CHAPTER THREE

Corporate Social Responsibility and Global Citizenship

The idea that businesses bear broad responsibilities to society as they pursue economic goals has been debated for decades. Both market and nonmarket stakeholders expect businesses to act responsibly, and many companies have responded by making social goals a part of their overall business operations and adopting the goal of being a good global corporate citizen. Businesses embracing these responsibilities often build positive relationships with stakeholders, discover business opportunities in serving society, and transform a concern for financial performance into a vision of integrated financial, social, and environmental performance. Business ventures of all sizes—entrepreneurial, small to medium business enterprises, and corporate endeavors—hold responsibilities to those stakeholders they impact. Establishing effective structures and processes to meet a company's social responsibilities, assessing the results of these efforts, and reporting on the firm's performance to the public are important challenges facing today's managers and business owners.

This Chapter Focuses on These Key Learning Objectives:

LO 3-1 Understanding the role of big business and the responsible use of corporate power in a democratic society.

LO 3-2 Knowing history and evolution of the corporate social responsibility concept and investigating how a company's purpose or mission can integrate social objectives with economic and legal objectives.

LO 3-3 Examining the key arguments in support of and concerns about corporate social responsibility.

LO 3-4 Examining the role of businesses with an explicitly social mission, such as social entrepreneurial ventures and B corporations.

LO 3-5 Defining global corporate citizenship and recognizing the rapidly evolving management practices to support global citizenship.

LO 3-6 Distinguishing among the sequential stages of global corporate citizenship.

LO 3-7 Understanding how businesses assess and report their social performance.

As a starting point, managers certainly have a responsibility to their shareholders because they are the owners of the business who have invested their capital in the firm, exhibiting the ownership theory of the firm presented in Chapter 1. But, 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? *Where should companies draw the line on social responsibility?* Consider the following examples:

> In response to the killing of George Floyd in 2020, numerous business organizations have shown their support for the Black Lives Matter social movement. In a 2018 survey, nearly two-thirds of consumers stated that they would reward firms that engaged in social activism.[1] The sports apparel retailer Nike has been directly supporting the cause of social inclusion since 2018, when it launched an ad campaign showcasing the NFL quarterback, Colin Kaepernick, who took a knee during the U.S. national anthem two years earlier to draw attention to racial abuses in the country. Nike then re-examined its own human resources practices, pledging to hire a more diverse workforce. Additionally, in 2020, the organization declared it would devote $40 million to support the U.S. Black community.[2]

Joshua Shapiro visited three small villages in Uganda and was shocked by the unsafe cooking conditions he saw there. Kitchens were small, dark, and unventilated. People could barely breathe. According to the World Health Organization, around 3 billion people cook and heat their homes using open fires and simple stoves burning wood, animal dung, and crop waste for fuel.[3] Shapiro, an engineer in Carnegie Mellon University's CREATE lab, began working on an idea and returned five years later as part of the Toyota's *Ideas for Good* project to install a half-dozen hand-built, solar-powered ventilation systems to clear the air in the kitchens. Shapiro and his venture partner, Mike Taylor, assembled and installed an additional 25 systems during their second trip to Uganda and planned to construct hundreds more. These social entrepreneurs were funded by gifts and grants from various nonprofit organizations, corporations, and individuals.[4] A detailed case on Clean Cooking is featured at the end of Chapter 9.

Are the efforts described above examples of social responsibility practiced by a corporation and social entrepreneurs? Do good global corporate citizens have an obligation to support social causes? How far should an organization or entrepreneur go to help those in society in need of their support? This chapter describes the role business plays in society, introduces the concepts of corporate social responsibility and global citizenship, and describes how businesses implement them in practice. 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 explicitly seek to integrate social objectives with economic objectives? How does a business become a better global corporate citizen; what steps are necessary? What standards do businesses use to assess their social performance, and how do they report their performance to stakeholders? page 50

Corporate Power and Responsibility

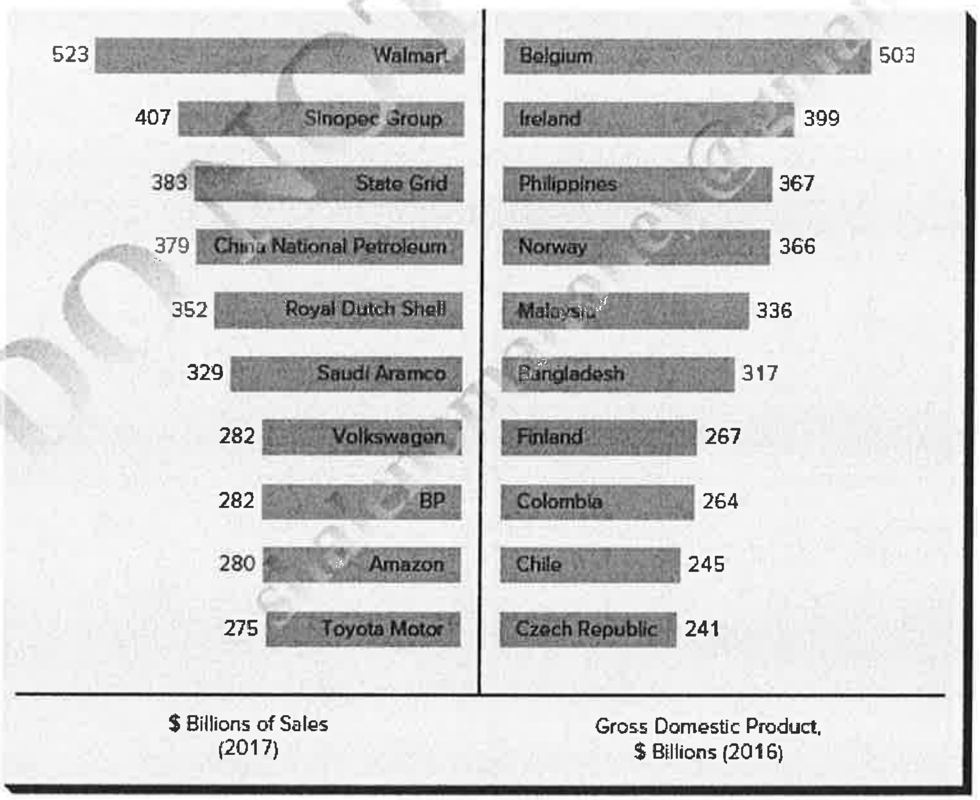
Undeniably, businesses, especially large corporations—whether by intention or accident, and whether for good or self-interest—play a major role in all that occurs in society. The power exerted by the world's largest business organizations is enormous and has a direct effect on society and the natural environment (which is covered in Chapters 9 and 10). 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. Twenty-five of the world's largest business organizations are larger than some countries.[5] 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 the wealthiest company in the world, Walmart, are about the same as the gross domestic page 51 product (GDP) of Belgium. China Natural Petroleum's revenues are more than Norway's GDP; Volkswagen exceeds the GDP of Finland; Amazon's revenues are larger than Chile's GDP; and Toyota eclipses the GDP of the Czech Republic.

FIGURE 3.1

Comparison of Annual Sales Revenue of Top 10 Largest Companies and the Gross Domestic Product for Selected Multinational Enterprises and Nations in $ Billions in 2020

Sources: "*Fortune* Global 500," *fortune.com*; and World Bank data, *databank.worldbank.org*; and "Projected GDP Ranking," Statistics Times, *https://statisticstimes.com/economy/projected-world-gdp-ranking.php*.



The size and global reach of major international enterprises such as Walmart and the others listed in Figure 3.1 give them tremendous power. Through their ever-present marketing and social media presence, 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 8, 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.[6]

The following quotation was made on behalf of the 2019 Business Roundtable, a group comprised of 181 CEOs of the largest corporations in the United States. In 2019, the U.S. Business Roundtable released a statement redefining the purpose of the corporation—that it should "create value for all stakeholders"[7]:

> "Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all…While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all stakeholders."[8]

The tremendous influence 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 products, technologies, and economic opportunities to developing societies, and help those in need. For example, as discussed in Chapter 11, UPS teamed up with regional African health care providers to use drones for shipping needed medical supplies within minutes, rather than hours, to save lives.

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. The largest organizations across most industries have increased their market share over the past 20 years, giving them even more influence over society and the environment.[9] The Carbon Majors Report, released in 2017, found that, since 1965, just 20 companies had been the source of more than two-thirds of the world's greenhouse gas emissions. Multinational energy companies, including ExxonMobil, Shell, BP, Gazprom, and Chevron, were identified as among the highest emitting investor-owned companies.[10]

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. The obligation this gives rise to the notion of 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. Also referred to as the "law of long-run self-interest," the rule is often manifest in stakeholder whistleblowing efforts for corporate wrongdoing. Whistleblowing is covered in Chapter 15.

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.

Corporate Social Responsibility and Citizenship

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.[11] It implies that harm to people and society should be acknowledged and corrected if possible and that firms have an obligation to work toward social betterment. 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.

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. As Axel Weber, chairman of UBS, a Swiss global financial services company, explained,

> "I see it as my duty to understand the scope and scale of societal challenges. [At UBS] we consider the immediate and long-term effects of these challenges. We look at how they may impact the firm, our clients, and other stakeholders, and what action we may need to take in response. Acting responsibly, achieving a positive societal change— through our own activities as well as through the products, services and advice we offer to our clients—that's one of our key roles."[12]

More recently, many companies have adopted the term **corporate citizenship** to refer the actions they take to put their commitments to corporate social responsibility into practice. The term **global corporate citizenship**, similarly, refers to putting these commitments into practice worldwide, not only locally or regionally. Companies demonstrate their global corporate citizenship by proactively building stakeholder partnerships, discovering business opportunities in serving society, and transforming a concern for financial performance into a vision of integrated financial *and* social performance. The underlying idea behind the term is that corporations are themselves "citizens" of the globe and have real responsibilities to society, just like an individual. Broadly, corporate social responsibility involves the notion of global corporate citizenship.

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, which are discussed in subsequent chapters.

Faced with this social outrage 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. Henry Ford, the founder of Ford Motor, for example, developed paternalistic programs to support the recreational and health needs of his company's employees. Some believed that business had a responsibility to society that went beyond their efforts to make profits. Another classic example is Proctor & Gamble's chief executive in the 1930s, Red Deupee, who tried to minimize company layoffs and cut his own salary in half to help protect his workers.[13]

Today a new cohort of philanthropists is emerging. The Bill and Melinda Gates Foundation, launched in 2000, is the largest private foundation in the world. The former Microsoft CEO and his ex-wife invest in and support initiatives to reduce world poverty and promote educational opportunities for all global citizens.[14] Corporate philanthropy is discussed in more detail in Chapter 18.

The late William C. Frederick, one of the pioneers of business and society work and a coauthor of several earlier editions of this textbook, described how business's understanding of corporate social responsibility has evolved over the past half century.[15] 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." In his view, corporate social responsibility has evolved through five stages: from a position of stewardship, to strategic responsiveness, to an ethics-based understanding based in culture, to global citizenship, and to what Frederick calls the most recent phase of corporate social responsibility: CSR_5, which focuses on the adaptation of human culture to global and cosmic challenges linked to sustainability, technology, and generational opportunities.

FIGURE 3.2

Evolving Phases of Corporate Social Responsibility

Source: William C. Frederick, "Corporate Social Responsibility: From Founders to Millennials," in James Weber and David M. Wasieleski (eds.) *Business and Society 360: Corporate Social Responsibility*, pp. 3—38 (Bingley, UK: Emerald Publishers, 2018).

	Phases of Corporate Social Responsibility	CSR Drivers	CSR Policy Instruments
CSR_1 Early in the 20th century but formally in the 1950s–60s	**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–70s	**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–90s	**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
CSR_5 2000–3000	**Toward a Millennial Future** Integrating culture and nature Seeking corporate and planetary sustainability Comprehending planetary processes	Sustainability processes Generational changes Metaphysical beliefs	In determinate, speculative Awaits Millennials' control of corporate processes

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 tend to cooperate 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.

> Nestlé, the world's leading nutrition, health, and wellness company with its headquarters in Switzerland, launched a large-scale research project on children's nutrition leading to product modification or new product development. Initially, the global initiative focused on 10 countries and collaborated with over 240,000 public health opinion leaders, third-party organizations, and pediatricians around the world. The Kids Nutrition and Health Study targeted children's nutrient intake, dietary patterns, and family lifestyle factors. The aim was to help parents ensure the healthy growth and development of their children, while also giving the company insights into how to modify existing product ingredients and develop new products.[16] In 2020, the company launched its 2030 Ambition devoted to helping over 50 million children live healthier lives per year.[17]

The actions taken by Nestlé are an example of a business organization's leaders being guided by **enlightened self-interest**. This concept reflects the notion that providing value to stakeholders is in a business's *long run* self-interest. Nestle's research initiative certainly cost the company money in the short run, but new product development and assistance to the families and children who used their products and the communities where they lived would also bring long-term benefits through enhanced reputation and customer loyalty.

Social responsibility is not a business organization's sole responsibility. As members of civil society, organizations have legal obligations, as well as economic and environmental 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, social, and environmental. The belief that the business of business is solely to attend to shareholders' return on investment and make a profit is no longer widely held and has no legal foundation, as discussed next in the chapter. Rather, many business executives believe the key challenge facing their organizations today is to meet their multiple economic and social responsibilities simultaneously.

The Nestlé example above also illustrates the concept, **creating shared value**, which involves the creation of economic value in ways that also generate value for society. The idea originated in response to the perceived decline in the public's trust in business, and the realization that businesses' efforts to be socially responsible were not always leading to positive societal change.[18] According to scholars Michael Porter and Mark Kramer, "Shared value focuses companies on the right kind of profits—profits that create societal benefits rather than diminish them."[19]

The Corporate Social Responsibility Question

As we have seen, there are various views about the expression of business's social responsibilities and these views evolve over time. The arguments supporting corporate social responsibility and concerns about it are detailed next and summarized in Figure 3.3.

FIGURE 3.3

The Support for and Concerns about Corporate Social Responsibility

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

Support for Corporate Social Responsibility

Many business executives believe that companies should make a profit but should balance this with their social responsibilities. Clearly, many stakeholder groups see the value in corporate socially responsible action, since it preserves the environment, protects consumers, safeguards the safety and health of employees, and prevents job discrimination, but shareholders also expect 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 stakeholders, and 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 as discussed at the beginning of this chapter. Most people believe that responsibility must accompany power, whomever holds it. This obligation, presented earlier in this chapter, is the *iron law of responsibility.* Corporations' reputations, especially in the banking industry, have taken a hit since the economic downturn of 2008–09. Half of the American adults surveyed said their trust in banks had declined after the downturn, joining a growing distrust of Wall Street and mortgage lenders. This shows one example of 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.

> In response to the COVID-19 pandemic in 2020, a race to develop a vaccine to combat the virus took place among the world's pharmaceutical companies. The British firm, AstraZeneca, was criticized for using outdated information in their vaccine trials after several people who had gotten their shot experienced blood clots. The National Institute of Allergy and Infectious Diseases questioned the accuracy of the company's trials and suggested that AstraZeneca provided an "incomplete view of the efficacy of the data."[20] Had the firm not relied on outdated information, the blood clots may have been detected before the drug's release to market. Because of the pharmaceutical giant's alleged behavior, the public's trust in the company and COVID vaccines, in general, was tested.

Discourages Government Regulation

One of the most appealing arguments in support 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 making. From business's point of view, participating in programs, typically the focus for government efforts, can produce a unique business opportunity as the following example illustrates.

> In the United States, food producers could use up to ten different label phrases on their packages, ranging from "expires on" to "better if used by." Many consumers complained to the Department of Agriculture that they were increasingly confused by the different messages. In 2017, the Food Marketing Institute and the Grocery Manufacturers Association, the two largest trade groups for the U.S. grocery industry, announced they had adopted standardized, voluntary regulations to clear up what product date labels mean. Manufacturers would begin to put on their food packages "use by" or "best if used by." This change was meant to explain to the consumer when the product would be at its peak flavor and safe to consume--and potentially stave off further government rules on labeling.[21]

Businesses may act in a socially responsible way to benefit its stakeholders, but also to fend off additional burdensome government regulations, as the example above illustrates. Therefore, if business by its own socially responsible behavior can discourage greater government involvement in the business-consumer stakeholder relationship, it is accomplishing a public good as well as its own private good. While not all government regulations are restrictive to a company, as discussed in Chapter 7, the above example shows that the grocery industry wanted to avoid government intervention, which could have been costly to the businesses in the short-term.

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 later 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.[22]

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 ingesting 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 to be 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.

Empirical evidence has supported this view. Studies generally have found that most of the time, more responsible companies also had better financial results; the statistical association has been highly to modestly positive across the range of all prior studies. According to one recent study, when firms practice socially responsible activities the firm's financial performance is enhanced, especially in a highly competitive industry environment.[23] The long-term benefits to organizations of social and environmental stewardship are also explored in Chapter 9.

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, appealed to consumers to purchase the firm's product or services, 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. In a 2020 report on corporate social responsibility by the insurance

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