

A network diagram background consisting of a complex web of thin grey lines connecting various colored dots. The dots are in shades of blue, green, red, and light purple, scattered across the entire page.

# Strategic Corporate Social Responsibility

Sustainable  
Value Creation

David Chandler

Edition  
**4**



# Strategic

Corporate Social  
Responsibility



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Value Creation

David Chandler

University of Colorado Denver  
Business School



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# GLOSSARY

## CSR TERMS

Consistent definitions, rhetoric, and vocabulary are the entry point to understanding any discipline, yet they remain elusive and fiercely debated within the field of CSR.<sup>1</sup> As such, the range of competing terminology that is used can be a source of confusion for executives, academics, journalists, and other students of CSR. Ostensibly part of the same discussion, it is common to see CSR referred to in a number of different ways:

- “Corporate responsibility” or “corporate citizenship”
- “Conscious capitalism” or “sustainable business”
- “Corporate community engagement” or “strategic philanthropy”
- “Sustainability” or “corporate environmental responsibility”
- “Corporate social performance” or “corporate social strategy”

In many cases, writers are using different terms to mean very similar things, yet heated debates can sprout from these semantic subtleties. Rather than engage in this debate, this book focuses on the term *corporate social responsibility* due to its widespread diffusion, even while recognizing that different people interpret it in different ways. In order to clarify some of the confusion and provide a consistent vocabulary with which to read this book, therefore, brief definitions of some of the many CSR concepts are detailed below. These terms are discussed in the CSR literature (some more widely than others) and referred to throughout this book.

**Accountability:** The extent to which a firm attends to the needs and demands of its stakeholders (see *Transparency*).

**Activism:** Actions (e.g., campaigns, boycotts, protest) by individuals, nonprofit organizations, or NGOs designed to further social, political, or environmental goals.

**Advocacy advertising:** Efforts by firms to communicate social, environmental, or political positions to stakeholders (see *Cause-related marketing*).

**Badvertising:** Advertising, marketing, or PR activities by a firm that promote socially irresponsible behavior, often generating a backlash by stakeholders.

**B Corp:** A certification awarded to firms that meet specific standards of transparency and accountability set by the nonprofit B Lab (<http://www.bcorporation.net/>).

**Benefit corporation:** A type of legal structure for businesses (<http://benefit-corp.net/>) that is available only in those US states that have passed benefit corporation legislation.

**Business citizenship:** Socially oriented actions by firms designed to demonstrate their role as constructive members of society.

**Business ethics:** The application of ethics and ethical theory to businesses and business decisions.

**Cap-and-trade:** A market established to buy and sell the right to emit carbon. It is underwritten by government-issued credits and is designed to limit the total amount of carbon in the atmosphere.

**Carbon footprint:** A firm's total emissions of carbon-related greenhouse gasses, often measured in terms of tons of carbon or carbon dioxide (see *Greenhouse gas*).

**Carbon inseting:** A firm's integration of sustainable practices directly into the supply chain to take responsibility for its carbon emissions (see *Carbon offsetting*).

**Carbon intensity:** A measure of a firm's environmental impact that is calculated by dividing carbon emissions by annual sales.

**Carbonivore:** An organization or technology that removes more carbon from the air than it emits, "either storing it, turning it into a useful product or recycling it."<sup>2</sup>

**Carbon neutral:** An effort to ensure a firm's net carbon emissions are zero (see *Net positive*).

**Carbon offsetting:** A firm's reduction of its carbon footprint by paying for environmentally beneficial behavior by a third party (see *Carbon inseting*).

**Cash mob:** A group of community residents who use social media to assemble at a given date and time to spend money in support of a local business.

**Cause-related marketing:** Efforts to gain or retain customers by tying purchases of the firm's goods or services to the firm's philanthropy (see *Advocacy advertising*).

**Circular economy:** A means to reduce waste within economies via greater efficiency or by reuse, repair, or recycling (see *Cradle-to-cradle*).

**Civic engagement:** Efforts by a firm to improve a local community.

**Clicktivism:** A form of social or environmental protest that is conducted online via social media (e.g., signing an online petition).

**Climate change:** The term used to describe the effect on the planet's weather systems of human economic activity.

**Coalitions:** Collections of organizations, stakeholders, or individuals that collaborate to achieve common goals.

**Community advocacy panels (CAPS):** Formal or informal groups of citizens who advise firms about areas of common interest that affect the local community.

**Compliance:** Actions taken by firms to conform to existing laws and regulations.

**Conscious capitalism:** An emerging economic system that “builds on the foundations of Capitalism—voluntary exchange, entrepreneurship, competition, freedom to trade and the rule of law. These are essential to a healthy functioning economy, as are other elements of Conscious Capitalism including trust, compassion, collaboration and value creation.”<sup>3</sup> Synonymous with **strategic CSR**, it is based on four principles that encourage the development of values-based businesses: higher purpose, stakeholder interdependence, conscious leadership, and conscious culture (see *Values-based business*).

**Consumer activism:** Efforts by customers to have their views represented in company policies and decision making. Organized activism is more likely referred to as a “consumer movement,” which can advocate for more radical changes in consumer laws.

**Consumer boycott:** Customers who avoid specific industries, firms, or products based on performance metrics or issues that they value.

**Consumer buycott:** Consumers who actively seek to support specific industries, firms, or products through their purchase decisions based on performance metrics or issues that they value. Such support is often warranted because an industry or specific firm has been marginalized by other stakeholders in society.

**Corporate citizenship:** See *Business citizenship*.

**Corporate philanthropy:** Contributions by firms that benefit stakeholders and the community, often made through financial or in-kind donations to nonprofit organizations.

**Corporate responsibility:** A term similar in meaning to *CSR*, but preferred by some companies because it deemphasizes the word *social*.

**Corporate social opportunity:** A perspective that emphasizes the benefits to firms of adopting *CSR*, mitigating the perception of *CSR* as a *cost* to business.<sup>4</sup>

**Corporate social performance:** The benefits to the firm (often measured in traditional financial or accounting metrics) gained from implementing *CSR*.

**Corporate social responsibility (CSR):** A responsibility among firms to meet the needs of their stakeholders and a responsibility among stakeholders to hold firms to account for their actions.

**Corporate social responsiveness:** Actions taken by a firm to achieve its *CSR* goals in response to demands made by specific stakeholder groups.

**Corporate stakeholder responsibility:** A responsibility among all of a firm's stakeholders to hold the firm to account for its actions by rewarding behavior that meets expectations and punishing behavior that does not.

**Corporate sustainability:** Business operations that can be continued over the long term without degrading the ecological environment (see *Sustainability*).

**Cradle-to-cradle:** A concept introduced by William McDonough that captures the zero-waste, closed-loop concept of the circular economy (see *Circular economy*).<sup>5</sup>

**Downcycling:** A recycling process that reduces the quality of the recycled material over time (see *Recycling* and *Upcycling*).

**Eco-efficiency:** An approach to business that is characterized by the need to “do more with less” and popularized by the phrase “reduce, reuse, recycle.”

**Ecopreneur:** “Environmental and social entrepreneurs [who] lead socially committed, break-through ventures that are driven by environmental, social, and economic goals”<sup>6</sup> (see *Social entrepreneur*).

**Ecosystem:** A self-sustaining community.

**Enlightened self-interest:** The recognition that businesses can operate in a socially conscious manner without forsaking the economic goals that lead to financial success.

**Ethics:** A guide to moral behavior based on social norms and culturally embedded definitions of *right* and *wrong*.

**E-waste:** Toxic pollutants that are a byproduct of discarded consumer electronic goods, such as televisions, computers, and cell phones.

**Externality:** See *Externality* under “Strategy Terms.”

**Fair trade:** Trade in goods at prices above what market forces would otherwise determine in order to ensure a *living wage* for the producer (see *Living wage*).

**Fast money:** “Money that has become so detached from people, place and the activities that it is financing that not even the experts understand it fully”<sup>7</sup> (see *Slow money*).

**Garbology:** The study of what humans throw away.<sup>8</sup>

**Global Compact:** A United Nations–backed effort to convince corporations to commit to multiple principles that address the challenges of globalization.<sup>9</sup>

**Global Reporting Initiative (GRI):** A multi-stakeholder organization designed to produce a universal measure of a firm's CSR efforts.

**Global warming:** See *Climate change*.

**Glocalization:** “Dealing with big global problems through myriad small or individual actions.”<sup>10</sup>

**Green noise:** “Static caused by urgent, sometimes vexing or even contradictory information [about the environment] played at too high a volume for too long.”<sup>11</sup>

**Greenhouse gas:** A gas that pollutes the atmosphere by trapping heat, causing average temperatures to rise (e.g., carbon dioxide; see *Carbon footprint*).

**Greenwash:** “Green-wash (green’wash’, -wôsh’)—verb: the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service”<sup>12</sup> (see *Pinkwash*).

**Gross national happiness:** An attempt, most advanced in the Kingdom of Bhutan, to replace gross domestic product (GDP) as the primary measure of an economy’s health and well-being.<sup>13</sup>

**Human rights:** Freedoms that are an integral element of what it is to be human.<sup>14</sup>

**Impact investing:** A variety of investment vehicles (e.g., mutual funds, low-interest loans, bonds, and exchange-traded funds [ETFs]) that seek to produce a financial return for investors by solving social problems that previously were not addressed by market forces (see *Social finance*).

**Inclusive capitalism:** The idea that “those with the power and the means have a responsibility to help make society stronger and more inclusive for those who don’t.”<sup>15</sup>

**Integrated reporting:** The publication of a firm’s economic, environmental, and social performance in a unified document (see *Triple bottom line*).

**Intrapreneurship:** A combination of the terms *innovation* and *entrepreneur* to capture innovative behavior within a large, bureaucratic organization.

**Iron law of social responsibility:** The axiom that those who use power in ways society deems abusive will eventually lose their ability to continue acting in that way.<sup>17</sup>

**Islamic finance:** An investment philosophy guided by shariah law. “Shariah-Compliant funds are prohibited from investing in companies which derives [sic] income from the sales of alcohol, pork products, pornography, gambling, military equipment or weapons.”<sup>16</sup>

**Leanwashing:** Advertising or other marketing by food- or nutrition-related companies that misleadingly suggests a product is healthy (e.g., using terms such as *natural* on labels).

**Living wage:** A level of pay that is designed to meet an employee’s basic living standards, above subsistence levels. A *living wage*, which is culturally embedded, is usually set at a higher level than a *minimum wage*, which is legally defined. (See *Fair trade*.)

**Moral hazard:** To take risk in search of personal benefit where the consequences of that risk are not born by the individual. During the 2007–2008 financial crisis, this effect was captured in the finance industry by incentives that *privatized gains* but *socialized losses*.

**Natural capital:** The stock of all resources that exist in the natural environment.

**Natural corporate management (NCM):** A business philosophy “based upon genetic, evolutionary, and neuroscience components that underlie and help drive corporate management, including behavior, organizational, and eco-environmental relationships.”<sup>18</sup>

**Net positive:** An effort by a firm to ensure that it draws on little or no virgin natural resources in its operational processes (see *Carbon neutral*).

**Nongovernmental organizations (NGOs):** Organizations that operate with a legal and accounting structure that allows them to pursue political, environmental, and/or social goals without the need to generate a profit (see *Nonprofits*).

**Nonprofits:** Nonprofits are similar to NGOs but often differ by having a domestic, rather than an international, focus (see *Nongovernmental organizations*).

**Organic:** A method of producing food without using pesticides, chemical fertilizers, or other industrial aids with the goal of promoting ecological balance and preserving biodiversity. Organic agriculture and its products are certified by the government in many countries.

**Pastorpreneur:** A religious figure who applies business principles to a church or related religious activity, or who applies religious principles to a business.

**Philanthropreneur:** An individual who targets a charitable donation (often to a socially or environmentally oriented start-up) and actively intervenes in the management of that donation (e.g., advising the organization or joining its board).

**Philanthropy:** A donation made, by either an individual or organization, to a charity or charitable cause.

**Pinkwash:** “When a company promotes pink-ribboned products and claims to care about breast cancer while also selling products linked to disease or injury”<sup>19</sup> (see *Greenwash*).

**Public policy:** Government decisions aimed at establishing rules and guidelines for action with the intent of providing benefit (or preventing harm) to society.

**Recycling:** A process by which resources are reclaimed from discarded materials and put to productive use (see *Downcycling* and *Upcycling*).

**Renewable energy:** A source of energy that is non-carbon-based (e.g., solar, wind, or tidal energy). Also referred to as *alternative energy* or *green energy*.

**Shwopping:** An exchange program by which consumers trade in used clothing for vouchers that can be used to purchase new clothes. Introduced in the UK by Oxfam and Marks & Spencer to support recycling within a circular economy.

**Slow money:** An offshoot of the “slow food” movement that, instead of focusing on local food, emphasizes impact investments in local businesses (see *Fast money*).<sup>20</sup>

**Social entrepreneur:** An entrepreneur who seeks to achieve social and environmental goals by utilizing for-profit business practices (see *Ecopreneur*).

**Social finance:** An approach to finance that emphasizes the social return on an investment as measured by a variety of criteria (e.g., ethical, faith based, and environmental) and that also seeks to secure financial returns for investors (see *Impact investing*).

**Social innovation:** An approach to business by which firms seek to meet not only the technical needs of their customers but also their broader aspirations as citizens.

**Social license:** The ability of a firm to continue to operate due to stakeholder approval of its activities.

**Socially responsible investing (SRI):** A portfolio investment strategy that seeks returns by investing in firms or projects that pursue CSR-related goals.

**Social value:** The benefit (or harm) of a firm's activities in terms of nonmonetary metrics, as defined by each of the firm's stakeholders.

**Stakeholders:** An individual or organization that is affected by a firm (either voluntarily or involuntarily) and possesses the capacity to affect the firm.

**Strategic corporate social responsibility:** The incorporation of a CSR perspective within a firm's strategic planning and core operations so that the firm is managed in the interests of a broad set of stakeholders to optimize value over the medium to long term.

**Sustainability:** "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"<sup>21</sup> (see *Corporate sustainability*).

**Sweatshops:** Factories that employ children or apply working standards with little, if any, respect for human rights. Conditions are deemed to be unsafe and unfair, often in comparison to minimum legal conditions established in more affluent societies.

**Transparency:** The extent to which a firm's decisions and operating procedures are open or visible to its external stakeholders (see *Accountability*).

**Triple bottom line:** An evaluation of the total business by comprehensively assessing a firm's financial, environmental, and social performance (see *Integrated reporting*).

**Upcycling:** A recycling process that increases the quality of the recycled material over time (see *Recycling* and *Downcycling*).

**Values:** Beliefs about appropriate goals, actions, and conditions.

**Values-based business:** A for-profit firm that is founded on a vision and mission defined by a strategic CSR perspective (see *Conscious capitalism*).

**Whistle-blower:** An insider who alleges organizational misconduct and communicates those allegations of wrongdoing outside the firm to the media, prosecutors, or others.

## STRATEGY TERMS

In addition to the CSR terms that are used throughout this book, there are a number of specialized terms used to describe a firm's strategy or strategic decision-making processes. The intersection between CSR and corporate strategy is central to the argument presented in this textbook. As such, brief definitions of the key concepts associated with a firm's strategic planning and implementation are detailed below.

**Agent:** An individual appointed to act on someone else's behalf (see *Principal*).

**Board of directors:** The formal authority to which the CEO and executives of the firm are ultimately responsible (see *Corporate governance*).

**Business:** A process of economic exchange by which organizations seek to generate financial profits by satisfying stakeholder needs (see *Company*).

**Business strategy:** The strategy of a specific business unit within a firm that enables the firm to differentiate its products from those of other firms on the basis of low cost or another factor (e.g., superior technology, brand, customer service) in order to create a sustainable competitive advantage (see *Corporate strategy*, *Differentiation*, and *Low cost*).

**Capabilities:** Actions that a firm can do, such as pay its bills, in ways that add value to the production process.

**Company (or corporation):** A legal organizational form permitted to engage in commercial business. The name *company* comes from a combination of the Latin words *cum* and *panis*, the literal translation of which originally meant "breaking bread together."<sup>22</sup> (See *Business*.)

**Competencies:** Actions a firm can do very well.

**Competitive advantage:** Competencies, resources, or skills that enable the firm to differentiate itself from its competitors and succeed in the marketplace (see *Sustainable competitive advantage*).

**Core competence (or capability):** The processes of the firm that it not only does very well but is so superior at performing that it is difficult (or at least time-consuming) for other firms to match its performance in this area.<sup>23</sup>

**Core resource:** An asset of the firm that is unique and difficult to replicate.

**Corporate governance:** The structure and systems that serve to hold the firm legally accountable (see *Board of directors*).

**Corporate strategy:** The strategy of the firm. Strategy at this level involves decisions that allow the firm to navigate its competitive environment, identifying the businesses in which the firm will compete and whether to enter into partnerships with other firms via joint ventures, mergers, or acquisitions (see *Business strategy*).



**Differentiation:** A *business strategy* used by firms to distinguish their products from the products of other firms on the basis of some component other than price (see *Low cost*).

**Economic value:** The benefit (or harm) of a firm's activities in terms of monetary metrics, as defined by each of its stakeholders.

**Externality:** The effect of a transaction (either positive or negative) on a third party not involved in the primary exchange.

**Fiduciary:** A responsibility of one party that is a result of a formal relationship, either legal or ethical, with another party. The responsibility is founded on trust and often involves financial transactions.

**Firm:** A business organization that marshals scarce or valuable resources to produce a good or service that it then sells at a price that is greater than its cost of production.

**Five forces:** A macro-level analysis of the competitive structure of a firm's industry (see *Industry perspective*).<sup>24</sup>

**Gig economy:** An economy that is driven by “gigs”—individual tasks and short-term jobs performed by self-employed freelancers or micro-entrepreneurs and traded online.<sup>25</sup>

**Globalization:** The process (facilitated by rapidly improving communication technologies, transportation, trade, and capital flows) that allows a firm's operations to transcend national boundaries and facilitates greater interaction among people, societies, cultures, and governments worldwide.

**Industry perspective:** An external perspective of the firm that identifies the structure of the environment in which the firm operates (in particular, its industry) as the main determinant of its marketplace success (see *Five forces* and *Resources perspective*).

**Low cost:** A *business strategy* used by firms to distinguish their products from the products of other firms on the basis of more efficient operations (see *Differentiation*).

**Market segmentation:** A process of dividing up consumers into groups with similar characteristics (often based on demographic information).

**Mission:** States what the firm is going to do to achieve its vision. It addresses the types of activities the firm seeks to perform (see *Vision*).

**Net present value:** The value today of an investment that will mature in the future.

**Offshoring:** Relocating jobs to overseas countries in search of lower labor costs.

**Onshoring (or reshoring):** Returning jobs closer to home in order to create more flexible and responsive supply chains.

**Opportunity cost:** The benefit that would have been created if an alternative course of action had been chosen.

**Price premium:** The amount of money that consumers are willing to pay above cost (essentially, the profit on a product) for some attainable value (either perceived or real).

**Principal:** An individual who appoints someone to act on their behalf (see *Agent*).

**Profit:** The residual value (positive or negative) of a firm's transactions after subtracting costs from revenues.

**Prosumer:** A consumer who improves the firm's products by providing information (e.g., completing surveys) or promotion (e.g., on social media). Originated by futurist Alvin Toffler and related to the term *prosumption*, meaning "production by consumers."<sup>26</sup>

**Resources perspective:** An internal perspective of the firm that identifies its resources, capabilities, and core competencies as the main determinant of its sustainable competitive advantage (see *Industry perspective*).

**Sharing economy:** An economy that is driven by "shared assets"—assets that are owned by individuals, rather than companies, and rented out for short periods among an online community.<sup>27</sup>

**Strategic planning:** The process (often annual) whereby firms create or reformulate plans for future operations.

**Strategy:** Determines how the firm will undertake its mission. It sets forth the ways it will negotiate its competitive environment in order to attain a sustainable advantage (see *Tactics*).

**Sunk cost:** An investment of resources already made that cannot be reclaimed.

**Supply chain (or value system):** The linkages formed by relationships among organizations that provide a firm with the materials necessary to produce a product (see *Value chain*).

**Sustainable competitive advantage:** Competencies, resources, or skills that enable the firm to differentiate itself from its competitors and maintain its success in the marketplace over a period of time (see *Competitive advantage*).

**SWOT analysis:** A tool used to identify the internal **S**trengths and **W**eaknesses of the firm and the external **O**pportunities and **T**hreats in the environment. The goal is to match the firm's strengths with its opportunities, understand its weaknesses, and avoid any threats.

**Tactics:** Day-to-day management decisions made to implement a firm's strategy (see *Strategy*).

**Value chain:** An analysis of the links in the production process that identifies each value-adding stage. This analysis is possible within a firm (*value chain*) or among firms (*supply chain* or *value system*).<sup>28</sup>

**Value creation:** The generation of a perceived benefit for an individual or group, as defined by that individual or group.

**Vision:** A statement designed to answer why the firm exists. It identifies the needs it aspires to solve (see *Mission*).

**VRIO:** An acronym of the four characteristics a resource must possess in order for it to be the source of a firm's sustainable competitive advantage: Is the resource **V**aluable? Is it **R**are? Is it costly to **I**mitate? Is the firm **O**rganized to capture this potential value?

# PREFACE

## WHY CSR MATTERS

The fourth edition of this textbook reflects the evolution that is taking place in corporate social responsibility (CSR). Increasingly, CSR is seen as more than a set of peripheral activities (such as philanthropy) and, instead, is understood as central to the firm's strategic decision making and day-to-day operations. In other words, CSR is not an option; it is what businesses do. Being able to respond efficiently and effectively to the needs and demands of stakeholders (who have increasingly powerful tools at their disposal to convey those needs and demands) is not only the key to success in today's global business environment—it is the key to survival.

To reflect the growing importance of CSR, this book is titled *Strategic Corporate Social Responsibility: Sustainable Value Creation*. Talking about CSR in terms of *value creation* means that it becomes the responsibility of the CEO and senior executives in the organization. Value creation speaks to what is core about a firm, across functional areas. While preconceived notions of *CSR* and *sustainability* may cause some CEOs to prejudge or reject these topics, *value creation* cannot be avoided. In fact, it must be embraced. In order to rebut the idea of CSR as a cost to business, therefore, supporting arguments must be embedded in operational and strategic relevance. In the process, CSR moves from an optional add-on to the center stage—it is there because it involves all of the firm's stakeholders, both internal and external. It is therefore incorrect to say that firms can choose to do CSR or choose to ignore it. On the contrary, all firms do CSR (they all seek to create value); it is just that some do it better than others.

This book exists because this argument is not yet widely accepted, by either executives or business schools. CSR is too often ignored or misunderstood partly because, on the surface at least, it is more obvious in its absence. Value can be hard to measure, while harm inflicted is only apparent after the fact. The scale of the Deepwater Horizon oil spill in the Gulf of Mexico in 2010, for example, demonstrated the consequences (for both the firm and society) when stakeholder interests are ignored. Similarly, the devastating effects of the 2007–2008 financial crisis linger and continue to define the economic policy of governments

worldwide. CSR is not an abstract concept; it is real and resides at the center of almost everything we do.

CSR is pervasive because the for-profit firm is the cornerstone of a developed society. Firms are the most efficient entity we have for transforming scarce and valuable resources into the products and services on which we rely. It is important to also remember, however, that these firms are a social construction—designed as an aid to progress. As such, I believe that the most important question we face is *What is the purpose of the for-profit firm?* This question is existential. The answer will determine our collective standard of living—today, tomorrow, and for generations to come. The short answer, of course, is that firms exist to create *value*. But it is how they create value and for whom that matters. This is what makes CSR so complex and demanding; it is also what makes CSR integral to the firm’s strategy and day-to-day operations.

As such, this book celebrates the positive role that for-profit firms play in our lives, while detailing a plan for how that role can be improved. This book is an endorsement of the profit motive and capitalism, but it argues that competitive forces generate the greatest welfare when embedded in a framework of values. Markets work best when all stakeholders act according to their personal ethics and morals (whether as customers, employees, journalists, regulators, or any of the other economic roles we adopt daily). As a result, this book advocates for *evolution* rather than *revolution*—it seeks to shape what is practical and realizable, not wish for what is ideal and out of reach. There is a reason why our economic system has evolved the way it has. This textbook acknowledges this and, starting with what we know about human psychology and economic exchange, builds a manifesto for change that business leaders can embrace today.

The fourth edition of *Strategic CSR*, therefore, is a road map. It provides a framework that firms can use to navigate the complex and dynamic business landscape. Increasingly, effective managers must balance the competing interests of the firm’s stakeholders—understanding what they want today and, perhaps more important, what they will want tomorrow. *Strategic CSR* was written in the hope of creating a more responsive business culture in which for-profit firms take their rightful place as the primary solution to society’s largest problems. But, we have a lot of work to do. What is clear is that CSR is central to the effort. It is not an optional add-on. Rather, it is an essential refinement of the market model—an operating philosophy for firms that seeks to optimize growth (and profits) over the medium to long term. It is a strategic imperative that is central to operations. It is how firms create value—the central concern that CEOs face every day. CSR is not one way of doing business among many; it is *the* way of doing business in the globalized, wired world in which we live today.

## Strategic Corporate Social Responsibility

CSR matters because it encompasses all aspects of business. And, businesses matter because they create much of the wealth and well-being in society. Central to the concept of CSR, therefore, is deciding where companies fit within the

social fabric. By addressing issues surrounding corporate governance, environmental pollution, corruption, and employee safety and pay—among many other issues—a firm’s stakeholders define the dynamic context in which the business operates. The context is *dynamic* because the ideal mix of operational goals and stakeholder expectations is constantly evolving. Along the way, difficult questions arise: Why does a business exist? Is the goal simply to generate as much profit as possible? Who defines the boundaries between private profits and the public good? What obligations do businesses have to the societies in which they operate? Are these *obligations* voluntary, or should they be mandated by law? To whom are companies ultimately accountable? Can the interests of firms and their stakeholders be aligned, or do they conflict inherently?

While businesses are largely responsible for creating wealth and driving social progress, they do not act alone. Governments are crucial because they set the rules and parameters within which society and businesses operate. In addition, nonprofit or nongovernmental organizations (NGOs) exist to do social good without seeking profit or fulfilling the duties of a government organization—they reach into areas where politics and profit often do not go. Nevertheless, without the innovation that the market inspires, social and economic progress declines, in time reducing our standard of living to some primitive level. A simple thought experiment underscores this: Look around you and subtract everything that was produced by a business. What is left? Or, another example: What is the difference between the poorest and wealthiest nations? Is it not primarily the creativity and productivity of competitive businesses?

Businesses produce much of what is good in our society. At the same time, however, they can cause great harm, as pollution, layoffs, industrial accidents, and economic crises amply demonstrate. Yet the successful alignment of dynamic self-interest and stakeholder constraint creates optimal outcomes, as when a new lifesaving drug emerges from the profit motive. But there is tension between these two extremes, which raises questions about the ideal role of businesses in society. As a result, corporate executives face conflict and confusion about stakeholder expectations of their organizations. On the one hand, for example, Milton Friedman, the Nobel Prize–winning economist, argues:

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.<sup>1</sup>

On the other hand, firms are increasingly expected to accommodate their stakeholders’ interests—embracing the needs and concerns of employees, shareholders, lenders, and customers while assuming responsibility for suppliers (throughout their extended supply chain), communities, and the natural environment. Which perspective is *ideal*? Which is *right*? Are the two positions necessarily mutually exclusive? Perhaps, more accurately, what is the best mix of the two that produces a sustainable society that optimizes societal benefit and welfare?

## Studying CSR

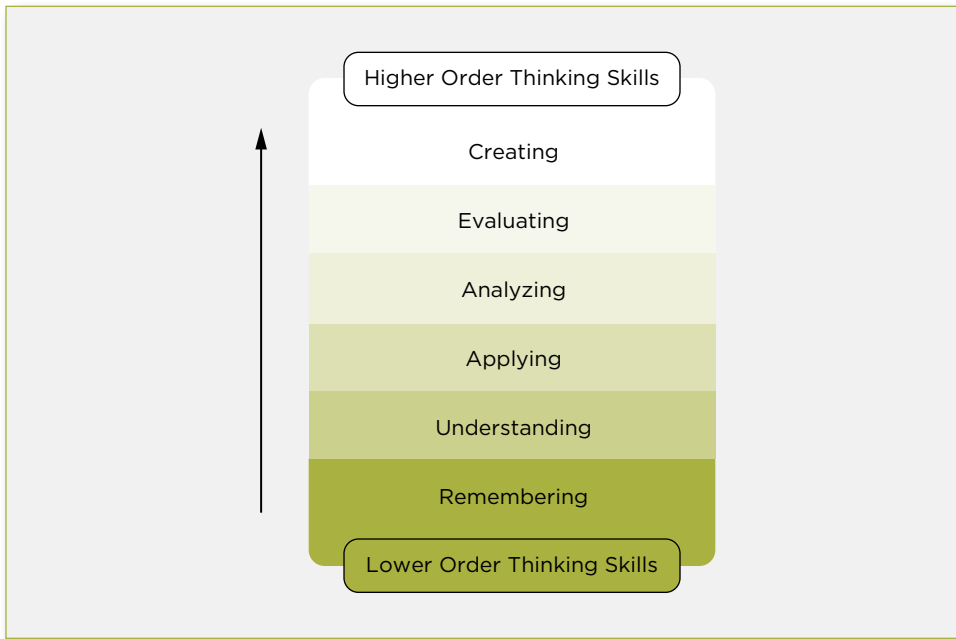
*Strategic CSR* provides a framework with which readers can explore these questions. This book identifies the key issues of debate, models them around conceptual frameworks, and provides both the means and resources to investigate this intensely complex topic. What makes this exploration exciting and worthy of study is that CSR is ever present: Jobs and job losses, financial bailouts and record profits, corruption and scientific breakthroughs, pollution and technological innovations, personal greed and corporate charity—all spring from the relentless drive for innovation in the pursuit of profit that we call *business*. As such, CSR can only be studied at the heart of operations, where core competencies mold the business strategies that enable firms to compete with each other. And when they compete in the marketplace, CSR offers a sustainable path between unbridled capitalism and rigidly regulated economies. CSR helps managers optimize both the *ends* of profit and the *means* of execution by creating value for the firm's broad range of stakeholders.

Still, the question remains: What issues matter under the broad heading of corporate social responsibility? The answer depends on the industry context and the firm's strategy, or *how* it creates value for its stakeholders. Since industries and strategies vary widely, the appropriate mix of issues will differ from firm to firm and will evolve as firms adapt their strategy to their specific business environment. The result? It is impossible to prescribe the exact CSR mix to deal with any particular landscape. Instead, this book offers a strategic lens as the best perspective through which firms should approach CSR because it is through the strategic reformulation process that organizations adapt to their social, cultural, and competitive reality.

Hence, strategic CSR is best viewed from a stakeholder perspective that embraces an operating environment made up of many constituent groups (both internal and external) who have a stake in the firm's profit-seeking activities. It demonstrates the value to firms of defining CSR in relation to their operational context and then incorporating a CSR perspective into their strategic planning and throughout the organization. The situations change, but the questions remain the same: Who are the primary stakeholders? Which claims are legitimate? What do we say to those stakeholders who will disagree with the decision? What value are we creating and for whom? Is our business sustainable? These and other issues force managers to understand CSR from a stakeholder vantage point set against each firm's industry and strategy.

What makes this book a unique tool for this journey is its approach and underlying thesis: Exploration is the best method of learning. For those who like to form their own opinions, *Strategic CSR* offers a guided tour. It is designed to provoke via a series of questions, examples, and case studies that guide an online search for solutions and supporting examples. By seeking out this information online, the reader can more easily engage with the material and construct informed opinions. Using this approach, the goal is to cover all of Bloom's learning stages, from Remembering through Creating

### Preface Figure 1 Bloom's Taxonomy of Learning



*Source:* Lorin W. Anderson & David R. Krathwohl (Eds.), *A Taxonomy for Learning, Teaching, and Assessing: A Revision of Bloom's Taxonomy of Educational Objectives* (New York: Longman, 2001).

(see Preface Figure 1). While every topic cannot be covered, this book provides a launching pad (via key concepts) along with the means to explore (via additional sources and references).

In my own investigation, I have found that there are no simple answers and few absolutes. Rather than provide specific answers, therefore, the goal here is to formulate the *best* questions that consider a broad range of perspectives, provoke vibrant debate, and encourage further research. The result is a book that explores the intricacies of **strategic corporate social responsibility** and the role of stakeholders in shaping the corporations that define the well-being of society today and tomorrow.

The journey you are about to undertake will help equip you for a career that is changing at an accelerating rate. CSR is an increasingly important component of this change. Gaining insight into the broad scope of this dynamic topic will increase your understanding and sophistication as a thinker, as a future business leader, and as an informed citizen.

Good luck!

*David Chandler*  
March 2016



### CSR Newsletters

As a result of the dynamic nature of CSR and the static nature of this textbook, I write and distribute the *CSR Newsletter* throughout the long fall and spring semesters. The *Newsletter* presents up-to-date examples taken from daily news sources that extend the case studies, questions for debate, and online references provided throughout this text. The topical themes covered in each issue of the *Newsletter*, together with access to the complete library of past issues that are archived on my blog (<http://strategiccsr-sage.blogspot.com/>), capture the breadth of the CSR debate and provide an added dimension to classroom discussion and student investigation into this complex subject.

To sign up to receive the *CSR Newsletter*, please email me at [david.chandler@ucdenver.edu](mailto:david.chandler@ucdenver.edu).

## PLAN OF THE BOOK

**S**trategic Corporate Social Responsibility is organized into five distinct parts (each with three chapters and a case study) that, together, provide a comprehensive overview, core concepts, innovative models, and practical challenges of this complex subject. Throughout, useful teaching tools, online sources, and provocative questions for debate allow easy application in the classroom.

In Part I, the first three chapters lay the foundation for this book by defining CSR and providing a broader understanding of the context from which it emerged. In particular, Chapter 1 defines CSR, providing detail about where this subject came from and how it has evolved. In discussing this history, four arguments for CSR are presented (ethical, moral, rational, and economic), which emphasize the breadth and depth of how this subject has traditionally been taught. Chapter 2 then discusses the key drivers of CSR today—affluence, sustainability, globalization, communication, and brands. As each has become a defining characteristic of business, it increasingly alters stakeholder expectations of corporations. Finally, Chapter 3 frames the content of the rest of the book in terms of the background and evolution of corporate rights and responsibilities. By understanding the historical and legal framework in which corporations operate, we better understand their motivations and guiding principles.

Part II reflects the importance of a stakeholder perspective to the intellectual framework underpinning strategic CSR. Though firms are economic entities that exist to meet specific operational goals, the most effective way to achieve these goals today is by considering the needs and values of the broad range of groups that have a stake in the firm's pursuit of profit. Chapter 4 sets the groundwork for this argument by defining who qualifies as a *stakeholder* and by presenting the core model that describes the relationships these actors have with firms. Beyond identifying stakeholders, however, Chapter 4 presents a model that allows managers to prioritize among stakeholders, whose interests often conflict. Chapter 5 extends stakeholder theory further by arguing that, in addition to firms' duty to listen to their stakeholders, stakeholders have an equal (if not more important) responsibility to hold firms to account for their actions. Chapter 6 investigates the history of the corporation in order to challenge the myth that prevents the widespread adoption of a stakeholder perspective by firms—that the primary responsibility of managers and directors is to operate the organization

in the interests of its shareholders. In the United States, at least, this widespread belief is not grounded in legal reality.

Part III presents an economic perspective on CSR. In particular, Chapter 7 discusses the motivating role of profit in the broader discussion about capitalism that emerged following the 2007–2008 financial crisis—investigating the extent to which our current economic model should be reformed. It also challenges the common refrain that firms have long focused on producing economic value and today must also produce social value. In reality, there is no *economic value* and no *social value*—there is only *value*, which the firm creates (or destroys) for each of its stakeholders. Chapter 8 introduces the concept of behavioral economics and discusses how this exciting field can advance the value creation process. This chapter also includes an extended discussion of Walmart and what the firm’s ongoing success means in this context. Chapter 9 caps Part III by looking at the variety of ways in which we measure CSR, a task that is essential in order to hold firms to account for their CSR performance. Before we can develop an effective CSR measure, however, all costs need to be included in the production process. This is achieved via the concept of *lifecycle pricing*.

Part IV reflects the origins of **strategic CSR**. Although the ideas discussed in this book are relevant across functional areas in the business school, they find a natural home within strategic management. Chapter 10 introduces this discussion by explaining why traditional perspectives (principally, the resource-based and industry views) are insufficient tools to help firms craft strategies in today’s globalized business environment. It introduces the concept of the *CSR threshold*. Chapter 11 places CSR within a competitive context, illustrating its strategic value because it serves to filter how businesses interact with their environments and implement ideas. While strategy seeks competitive success, a *CSR filter* both enables and protects the firm in its pursuit of profit and long-term viability. Chapter 12 defines the concept of **strategic CSR**, detailing its foundational characteristics—incorporating a holistic CSR perspective within the firm’s strategic planning and core operations so that the firm is managed in the interests of a broad set of stakeholders to optimize value over the medium to long term.

Part V concludes this textbook by demonstrating how firms can embed a CSR perspective throughout the organization by building values-based businesses that serve the interests of their broad range of stakeholders. Chapter 13 leads off this section by investigating the origins of *sustainability* and its relevance to firms today, highlighting the original United Nations report that defined this term within the context of resource utilization. Chapter 14 extends the concept of *sustainable development* beyond the natural environment to encompass a values-based culture. This chapter focuses, in particular, on the implementation of a **strategic CSR** perspective throughout the organization. And, finally, Chapter 15 summarizes the ideas discussed in this book in terms of the ultimate outcome of **strategic CSR**—*sustainable value creation*.

The case studies that complete each of the five parts of *Strategic CSR* reflect the extent to which CSR affects all aspects of a firm’s operations. Part I finishes with the Islamic finance case, which looks at how broad “non-business” issues such as religion are increasingly influencing corporate decisions. A case study

about social impact bonds (impact investing) rounds out Part II, illustrating how any aspect of business today can be understood through the lens of a stakeholder perspective. The economic perspective in Part III is complemented with a case study that emerges from the 2007–2008 financial crisis—the implosion of the mortgage company Countrywide. Part IV is completed with a case looking at a company that implements **strategic CSR** effectively throughout its supply chain—Starbucks. And Part V finishes with a case study about what it means to be an employee in an economic environment that is being radically reshaped by technology (e.g., artificial intelligence) and larger structural forces (e.g., globalization and the gig economy). In particular, this case looks at firms that are owned by their employees, such as John Lewis in the UK.

While each issue is illustrated using a firm-centered case, both complementary and competing viewpoints are presented via a specific question for debate and numerous online resources. The cases and supplementary materials are all designed to stimulate further investigation and discussion, while demonstrating the productive value for firms of understanding and implementing **strategic CSR**.

## ONLINE SUPPORT MATERIALS

As a supplement for this textbook, there is an online library of resources for instructors (password protected) and students that is hosted at the SAGE website: [study.sagepub.com/chandler4e](http://study.sagepub.com/chandler4e).

### Instructors

- Answers to in-text questions
- PowerPoint slides
- Test bank
- Lecture notes
- Sample syllabi
- Issues and case studies from prior editions
- Film/video resources

### Students

- eFlashcards
- Film/video resources
- Blog archive of the *CSR Newsletter* (<http://strategiccsr-sage.blogspot.com/>)

## ACKNOWLEDGMENTS

The fourth edition of *Strategic Corporate Social Responsibility* is only the most recent iteration of what has been a long journey that began in Japan in 1995. As such, the book has benefited greatly from the advice and assistance of many friends and colleagues along the way.

Primarily, I would like to thank William B. Werther Jr. of the University of Miami, my coauthor on the first three editions of *Strategic CSR*. Quite simply, this book would not exist were it not for Bill's involvement from the beginning. When I first approached him with an 80-page Word document and an idea, he had the knowledge, contacts, and patience to help me turn it into what this project has become. I owe him a great deal more than this book, but dedicating this edition to him recognizes his influence on my work.

Similarly, I would like to acknowledge the pivotal role played by Anita Cava of the University of Miami's Business Law Department in helping to make this project possible. Both as an inspiration in the classroom and with her support as a colleague, Anita continues to embody ethics in action. The values and lessons she instills in her students are resources that they carry with them for a lifetime—I know that I certainly have.

It is important to recognize that *Strategic CSR* is possible, in large part, because of the prior and ongoing work of many leading scholars in the field of CSR. While I do not personally know many of these people, I have benefited from their research. In particular, I would like to acknowledge the pioneering work of Howard Bowen of the University of Iowa, Archie B. Carroll of the University of Georgia, Thomas Donaldson and Thomas Dunfee at the University of Pennsylvania, William C. Frederick of the University of Pittsburgh, R. Edward Freeman of Virginia University, Stuart L. Hart of Cornell University, Laura Pincus Hartman of Boston University, Andrew Hoffman of the University of Michigan, Thomas M. Jones of the University of Washington, Joshua Margolis of Harvard University, Jim Post of Boston University, C. K. Prahalad of the University of Michigan, Lynn Stout of Cornell University, and Sandra Waddock of Boston College. Their work, along with the work of many other influential scholars, provided the foundation of the field of CSR/business and society to which this text aims to contribute.

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# PART I

## CORPORATE SOCIAL RESPONSIBILITY

**P**art I of *Strategic Corporate Social Responsibility (Strategic CSR)* demonstrates the breadth and depth of corporate social responsibility (CSR).

Chapters 1 and 2 lay the foundation for this textbook by defining CSR and related concepts, while outlining how this subject has evolved over time. Chapter 1 provides core definitions, identifies different arguments for CSR (ethical, moral, rational, and economic), and shows why CSR is of growing importance to businesses large and small. Chapter 2 then discusses the key drivers of CSR today—affluence, sustainability, globalization, communication, and brands. As each driver has become a defining characteristic of business and life today, they alter stakeholder expectations of corporations. Though companies exist to generate a profit, they can achieve this most effectively by broadening their perspective and avoiding a self-defeating focus on the short term. Without an understanding of the broader context in which it is embedded, a firm can become exploitive, anti-social, and corrupt, losing the legitimacy and societal sanction that is necessary to remain viable over the medium to long term. Finally, Chapter 3 frames the content of the rest of the book in terms of the background and evolution of corporate rights and responsibilities. By understanding the historical and legal framework in which corporations operate, we better understand their motivations and guiding principles.<sup>1</sup>

Part I finishes with a case study on Islamic finance to examine how broad “non-business” factors, such as religion, are increasingly influencing corporate decisions today.



# Chapter 1

## WHAT IS CSR?

People create organizations to leverage their collective resources in pursuit of common goals. As organizations pursue these goals, they interact with others inside a larger context called society. Based on their purpose, organizations can be classified as for-profits, governments, or nonprofits. At a minimum, *for-profits* seek to make a profit, *governments* exist to define the rules and structures of society within which all organizations must operate,<sup>1</sup> and *nonprofits* (including NGOs—nongovernmental organizations) emerge to do social good when the political will or the profit motive is insufficient to address society's needs.<sup>2</sup> Aggregated across society, each of these different types of organizations represents a powerful mobilization of resources. In the United States alone, for example, there are currently more than 1.5 million nonprofit organizations working to fill needs not met by either government or the private sector.<sup>3</sup>

Within society, therefore, there is a mix of these organizational forms. Each performs different roles, but each also depends on the others to provide the complete patchwork of exchange interactions (of products and services, financial and social capital, etc.) that constitute a well-functioning society. Whether labeled corporations, companies, firms, or proprietorships, for example, for-profit businesses interact constantly with government, trade unions, suppliers, NGOs, and other groups in the communities in which they operate, in both positive and negative ways. Each of these groups or actors, therefore, can claim to have a stake in the operations of the firm. Some benefit more, some are involved more directly, and others can be harmed by the firm's actions, but all are connected in some way to what the firm does on a day-to-day basis.

Definitions of who qualifies as a firm's *stakeholders* vary (and will be discussed in more detail in Part II). For now, it is sufficient to note that a firm's stakeholders include all those who are related in some way to the firm's activities. Simply put, a firm's stakeholders include those individuals and groups that have a *stake* in the firm's operations.<sup>4</sup>

While stakeholders exist symbiotically with companies, the extent to which managers have paid attention to their interests has fluctuated. Depending on factors such as the level of economic and social progress, the range of stakeholders

whose concerns a company seeks to address has shifted—from the earliest view of the corporation as a legal entity that exists due to government charter in the 19th century, to a narrower focus on shareholder rights at the turn of the 20th century, to the rise of managerialism by mid-century, and back again in the 1970s and 1980s to a disproportionate focus on shareholders with the rise of agency theory.<sup>5</sup> Today, as the full impact of business on society is becoming better understood, companies are again adopting a broader stakeholder outlook, extending their perspective to include constituents such as the communities in which they operate and, in particular, the natural environment. As a result, companies are more likely to recognize the degree of interdependence between the firm and each of these groups, leaving less room to ignore their separate and pressing concerns.

Just because an individual or organization meets the definition of an “interested constituent,” however, does not compel a firm (either legally or logically) to comply with every demand from its stakeholders. Deciding which demands to prioritize and which to ignore, however, is a challenge—even more so as social media provides individuals with the power to disseminate their grievances worldwide. If ignored long enough, affected parties may take action against the firm, such as a product boycott, or turn to government for redress, or even write a song and post it to YouTube.<sup>6</sup> Such protests can cause significant brand damage (and even revenue loss), particularly if the grievance remains unaddressed even once it becomes widely known.

In democratic societies, laws (e.g., antidiscrimination statutes), regulations (e.g., the Internal Revenue Service’s tax-exempt regulations for nonprofits), and judicial decisions (e.g., the fiduciary responsibilities of executives and board members)<sup>7</sup> provide a minimal framework for business operations that reflects a rough consensus of the governed. However, because (1) government cannot anticipate many issues, (2) the legislative process takes time, and (3) a general consensus is often slow to form, laws often lag behind social convention and technological change. This is particularly so in areas of high complexity and rapid innovation, such as bioethics or information technology. Thus, we arrive at the discretionary area of decision making between legal sanction and societal expectation that business leaders face every day. This area generates two questions from which the study of CSR springs:

- What is the relationship between a firm and the societies in which it operates?
- What responsibility does a firm owe society to self-regulate its actions in pursuit of profit?

CSR, therefore, is both critical and controversial. It is *critical* because the for-profit sector is the largest and most innovative part of any free society’s economy. Companies intertwine with society in mutually beneficial ways, driving progress and affluence—creating most of the jobs, wealth, and innovations that enable society to prosper. They are the primary delivery system for food,

housing, healthcare, and other necessities of life. Without modern corporations, the jobs, taxes, donations, and other resources that support governments and nonprofits would decline significantly, further diminishing general well-being. Businesses are the engines of society that propel us toward a better future, which suggests an interesting thought experiment: If you wanted to do the most social good in your career, would you enter public service (politics or nonprofits), or would you go into business? Fifty years ago, the best answer would have been “public service.” Today, business is a more effective vehicle for social good.

At the same time, CSR remains *controversial*. People who have thought deeply about *Why does a business exist?* or *What is the purpose of the for-profit firm?* do not agree on the answers. Do companies have obligations beyond the benefits their economic success already provides? In spite of the rising importance of CSR, many still draw on the views of the Nobel Prize–winning economist Milton Friedman to argue that society benefits most when firms focus purely on their own financial success.<sup>8</sup> Others, in contrast, look to the views of business leaders who have argued for a broader perspective, such as David Packard (cofounder of Hewlett-Packard):

I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company’s existence, we have to go deeper and find the real reasons for our being. . . . A group of people get together and exist as an institution that we call a company so that they are able to accomplish something collectively that they could not accomplish separately—they make a contribution to society.<sup>9</sup>

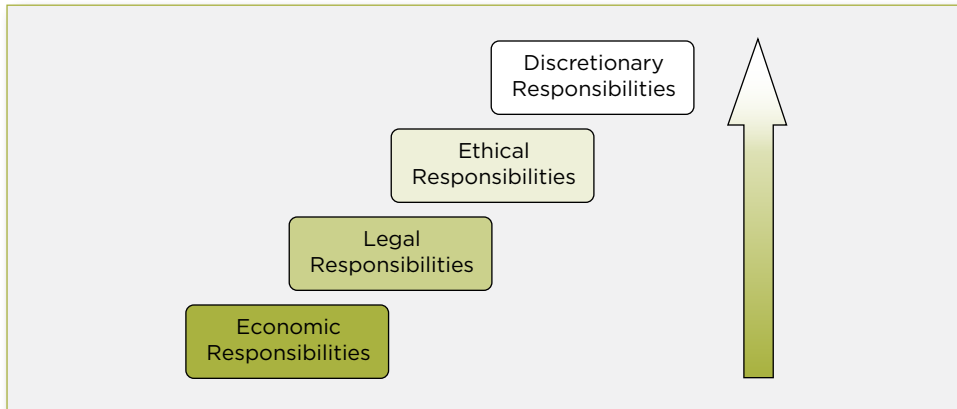
This textbook navigates between these perspectives to outline a view of CSR that recognizes both its strategic value to firms and the social benefit such a perspective brings to the firm’s many stakeholders. The goal is to present a comprehensive assessment of corporate social responsibility that, on reflection, suggests that Friedman and Packard were not as far apart as their respective proponents assume.

## A NEW DEFINITION OF CSR

The entirety of CSR can be discerned from the three words this phrase contains. CSR covers the relationship between *corporations* (or other for-profit organizations) and the *societies* with which they interact. It also includes the *responsibilities* that are inherent on both sides of these ties. CSR defines society in its widest sense, and on many levels, to include all stakeholder and constituent groups that maintain an ongoing interest in the firm’s operations.

### CSR

A responsibility among firms to meet the needs of their stakeholders and a responsibility among stakeholders to hold firms to account for their actions<sup>10</sup>

**Figure 1.1** The Corporate Social Responsibility Hierarchy

*Source:* Archie B. Carroll, “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders,” *Business Horizons*, July–August 1991, p. 42.

Stakeholder groups range from clearly defined consumers, employees, suppliers, creditors, and regulating authorities to other, more amorphous constituents, such as the media and local communities. For the firm, tradeoffs must be made among these competing interests. Issues of legitimacy and accountability exist, such as when a nonprofit claims expertise in a particular area, even when it is unclear exactly how many people support its vision. Ultimately, each firm must identify those stakeholders that constitute its operating environment and then prioritize their strategic importance. Increasingly, companies need to incorporate the concerns of stakeholder groups within their strategic outlook or risk losing societal legitimacy. CSR provides a framework that helps firms embrace these decisions and adjust the internal strategic planning process to maximize the long-term viability of the organization.

This framework is broad, however, and definitions regarding the mix of interests and obligations have varied considerably over time. In 1979, Archie Carroll defined CSR in the following way: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.”<sup>11</sup>

### The Corporate Social Responsibility Hierarchy

Archie Carroll was one of the first academics to make a distinction between different kinds of organizational responsibilities. He referred to this distinction as a firm’s “pyramid of corporate social responsibility” (see Figure 1.1):<sup>12</sup>

(Continued)

(Continued)

- Fundamentally, a firm's *economic responsibility* is to produce an acceptable return for investors.
- An essential component of pursuing economic gain within a law-based society, however, is a *legal responsibility* to act within the framework of laws and regulations drawn up by the government and judiciary.
- Taken one step further, a firm has an *ethical responsibility* to do no harm to its stakeholders and within its operating environment.
- Finally, firms have a *discretionary responsibility*, which represents more proactive, strategic behaviors that benefit themselves or society, or both.

As a firm progresses toward the top of Carroll's pyramid, its responsibilities become more discretionary in nature. In Carroll's vision, a *socially responsible* firm encompasses all four responsibilities within its culture, values, and day-to-day operations.

While useful, however, this typology is not rigid.<sup>13</sup> One of the central arguments of this textbook is that what was ethical or even discretionary in Carroll's model is becoming increasingly necessary due to the changing environment within which businesses operate. Yesterday's ethical responsibilities can quickly become today's economic and legal necessities. In order to achieve its fundamental economic obligations in today's globalized world, therefore, a firm must incorporate a stakeholder perspective within its strategic outlook. As societal expectations of the firm rise, the penalties imposed for perceived CSR lapses will become prohibitive.

Definitions, therefore, can and do evolve. It seems that, in terms of CSR, the variance is considerable with at least five dimensions identified across the many different published definitions: environmental, social, economic, stakeholder, and voluntariness.<sup>14</sup> And, of course, there is variance not only within countries over time but also across countries and cultures.

### CSR Definitions Across Cultures

**China:** "The notion of companies looking beyond profits to their role in society is generally termed corporate social responsibility (CSR). . . . It refers to a company linking itself with ethical values, transparency, employee relations, compliance with legal requirements and overall respect for the communities in which they operate. It goes beyond the occasional community service action, however, as CSR is a corporate philosophy that drives strategic decision-making, partner selection, hiring practices and, ultimately, brand development."<sup>15</sup>

**United Kingdom:** "CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment."<sup>16</sup>

**European Union:** CSR is a “process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders.”<sup>17</sup>

**United Nations:** “Corporate Social Responsibility (CSR) can be understood as a management concept and a process that integrates social and environmental concerns in business operations and a company’s interactions with the full range of its stakeholders.”<sup>18</sup>

CSR, therefore, is a fluid concept. This presents the potential danger that, to the extent that CSR means different things to different people, the debate around this essential subject can descend into one over rhetoric instead of substance:

Right now we’re in a free-for-all in which “CSR” means whatever a company wants it to mean: From sending employees out in matching t-shirts to paint a wall for five hours a year, to recycling, to improving supply-chain conditions, to diversity and inclusion. This makes it difficult to have a proper conversation about what [CSR] should be.<sup>19</sup>

For the purposes of this textbook, it is important to emphasize that CSR is both a means and an end. It is an integral element of the firm’s strategy—the way the firm goes about delivering its products or services to markets (*means*). It is also a way of maintaining the legitimacy of the firm’s actions in the larger society by bringing stakeholder concerns to the foreground (*end*). Put another way, CSR is both a *process* and an *outcome*. At any given moment, CSR describes the process by which firms react to their stakeholders’ collective set of needs. CSR also is the set of actions that are defined by what the stakeholders’ demands require. Over time, while the process remains the same (firms should always seek to respond to the interests of their stakeholders), the actions that are required to do this will necessarily change as norms, values, and societal expectations all evolve. As such, references to “CSR” in this book will sometimes be to the process and sometimes to the set of actions (or outcomes). The underlying principles that determine the relationship between the two, however, will remain consistent.

Ultimately, a firm’s success is directly related to its ability to incorporate stakeholder concerns into its business model. CSR provides a means to do this by valuing the interdependent relationships that exist among businesses, their stakeholder groups, the economic system, and the communities within which they exist. The challenges associated with managing these interdependent relationships were apparent to Peter Drucker as far back as 1974:

The business enterprise is a creature of a society and an economy, and society or economy can put any business out of existence overnight. . . . The enterprise exists on sufferance and exists only as long as the society and the economy believe that it does a necessary, useful, and productive job.<sup>20</sup>

As such, CSR covers an uneven blend of different issues that rise and fall in importance from firm to firm over time. In other words, while the stakeholders stay the same, the issues that motivate them change. Whether the concern is wage levels, healthcare provision, or same-sex partner benefits, for example, a firm's employees are central to its success. A firm that consistently ignores its employees' legitimate claims is a firm that is heading for bankruptcy. CSR is a vehicle for the firm to discuss its stakeholder obligations (both internal and external), a way of developing the means to meet these obligations, as well as a tool by which the mutual benefits that result can be identified. Simply put, CSR represents a firm's best interests by managing its relationships with its stakeholders because these relations are essential to its success and, ultimately, its survival. Understanding and implementing CSR throughout operations, therefore, acknowledges:

That markets operate successfully only when they are embedded in communities; that trust and co-operation are not antithetic to a market economy, but essential to it; that the driving force of innovation is pluralism and experiment, not greed and monopoly; that corporations acquire legitimacy only from the contribution they make to the societies in which they operate.<sup>21</sup>

CSR encompasses the range of economic, legal, ethical, and discretionary actions that affect a firm's economic performance. At a minimum, of course, firms should comply with the legal or regulatory requirements that relate to day-to-day operations. To break these regulations is to break the law, which does not constitute socially responsible behavior. But, legal compliance is merely a minimum condition of CSR.<sup>22</sup> Taking these obligations as a given, this textbook focuses on the ethical and discretionary concerns that are less precisely defined and for which there is often no clear societal consensus, but that are essential for firms to address. Firms do this (minimizing competitive risk while maximizing potential benefit) by fully embracing CSR and incorporating it within the firm's strategic planning process.

## THE EVOLUTION OF CSR

The call for social responsibility among businesses is not a new concept. In short, "the pursuit of profit has been 'unloved' since Socrates declared that 'the more [men] think of making a fortune, the less they think of virtue.'"<sup>23</sup> As a result, ancient Chinese, Egyptian, and Sumerian writings often delineated rules for commerce to facilitate trade and ensure broader interests were considered. Ever since, public concern about the interaction between business and society has grown in proportion to the growth of economic activity:<sup>24</sup>

Concerns about the excesses of the East India Company were commonly expressed in the seventeenth century. There has been a tradition of benevolent

capitalism in the UK for over 150 years. Quakers, such as Barclays and Cadbury, as well as socialists, such as Engels and Morris, experimented with socially responsible and values-based forms of business. And Victorian philanthropy could be said to be responsible for considerable portions of the urban landscape of older town centres today.<sup>25</sup>

Evidence of social activism in attempts to influence organizational behavior also stretches back across the centuries. Such efforts mirrored the legal and commercial development of companies as they established themselves as the driving force of market-based societies. Periodically, society stepped in when such firms were deemed to be causing more harm than good: “The first large-scale consumer boycott? England in the 1790s over slave-harvested sugar.”<sup>26</sup> Although they were crude and lacked the efficient communication that Facebook and Twitter enable today, it is clear that these early consumer-led protests were effective—initially in terms of raising public awareness, but soon after in terms of tangible, legislative change:

Within a few years, more than 300,000 Britons were boycotting sugar, the major product of the British West Indian slave plantations. Nearly 400,000 signed petitions to Parliament demanding an end to the slave trade. . . . In 1792, the House of Commons became the first national legislative body in the world to vote to end the slave trade.<sup>27</sup>

Although wealthy industrialists have long sought to balance the mercantile actions of their firms with personal or corporate philanthropy, CSR is strongest when leaders view their role as stewards of resources owned by others (e.g., broader society, the environment). The words of the late Ray Anderson, founder and chairman of Interface Carpets,<sup>28</sup> are instructive:

One day . . . it dawned on me that the way I had been running Interface is the way of the plunderer, plundering something that is not mine; something that belongs to every creature on earth. And I said to myself, my goodness, the day must come when this is illegal, when plundering is not allowed [and] . . . people like me will end up in jail. The largest institution on earth, the wealthiest, most powerful, the most pervasive, the most influential, is the institution of business and industry—the corporation, which also is the current present day instrument of destruction. It must change.<sup>29</sup>

Leaders such as Anderson face a balancing act that addresses the tradeoffs among the firm’s primary stakeholders, the society that enables the firm to prosper, and the environment that provides the raw materials to produce products and services of value. When specific elements of society view leaders and their firms as failing to meet societal needs, activism results. That was just as true of 18th-century England as it is today.