CHAPTER 4

Corporate Social Responsibility

"We know that the profitable growth of our company depends on the economic, environmental, and social sustainability of our communities across the world. And we know it is in our best interests to contribute to the sustainability of those communities."
—Travis Engen, CEO of Alcan

"Business is good because it creates value, it is ethical because it is based on voluntary exchange, it is noble because it can elevate our existence, and it is heroic because it lifts people out of poverty and creates prosperity."
—John Mackey, cofounder of Whole Foods

"Just as people cannot live without eating, so a business cannot live without profits. But most people don't live to eat, and neither must businesses live just to make profits."
—John Mackey, cofounder of Whole Foods

Chapter sections

Learning Objectives:

Upon completion of studying this chapter, *Corporate Social Responsibility*, learners should be able to:

- Classify an article's content as to advocate for either the shareholders, stakeholders, or the socioeconomic views on corporate social responsibility.
- Describe a company's social responsibility actions as presented in its websites, literature, or current news, and evaluate them based upon shared value strategies.

Whole Foods, Canada. Photo credit.

Some people believe that the capitalist system is under siege, not so much because of its basic tenets but the corruption of them. With the advent of the Internet and social media, people are becoming more aware of deep and latent social issues, like the effect of water shortage, poverty, depletion of natural resources, and issues like food waste existing in some countries while extreme hunger exists in others. These issues have begun to seriously bring into question what large and small corporations are doing to help solve some of these issues they have contributed to causing. Is not that companies have entirely caused them, but that companies have failed to use their powerful resources in the pursuit of solutions to them. After all, companies function within society, and society is run by the people who live within it—the very customers whose perceptions about the company matter. Corporate social responsibility is born from that interaction between businesses and society at large.

Corporate social responsibility (CSR) is the conduct of a business in a manner that it is economically profitable, law-abiding, ethical, and socially supported. CSR is composed of four parts: economic, legal, ethical, and voluntary (or philanthropic). Thus, a company should strive to make a profit, obey the law, be ethical, and be a good corporate citizen.[1] Let us now look at three different views on the topic.

4.1 Views of CSR

The shareholder's view

The **shareholders' view** follows Milton Friedman's position from the 1970s that stressed that businesses' only social responsibilities were to increase profits and obey the law. He opined that managers' primary responsibility was to operate the business in the best interests of the stockholders, whose primary concern is financial productivity. He wrote:

"There is one and only one social responsibility of business —to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."[2]

For many, this was irresistibly clear: One need only focus on owners' interest. The logic of this view goes as follows:

1. Firms engage in social actions because of their obligation to meet certain economic and legal responsibilities, but this is where it stops. Why? because if managers decide to spend their organization's resources for social good, they add to the costs of doing business and are, in effect, imposing a tax on their shareholders. Consequently, they are not fulfilling their fiduciary duty to act in the shareholders' interest. If the fundamental purpose of business is profit-making, then companies are "obligated" and "expected" to, under the law (as opposed to morality), do whatever is necessary to earn money and reward the shareholders. If they do not do so, they have not done their job well.

2. Social issues affect society in general, so individual businesses should not be expected to solve these problems. They are expected to solve business problems only.

3. Conducting business as usual is a sufficient social benefit. Businesses contribute to society by making a profit, which supports employment, wages, purchases, investments, and taxes.

The shortcoming of this approach becomes evident in its narrow focus on the economic and legal aspect of CSR. Incentives to maximize shareholder value push managers toward decisions that pay off in the short-term, but that are devastating to the long-term viability of firms. Companies following this view are perceived to be prospering at the expense of the broader community, in effect imposing a tax on every one. How is that so? Corporations create side effects or externalities, and if they are not responsible for those side effects, the whole free market system breaks down. Some examples are:[3]

- The practice of factory farms using antibiotics for their own gain (faster growth of animals to bring to market), resulting in strains of antibiotic-resistant bacteria that have become a public nuisance
- Pesticide use that is killing honeybees and causing a decline in pollination for other farmers
- Coal plants that produce mercury emissions that result in birth defects and respiratory ailments

These incidents, and others like corporate corruption and greed, high executive compensation, and financial scandals, tremendously shake the confidence of the people in the economic system. This view may have been popular in the last three decades, but it is beginning to change in part because investors feel more in harmony with those companies that institute better social practices, and also because consumer awareness is demanding it. The trend is one that has swept most of the world's largest multinational corporations in recent years.

Food-industry leaders, for instance, are being forced to the forefront of the revolution by a legion of newly committed consumers who are taking their dollars to smaller companies more aligned with their values. The shift in tastes—towards organic, natural, chemical- and cruelty-free products—is likely inexorable and permanent, and shareholders are putting pressure on boards and executives to invest in meaningful change that will bolster their companies' reputations as good stewards, while actually lessening their negative impacts on the environment, communities, and animals.[4]

PricewaterhouseCoopers conducted a study in May 2014 and found that 80% of investors polled said they considered issues of sustainability when evaluating investments over the preceding year. Most investors now anticipate that consideration of these concepts will, at least in some aspect, play a part in the investment decision-making process. In the last 12 months, 82% considered climate change and/or resource scarcity in future investment decisions, while 79% of investors considered social responsibility and/or good citizenship, and these issues will continue to factor into investors' future decision-making, with 87% expecting to consider climate change and/or resource scarcity over the next three years, and 84% of investors expecting to do the same for social responsibility and/or good citizenship.[5]

The stakeholder's view

This view argues that firms should be socially responsive to their stakeholders—clients, consumers, suppliers, employees, shareholders, etc.—in order to satisfy their behavioral norms and values. This model integrates business and society rather than separating one from the other. The argument for considering more than "just the profit" is that being socially responsible enables and enhances long-term success of business organizations. If employees are treated fairly, managers maximize human capital and their contributions to the company. Customers, as stakeholders, become the new center of the capitalism universe. If consumers demand more organic food, and the company is willing to offer those products, more sales will be realized. If firms serve customers well, benefits for shareholders and the community follow.

Managers, therefore, respond to popular social needs while making practical, market-oriented decisions about their actions. This view's motto is "doing good is good business," especially if doing good will enhance community relations, contribute to a favorable public image, and increase long-term profits.

What are some ways organizations can demonstrate this good? It depends on the needs of the customer base, the local community, and even the country at large. Being good can range from providing healthier food to targeting zero waste to caring for the general wellness of the local community to ensuring a sustainable physical and social environment. The point is to make a positive social impact.

Consider the market for healthier food. Fast food outlets have profited by expanding their offerings to include salads, Greek yogurt, and smoothies designed to appeal to health-conscious consumers. Others have removed artificial coloring and synthetic ingredients from their products due to health concerns. The growing need for major food companies to take meaningful action to improve their environmental policies, provide healthy options, and ensure they are not exploiting workers to retain their marketshare represents a fundamental cultural shift. It will only accelerate in coming years due to the influence of social media and grassroots campaigns that can expose and spread allegations of corporate malfeasance or oversight with remarkable speed.[6]

Major food companies are increasingly making big moves aimed at proving their good corporate citizenship to consumers who demand more transparency, responsibility, and benevolence from the firms that produce and sell their food. Nestle SA has imposed an extensive regime of strict animal welfare safeguards on its 7,300 meat, poultry, egg, and dairy suppliers; cereal giant Kellogg Co. requires its vast international network of suppliers to permanently reduce their greenhouse gas emissions; and Walmart and Target have added extensive new lines of organic products to their stores' shelves.[7]

Walmart is a particularly good example. Its CSR policy encompasses three goals: (1) to be fully supplied by renewable energy, (2) to create zero waste, and (3) to sell products that sustain people and the environment—these are aggressive sustainability targets that will ultimately save the company a great deal of money.[8] The company has also set guidelines for the conditions in which animals are raised and the message is clear: Use fewer antibiotics in animals and treat them humanely.[9]

Those corporations that are B-certified, like Seventh Generation, Pura Vida, King Arthur Flour, etc., are integrating CSR concerns into normal business practices, and in doing so, may hold the key for how large, publicly traded firms ought to reset their corporate vision and objectives.[10]

It is not just consumers as stakeholders who are drawn to businesses with a strong CSR strategies. Today's top employees want to work for companies that are making a difference. A survey by nonprofit organization Net Impact found that 53% of workers said that "a job where I can make an impact" was important to their happiness, and 72% of students about to enter the workforce agreed—most would even take a pay cut to achieve that goal and stated that they want a sense of pride and fulfillment from their work, a purpose, and more importantly, a company whose values match their own.[11]

Research from the Cone Millennial Cause study found that 80% of a sample of 1,800 13-25-year-olds wanted to work for a company that cares about how it impacts and contributes to society; more than half said they would refuse to work for an irresponsible corporation—the significance of that is, by 2020, Millennials will be 50% of the workforce.[12]

The socioeconomic view

This view expresses the belief that a truly socially responsible organization goes beyond what it is obligated to do (the shareholder's view) or chooses to do because of some popular social need (the stakeholder's view), and instead acts in ways that are good for society while simultaneously advancing corporate policies and practices that enhance the competitiveness of the company to make a profit.

This approach epitomizes the motto of "profits and prosperity" because it guarantees dual benefit for the business as well as society. A business needs a successful community not only to create demand for its products but also to provide critical public assets and a supportive environment. Social deficits, represented in poverty, hunger, and diseases, create economic costs. These external conditions shape internal company productivity that affect the company's sustainability over the long-term. A community needs successful businesses to provide jobs and wealth creation opportunities for its people. Thus, healthy businesses need a healthy community and vice versa. Meeting the challenges of social needs represents the largest market opportunity.

For many businesses, their social actions are better viewed as socially responsive rather than socially responsible. However, such actions are still good for society. The difference between these two approaches—stakeholders view and socio-economic views—lies in the level of commitment and the authenticity of intentions. Socially responsible companies' altruistic values are more ingrained in their organizational cultures and long-term strategies. Their missions and visions have been redefined to create economic value in a way that also addresses societal needs and challenges. Societal issues are at the core of what the company does, and not at the periphery. Businesses acting as businesses—not as charitable givers—are arguably the most powerful force for addressing many pressing issues facing our society. As a result, a socially responsible company becomes more sustainable as it integrates economic, environmental, social, and ethical criteria into strategy and management to create long-term shareholder value.

Take Starbucks as an example of such a company. Since 2001, it has been producing annual reports of how it contributes to the prosperity of its employees, the community, and the environment. In the 2016 report, it described its commitment to offer high-quality, ethically purchased, and responsibly produced products; investing in paths to opportunities through education, training, and employment; minimizing its environmental footprint and inspiring others to do the same; and offering a place for civic engagement.[13]

This commitment is widely visible often in spontaneous, bottom-up efforts and initiatives. In its headquarters, one can see blackboards and posters touting the number of volunteer hours a particular team of employee volunteers has achieved on a particular project, or the current level of the Partner Cup Fund—an employee initiative whose value is in financially helping partners in need.[14]

At a Annual Shareholder's Meeting in Seattle in April of 2016, then-CEO of Starbucks, Howard Schultz, declared "[w]e are a performance-based company driven through the lens of humanity...Some people say social responsibility isn't our job; that our only job is to try to make a profit. I reject that! I can tell you with much proof that it is accretive to shareholder value. "[15]

Sustainability on the rise in corporate agendas

Findings from a study on sustainability and innovation by the MIT Sloan Management Review and the Boston Consulting Group revealed that sustainability has a permanent place on 70% of management agendas—the majority of the 3,000 respondents to the study also mentioned that sustainability activities are adding to profits, with companies making changes to their organizational structure and business models in order to support more sustainable business practices.[16]

The resulting snapshot of sustainability-related practices offers a glimpse inside a worldwide phenomenon that is affecting a broad spectrum of activities: from what consumers eat and wear to how businesses select supply chain partners. The findings identify three major lessons that businesses can learn from: (1) creating organizational structures that support sustainability, (2) linking sustainability activities with performance metrics, and (3) becoming more collaborative not only with customers and suppliers but also with local communities, NGOs, and competitors.

The authors of the report conclude that sustainable business practices have gained so much traction across industries and geographies that sustainability is nearing a tipping point—the point at which a substantial portion of companies are seeing the need for sustainability and deriving financial benefits from related activities.[16]

"What's happening now is really a redefinition of the boundaries of capitalism, creating shared value is the next stage of evolution in the sophistication of the capitalist model."

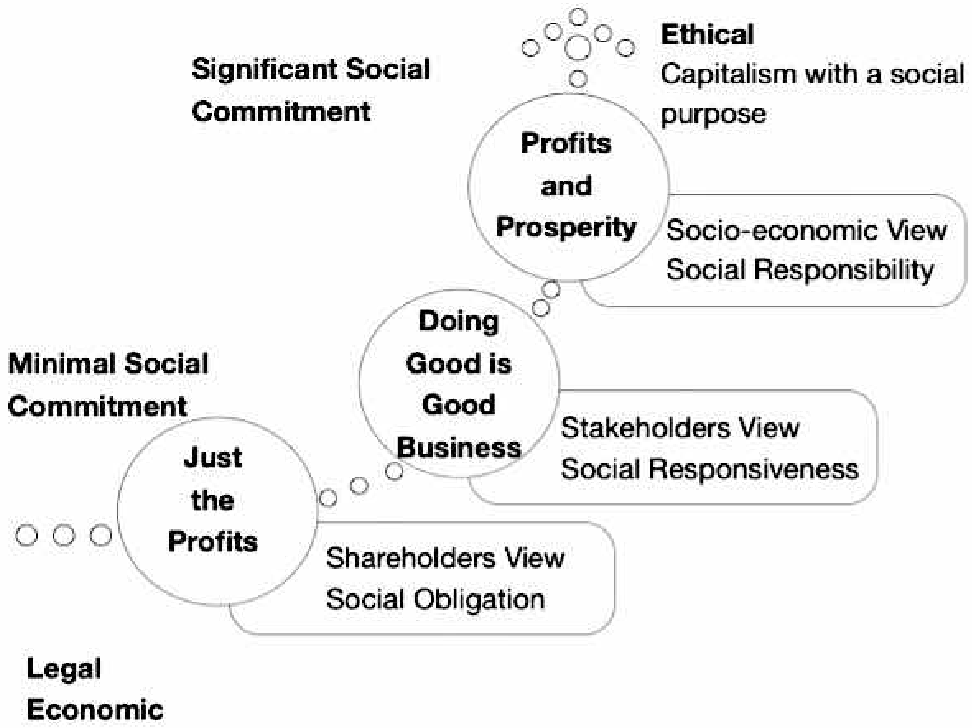
Professor Michael E. Porter, Harvard Business School

4.2 Shared value organizations

Expanding on the last view discussed in the previous section, Michael Porter and Mark Kramer, in their landmark article, "Creating Shared Value," have coined a new term to describe those companies fully committed to creating shared value by using their core capabilities in ways that contribute to both social progress and economic success. Driving economic success, and at the same time creating social values, is not only a responsibility but also an opportunity to rethink the way of doing business and driving sustainable economic growth. They believe that the betterment of our society is not a job to be left to a few, but is a responsibility to be shared by all.[17] Corporate success and social contribution are interdependent, and the same passion, energy, and culture of innovation that makes a successful company can also be used to make a profound and positive social impact in the world.

Figure 4-1

Corporate Social Responsibility Views



In recent years, the sharp dividing line between business and society has begun to blur. Most advanced companies have started looking at social engagement though an entirely different lens. Shared value holds the key to unlocking the next wave of business innovation and growth based on the right kind of profits —profits that create societal benefits rather than diminish them. Rather than seeing business and society in opposition, they recognize the enormous potential of business to contribute to social progress. At the same time, they understand that firms depend on healthy and well-functioning societies to thrive.[17]

The three levels that companies pursue shared value

Much like any business strategy, shared value strategies are unique and tailored to an individual company. Companies can pursue shared value opportunities on three levels: (1) re-conceiving products and markets, (2) redefining productivity in the value chain, and (3) enabling cluster development. The shared value opportunities at each level will differ by industry, company, and geography, depending on how a company's particular business and strategy intersect with social issues.[17]

Creating shared value from re-conceiving products and markets focuses on revenue growth, marketshare, and profitability that arise from the environmental, social, or economic development benefits delivered by a company's products and services.

Companies can meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation. Hewlett-Packard (HP), for example, has identified a new concept—social innovation—by developing a range of technological solutions to pressing problems in health. HP has worked with an African social enterprise, Pedigree, to develop a system based on cloud computing and mobile technologies to tackle counterfeit drugs which are responsible for an estimated 700,000 deaths globally each year. The solution is a proprietary secure-printing technology to create labels that are difficult to fake. Consumers can text a free number in order to check that the drugs are genuine. The service has been rolled out in Nigeria and Ghana, where more than 40% of antimalarial drugs are counterfeit.

The Nestlé milk district model

The Nestlé experience in assisting farmers, creating milk districts, and dairy industries is evident in over 30 countries. The centers feature micro-finance loans, prompt payment to farmers, quality and safety controls, electronic weighing equipment, and cooling tanks. In addition, there is free technical and animal husbandry support as well as veterinary services to improve milk quality.

Here are samples of some of the community benefits of Nestlé's milk districts:

- **China:** Nearly 24,000 farmers in Heilongjiang, in the northeast region of China, deliver their fresh milk to 78

Jain Irrigation's low-cost, drip-irrigation systems stand to make a significant impact of agricultural water efficiency in emerging markets like India as well as in more developed markets like California. Likewise, General Electric (GE), through its Healthymagination program, is investing $6 billion to improve health care access and affordability. GE aims to develop 100 new products that advance these goals.[18]

Creating shared value from redefining productivity in the value chain focuses on improvements in internal operations that improve countries around the world. Nestlé's proven and systematic approach is able to contribute to poverty reduction and improved nutrition on a wide-scale. Read Nestlé's milk district model in the following scrolling text box:

Creating shared value from enabling local cluster

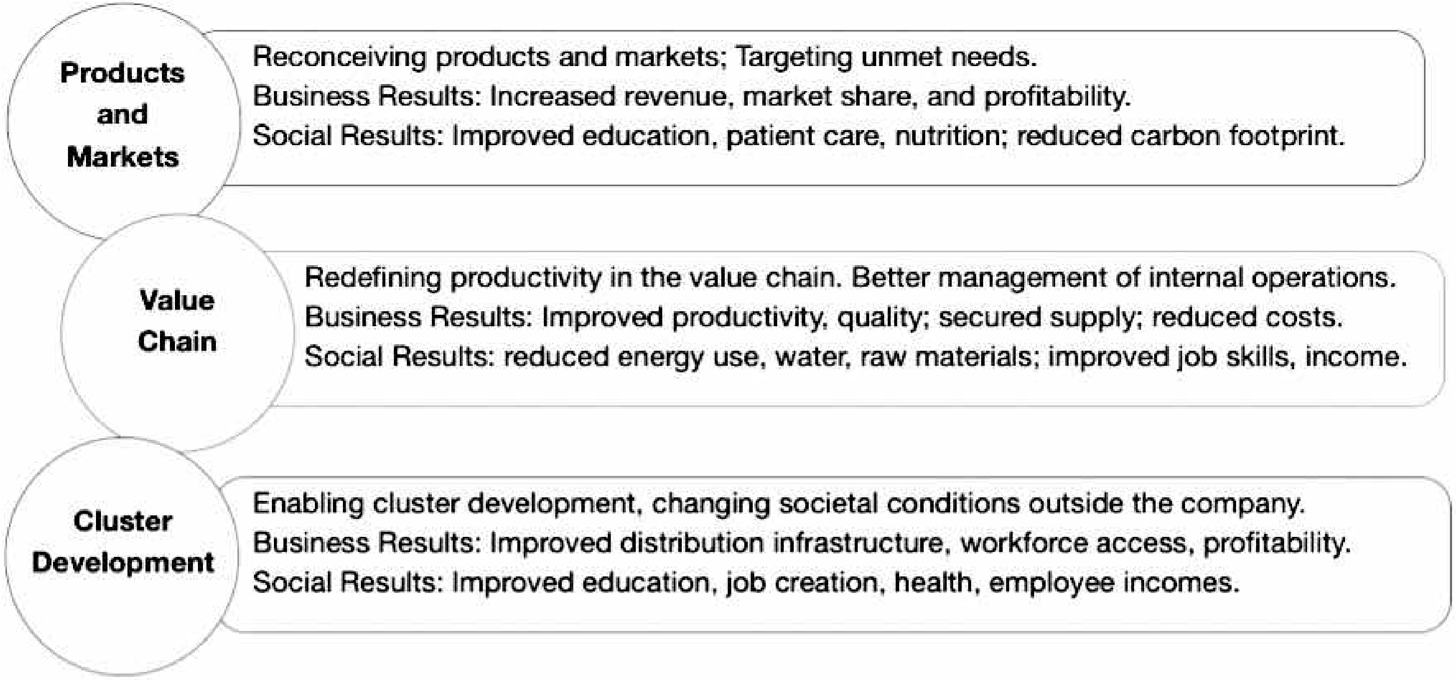
Development derives from improving the external environment of the company through community investments and strengthening local suppliers, local institutions, and local infrastructure in ways that also enhance business productivity. Anglo American's small- and medium-size enterprise investment fund, Anglo Zimele, is an example of a company strengthening local clusters.

As of 2010, the fund invested in 509 businesses around its South African mining operations, which collectively employed 9,514 people with annual revenues of $215 million. The local community benefits from the economic development, while Anglo American also benefits through easier, reliable, and cheaper access to high-quality local suppliers.

Cisco's Networking Academy initiative is another example. Over the last 12 years, the company has established nearly 10,000 training academies for network administrators and developers in 165 countries with an emphasis on reaching under-served communities.[19] Cisco spurs economic development in thousands of communities as it adds skills to the local workforce, thereby increasing its recruiting bases and the attractiveness of those areas as business locations. For trained students, the experience can lead to life changing improvements in their standard of living.

Traditional approaches have tended to view corporate efforts to engage with social issues as functionally separate from core operations. Companies that share this perspective may recognize the necessity of acting on social issues and see value in broadly aligning that action with the goals and philosophy of the business. However, their activities typically consist of stand-

Figure 4-2 Based on Porter, M. and Kramer, M.R. "Creating Shared Value," *Harvard Business Review*, January-February 2011.



alone programs managed by a specialist team that is often focused on externally defined priorities. Corporate goals are defined primarily in terms of changes in internal and external reputation, whether among pressure groups, potential recruits, or current employees.

Creating shared value demands, on the other hand, results in a different set of assumptions. Social engagement is treated as a long-term investment that is intrinsic to business success, similar to research and development. Instead of reacting to external pressure, companies define their own priorities, based on a clear understanding of their business goals, their corporate impact on society, and the effect of social issues on their competitiveness. Reputation and employee engagement are still important, but they are a consequence of a company's efforts rather than the principal driver. Action is embedded in and coordinated throughout the entire business as opposed to being conducted through isolated initiatives. Managers across the firm are accountable for progress. Moving a corporation toward a shared value approach, then, is likely to require a thoroughgoing change process. The details of this process will differ for each firm depending on its goals, context, history, and culture. Nevertheless, it is possible to identify three common lessons for companies that want to take this step.[20]

1. Companies should work inside out and top-down, identifying their relationship with society and systematically building that into its corporate DNA through vision and directions.
2. It takes time to embed a shared value approach. Creating shared value is a multi-year process that requires energy, tenacity, and patience. Nestlé, for example, started to fully integrate share-value strategies into its operations in 2004.
3. The process requires change managers more than program managers. The primary emphasis is on facilitation and a new skill set: managers as brokers and coordinators.

Unilever Project Shakti

Hindustan Unilever's Project Shakti became the model to reach out to rural consumers in developing and emerging markets, and enabled the company to tap into an opportunity at the bottom of the pyramid. The project is being customized and adapted in several Southeast Asian, African, and Latin American markets like

Every year, *Fortune Magazine* publishes the "Change the World" list, which recognizes 50 companies making important social or environmental impact through their corporate strategies. Do a search online to find out who is on the list this year.

REVIEW 4.1 **REVIEW 3.1 Please assess yourself with this quiz.**

Question 1 of 4

Blake Mycoskie, founder of TOMS shoes, puts his money where his philosophy is. TOMS blends charity with commerce in a unique way. For each pair of shoes that TOMS sells, one pair is donated to a child who needs shoes. TOMS shows that a company can be socially responsible and ethical, yet still make a healthy profit. Which of the following best summarizes his business philosophy?

- **A.** A business should be ethical but not socially responsible.
- **B.** A business should be socially responsible but not ethical.
- **C.** A business should be both ethical and socially responsible.
- **D.** A business should not worry about being either ethical or socially responsible.

Check Answer