global community support. Avon's actions reflected the philosophy of the company's founder, who said in 1886 that the company would contribute to the well-being of society and the environment in which it functions and in doing so would be profitable. According to this view, it is in a company's self-interest in the long term to provide true value to its customers, to help its employees to grow, and to behave responsibly as a global corporate citizen.[11]

Do socially responsible companies sacrifice profits by working conscientiously to promote the social good? Do they make higher profits, better-than-average profits, or lower profits than corporations that ignore the public's desires for a high and responsible standard of social performance?

Scholars have explored this issue for decades, with mixed results. Researchers at the University of Iowa conducted a rigorous review of 52 prior studies of the relationship between corporate social responsibility and firm performance. They found that most of the time, more responsible companies also had solid financial results; the statistical association was highly to modestly positive across the range of all prior studies. The authors concluded, "Corporate virtue, in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off."[12] In short, most of the time, social responsibility and financial performance go together, although there may be some conditions under which this is not true.

Social responsibility is not a business organization's sole responsibility. In addition, as a member of a civil society, organizations have legal obligations, as well as economic responsibilities, to their owners and other stakeholders affected by the financial well-being of the firm. Any organization or manager must seek to juggle these multiple responsibilities—economic, legal, and social. The belief that the business of business is solely to attend to stockholders' return on investment and make a profit is no longer widely held, as discussed next in the

[10] See Avon's website for more information on its social responsibility activities and its social responsibility report at *www.avoncompany.com/corporate citizenship*.

[11] Jeff Frooman, "Socially Irresponsible and Illegal Behavior and Shareholder Wealth," *Business & Society*, September 1997, pp. 221–49, argues that the negative effects on shareholder wealth when a firm acts irresponsibly support the enlightened self-interest view: act responsibly to promote shareholders' interests.

[12] For various summaries of the research investigating this relationship see Mark Orlitzky, Frank Schmidt, and Sara Rynes, "Corporate Social and Financial Performance: A Meta-Analysis," *Organization Studies*, 2003, pp. 403–41; Joshua D. Margolis and James P. Walsh, "Misery Loves Companies: Rethinking Social Initiatives by Business," *Administrative Science Quarterly*, 2003, pp. 268–305; Pieter van Beurden and Tobias Gossling, "The Worth of Values—A Literature Review on the Relationship between Corporate Social and Financial Performance, *Journal of Business Ethics*, 2008, pp. 407–24; and Meng-Ling Wu, "Corporate Social Performance, Corporate Financial Performance, and Firm Size: A Meta-Analysis," *Journal of American Academy of Business*, 2006, pp. 163–71.

chapter. Rather, many business executives believe the key challenge facing their organizations today is to meet their multiple economic and social responsibilities simultaneously.

The Corporate Social Responsibility Debate

As we have seen, there are various views about business's social responsibilities and these views evolve over time. The arguments for and against corporate social responsibility are detailed next and summarized in Figure 3.3.

Arguments for Corporate Social Responsibility

Who favors the notion of corporate social responsibility? Many business executives believe that companies should make a profit but should balance this with their social responsibilities. Clearly, many groups that seek to preserve the environment, protect consumers, safeguard the safety and health of employees, prevent job discrimination, and forestall invasions of privacy through the Internet stress the importance of social responsibility by business, but so also do groups that look to business to maintain a strong return on their financial investments. Government officials also support CSR in that it ensures corporate compliance with laws and regulations that protect the general public from abusive business practices. In other words, both businesspeople and citizens, both supporters and critics of business, have reasons for wanting businesses to act in socially responsible ways.

Balances Corporate Power with Responsibility

Today's business enterprise possesses much power and influence. Most people believe that responsibility must accompany power, whoever holds it. This obligation, presented earlier in this chapter, is the *iron law of responsibility.* Businesses committed to social responsibility are aware that if they misuse the power they have, they might lose it. Corporations' reputations and to some extent even their independence have recently taken a hit in the economic downturn of 2008–09, as dozens of national governments rushed in to bolster their countries' economies and failing financial markets. This shows how managers' misuse of corporate power and their lack of responsibility as trustees of the public's wealth can result in their loss of power.

Discourages Government Regulation

One of the most appealing arguments in favor of CSR is that voluntary socially responsible acts may head off increased government regulation of business. Some regulation may reduce freedom for both business and society, and freedom is a desirable public good. In the case of business, regulations tend to add economic costs and restrict flexibility in decision

FIGURE 3.3
The Pros and Cons of Corporate Social Responsibility

Arguments for Corporate Social Responsibility	Arguments against Corporate Social Responsibility
Balances corporate power with responsibility. Discourages government regulation. Promotes long-term profits for business. Improves stakeholder relationships. Enhances business reputation.	Lowers economic efficiency and profit. Imposes unequal costs among competitors. Imposes hidden costs passed on to stakeholders. Requires skills business may lack. Places responsibility on business rather than individuals.

making. From business's point of view, freedom in decision making allows companies to maintain initiative in meeting market and social forces.

Two scholars, Bryan Husted and Jose de Jesus Salazar, examined how well firms performed if they voluntarily developed a social responsibility strategy versus being coerced by government or some other external force to act to benefit society. They found that firms enjoyed significant strategic advantages and maximized social benefit to their communities when they voluntarily and freely developed a social strategy rather than acting under coercive pressure.[13]

This view is also consistent with political philosophy that wishes to keep power as decentralized as possible in a democratic society. From this perspective, government is already a massive institution whose centralized power and bureaucracy threaten the balance of power in society. Therefore, if business by its own socially responsible behavior can discourage new government restrictions, it is accomplishing a public good as well as its own private good. For example, the biotechnology industry may have prevented regulation when it voluntarily developed a program to monitor releases of genetically modified organisms, or GMOs.

In the early 2000s an increasing number of genetically modified organisms (GMOs)—crops and seeds whose genes had been scientifically engineered—were unintentionally or accidentally released by companies in the agricultural biotechnology industry, initially in the United States. Eventually these GMOs made their way into the global food system via international product shipments. These potentially harmful, even lethal, organisms were not approved for human consumption or, in some cases, even commercial agricultural use. Bayer Corporation took the lead in creating a program called EcoCheck to better monitor and prevent such discharges of unapproved GMOs. Soon after, Monsanto, another leader in the biotechnology field, followed with their own corporate program. Within months this proactive effort to monitor discharges and develop an early warning system became the industry standard, forestalling the possibility of government intervention.[14]

Promotes Long-Term Profits for Business

At times, social initiatives by business produce long-run business profits. In 1951 a New Jersey judge ruled in a precedent-setting case, *Barlow et al. v. A.P. Smith Manufacturing,* that a corporate donation to Princeton University was an *investment* by the firm, and thus an allowable business expense. The rationale was that a corporate gift to a school, though costly in the present, might in time provide a flow of talented graduates to work for the company. The court ruled that top executives must take "a long-range view of the matter" and exercise "enlightened leadership and direction" when it comes to using company funds for socially responsible programs.[15]

A classic example of the long-term benefits of social responsibility was the Johnson & Johnson Tylenol incident in the 1980s, when several people died after they ingested

[13] Bryan W. Husted and Jose de Jesus Salazar, "Taking Friedman Seriously: Maximizing Profits and Social Performance," *Journal of Management Studies* 43 (2006), pp. 75–91.

[14] See Jennifer Clapp, "Illegal GMO Releases and Corporate Responsibility: Questioning the Effectiveness of Voluntary Measures," *Ecological Economics* 66 (2008), pp. 348–58.

[15] *Barlow et al. v. A.P. Smith Manufacturing* (1951, New Jersey Supreme Court), discussed in Clarence C. Walton, *Corporate Social Responsibility* (Belmont, CA: Wadsworth, 1967), pp. 48–52.

Extra-Strength Tylenol capsules laced with the poison cyanide. To ensure the safety of its customers, Johnson & Johnson immediately recalled the product, an action that cost the firm millions of dollars in the short term. The company's production processes were never found defective. Customers rewarded Johnson & Johnson's responsible actions by continuing to buy its products, and in the long run the company once again became profitable.

In the opening examples of this chapter, the leadership at Hewlett-Packard believed that, in the long term, its commitment to improve the social and economic conditions around the world by targeting education and entrepreneurship could create a lasting change for millions of people. GlaxoSmithKline's executives believed that openly sharing their knowledge was the best strategy in addressing the world's most urgent health issues. These corporate social programs were investments in the future, and each firm hoped that their social responsibility efforts would also indirectly help their firm's financial bottom line.

Improves Stakeholder Relationships

Managers often believe that developing a strong social agenda and series of social programs will improve the firm's stakeholder relationships. Whether it improved the quality of people it attracted as employees, or appealed to consumers to purchase the firm's product or services, or built strong ties with the community residents in which it operated, or persuaded investors to purchase company stock, managers felt that social action by the firm was viewed positively by stakeholders. This belief was borne out in recent research where corporate social responsibility was linked to current and prospective employees' trust in the firm and desire to work for the firm, positive consumer purchasing decisions, and investors' decisions, especially during times of economic downturn. At Coca-Cola, 60,000 employees were surveyed and reported that corporate social responsibility was the second biggest driver of their commitment and loyalty to the firm, after leadership.[16]

Enhances Business Reputation

The social reputation of the firm is often viewed as an important element in establishing trust between the firm and its stakeholders. **Reputation** refers to desirable or undesirable qualities associated with an organization or its actors that may influence the organization's relationships with its stakeholders.[17] Rating Research, a British firm, created a "reputation index" to measure a company's social reputation. The index evaluates critical intangible assets that constitute corporate reputation and broadly disseminates these ratings to interested parties.

A firm's reputation is a valuable intangible asset, as it prompts repeat purchases by loyal consumers and helps to attract and retain better employees to spur productivity and enhance profitability. Employees who have the most to offer may be attracted to work for a firm that contributes to the social good of the community, or is more sensitive to the needs and safety of its consumers, or takes better care of its employees. Research has confirmed

[16] See S. Duane Hansen, Benjamin B. Dunford, Alan D. Boss, R. Wayne Boss, and Ingo Angermeier, "Corporate Social Responsibility and the Benefits of Employee Trust: A Cross-Disciplinary Perspective," *Journal of Business Ethics*, 2011, pp. 29–45; Russell Lacey and Pamela A. Kennett-Hensel, "Longitudinal Effects of Corporate Social Responsibility on Consumer Relationships," *Journal of Business Ethics*, 2010, pp. 581–97; and "Good Intentions," *The Wall Street Journal*, February 3, 2010, *online.wsj.com.*

[17] The definition of *reputation* is adapted from John F. Mahon, "Corporate Reputation: A Research Agenda Using Strategy and Stakeholder Literature," *Business & Society* 41, no. 4 (December 2002), pp. 415–45. For the "reputation index," see Charles Fombrun, *Reputation: Realizing Value from the Corporate Image* (Cambridge, MA: Harvard University Press, 1996) and Rating Research LLC, *www.ratingresearch.com.*

that a firm's "good deeds" or reputation increases its attractiveness to employees.[18] In 2012, Weber Shandwick, a public relations firm, reported that 6 in 10 executives said they would rather see their company in the news for "admired standing" than for financial accomplishments. The report, focusing on the United States, United Kingdom, China, and Brazil, also found that 70 percent of consumers said that they would not buy a product if they did not like the company behind it.[19] An example of a company that has embraced having a solid reputation when managing their stakeholders is described next.

> Sodexo, a provider of integrated food and facilities management services throughout North America including many hospitals, senior living centers, colleges, universities, and school districts, was committed to developing a positive reputation. "Being a responsible corporate citizen is at the core of Sodexo's business," declared the company's website. "We set the benchmark in areas such as sustainability, diversity and inclusion, wellness, and the fight against hunger." Sodexo's "The Better Tomorrow Plan" impacted 80 countries at 30,600 locations and engaged the company's 380,000 employees. The program addressed 14 different issues, such as reducing the firm's carbon and water usage in all company operations and at all client's locations, providing and promoting varied and balanced food options to its clients, increasing the purchase of products sourced from fairly and responsibly certified sources, and ensuring compliance with a Global Sustainable Supply Chain Code of Conduct. Its attention to various social issues enhanced Sodexo's reputation as it was named to various "best" lists, including the "Best Company for Hourly Workers," the "Best Company for Multicultural Women," and *Fortune*'s "Most Admired Companies." The company was also ranked number one by DiversityInc for diversity inclusion and was recognized as one of the "World's Most Ethical Companies."[20]

Arguments against Corporate Social Responsibility

Who opposes corporate social responsibility? The economist Milton Friedman famously stated in 1970, "There is only one responsibility of business, namely to use its resources and engage in activities designed to increase its profits."[21] Some people in the business world—such as the 16 percent of CEOs in the survey (shown later in Figure 3.4) who believe that the appropriate role of business is to provide the highest possible returns to shareholders while obeying all laws and regulations—clearly agree with this view. Some fear that the pursuit of social goals by business will lower firms' economic efficiency, thereby depriving society of important goods and services. Others are skeptical about trusting business with social improvements; they prefer governmental initiatives and programs. According to some of the more radical critics of the private business system, social responsibility is nothing but a clever public relations smokescreen to hide business's true intentions to make as much money as possible. See Figure 3.3 again for some of the arguments against corporate social responsibility, discussed next.

[18] Rebecca A. Luce, Alison E. Barber, and Amy J. Hillman, "Good Deeds and Misdeeds: A Mediated Model of the Effect of Corporate Social Performance on Organizational Attractiveness," *Business & Society* 40, no. 4 (2001), pp. 397–415.

[19] "When It Comes to Company Reputation, Avoiding Scandal and Wrongdoing Trumps CSR, Survey Finds," *Ethikos*, January/February 2012, p. 15.

[20] The quotation and information about Sodexo is from the company's website, *www.sodexousa.com*.

[21] Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *The New York Times Magazine*, September 13, 1970.

Lowers Economic Efficiency and Profits

According to one argument, any time a business uses some of its resources for social purposes, it risks lowering its efficiency. For example, if a firm decides to keep an unproductive factory open because it wants to avoid the negative social effect that a plant closing would have on the local community and its workers, its overall financial performance may suffer. The firm's costs may be higher than necessary, resulting in lower profits. Stockholders may receive a lower return on their investment, making it more difficult for the firm to acquire additional capital for future growth. In the long run, the firm's efforts to be socially responsible by keeping the factory open may backfire.

Business managers and economists argue that the business of business is business. Businesses are told to concentrate on producing goods and services and selling them at the lowest competitive price. When these economic tasks are done, the most efficient firms survive. Even though corporate social responsibility is well-intended, such social activities lower business's efficiency, thereby depriving society of higher levels of economic production needed to maintain everyone's standard of living.[22]

Imposes Unequal Costs among Competitors

Another argument against social responsibility is that it imposes greater costs on more responsible companies, putting them at a competitive disadvantage. Consider the following scenario:

> A manufacturer operating in multiple countries wishes to be more socially responsible worldwide and decides to protect its employees by installing more safety equipment at its plants than local law requires. Other manufacturers in competition with this company do not take similar steps, choosing to install only as much safety equipment as required by law. As a result their costs are lower, and their profits higher. In this case, the socially responsible firm penalizes itself and even runs the risk of going out of business, especially in a highly competitive market.

This kind of problem becomes acute when viewed from a global perspective, where laws and regulations differ from one country to the next. If one nation requires higher and more costly pollution control standards, or stricter job safety rules, or more stringent premarket testing of prescription drugs than other nations, it imposes higher costs on business. This cost disadvantage means that competition cannot be equal. Foreign competitors who are the least socially responsible will actually be rewarded because they will be able to capture a bigger share of the market.

Imposes Hidden Costs Passed On to Stakeholders

Many social proposals undertaken by business do not pay their own way in an economic sense; therefore, someone must pay for them. Ultimately, society pays all costs. Some people may believe that social benefits are costless, but socially responsible businesses will try to recover all of their costs in some way. For example, if a company chooses to install expensive pollution abatement equipment, the air may be cleaner, but ultimately someone will have to pay. Stockholders may receive lower dividends, employees may be paid less, or consumers may be charged higher prices. If the public knew that it would eventually have to pay these costs, and if it knew how high the true costs were, it might not be so insistent that companies act in socially responsible ways. The same might be true of government regulations intended to produce socially desirable business behavior. By driving up

[22] This argument is most often attributed to Milton Friedman, ibid., pp. 33, 122–26.

business costs, these regulations often increase prices and lower productivity, in addition to making the nation's tax bill higher.

Requires Skills Business May Lack

Businesspeople are not primarily trained to solve social problems. They may know about production, marketing, accounting, finance, information technology, and personnel work, but what do they know about inner-city issues or world poverty or violence in schools? Putting businesspeople in charge of solving social problems may lead to unnecessarily expensive and poorly conceived approaches. A global survey of senior business executives on social responsibility found that "only 11 percent [of the companies who have developed a CSR strategy] have made significant progress in implementing the strategy in their organization."[23] Thus one might question the effectiveness and efficiency of businesspeople seeking to address social responsibility problems. Business analysts might be tempted to believe that methods that succeed in normal business operations will also be applicable to complex social issues, even though different approaches may work better in the social arena.

A related idea is that public officials who are duly elected by citizens in a democratic society should address societal issues. Business leaders are not elected by the public and therefore do not have a mandate to solve social problems. In short, businesspeople do not have the expertise or the popular support required to address what are essentially issues of public policy.

Places Responsibility on Business Rather Than Individuals

The entire idea of *corporate* responsibility is misguided, according to some critics. Only *individual persons* can be responsible for their actions. People make decisions; organizations do not. An entire company cannot be held liable for its actions, only those individuals who are involved in promoting or carrying out a policy. Therefore, it is wrong to talk about the social responsibility of *business* when it is the social responsibility of *individual businesspersons* that is involved. If individual business managers want to contribute their own personal money to a social cause, let them do so; but it is wrong for them to contribute their company's funds in the name of corporate social responsibility.[24] Together, the above arguments claim that the attempt to exercise corporate social responsibility places added burdens on both business and society without producing the intended effect of social improvement or produces it at excessive cost.

Some critics of corporate social responsibility argue that these efforts are merely superficial or cosmetic, not truly addressing the social problems claimed as targets or being responsive to the real objectives of business. Some of these opinions are presented in Exhibit 3.B.

What is the opinion of business executives on this debate? Of course, this group is not of one mind on this complex question. A survey by the consulting firm McKinsey showed, however, that a solid majority—84 percent—of business executives believed that companies should balance their responsibility to their investors with their responsibilities of other business stakeholders. A minority of 16 percent felt that companies should focus primarily on maximizing their investors' returns while staying within the law of society. These results are summarized in Figure 3.4.

[23] "Corporate Social Responsibility: Unlocking the Value," *www.ey.com/Global*.

[24] This argument, like the "lowers economic efficiency and profits" argument, often is attributed to Friedman, "Social Responsibility of Business."

Exhibit 3.B The Limits of Corporate Social Responsibility

"It is easy to understand why big business has embraced corporate social responsibility with such verve. It makes for good press and reassures the public. . . . [B]ut the pressures operating on [corporations] to lure and keep consumers and investors haven't eased one bit. In supercapitalism, they *cannot* be socially responsible, at least not to any significant extent. . . . No company can 'voluntarily' take on an extra cost that its competitors don't also take on—which is why, under supercapitalism, regulations are the only means of getting companies to do things that hurt their bottom lines."—Robert B. Reich, *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life* (New York: Alfred A. Knopf, 2007), pp. 170 and 204.

"Business leaders today say their companies care about more than profit and loss, that they feel responsible to society as a whole, not just to their shareholders. Corporate social responsibility is their new creed, a self-conscious corrective to earlier greed-inspired visions of the corporation. Despite this shift, the corporation itself has not changed. . . . Corporate social responsibility . . . holds out promises of help, reassures people, and sometimes works. We should not, however, expect very much from it. A corporation can do good only to help itself do well, a profound *limit* on just how much good it can do."—Joel Bakan, *The Corporation: The Pathological Pursuit of Profit and Power* (New York: The Free Press, 2004), pp. 28, 50.

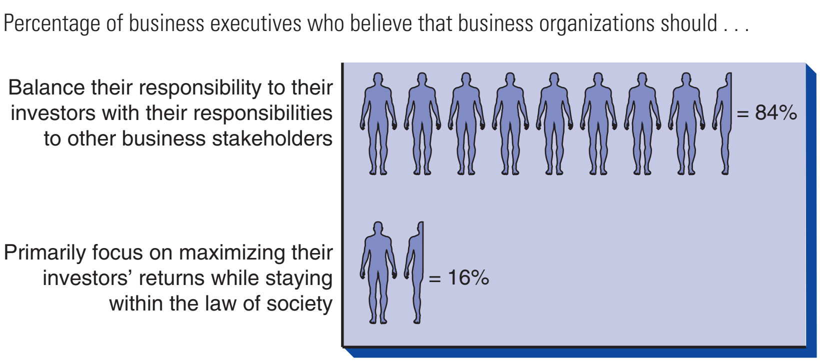
"[P]recisely because CSR is voluntary and market-driven, companies will engage in CSR only to the extent that it makes business sense for them to do so. . . . Unlike government regulation, it cannot force companies to make unprofitable but socially beneficial decisions. In most cases, CSR only makes business sense if the costs of more virtuous behavior remain modest. This imposes important constraints on the resources that companies can spend on CSR, and limits the improvements in corporate social and environmental performance that voluntary regulation can produce."—David J. Vogel, *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility* (Washington, DC: The Brookings Institution, 2005), p. 4.

The Social Enterprise

All modern businesses must take into account their impacts on all stakeholders. But one kind of business adopts social benefit as its core mission: a **social enterprise**. This term refers to an organization that uses business strategies for the purpose of improving human and environmental well-being. Although social enterprises often earn profit, their primary purpose is not to maximize returns to shareholders. Social enterprises can take a number of organizational forms. They can be large and established or small and new—like the social entrepreneurial ventures described next.

FIGURE 3.4
Business Executives' View of the Role of Business in Society

Source: For a more detailed discussion of these views, see "The McKinsey Global Survey of Business Executives: Business and Society," *McKinsey Quarterly,* January 2006. Based on a survey of 4,238 executives (more than a quarter are CEOs or other top executives) in 116 countries, conducted in December 2005.



Social Entrepreneurship

Social entrepreneurs are individuals who—like traditional entrepreneurs—act boldly to pursue opportunities, attract support, and build new organizations. Unlike traditional entrepreneurs, however, these individuals are typically driven by a core mission to create and sustain social rather than economic value. When a person or group of people identify a social need and use their entrepreneurial skills to address this need, this process is called **social entrepreneurship**. Although their primary purpose is to achieve a social or environmental objective, this focus does not preclude these entrepreneurs from creating an economically viable organization that can continue to address social needs, as the following examples show.

> Rose Donna knew firsthand that medical data collection in developing nations involved piles of paperwork and tedious data entry. Envisioning a more efficient approach, she worked with DataDyne, a not-for-profit organization based in Washington, DC, to develop EpiSurveyor. This innovative software enabled public health workers in 15 sub-Saharan countries to digitize and streamline data collection and data entry processes. This social entrepreneurial venture was so successful that the World Health Organization, the United Nations Foundation, and the Vodafone Foundation partnered with Donna to disseminate the EpiSurveyor software to 22 additional African and Asian countries.
>
> Two University of Virginia business students, Chip Ransler and Manoj Sinha, noticed that 350 million people lived in India's Rice Belt region, where rice was plentiful but reliable electricity was scarce. The students launched their social entrepreneurial venture by devising a process to turn discarded rice husks into biogas, which could fuel mini power plants. Hundreds of homes in five rice-growing Indian communities acquired access to affordable power. In addition, the ash from generating the gas was not wasted but used as fertilizer or as a low-cost ingredient for cement.[25]

The goal of social entrepreneurs, like those illustrated here, is to use the power of enterprise to drive social change and help society.

The B Corporation

A specific kind of social enterprise is the **B Corporation**, or benefit corporation. This is a new type of corporation that seeks to blend its social objectives with financial goals. To qualify for B Corporation status, an organization must meet rigorous, independent social and environmental performance standards, assessed by the nonprofit organization B Lab. The company is assessed on the impact it has on its communities, employees, consumers, and the environment. The idea is that a business cannot just claim it is socially responsible, but it must prove it by meeting the B Lab standards. By 2012, this corporate status had been legally recognized in seven states: California, Hawaii, Virginia, Maryland, Vermont, New York, and New Jersey, and other states were considering this sort of legislation. More than 500 organizations in 60 industries, with a total of $2.9 billion in revenues, were registered as B Corporations.[26]

[25] These stories were found in Fast Company's "10 Best Social Enterprises" at *www.fastcompany.com.*

[26] See the B Corporation website at *bcorporation.net* and an in-depth description of B Corporations at *Trend Hunter*, January 4, 2012, *www.trendhunter.com* and Nellie Akalp, "B Corporations: Do They Really Indicate Good Companies?" *Yahoo! News*, December 8, 2011, *news.yahoo.com.*

Warby Parker is a B Corporation. Four college friends started the company to design, manufacture, and distribute high-quality eyeglasses that sold for around $95 rather than the more common $500 price tag. One of the company's founders, Neil Blumenthal, was the former director of VisionSpring, a New York nonprofit organization that provided glasses to impoverished people. Blumenthal provided Warby Parker with many manufacturing and distribution contacts. He also recommended Warby Parker's one-to-one donation practice—for every pair of eyeglasses sold, one pair would be donated to someone in need. Warby Parker also pledged to become one of the few carbon-neutral eyewear brands in the world. "It was important to the four of us that if we are going to dedicate our life savings and our time to building an organization, we wanted to have a positive impact," said Blumenthal. This combination of economic and social objectives qualified Warby Parker for B Corporation certification.[27]

The B Corporation's website and blog feature B Lab–certified businesses and help visitors understand the difference between "a good company and just good marketing." B Corporations are more likely to receive various government recognitions, such as the U.S. Drug Administration's organic seal, or to qualify for a LEED certification for their buildings (designating environmental excellence), or to be certified as engaging in fair trade. B Corporations are subjected to random audits, and these reports are made public, adding a layer of transparency to the process and certification. In addition, B Corporations must modify their company's bylaws in order to formalize their social mission.

Serving the Bottom of the Pyramid

Another way that business can carry out its responsibility to society is by bringing products and services to the many people in the world who have traditionally been beyond the reach of global commerce. The term **bottom of the pyramid** refers to the poorest people in the world—nearly 4 billion who earn less than $2.50 per day. As the scholar C. K. Prahalad argued in his book *The Fortune at the Bottom of the Pyramid,* this group, while often overlooked, represents an incredible business opportunity. Although the poor earn little individually, collectively they represent a vast market—and they often pay a "poverty premium," creating an opening for companies able to deliver quality products at lower prices. For example, there are nine countries—China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa, and Thailand—that are home to 3 billion people and represent 70 percent of the developing world population.[28]

Casas Bahia is a retail chain based in Brazil that specializes in durable goods such as refrigerators, televisions, and washing machines. The firm has carved out a profitable business by selling to poor residents of urban slums. Buyers are carefully screened, then required to come back monthly to their local store to make cash installment payments. The default rate is low, and Casas Bahia has fiercely loyal customers who often become repeat buyers.

Many businesses are learning that focusing on the bottom of the pyramid can foster social development and provide employment in underserved communities—and reap profits.

One product that people in poor countries often desperately need is loans with which to operate or expand their farms or small businesses. Commercial banks have historically

[27] Warby Parker was profiled in "Vision Quest," *Entrepreneur*, January 2012, pp. 56–57.

[28] C. K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (Upper Saddle River, NJ: Pearson Education, 2006); Stuart L. Hart, *Capitalism at the Crossroads,* 3rd ed. (Upper Saddle River, NJ: Pearson Education, 2010); and "The Fortune at the Bottom of the Pyramid," *Fast Company*, April 13, 2011, *www.fastcompany.com.*

Exhibit 3.C

The Grameen–Danone Foods Social Business Enterprise

In 2006, the Grameen Group, a network of financial institutions, and Groupe Danone, the French-based world leader in fresh dairy food products, agreed to form the Grameen–Danone Foods Social Business Enterprise based in Bangladesh. The goal of this partnership was to bring healthy nutrition to low-income, nutritionally deprived populations throughout Bangladesh and alleviate poverty in the country—a bold mission indeed.

The initial effort was to locally manufacture and market an easily affordable dairy product, a sweet version of yogurt, to satisfy the nutritional needs of Bangladeshi children, whose diet often consisted of only white rice. To maximize the social impact of the project, Grameen and Danone reinvested the profits from this enterprise back into the local and regional economy.

Muhammad Yunus, Grameen founder and Nobel Prize winner, commented, "This represents a unique initiative in creating a social business enterprise, that is, an enterprise created not to maximize profits, but created with a declared mission to maximize benefits to the people served, without incurring losses."

In 2008, raw material costs rose sharply, causing the enterprise board to approve an increase in the price of a cup of yogurt from 5tk to 8tk (6 to 9 cents in U.S. currency) to remain economically sustainable. Immediately, consumer demand collapsed. A month later a new formula was introduced in a smaller cup and at a price of 6tk (about 7 cents U.S.). After a number of promotional events and integration with school nutritional programs, sales recovered. A year later the program extended its outreach to other locations in the country. Television advertisements promoted the product and sales continued to rise. A new product was introduced—the Shokti+pocket, a 5tk pouch with the same nutrition, longer shelf life, and no need for refrigeration. Soon there were plans to expand throughout Bangladesh and into India.

Sources: "Launching of Grameen–Danone Foods Social Business Enterprise," Groupe Danone press release, March 16, 2006. There is a slide presentation describing the enterprise at *muhammadyunas.org*.

been reluctant to make small loans to people with little or no collateral. In response to this need, a new system has emerged called **microfinance**. This occurs when financial organizations provide loans to low-income clients or solidarity lending groups (a community of borrowers) who traditionally lack access to banking or related services. One of the most recognized microfinance institutions is the Grameen Bank in Bangladesh (which is also profiled in Chapter 18). Grameen Bank and its affiliated foundation and partners have had amazing results; by 2012, 1.1 million microloans had been made, nearly 10 million people had been helped, and $180 million had been leveraged to support projects in 13 countries.[29]

Microfinance has developed into a global trend, as evidenced by the annual Global Microcredit Summit, where thousands of business leaders and government representatives from more than 100 countries have gathered to meet since 1997. The Global Microcredit Summit began working with financial institutions to create access to microloans for 7.6 million of the world's poorest citizens and developed a proposal to serve 175 million families, especially the women of those families, by 2015. With an average family size of five people, this program could affect 875 million people around the world.[30] A partnership between the Grameen microfinancing network of organizations and Groupe Danone is described in Exhibit 3.C.

Businesses that sell products and services to the world's poor are, in their own way, promoting a social mission by enhancing economic development.

[29] See the Grameen Foundation website for dozens of success stories attributed to the foundation's microfinancing efforts at *www.grameenfoundation.org*. Also see Virgin Group CEO Richard Branson's opinion piece, "Britain Must Defend This Poverty-Busting Bank," *The Times*, August 24, 2012, p. 28, for a supportive view of Muhammad Yunass' contribution to society.

[30] See the Global Microcredit Summit website at *www.microcreditsummit.org*.

Award-Winning Corporate Social Responsibility Practices

Recognition of corporate social responsibility by business has increased dramatically in the past decade. Since 2000, academic scholars have teamed with KLD Research and Analytics to assess and score businesses' stakeholder relations to create a list of the "100 Best Corporate Citizens." In 2012, Bristol-Myers Squibb, IBM, Intel, Microsoft, and Johnson Controls topped the list. These companies earned the designation of "good corporate citizens" because of their attention to multiple stakeholder relations. The most heavily weighted categories focused on the environment, employees, climate change, human rights, and financial performance.[31]

A study of how Americans ranked companies' reputations, carried out by Harris Interactive, found in 2011 that 44 percent of those polled said that the reputation of corporate America was still falling. But according to the leader of the polling company, "We are seeing a more positive story beginning to develop."

Based on its financial performance and public admiration for its products, Google rose to first place in the Harris Interactive reputation rankings. Despite a year of more than a dozen product recalls, Johnson & Johnson retained its second-place position. In third place was 3M, followed by Berkshire Hathaway and Apple. Other companies got poor marks on the reputational index. Even though the public's view of the top banks improved slightly, the financial industry still placed second-to-last, ahead only of tobacco companies.[32]

Since 2009, the Center for Corporate Citizenship at Boston College has invited business organizations to submit their citizenship story in a one- to three-minute video. The FedEx video, announced as the winner of the first Corporate Citizenship Film Festival, demonstrated how the company used its transportation and logistics skills to meet the needs of communities around the world.[33] In 2010, the honor went to PricewaterhouseCoopers, which supported 100 college students and their service projects targeting areas suffering from the effects of Hurricane Katrina. Cummins received the Corporate Citizenship Film Festival award in 2011 for the company's video that showed its engineers working to bring an innovative power-generating system to a remote village in India.

Social entrepreneurs have also been recognized for their exemplary business practices. Each year *Bloomberg Businessweek* selects "America's Most Promising Social Entrepreneurs." These have included:

- University of California business students Nikhil Arora and Alex Velez, who created BTTR Ventures to turn nutrient-rich discarded coffee grounds into fertilizer for growing mushrooms and sold their mushrooms to Whole Foods.
- Todd Smith, Jess Lin, and Greg Wong, who started Hello Rewind and sold custom sleeves for laptops out of old T-shirts. The laptop sleeves sold for $49 and brought in more than $226,000 in 2010. The group's primary mission was to help victims of sex trafficking in New York break out of the cycle of prostitution and obtain jobs, so their company's profits were redirected to help people in need of job counseling and basic language proficiency.[34]

[31] For a complete listing of the 100 Best Corporate Citizens for 2012 and the methodology used for these rankings, see "CR's 100 Best Corporate Citizens 2012," *The CR Magazine*, March–April 2012, pp. 13–15 and *www.thecro.com.*

[32] "Google Leads Company-Reputation Poll as Berkshire Slips to No. 4," *Bloomberg*, May 2, 2011, *www.bloomberg.com.*

[33] To view all of the film festival's past winners and all of the current year's videos submissions, see *www.bcccc.net/index.*

[34] The stories of the more than two dozen "promising social entrepreneurs in 2010" can be found at *images.businessweek.com.*

These recognized companies—big and small—exemplify some of the best of corporate social responsibility practices in an era when firms are increasingly being called upon to move beyond rhetoric and put their commitment to social and environmental responsibility into action. They are meeting the public's expectations that the use of corporate power can enhance the well-being of the organization's stakeholders as well as serve the business organization's interests.

Summary

- The world's largest corporations are capable of wielding tremendous influence, at times even more than national governments, due to their economic power. Because of this potential influence, the organizations' stakeholders expect businesses to enhance society when exercising their power.
- The idea of corporate social responsibility in the United States was adopted by business leaders in the early 20th century. It has evolved from a notion of stewardship and strategic responsiveness to an ethics-based understanding found in culture and the practice of corporate citizenship.
- Socially responsible businesses should attempt to balance economic, legal, and social obligations. Following an enlightened self-interest approach, a firm may be economically rewarded while society benefits from the firm's actions.
- Corporate social responsibility is a debatable notion. Some argue that its benefits include discouraging government regulation, promoting long-term profitability for the firm, and enhancing the company's stakeholder relationships and business reputation. Others believe that it lowers efficiency, imposes undue costs, and shifts unnecessary obligations to business. Most executives believe that they should use their corporate power and influence to balance their response to multiple stakeholders rather than maximize stockholders' return alone.
- Social enterprises adopt social benefit as a core mission. These include B Corporations and a wide range of social entrepreneurial ventures around the world.
- Businesses have discovered that serving people at the bottom of the pyramid can be a profitable strategy, as well as help people in developing economies.
- Many organizations, large and small, have been recognized for their socially responsible or social entrepreneurship best practices. These practices have enhanced the organization's reputation with its stakeholders.

Key Terms

B Corporation, *60*
bottom of the pyramid, *61*
corporate power, *47*
corporate social responsibility, *49*
enlightened self-interest, *52*
iron law of responsibility, *49*
microfinance, *62*
reputation, *55*
social enterprise, *59*
social entrepreneur, *60*
social entrepreneurship, *60*

Internet Resources

www.asyousow.org/csr	As You Sow Foundation, Corporate Social Responsibility
www.bsr.org	BSR: The business of a better world
www.businessinsociety.eu	The Business in Society Gateway
www.cbsr.ca	Canadian Business for Social Responsibility
www.csreurope.org	CSR Europe
www.csr-search.net	CSR News
www.csrwire.com	The Corporate Social Responsibility Newswire
www.grameenfoundation.org	Grameen Foundation
www.schwabfound.org	Schwab Foundation for Social Entrepreneurship

Discussion Case: *Timberland's Corporate Social Responsibility—Under New Ownership*

Timberland, a New Hampshire–based manufacturer of rugged outdoor boots, clothing, and accessories, was long known for its deep commitment to corporate social responsibility. When VF Corporation, a huge apparel and footwear conglomerate (and home to such brands as North Face, Wrangler, and Eagle Creek), acquired Timberland in 2011, many wondered whether VF would continue to support Timberland's many social initiatives.

Founded in 1918 in Boston by an immigrant shoemaker named Nathan Swartz, Timberland was run for almost a century by three generations of the Swartz family. Although the company was taken public in 1987, the Swartz family and its trusts and charitable foundations continued to hold about 48 percent of Timberland stock until the acquisition. The company's mission was ". . . to equip people to make a difference in their world. We do this by creating outstanding products and by trying to make a difference in the communities where we live and work." Jeffrey Swartz, the grandson of the founder and the last member of the family to serve as CEO, put the commitment this way:

> At Timberland, doing well and doing good are not separate or separable efforts. Every day, everywhere, we compete in the global economy. At the center of our efforts is the premise of service, service to a truth larger than self, a demand more pressing even than this quarter's earnings. While we are absolutely accountable to our shareholders, we also recognize and accept our responsibility to share our strength—to work, in the context of our for-profit business, for the common good.

Under the leadership of the Swartz family, the commitment to "doing good" took many forms. In 1992, the company launched the Path to Service program, which provided employees with numerous opportunities for community involvement—from engaging youth in art and cultural education in Kliptown, South Africa; to participating in rural medicine outreach in Santiago, Dominican Republic; to creating a 30-mile bike path along the seacoast of New England. As soon as they were hired, employees were granted up to 40 hours of paid time per year to participate in company-sponsored community service activities. Although participation was voluntary, almost 95 percent did so, and most cited the program as one of the most valuable benefits offered by the company.

Timberland contributed more than 4 percent of its operating income as charitable gifts. In 2010, it gave more than $1million in cash donations, with hundreds of gifts of in-kind contributions—tools and materials for service events—and nearly $2 million in product donations. Timberland sent 25,000 pairs of shoes to Afghanistan so that schoolchildren there would have proper footwear.

Timberland also focused on sustainability issues. By the end of 2010, Timberland had reduced its carbon emissions by 38 percent, from a 2006 baseline. The company had accomplished this by installing LED lighting in its stores in the United States and directing its European stores to purchase renewable energy. Shortly before its acquisition by VF, Timberland unveiled new sustainability goals for 2015, committing the company to reducing its carbon emissions by 50 percent and increasing its use of purchased energy from renewable sources to 39 percent of total energy consumption. Timberland established a baseline for its supply chain emissions and challenged all of its suppliers to meet Level 2 of the Global Social Compliance Program standards. "Setting aggressive goals challenge us to go to places we never would," said Timberland's CSR Strategy and Reporting Manager.

In September 2011, right after the acquisition, Timberland celebrated its centennial birthday with a service event called Serv-a-Palooza at its corporate headquarters in New Hampshire. Timberland employees volunteered for various activities, including:

- Touched by the suffering of families in tornado-devastated Joplin, Missouri, Timberland volunteers worked with Habitat for Humanity and framed four houses in its corporate parking lot to be shipped for final assembly in Missouri.
- Timberland volunteers created a new outdoor community gathering and performance space, built an outdoor classroom at a local elementary school, and improved the high school athletic facilities in Newmarket, New Hampshire—the birthplace of Timberland.
- Volunteers worked on "greening" a community center for local nonprofit organizations, transforming the meeting space for local disabled veterans, and knitting blankets for families affected by the Missouri tornados.

Many longtime Timberland employees were pleased to see that among the 566 volunteers were leaders of VF Corporation and their family members. "Their involvement was important as we're transitioning," said a Timberland executive. "People were wondering 'what now?' To have VF and some of their outdoor brands participate in our annual day of service symbolized their commitment to understanding and experiencing something that is uniquely Timberland."

Sources: Based on author interviews and information from the company's website at *www.timberland.com*. Both quotations by Jeff Swartz are from "Doing Well and Doing Good: The Business Community and National Service," *The Brookings Review* 20, no. 4 (Fall 2002). Other quotes are from the company's website.

Discussion Questions

1. How would you characterize Timberland's exercise of its corporate power in society? Is Timberland using its influence responsibly? If so, how?
2. Has Timberland balanced its economic and social responsibilities through its various programs, such as the annual Serv-a-Palooza event and sustainability goals? Are the company's programs examples of enlightened self-interest?
3. What are the arguments for and against Timberland's social responsibility initiatives?
4. If you were an executive of VF Corporation, would you support continuation of these initiatives? Why or why not?