

Corporate Social Responsibility

Corporate Social Responsibility

- What *is* a corporation?

Corporate Social Responsibility

- What are the *advantages* of the corporate form of organization, *vis-a-vis* the alternative structures of sole proprietorships or partnerships?

Corporate Social Responsibility

- By what *mechanism* are corporations formed?

Corporate Social Responsibility

- Trusteeship Model
 - Trustor
 - Trustee
 - Beneficiary

Corporate Social Responsibility

- D. Fraher on Corporate Trusteeship

Corporate Social Responsibility

Funds received by the Church would be used for charitable purposes, for the appropriate level of support of the clergy, or for the aggrandizement of the Church and its interests, but the cleric in charge could not legally appropriate the goods of his church for his own support or enjoyment beyond a reasonable living...

Corporate Social Responsibility

...ecclesiastical property-holding gave birth to corporation theory. In trying to explain the roles of bishops, lower clergy, and laity, medieval lawyers ultimately decided that each church was an entity distinct from the persons who made up the church...

Corporate Social Responsibility

...the fictional person, the corporate entity, theoretically lived forever, and theoretically this fictional person had property rights and interests of its own...

Corporate Social Responsibility

...vis-à-vis the corporate church, the clergy were agents or representatives, subject to fiduciary duties.

Corporate Social Responsibility

- What is the corporation?
 - A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of creation confers upon it, either expressly, or as incidental to its very existence.
 - Chief Justice Marshall, Dartmouth vs Woodward (1819)

Corporate Social Responsibility

- A corporation should be held accountable for any of its actions that affect people, their communities, and their environment
- Requires companies to balance the benefits to be gained against the costs of achieving those benefits

Corporate Social Responsibility

Legal Requirements Versus Corporate Social Responsibility

- A firm must abide by laws and regulations governing society
- Legal rules set the minimum standard for business
- Current legal standards for corporate social responsibility are minimum public expectations
- Companies can choose to go beyond the legal standard and strive for higher levels of social responsibility

Corporate Social Responsibility

- What *logic* can be used to support the notion that corporations have *legal* responsibilities? That they have *social* responsibilities? That they have *ethical* responsibilities?

Corporate Social Responsibility (CSR) and Power

- The world's largest 200 companies account for more than 25% of the world's economic activity
- With power comes responsibility, concept for this coined the "Iron Law of Responsibility"
 - *In the long run, those who do not use power in ways society considers responsible will lose it*

History of the CSR Concept

- Turn of the 20th century corporations came under attack for being too big and powerful
- Curbs on their power began with antitrust and consumer protection laws
- Farsighted industrialists (e.g. Andrew Carnegie) started philanthropic efforts aimed at educational and cultural institutions
- Others (e.g. Henry Ford) started paternalistic programs to support employee social and health needs
- View that business leaders had a responsibility that went beyond just making a profit became more widespread, called the **“Charity Principle”**

History of the CSR Concept


- Around 1920s the charitable needs of communities began to shift from just being the purview of a small group of wealthy philanthropists to business firms themselves
- Became more common for businesses to offer programs/charitable support to needy
- Broader concept of business as “trustees”, who work in the public interest, came to be known as the **“Stewardship Principle”**

Foundation Principles of Corporate Social Responsibility

	Charity Principle	Stewardship Principle
Definition	<ul style="list-style-type: none"> • Business should give voluntary aid to society's needy persons and groups 	<ul style="list-style-type: none"> • Business, acting as a public trustee, should consider the interests of all who are affected by business decisions and policies
Type of activity	<ul style="list-style-type: none"> • Corporate philanthropy • Voluntary actions to promote the social good 	<ul style="list-style-type: none"> • Acknowledging business and society interdependence • Balancing the interests and needs of many diverse groups in society
Examples	<ul style="list-style-type: none"> • Corporate philanthropic foundations • Private initiatives to solve social problems • Social partnerships with needy groups 	<ul style="list-style-type: none"> • Enlightened self-interest • Meeting legal requirements • Stakeholder approach to corporate strategic planning

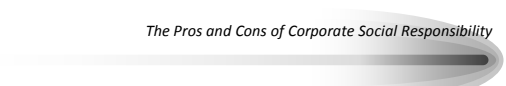
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The CSR Debate




- Despite strong support in the business community for CSR, it is not universally accepted
- 2005 Global study of corporate executives found 84% thought large corporations should “Generate high returns to investors but balance [this] with contributions to the broader public good.”
- Common arguments, both for and against CSR, shown on next slide

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 business value and reputation. Corrects social problems caused by business.	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.

The Social Responsibility of Business is to Increase its Profits



Milton Friedman

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

1) “Corporate social responsibility is pure and unadulterated socialism”

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

- **social responsibility**

The idea that businesses should not function amorally, but instead should contribute to the welfare of their communities.

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

- **socialism**

Any of various theories or systems of social organization in which the means of producing and distributing goods is owned collectively or by a centralized government that often plans and controls the economy.

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

1a) “The doctrine of ‘social responsibility’ involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses”

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

1b) “The doctrine of ‘social responsibility’ taken seriously would extend the scope of the political mechanism to every human activity”

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

1c) “Once this view [of social responsibility] is adopted, the external forces that curb the market...will be the iron fist of Government bureaucrats”

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

2) "Only people have responsibilities"

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

- **responsibility**

The state, quality, or fact of being responsible.

- moral
- social
- legal

The Social Responsibility of Business is to Increase its Profits:
A Few Fallacies

3) "The manager is the agent of the individuals who own the corporation...and his primary responsibility is to them"

Corporate Social Responsibility

- It has oftentimes been claimed that the only objective of managers is to *maximize* shareholder wealth. What *justification* can be provided for this point of view?

Corporate Social Responsibility

- What is implied by shareholder wealth *maximization*? Specifically, what does this perspective 'mean' for the interests of other *stakeholders*?

Multiple Responsibilities of Business

- Three 'forms' of responsibility
 - Economic responsibilities
 - Social responsibilities
 - Legal responsibilities
- Challenge is to balance all three
- Successful firm is one which finds ways to meet each of its critical responsibilities and develops strategies to enable the obligations to help each other

Enlightened Self-Interest

- Economic and social goals come together in companies that practice **enlightened self-interest**
 - Means firm leadership can see it is in the company's self-interest in the long term to provide true value to its customers, to help its employees grow and behave responsibly
- Scholars have debated the related question: Do socially responsible companies sacrifice profits by promoting the social good?
 - Studies comparing CSR with firm performance shows there is a moderately positive association between the two factors
 - Corporate social and environmental responsibility is likely to pay off

Stockholder Interests Versus other Stakeholder Interests

- Corporate executives and board members are constantly under pressure to produce value for owners/investors
- Management's central goal is to promote the interests of the entire company, not any single stakeholder group
- Challenge is to put emphasis on long-run profits rather than focus on immediate returns
 - An enlightened self interest approach helps reconcile these challenges
 - Is acceptable to incur short term costs for socially responsible activities that benefit both the company and the public in the long term

Phases of Corporate Social Responsibility

- Frederick provides expanded framework for understanding the evolution of CSR concept
- Divided into 4 phases:
 - Corporate social stewardship, 1950s – 1960s
 - Corporate social responsiveness, 1960s – 1970s
 - Corporate/business ethics, 1980s – 1990s
 - Corporate/global citizenship, 1990s – 2000s
- Next slide details the drivers and policies for each of these phases
