2 Corporate Social Responsibility, Responsiveness, and Performance

CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

1. Explain how corporate social responsibility (CSR) encompasses economic, legal, ethical, and philanthropic components.
2. Outline the pros and cons of the CSR issue.
3. Differentiate between social responsibility and responsiveness.
4. Elaborate on the concept of corporate social performance (CSP).
5. Provide an overview of studies relating social performance to financial performance.
6. Describe the socially conscious investing movement.

For the past three decades, business has been undergoing the most intense scrutiny it has ever received from the public. As a result of the many charges being leveled at it—charges that it has little concern for the consumer, cares nothing about the deteriorating social order, has no notion of acceptable ethical behavior, and is indifferent to the problems of minorities and the environment—concern is increasingly being expressed as to what responsibilities business has to the society in which it resides. These concerns have generated an unprecedented number of pleas for corporate social responsibility (CSR).

The basic issue can be framed in terms of two key questions: Does business have a social responsibility? If so, how much and what kinds? Although these questions seem simple and straightforward, answers to them must be phrased carefully. What is particularly paradoxical is that large numbers of businesspeople have enthusiastically embraced the concept of corporate social responsibility during the past three decades, but only limited consensus has emerged about what corporate social responsibility really means.

That CSR continues to be a "front-burner" issue within the business community is highlighted by the formation in 1992 of a new organization called ***Business for Social Responsibility (BSR)***. According to BSR, it was formed to fill an urgent need for a national business alliance that fosters socially responsible corporate policies. By 1994, BSR had over 700 business member firms and included among its membership such recognizable names as Levi Strauss & Co., Stride Rite, Hasbro, Reebok, Honeywell, Lotus Development Corp., The Timberland Co., and hundreds of others.

In this chapter, therefore, we intend to explore several different facets of the CSR question and to provide some insights into the questions raised above. We say "insights" because the dynamics of social change preclude our obtaining conclusive agreement on answers to these questions for any extended period. We are dedicating an entire chapter to the CSR issue and concepts that have devolved from it because it is a core idea that underlies most of our discussions in this book.

THE CORPORATE SOCIAL RESPONSIBILITY CONCEPT

In Chapter 1, we traced how criticisms of business have led to increased concern for the social environment and a changed social contract. Out of these ideas has grown the notion of corporate social responsibility, or CSR. Before treating this topic in some depth and providing some historical perspective, let us provide an initial view of what corporate social responsibility means.

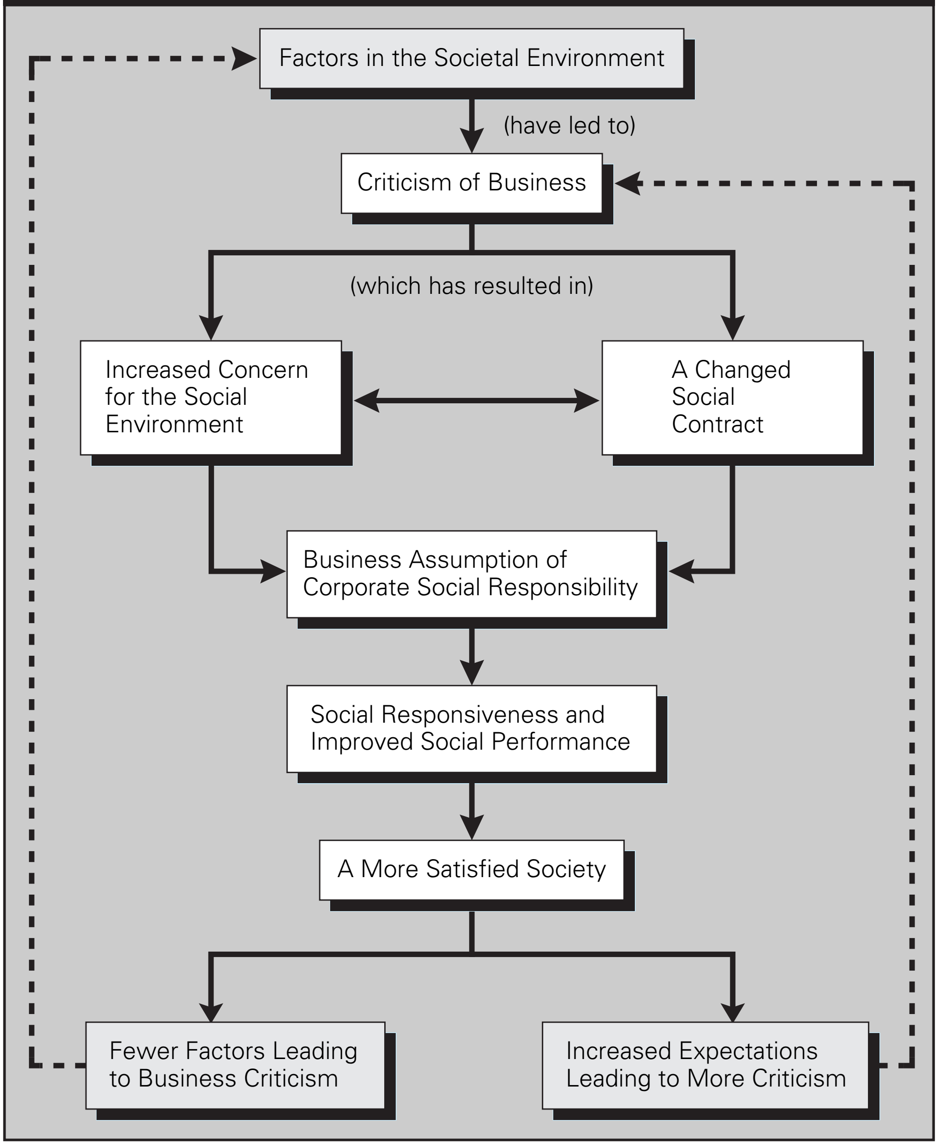
Raymond Bauer presented an early view as follows: "Corporate social responsibility is seriously considering the impact of the company's actions on society."[1] Another definition that may be helpful is "The idea of social responsibility . . . requires the individual to consider his [or her] acts in terms of a whole social system, and holds him [or her] responsible for the effects of his [or her] acts anywhere in that system."[2]

Both of these definitions provide preliminary insights into the idea of business responsibility that will help us appreciate some brief evolutionary history. Figure 2–1 illustrates how the concept of CSR grew out of the ideas introduced in Chapter 1—the increased concern for the social environment and the changed social contract. We see further in Figure 2–1 that the assumption of social responsibility by businesses has led to increased corporate responsiveness and improved social performance—ideas that are developed more fully in this chapter. All of this has resulted in a more satisfied society. However, this satisfaction, although it has reduced the number of factors leading to business criticism, has at the same time led to increased expectations that perhaps will result in more criticism. The net result is that the overall levels of business performance and societal satisfaction should increase with time in spite of this interplay of positive and negative factors. Should business not be responsive to societal expectations, it could conceivably enter a downward spiral, resulting in significant changes in the business/society relationship.

Historical Perspective on CSR

The concept of business responsibility that prevailed in the United States during most of our history was fashioned after the traditional, or *classical,* economic model. Adam Smith's concept of the "invisible hand" was its major point of departure. The classical view held that a society could best determine its needs and wants through the marketplace. If business simply responds to these demands, society will get what it wants. If business is rewarded on the basis of its ability to respond to the demands of the market, the self-interested pursuit of that reward will result in society getting what it wants. Thus, the "invisible hand" of the market transforms self-interest into societal interest. Unfortunately, although the marketplace did a reasonably good

FIGURE 2–1 Business Criticism/Social Response Cycle



job in deciding what goods and services should be produced, it did not fare as well in ensuring that business always acted fairly and ethically.

Somewhat later, when laws constraining business behavior began to proliferate, it might be said that a ***legal model*** prevailed. Society's expectations of business changed from being strictly economic in nature to encompassing aspects that had been previously at business's discretion.

In practice, although business early subscribed to the economic emphasis and was willing to be subjected to an increasing number of laws imposed by society, the business community later did not fully live by the tenets of even these early conceptions of business responsibility. As James W. McKie observed, "The business community never has adhered with perfect fidelity to an ideologically pure version of its responsibilities, drawn from the classical conception of the enterprise in economic society, though many businessmen have firmly believed in the main tenets of the creed."[3]

Modification of the Classical Economic Model

A modification of the classical economic model was seen in practice in at least three areas: philanthropy, community obligations, and paternalism.[4] History shows that businesspeople did engage in ***philanthropy***—contributions to charity and other worthy causes—even during periods characterized by the traditional view. In addition, voluntary ***community obligations*** to improve, beautify, and uplift were evident. One early example of this was the cooperative effort between the railroads and the YMCA immediately after the Civil War to provide community services in areas served by the railroads. Although these services economically benefited the railroads, they were at the same time philanthropic.[5]

During the latter part of the nineteenth century and even into the twentieth century, ***paternalism*** appeared in many forms. One of the most visible examples was the company town. Although business's motives for beginning company towns (for example, the Pullman/Illinois experiment) were mixed, business had to do a considerable amount of the work in governing them. Thus, the company accepted a form of social responsibility.[6]

The emergence of large corporations during the late 1800s played a major role in hastening movement away from the classical economic view. As society evolved from the economic structure of small, powerless firms governed primarily by the marketplace to large corporations in which power was concentrated, questions of the responsibility of business to society surfaced.[7]

Although the idea of corporate social responsibility had not yet fully developed in the 1920s, managers even then had a more positive view of their role. Community service was in the forefront. The most visible example was the Community Chest movement, which received its impetus from business. Morrell Heald suggests that this was the first large-scale endeavor in which business leaders became involved with other nongovernmental community groups for a common, nonbusiness purpose that necessitated their contribution of time and money to community welfare projects.[8] The social responsibility of business, then, had received a further broadening of its meaning.

The 1930s signaled a transition from a predominantly laissez-faire economy to a mixed economy in which business found itself one of the constituencies monitored by a more activist government. From this time well into the 1950s, business's social responsibilities grew to include employee welfare (pension and insurance plans), safety, medical care, retirement programs, and so on. McKie has suggested that these new developments were spurred both by governmental compulsion and by an enlarged concept of business responsibility.[9]

Neil J. Mitchell, in his book *The Generous Corporation,* presents an interesting thesis regarding how CSR evolved.[10] Mitchell's view is that the ideology of corporate social responsibility, particularly philanthropy, was developed by American business leaders as a strategic response to the antibusiness fervor that was beginning in the late 1800s and early 1900s. The antibusiness reaction was the result of specific business actions, such as railroad price gouging, and public resentment of the emerging gigantic fortunes being made by late nineteenth-century moguls, such as Andrew Carnegie and John D. Rockefeller.[11]

As business leaders came to realize that the government had the power to intervene in the economy and, in fact, was being encouraged to do so by public opinion, there was a need for an ideology that promoted large corporations as a force for social good. Thus, Mitchell argued, business leaders attempted to persuade those affected by business power that such power was being used appropriately. An example of this early progressive business ideology was reflected in Carnegie's 1889 essay, "The Gospel of Wealth," which asserted that business must pursue profits but that business wealth should be used for the benefit of the community. Philanthropy, therefore, became the most efficient means of using corporate wealth for public benefit. A prime example of this was Carnegie's funding and building of more than 2,500 libraries.

In a discussion of little-known history, Mitchell documents by way of specific examples how business developed this idea of the generous corporation and how it had distinct advantages: It helped business gain support from national and local governments, and it helped to achieve in America a social stability that was unknown in Europe during that period. In Ronald Berenbeim's review of Mitchell's book, he argues that the main motive for corporate generosity in the early 1900s was essentially the same as it has been in the 1990s—to keep government at arm's length.[12]

Acceptance and Broadening of Meaning

The period from the 1950s to the present may be considered part of the modern era in which the concept of corporate social responsibility gained considerable acceptance and broadening of meaning. During this time, the emphasis has moved from little more than a general awareness of social and moral concerns to a period in which specific issues, such as product safety, honesty in advertising, employee rights, affirmative action, environmental protection, and ethical behavior, have been emphasized. The issue orientation eventually gave way to the more recent focus on social responsiveness and social performance, which we will discuss later in this chapter. First, however, we can expand the modern view of CSR by examining various definitions or understandings of this term that have prevailed in recent years.

Corporate Social Responsibility: Several Viewpoints

Let's now return to the basic question: What does corporate social responsibility really mean? Up to this point we have been operating with Bauer's definition of social responsibility: "Corporate social responsibility is seriously considering the impact of the company's actions on society." Although this definition has inherent frailties, we will find that most of the definitions presented by others also have limitations. Part of the difficulty in deriving a definition on which we might get consensus is the problem of determining, operationally, what the definition implies for management. This poses an almost insurmountable problem because organizations vary in size, in the types of products they produce, in their profitability and resources, in

SEARCH THE WEB

Businesses are very interested in CSR. One leading organization that companies join to learn more about CSR is Business for Social Responsibility (BSR). BSR is a national business association that helps companies seeking to implement policies and practices that contribute to the companies' sustained and responsible success. BSR also operates the Business for Social Responsibility Education Fund, a nonprofit research, education, and advocacy organization that promotes more responsible business practices in the broad business community and in society. BSR runs programs on a range of social responsibility and stakeholders issues, including business ethics, the workplace, the marketplace, the community, the environment, and the global economy. To learn more about what business is doing in the realm of social responsibility, visit BSR's Web site at **www.bsr.org/**.

their impact on society, and so on. Because this is the case, the ways in which they embrace and practice social responsibility also vary.

One might ask: Why is this so? Are there not absolutes, areas in which all firms must be responsible? Yes, there are, and these are expressed by those expectations society has translated into legal aspects of the social contract. But as we will suggest here, CSR goes beyond simply abiding by the law (although abiding by the law is not always simple). In the realm of activities above and beyond abiding by the law, the variables (size of the firm, types of products produced, and so on) become more relevant.

A second definition is worth considering. Keith Davis and Robert Blomstrom defined corporate social responsibility as follows: "Social responsibility is the obligation of decision makers to take actions which protect and improve the welfare of society as a whole along with their own interests."[13] This definition is somewhat more pointed. It suggests two *active* aspects of social responsibility—protecting and improving. To *protect* the welfare of society implies the avoidance of negative impacts on society. To *improve* the welfare of society implies the creation of positive benefits for society.

Like the first definition, the second contains several words that are perhaps unavoidably vague. For example, words from these definitions that might permit managers wide latitude in interpretation include *seriously, considering, protect, improve,* and *welfare* (of society). The intention here is not to be critical of these good, general definitions but rather to illustrate how businesspeople and others become quite legitimately confused when they try to translate the concept of CSR into practice.

A third definition, by Joseph McGuire, is also quite general. But, unlike the previous two, it places social responsibilities in context vis-à-vis economic and legal objectives. McGuire asserts: "The idea of social responsibility supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations."[14] Although this statement is not fully operational either, its attractiveness is that it acknowledges the primacy of economic objectives side by side with legal obligations while also encompassing a broader conception of the firm's responsibilities.

A fourth definition, set forth by Edwin Epstein, relates CSR to business management's growing concern with stakeholders and ethics. He asserts: "Corporate social responsibility relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems which (by some normative standard) have beneficial rather than adverse effects upon pertinent corporate stakeholders. The normative correctness of the products of corporate action have been the main focus of corporate social responsibility."[15] Epstein's definition is useful because it concentrates on the outcomes, products, or results of corporate actions for stakeholders.

A Four-Part Definition of CSR

Each of the aforementioned definitions of corporate social responsibility has value. At this point, we would like to present Archie Carroll's four-part definition that focuses on the types of social responsibilities it might be argued that business has. This four-part definition attempts to place economic and legal expectations of business in perspective by relating them to more socially oriented concerns.[16] These social concerns include ethical responsibilities and voluntary/discretionary (philanthropic) responsibilities. In a sense, this definition, which includes four kinds of responsibilities, elaborates and builds on the definition proposed by McGuire.

Economic Responsibilities

First, there are business's *economic* responsibilities. It may seem odd to call an economic responsibility a social responsibility, but, in effect, that is what it is. First and foremost, the American social system calls for business to be an economic institution. That is, it should be an institution whose orientation is to produce goods and services that society wants and to sell them at fair prices—prices that society thinks represent the true values of the goods and services delivered and that provide business with profits adequate to ensure its perpetuation and growth and to reward its investors.

Legal Responsibilities

Second, there are business's *legal* responsibilities. Just as society has sanctioned our economic system by permitting business to assume the productive role mentioned above, as a partial fulfillment of the social contract, it has also laid down the ground rules—the laws—under which business is expected to operate. Legal responsibilities reflect a view of "codified ethics" in the sense that they embody basic notions of fairness as established by our lawmakers. It is business's responsibility to society to comply with these laws. If business does not agree with laws that have been passed or are about to be passed, our society has provided a mechanism by which dissenters can be heard through the political process.

Ethical Responsibilities

Ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law. Ethical responsibilities embody the range of norms, standards, and expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect for or protection of stakeholders' moral rights.[17]

In one sense, changes in ethics or values precede the establishment of laws because they become the driving forces behind the very creation of laws and regulations. For example, the civil rights, environmental, and consumer movements reflect basic alterations in societal values and thus may be seen as ethical bellwethers foreshadowing and leading to later legislation. In another sense, ethical responsibilities may be seen as embracing and reflecting newly emerging values and norms that society expects business to meet, even though they may reflect a higher standard of performance than that currently required by law. Ethical responsibilities in this sense are often ill defined or continually under public scrutiny and debate as to their legitimacy and thus are frequently difficult for business to agree upon.

ETHICS IN PRACTICE

A Fish Story

During a few of the years I spent at college, I worked as a sales associate at a local fish company that sold fish both to other retailers and to customers who came into the store. At the fish company, we sold many different types of fresh fish. The ethical dilemma that I faced on a few occasions was that when we ran out of fresh fish for retail sale, we would get frozen fish out of the freezer, defrost it, and sell it as fresh. If the fish had not been in storage for a long period, it often looked, felt, and tasted like fresh fish. But sometimes the fish was so bad that it fell apart as it was cut open and smelled like rotten sewage.

I felt terrible when I knew that the fish that someone wanted was not fresh and, because of this, I tried to pick the nicest looking and firmest fish to give to the customer. I spoke to my boss about this, but he never gave me much advice. All he ever told me was that I should not concern myself because the people buying the fish could not tell the difference. I knew that this could not be ethical behavior, because it was not being honest with the customer. Most of the time the fish was not so bad, but should I have done something for the few times that it was? How could I have kept my job while still being ethical?

1. Is this a socially responsible fish company? Why or why not?
2. Which of the four kinds of social responsibility (economic, legal, ethical, or philanthropic) comes into play here? Where are the greatest tensions between or among the different types of CSR?

Contributed by Edward Bashuk

Superimposed on these ethical expectations emanating from societal and stakeholder groups are the implied levels of ethical performance suggested by a consideration of the great ethical principles of moral philosophy, such as justice, rights, and utilitarianism.[18]

Because ethical responsibilities are so important, we devote three chapters to the subject (Chapters 4, 5, and 6). For the moment, let us think of ethical responsibilities as encompassing those areas in which society expects certain levels of performance but for which it has not yet been able or willing to articulate and codify those levels into law.

Philanthropic Responsibilities

Fourth, there are business's *voluntary/discretionary,* or *philanthropic,* responsibilities. Perhaps it is a misnomer to call these "responsibilities," because they are guided primarily by business's discretion—its choice or desire. These activities are purely voluntary, guided only by business's desire to engage in social activities that are not mandated, not required by law, and not generally expected of business in an ethical sense. Such activities might include establishing loaned executive programs in the community, giving to charitable causes, providing day-care centers for working parents, initiating adopt-a-school programs, and conducting in-house programs for drug abusers.

The distinction between ethical responsibilities and voluntary/discretionary or philanthropic responsibilities is that the latter typically are not expected in a moral or an ethical sense. Communities desire business to contribute its money, facilities, and employee time to humanitarian programs or purposes, but they do not regard firms as unethical if they do not provide these services at the desired levels. Therefore, these responsibilities are more discretionary, or voluntary, on business's part, although the societal expectation that they be provided is always present. This category of responsibilities might be deemed "corporate citizenship."

The Four-Part CSR Model

In essence, then, our definition forms a four-part conceptualization of corporate social responsibility that may be summarized as follows: The social responsibility of business encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time.

It is suggested that this four-part definition provides us with categories within which to place the various expectations that society has of business. With each of these categories considered as one facet of the total social responsibility of business, we have a conceptual model that more completely describes what society expects of business. One advantage of this model is that it can accommodate those who have argued against CSR by characterizing an economic emphasis as separate from a social emphasis. This model offers these two facets along with others that collectively make up corporate social responsibility. Figure 2–2 depicts the model as it might appear when superimposed on a scale denoting all of the social responsibilities of business.

Another helpful way of graphically depicting the four-part model is envisioning a pyramid composed of four layers. This Pyramid of Corporate Social Responsibility is shown in Figure 2–3.[19]

The pyramid portrays the four components of CSR, beginning with the basic building block of economic performance. At the same time, business is expected to obey the law, because the law is society's codification of acceptable and unacceptable behavior. Next is business's responsibility to be ethical. At its most fundamental level, this is the obligation to do what is right, just, and fair and to avoid or minimize harm to stakeholders (employees, consumers, the environment, and others). Finally, business is expected to be a good corporate citizen—to fulfill its voluntary/discretionary or philanthropic responsibility to contribute financial and human resources to the community and to improve the quality of life.

No metaphor is perfect, and the Pyramid of CSR is no exception. It is intended to illustrate that the total social responsibility of business is composed of distinct components that, taken together, make up the whole. Although the components have been treated as separate concepts for discussion purposes, they are not mutually exclusive and are not intended to juxtapose a firm's economic responsibilities with its other responsibilities. At the same time, a consideration of the separate components helps the manager to see that the different types of obligations are in constant but dynamic tension with one another.

The most critical tensions, of course, are those between economic and legal, economic and ethical, and economic and philanthropic. The traditionalist might see this as a conflict between a firm's "concern for profits" and its "concern for society," but it is suggested here that this is an oversimplification. A CSR or stakeholder perspective would recognize these tensions as organizational realities but would focus

FIGURE 2–2 Four-Part Model of Corporate Social Responsibility

Type of Responsibility	Societal Expectation	Examples
Philanthropic	DESIRED of business by society	Corporate contributions. Programs supporting community/education. Community involvement/ improvement; volunteerism.
Ethical	EXPECTED of business by society	Avoid questionable practices. Respond to "spirit" of laws. Assume law is a floor on behavior; operate above minimum required by law. Assert ethical leadership.
Legal	REQUIRED of business by society	Obey all laws; adhere to regulations. Environmental laws. Consumer laws. Laws affecting all employees. Obey Foreign Corrupt Practices Act. Fulfill all contractual obligations.
Economic	REQUIRED of business by society	Be profitable. Maximize sales revenue. Minimize costs (administrative, production, marketing, distribution). Make wise strategic decisions. Be attentive to dividend policy.

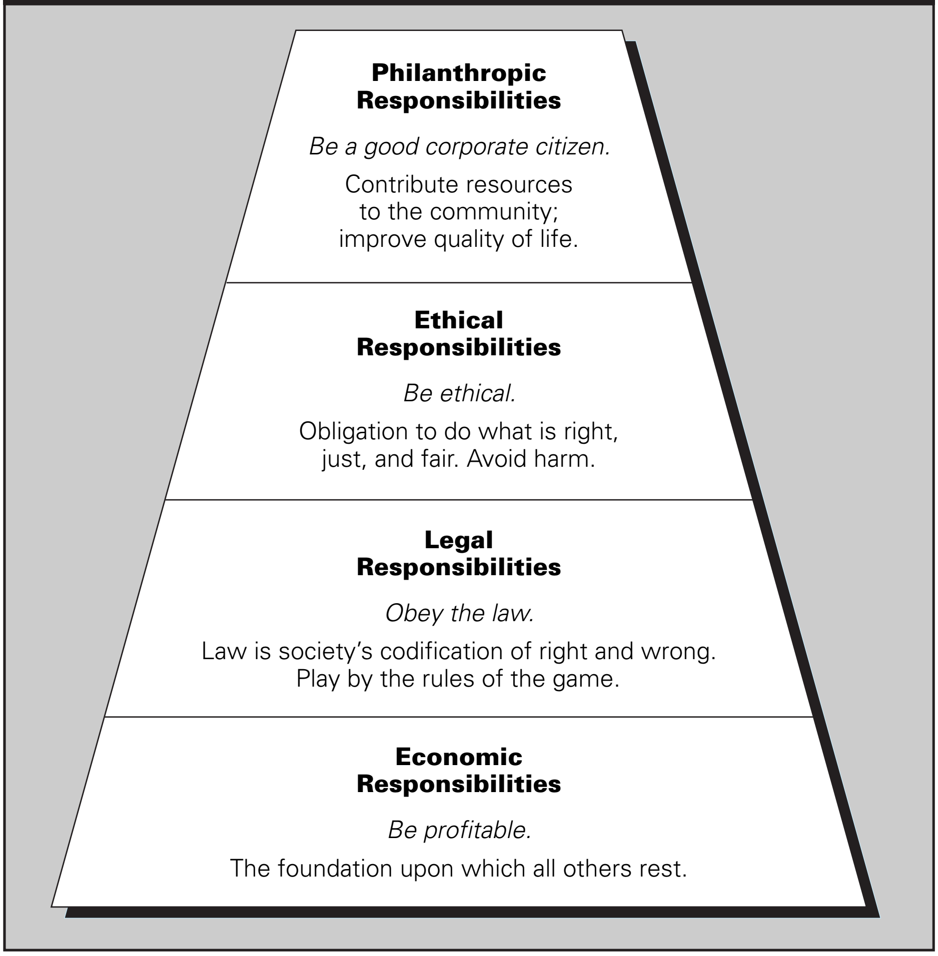
on the total pyramid as a unified whole and on how the firm might engage in decisions, actions, and programs that simultaneously fulfill all its component parts.

In summary, the total social responsibility of business entails the simultaneous fulfillment of the firm's economic, legal, ethical, and philanthropic responsibilities. In equation form, this might be expressed as follows:

$$\begin{aligned} &\textit{Economic Responsibilities} + \textit{Legal Responsibilities} + \textit{Ethical Responsibilities} \\ &\quad + \textit{Philanthropic Responsibilities} \\ &\quad = \textit{Total Corporate Social Responsibility} \end{aligned}$$

Stated in more pragmatic and managerial terms, the socially responsible firm should strive to:

FIGURE 2–3 The Pyramid of Corporate Social Responsibility



SOURCE: Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons* (July–August, 1991), 42. Copyright © 1991 by the Foundation for the School of Business at Indiana University. Used with permission.

- Make a profit.
- Obey the law.
- Be ethical.
- Be a good corporate citizen.

What is especially important to note about the four-part CSR model is that it is really a stakeholder model. That is, each of the four components of responsibility addresses different stakeholders in terms of the varying priorities in which the stakeholders are affected. Thus, economic responsibilities most dramatically impact owners and employees (because if the business is not economically viable, owners and employees will be directly affected). Legal responsibilities are certainly crucial with respect to owners, but in today's society the threat of litigation against businesses emanates largely from employee and consumer stakeholders. Ethical responsibilities affect all stakeholder groups, but an examination of the ethical issues business faces today suggests that they involve consumers and employees most frequently. Finally, philanthropic responsibilities most affect the community, but it could be argued that employees are next affected because some research has suggested that a company's philanthropic performance significantly affects its employees' morale. Figure 2–4 presents this stakeholder view of CSR, along with a priority scheme in which the stakeholder groups are addressed/affected by the companies' actions in that realm. The numbers in the cells are not based on empirical evidence but are only suggestive. Other priority schemes could easily be argued.

As we study the evolution of business's major areas of social concern, as presented in various chapters in Parts 2 and 3, we will see how our model's four facets (economic, legal, ethical, and philanthropic) provide us with a useful framework for conceptualizing the issue of corporate social responsibility. The social contract between business and society is to a large extent formulated from mutual understandings that exist in each area of our basic model. But, it should be noted that the ethical and philanthropic categories, taken together, more nearly capture the essence of what people generally mean today when they speak of the social responsibility of business. Situating these two categories relative to the legal and economic obligations, however, keeps them in proper perspective.

ARGUMENTS AGAINST AND FOR CORPORATE SOCIAL RESPONSIBILITY

In an effort to provide a balanced view of the CSR issue, we will consider the arguments that have been raised against and for it. We should state clearly at the outset, however, that those who argue against corporate social responsibility are not using in their considerations the comprehensive CSR model presented above. Rather, it

FIGURE 2–4 A Stakeholder View of Corporate Social Responsibility

	Stakeholder Group Addressed and Affected				
CSR Component	*Owners*	*Consumers*	*Employees*	*Community*	*Others*
Economic	1	4	2	3	5
Legal	3	2	1	4	5
Ethical	4	1	2	3	5
Philanthropic	3	4	2	1	5

Numbers in cells suggest the prioritization of stakeholders addressed and affected within each CSR component. Numbers are illustrative only.

appears that the critics are viewing CSR more narrowly—as only the efforts of the organization to pursue social, noneconomic/nonlegal goals (our ethical and philanthropic categories). Some critics equate CSR with only the philanthropic category. We should also state that only a few businesspeople and academics argue against the fundamental notion of CSR today. The debate among businesspeople more often centers on the kinds and degrees of CSR and on subtle ethical questions, rather than on the basic question of whether or not business should be socially responsible. Among academics, economists are probably the easiest group to single out as being against the pursuit of corporate social goals. But even some economists no longer resist CSR on the grounds of economic theory.

Arguments Against CSR

Let us first look at the arguments that have surfaced over the years from the anti-CSR school of thought. Most notable has been the classical economic argument. This traditional view holds that management has one responsibility: to maximize the profits of its owners or shareholders. This classical economic school, led by economist Milton Friedman, argues that social issues are not the concern of businesspeople and that these problems should be resolved by the unfettered workings of the free market system.[20] Further, this view holds that if the free market cannot solve the social problem, then it falls upon government and legislation to do the job. Friedman softens his argument somewhat by his assertion that management is "to make as much money as possible *while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical customs.*"[21] When Friedman's entire statement is considered, it appears that he accepts three of the four categories of the four-part model—economic, legal, and ethical. The only item not specifically embraced is the voluntary or philanthropic category. In any event, it is clear that the economic argument views corporate social responsibility more narrowly than we have in our conceptual model.

A second major objection to CSR is that business is not equipped to handle social activities. This position holds that managers are oriented toward finance and operations and do not have the necessary expertise (social skills) to make social decisions.[22] While this may have been true at one point in time, it is less true today. Closely related to this argument is a third: If managers were to pursue corporate social responsibility vigorously, it would tend to dilute the business's primary purpose.[23] The objection here is that CSR would put business into fields not related, as F.A. Hayek has stated, to their "proper aim."[24]

A fourth argument against CSR is that business already has enough power—economic, environmental, and technological—and so why should we place in its hands the opportunity to wield additional power?[25] As it is, the influence of business permeates society. By giving decision-making opportunities in the social domain to business, would we not be aggravating the balance-of-power problem that already exists in our society? This view tends to ignore the potential use of business power for public good.

One other argument that merits mention is that by encouraging business to assume social responsibilities we might be placing it in a deleterious position in terms of the international balance of payments. One consequence of being socially responsible is that business must internalize costs that it formerly passed on to society in the form of dirty air, unsafe products, consequences of discrimination, and so on. The increase in the costs of products caused by including social considerations in the price structure would necessitate raising the prices of products, making them less competitive in international markets. The net effect might be to dissipate the country's advantages gained previously through technological advances. This argument weakens somewhat when one considers that social responsibility is quickly becoming a global concern, not one restricted to U.S. firms and operations.

The arguments we have discussed constitute the principal claims made by those who oppose the CSR concept. Many of the reasons given appear quite rational. Value choices as to the type of society the citizenry would like to have, at some point become part of the total social responsibility question. Whereas some of these objections might have had validity at one point in time, it is doubtful that they do today. Let us now examine some of the main arguments in favor of CSR.

Arguments for CSR

It is worthwhile summarizing Thomas Petit's perspective as our point of departure in discussing support of the CSR doctrine. Petit synthesizes the thoughts of such intellectuals as Elton Mayo, Peter Drucker, Adolph Berle, and John Maynard Keynes. He asserts that although their ideas on this matter vary considerably, they agree on two fundamental points: "(1) Industrial society faces serious human and social problems brought on largely by the rise of the large corporations, and (2) managers must conduct the affairs of the corporation in ways to solve or at least ameliorate these problems."[26]

This generalized justification of corporate social responsibility is appealing. It actually comes close to what we might suggest as a first argument for CSR—namely, that it is in business's long-range self-interest to be socially responsible. This argument provides an additional dimension by suggesting that it was partially business's fault that many of today's social problems arose in the first place and, consequently, that business should assume a role in remedying these problems. It might be inferred from this that deterioration of the social condition must be halted if business is to survive and prosper in the future.

The long-range self-interest view is basically that if business is to have a healthy climate in which to exist in the future, it must take actions now that will ensure its long-term viability. Perhaps the reasoning behind this view is that society's expectations are such that if business does not respond on its own, its role in society may be altered by the public—for example, through government regulation or, more dramatically, through alternative systems for the production and distribution of goods and services.

It is frequently difficult for managers who have a short-range orientation to appreciate that their rights and roles in the economic system are determined by society. Business must be responsive to society's expectations over the long term if it is to survive in its present form or in a less restrained form.

One of the most pragmatic reasons for business to be socially responsible is to ward off future government intervention and regulation. Today there are numerous areas in which government intrudes with an expensive, elaborate regulatory apparatus to fill a void left by business's inaction. To the extent that business polices itself with self-disciplined standards and guidelines, future government intervention can be somewhat forestalled. Later, we will discuss some areas in which business could have prevented intervention and simultaneously ensured greater freedom in decision making had it imposed higher standards of behavior on itself.

Keith Davis presents two additional arguments that deserve mention together: "Business has the resources" and "Let business try."[27] These two views maintain that because business has a reservoir of management talent, functional expertise, and capital, and because so many others have tried and failed to solve general social problems, business should be given a chance. These arguments have some merit, because there are some social problems that can be handled, in the final analysis, only by business. Examples include avoiding discrimination, providing safe products, and engaging in fair advertising. Admittedly, government can and does assume a role in these areas, but business must make the final decisions.

Another view is that "proacting is better than reacting." This position holds that *proacting* (anticipating and initiating) is more practical and less costly than simply reacting to problems once they have developed. Environmental pollution is a good example, particularly business's experience with attempting to clean up rivers, lakes, and other waterways that were neglected for years. In the long run, it would have been wiser to have prevented the environmental deterioration from occurring in the first place.

A final argument in favor of CSR is that the public strongly supports it. A *Business Week*/Harris poll revealed that, with a stunning 95 percent majority, the public believes that companies should not only focus on profits for shareholders but that companies should be responsible to their workers and communities, even if making things better for workers and communities requires companies to sacrifice some profits.[28]

CORPORATE SOCIAL RESPONSIVENESS

We have discussed the evolution of corporate social responsibility, a model for viewing social responsibility, and the arguments for and against it. It is now important to address a concern that has arisen in recent years over the use of the terms *responsibility* and *responsiveness*. We will consider the views of several writers to make our point.

Ackerman and Bauer's Action-Oriented View

A general argument that has generated much discussion over the past 20 years holds that the term *responsibility* is too suggestive of efforts to pinpoint accountability or obligation. Therefore, it is not dynamic enough to fully describe business's willingness—apart from obligation—to respond to social demands. For example, Robert Ackerman and Raymond Bauer criticized the term by stating, "The connotation of 'responsibility' is that of the process of assuming an obligation. It places an emphasis on motivation rather than on performance." They go on to say, "Responding to social demands is much more than deciding what to do. There remains the management task of doing what one has decided to do, and this task is far from trivial."[29] As the title of their book suggests, they then argue that "social responsiveness" is a more apt description of what is essential.

Their point is well made. ***Responsibility***, taken quite literally, does imply more of a state or condition of having assumed an obligation, whereas ***responsiveness*** connotes a dynamic, action-oriented condition. We should not overlook, however, that much of what business has done and is doing has resulted from a particular motivation—an assumption of obligation—whether assigned by government, forced by special-interest groups, or voluntarily assumed. Perhaps business, in some instances, has failed to accept and internalize the obligation, and thus it may seem odd to refer to it as a responsibility. Nevertheless, some motivation that led to social responsiveness had to be there, even though in some cases it was not admitted to be a responsibility or an obligation.

Sethi's Three-Stage Schema

S. Prakash Sethi takes a slightly different, but related, path in getting from social responsibility to social responsiveness. He proposes a three-stage schema for classifying corporate behavior in responding to social or societal needs: social obligation, social responsibility, and social responsiveness.

Social obligation, Sethi argues, is corporate behavior in response to market forces or legal constraints. Corporate legitimacy is very narrow here and is based on legal and economic criteria only. ***Social responsibility***, Sethi suggests, "implies bringing corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations."[30] He argues that whereas the concept of social obligation is proscriptive in nature, social responsibility is prescriptive in nature. ***Social responsiveness***, the third stage in his schema, suggests that what is important is "not how corporations should respond to social pressure but what should be their long-run role in a dynamic social system."[31] He suggests that here business is expected to be "anticipatory" and "preventive." Note that his *obligation* and *responsibility* categories embody essentially the same message we were attempting to convey with our four-part conceptual model.

Frederick's CSR_1 *and* CSR_2

William Frederick has distinguished between corporate social responsibility, which he calls CSR_1, and corporate social responsiveness, which he terms CSR_2, in the following way:

> *Corporate social* responsiveness *refers to the capacity of a corporation to respond to social pressures. The literal act of responding, or of achieving a generally responsive posture, to society is the focus. . . . One searches the organization for mechanisms, procedures, arrangements, and behavioral patterns that, taken collectively, would mark the organization as more or less capable of responding to social pressures.*[32]

Frederick further argued that advocates of social responsiveness (CSR_2) "have urged corporations to eschew philosophic questions of social responsibility and to concentrate on the more pragmatic matter of responding effectively to environmental pressures." He later articulated an idea known as CSR_3—corporate social rectitude—which addressed the moral correctness of actions taken and policies formulated.[33] However, we would argue that the moral dimension is implicit in CSR, as we included it in our basic four-part definition.

Epstein's Process View

Edwin Epstein discusses corporate social responsiveness within the context of a broader concept that he calls the corporate social policy process. In this context, Epstein emphasizes the *process* aspect of social responsiveness. He asserts that corporate social responsiveness focuses on the individual and organizational processes "for determining, implementing, and evaluating the firm's capacity to anticipate, respond to, and manage the issues and problems arising from the diverse claims and expectations of internal and external stakeholders."[34]

Other Views

Several other writers have provided conceptual schemes that describe the responsiveness facet. Ian Wilson, for example, asserts that there are four possible business strategies: *reaction, defense, accommodation,* and *proaction.*[35] Terry McAdam has likewise described four social responsibility philosophies that mesh well with Wilson's and describe the managerial approach that would characterize the range of the responsiveness dimension: "Fight all the way," "Do only what is required," "Be progressive," and "Lead the industry."[36] Davis and Blomstrom describe alternative responses to societal pressures as follows: *withdrawal, public relations approach, legal approach, bargaining,* and *problem solving.*[37] Finally, James Post has articulated three major social responsiveness categories: *adaptive, proactive,* and *interactive.*[38]

Thus, the corporate social responsiveness dimension that has been discussed by some as an alternative focus to that of social responsibility is, in actuality, the action phase of management's response in the social sphere. In a sense, the responsiveness orientation enables organizations to rationalize and operationalize their social responsibilities without getting bogged down in the quagmire of definition problems, which can so easily occur if organizations try to get an exact determination of what their true responsibilities are before they act.

In an interesting study of social responsiveness among Canadian and Finnish forestry firms, researchers concluded that the social responsiveness of a corporation will proceed through a predictable series of phases and that managers will tend to respond to the most powerful stakeholders.[39] This study demonstrates that social responsiveness *is* a process and that stakeholder power, rather than a sense of responsibility, may sometimes drive the process.

CORPORATE SOCIAL PERFORMANCE

For the past few decades, there has been a trend toward making the concern for social and ethical issues more and more pragmatic. The responsiveness thrust that we just discussed was a part of this trend. It is possible to integrate some of the concerns into a model of corporate social *performance* (CSP). The performance focus is intended to suggest that what really matters is what companies are able to accomplish—the results of their acceptance of social responsibility and adoption of a responsiveness philosophy. In developing a conceptual framework for CSP, we not only have to specify the nature (economic, legal, ethical, philanthropic) of the responsibility, but we also need to identify a particular philosophy, pattern, or mode of responsiveness. Finally, we need to identify the stakeholder issues or topical areas to which these responsibilities are tied. One need not ponder the stakeholder issues that have evolved under the rubric of social responsibility to recognize how they have changed over time. The issues, and especially the degree of organizational interest in the issues, are always in a state of flux. As the times change, so does the emphasis on the range of social issues that business must address.

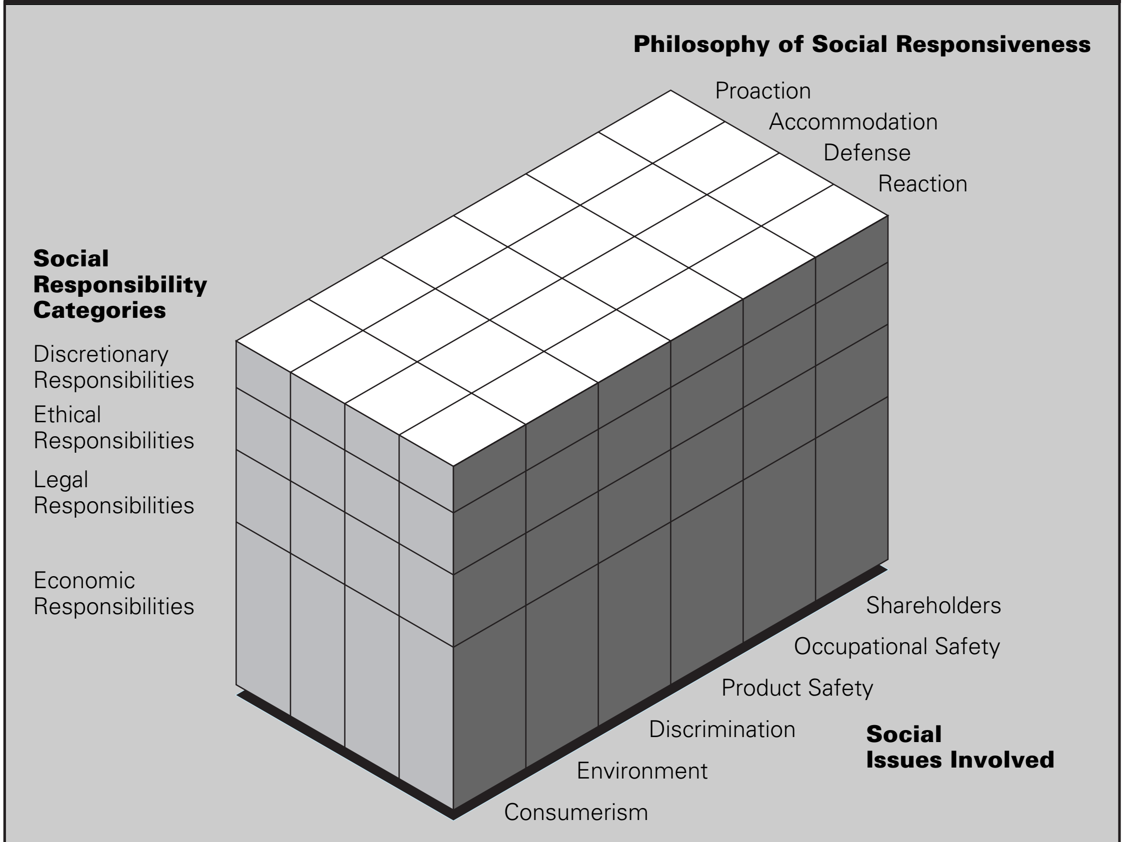
Also of interest is the fact that particular issues are of varying concern to businesses, depending on the industry in which they exist as well as other factors. A bank, for example, is not as pressed on environmental issues as a manufacturer. Likewise, a manufacturer is considerably more absorbed with the issue of environmental protection than is an insurance company.

Carroll's Corporate Social Performance Model

Figure 2–5 illustrates Carroll's ***corporate social performance model***, which brings together the three central dimensions we have discussed:

1. *Social responsibility categories*—economic, legal, ethical, and discretionary (philanthropic)

FIGURE 2–5 Carroll's Corporate Social Performance Model



SOURCE: Archie B. Carroll, "A Three-Dimensional Conceptual Model of Corporate Social Performance," *Academy of Management Review* (Vol. 4, No. 4, 1979), 503. Reproduced with permission.

2. *Philosophy (or mode) of social responsiveness*—reaction, defense, accommodation, and proaction
3. *Social (or stakeholder) issues involved*—consumerism, environment, discrimination, etc.)[40]

One dimension of this model pertains to all that is included in our definition of social responsibility—the economic, legal, ethical, and discretionary (philanthropic) components. Second, there is a social responsiveness continuum. Although some writers have suggested that this is the preferable focus when one considers social responsibility, the model suggests that responsiveness is but one additional aspect to be addressed if CSP is to be achieved. The third dimension concerns the range of social or stakeholder issues (for example, consumerism, environment, and discrimination) that management must address.

Usefulness of the Model to Academics and Managers

The corporate social performance conceptual model is intended to be useful for both academics and managers. For *academics,* the model is primarily an aid to perceiving the distinction among the definitions of corporate social responsibility that have appeared in the literature. What heretofore have been regarded as separate definitions of CSR are treated here as three separate aspects pertaining to CSP. The model's major use to the academic, therefore, is in helping to systematize the important issues that must be taught and understood in an effort to clarify the CSR concept. The model is not the ultimate conceptualization. It is, rather, a modest but necessary step toward understanding the major facets of CSP.

The conceptual model can assist *managers* in understanding that social responsibility is not separate and distinct from economic performance. The model integrates economic concerns into a social performance framework. In addition, it places ethical and philanthropic expectations into a rational economic and legal framework. The model can help the manager systematically think through major stakeholder issues. Although it does not provide the answer to how far the organization should go, it does provide a conceptualization that could lead to better-managed social performance. Moreover, the model could be used as a planning tool and as a diagnostic problem-solving tool. The model can assist the manager by identifying categories within which the organization can be situated.

The following example may help show how an organization may position its actions using the CSP model (see the segments in Figure 2–5). The major pharmaceutical firm Merck & Co. discovered a drug (Mectizan) it later concluded could cure a disease known as "river blindness." Merck learned that this disease was common in tiny villages in Africa and in parts of the Middle East and Latin America. Initially, Merck wanted to market the drug at a profit. It learned, however, that there was no viable market for the drug because its potential customers were too poor, lived in isolated locations, and had no access to pharmacies or routine medical care. Merck then hoped a group like the World Health Organization (WHO) or a foundation would volunteer to fund a distribution program for the drug, which could cost as much as $20 million a year.

When no funder came forward, Merck decided to supply Mectizan to everyone who needed it, indefinitely, and at no charge. By 1995, more than 6 million people in 21 countries had received at least one dose of Mectizan, and many others were receiving annual doses. Mectizan distribution received a significant boost in 1996 when the WHO and World Bank announced an ambitious 12-year project to wipe out river blindness. Former President Jimmy Carter agreed to coordinate the $124 million project through the Carter Center in Atlanta.[41]

According to the social performance model in Figure 2–5, Merck saw itself moving from the economic category to the ethical or philanthropic one. On the social issues dimension, the firm initially focused on potential consumers who became consumer-recipients of the firm's socially responsible commitment. On the philosophy of social responsiveness continuum, Merck was at the proaction end. Given Merck's leadership on this issue, it is not surprising to note that the company was voted the "most admired" corporation from 1986–1992 in *Fortune* magazine's annual survey of corporate reputations. As recently as 1998, Merck was still ranked as one of *Fortune*'s top ten most admired companies in America.[42]

This example shows how a business's response can be positioned in the social performance model. The average business firm faces many such controversial issues and might use the conceptual model to analyze its stance on these issues and perhaps to help determine its motivations, actions, and response strategies. Managers would have a systematic framework for thinking through not only the social issues they face but also the managerial response patterns they should contemplate. The model could serve as a guide in formulating criteria to assist the organization in developing its posture on various stakeholder issues. The net result could be an increase in the amount of systematic attention being given to the entire realm of corporate social performance.

Wartick and Cochran's Extensions

Before leaving our discussion of the CSP model, it is important to examine extensions of the model. The initial version of the model employed "social issues" as the third aspect or dimension, which embraced such issues as consumerism, environment, and discrimination. That dimension is now referred to as stakeholder issues, to place it within our current framework. While it was still being framed as social issues, however, Steven Wartick and Philip Cochran proposed that the dimension of social issues had, in fact, matured from simply an identification of the social issue categories in which companies must take action to a whole new management field, known as *social issues management*. Issues management, which we will treat more fully in Chapter 19, entails such activities as issues identification, issues analysis, and response development. Whether the third dimension is perceived as social issues or stakeholder issues, the issues management approach is equally useful.

Wartick and Cochran extended the social performance model even further by proposing that the three dimensions be thought of as depicting *principles* (corporate social responsibilities, reflecting a philosophical orientation), *processes* (corporate social responsiveness, reflecting an institutional orientation), and *policies* (social issues management, reflecting an organizational orientation). These extensions are extremely useful because they help us to more fully appreciate complementary aspects that were neglected in the original model. Figure 2–6 summarizes Wartick and Cochran's extensions to the model.[43]

FIGURE 2–6 Wartick and Cochran's Corporate Social Performance Model Extensions

Principles	*Processes*	*Policies*
Corporate Social Responsibilities	*Corporate Social Responsiveness*	*Social Issues Management*
(1) Economic (2) Legal (3) Ethical (4) Discretionary	(1) Reactive (2) Defensive (3) Accommodative (4) Proactive	(1) Issues Identification (2) Issues Analysis (3) Response Development
Directed at:	*Directed at:*	*Directed at:*
(1) The Social Contract of Business (2) Business as a Moral Agent	(1) The Capacity to Respond to Changing Societal Conditions (2) Managerial Approaches to Developing Responses	(1) Minimizing "Surprises" (2) Determining Effective Corporate Social Policies
Philosophical Orientation	*Institutional Orientation*	*Organizational Orientation*

SOURCE: Steven L. Wartick and Philip L. Cochran, "The Evolution of the Corporate Social Performance Model," *Academy of Management Review* (Vol. 10, 1985), 767.

Wood's Reformulated Model

More recently, Donna Wood has elaborated and reformulated Carroll's model and Wartick and Cochran's extensions. Using Wartick and Cochran's extensions, she has produced a useful definition of corporate social performance:

> *A business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and other observable outcomes as they relate to the firm's societal relationships.*[44]

Wood's proposal is (1) to think of social responsiveness as a *set* of processes rather than as a single process and (2) to think of Wartick and Cochran's policies as entailing *observable outcomes* of corporate and managerial actions. Wood takes this definition further by proposing that each of the three components—principles, processes, and outcomes—is composed of specific elements. Figure 2–7 presents Wood's corporate social performance model.

These extensions and reformulations of Carroll's corporate social performance model add significantly to our appreciation of what is involved as we strive to think of CSP as a dynamic and multifaceted managerial concept.

After this discussion of CSP, one might ask whether people really care about CSP. In the next section, we will examine nonacademic research into CSP. We will close this section, however, by reporting a major study of whether U.S. consumers really care about CSP. In this study, Karen Paul and other researchers developed a scale to measure consumers' sensitivity to CSP. Among the researchers' findings were that CSP does matter, that women were more sensitive than men to CSP, and that those identifying themselves as Democrats were more sensitive to CSP than Republicans.[45]

FIGURE 2–7 Wood's Corporate Social Performance Model

Principles of corporate social responsibility:
- Institutional principle: legitimacy
- Organizational principle: public responsibility
- Individual principle: managerial discretion

Processes of corporate social responsiveness:
- Environmental assessment
- Stakeholder management
- Issues management

Outcomes of corporate behavior:
- Social impacts
- Social programs
- Social policies

SOURCE: Donna J. Wood, "Corporate Social Performance Revisited," *Academy of Management Review* (October, 1991), 694.

Nonacademic Research on Corporate Social Performance

Although there has been considerable academic research on the subject of corporate social performance over the past decade, we should stress that academics are not the only ones who are interested in this topic. Prominent organizations and periodicals that report on social performance include *Fortune* magazine, the Council on Economic Priorities (CEP), the Business Enterprise Trust, WalkerInformation, Business for Social Responsibility, *Business and Society Review* magazine, *Business Ethics* magazine, and Kinder, Lydenberg, Domini, and Co., Inc. (KLD). We will discuss several of these.

Fortune*'s Rankings of "Most Admired" and "Least Admired" Companies*

For several years now, *Fortune* magazine has conducted rankings of "America's Most Admired Companies" and has included among their "Eight Key Attributes of Reputation" the category titled "Social Responsibility." The rankings are the result of a poll of more than 12,600 senior executives, outside directors, and financial analysts. In the social responsibility category, the most admired firms for 1998 were Herman Miller, Coca-Cola, and DuPont.[46] It is not clear what impact, if any, the *Fortune* rankings have for these businesses, but surely they have some impact on the firms' general reputations. The important point to note here, however, is that the social responsibility category is one indicator of corporate social performance and that it was included as a criterion of admired companies by one of our country's leading business magazines.

CEP's Rating of America's Corporate Conscience

Another indication of the public's interest in corporate social performance was the 1986 publication of a volume entitled *Rating America's Corporate Conscience,* which was compiled by the Council on Economic Priorities. The book rated various companies and their products (food products, health care products, hotels, automobiles, appliances, and dozens of other consumer goods) according to several categories of social performance. The CEP issued what it called the first comprehensive shopping guide for the socially conscious consumer, with the goal of "enhancing corporate performance as it affects society in critically important areas. . . ."[47] "This book," the authors wrote, "will help you cast an economic vote on corporate social responsibility when you shop—whether you're buying toothpaste, a typewriter, or an airline ticket."[48]

This 500-page volume rated corporate social performance by analyzing comparable data and presenting it in a practical format. The authors chose seven issues on which to base their judgments of CSP:[49]

1. Charitable contributions
2. Representation of women on boards of directors and among top corporate officers
3. Representation of minorities on boards of directors and among top corporate officers
4. Disclosure of social information
5. Involvement in South Africa
6. Conventional-weapons–related contracting
7. Nuclear-weapons–related contracting

Included in the book were product charts and company profiles that assessed the firms and their products using the criteria presented above. Figure 2–8 presents an example of their product charts (in this case, the chart for soft drinks).

Many could debate whether or not the criteria CEP chose were appropriate measures of CSP and whether or not they were accurately applied. The important point, however, is that such a volume was produced in the first place and was made commercially available to the public in bookstores. It demonstrated further the public's interest in the social performance of business. When the book came out, it certainly got noticed by the business press, although some of the reviews were somewhat tongue-in-cheek.[50] On the whole, however, the reviews were quite positive, and many consumers have found the book to be a useful layperson's guide to corporate social performance.

The latest volume of the CEP was titled *Shopping for a Better World: The Quick and Easy Guide to ALL Your Socially Responsible Shopping* (1994). The CEP updated its social criteria to the following key areas, and these areas were still being used as recently as 1998:

- Environment
- Charitable giving
- Community outreach
- Women's advancement
- Advancement of minorities
- Family benefits
- Workplace issues
- Disclosure of information

The CEP also evaluated the companies in specific industries. In 1996, for example, CEP issued a special report on the airline industry in which it rated each of the major airlines on the eight criteria listed above.[51]

FIGURE 2–8 Product Chart for Soft Drinks

Beverages **Soft Drinks**

Size of Charitable Contributions	Women Directors and Officers	Minority Directors and Officers	Social Disclosure	Brand Name	Company (Profile Page)	Involvement in South Africa	Conv. Weapons–Related Contracts	Nuclear Weapons–Related Contracts	Authors' Company of Choice
$	♀♀	♀♀	✍✍✍	Coca-Cola Fanta Fresca Mello Yello Ramblin' Root Beer Sprite Tab	Coca-Cola	Yes B	No	No	
$$	No	♀	✍✍✍	Mountain Dew Pepsi Slice	PepsiCo	No	No	No	
$$	♀	♀♀	✍✍✍	7-Up	Philip Morris	No	No	No	
$$$	♀	♀♀	✍✍✍	Crush Hires Root Beer	Procter & Gamble	No	No	No	✓
$$	♀♀	♀	✍✍	Gatorade	Quaker Oats	No	No	No	

* = See company profile
? = No information available
Single figure ($, ♀) = Minimal
Double figure ($$, ♀♀, ✍✍) = Moderate
Triple figure ($$$, ♀♀♀, ✍✍✍) = Substantial

No = No involvement or participation
Yes = Involvement or participation, A, B, C in the South African column reflect the degree of compliance with Sullivan Principles and/or involvement in strategic industries.

SOURCE: Steven D. Lydenberg, Alice Tepper Marlin, Sean O'Brien Strub, and the Council on Economic Priorities, *Rating America's Corporate Conscience: A Provocative Guide to the Companies Behind the Products You Buy Every Day* (Reading, MA: Addison-Wesley Publishing Co., 1986), 67.

Business Enterprise Trust Awards

The Business Enterprise Trust was founded in 1989 to stimulate a national debate on responsible business behavior in the complex economy of the 1990s and beyond. The Trust was created by 17 prominent business leaders, including such notables as Warren Buffett (Berkshire Hathaway, Inc.), Norman Lear (Act III Communications), and James Burke (Partnership for a Drug-Free America). One of the major activities of the Trust is an annual awards program that seeks to identify and promote acts of courage, integrity, and social vision in business. The Trust's board of directors hopes that the Business Enterprise Awards will become a kind of Pulitzer Prize for business. The Trust presented its first awards in 1991. James E. Burke, chairman of the Trust, provides a useful summary of the awards' purpose:

> *The Business Enterprise Awards will stimulate and inspire businesspeople to the kind of behavior which reflects the simple truth—that business institutions have a responsibility to all of those in society who are dependent upon them—and that following this simple moral imperative turns out to be very good business.*[52]

The types of individuals and actions honored by the Business Enterprise Trust Awards include entrepreneurs who demonstrate social vision by creating new products, services, or forms of corporate organization that address important social needs; managers who show moral thoughtfulness, commitment to principle, and sensitivity to the needs of businesses' many stakeholders; business leaders who resist pressures for short-term performance in serving the genuine long-term interests of both shareholders and society; and any businessperson who struggles productively with the natural tension between corporate profitability and social needs.

WalkerInformation

A major comprehensive study designed to measure the impact of corporate social responsibility was conducted in 1994 by Walker Group (now WalkerInformation), the twelfth largest research organization in the United States. Employing a 14-page questionnaire, responses were received from 1,037 heads of U.S. households (43 percent male and 57 percent female). Respondents were asked to answer questions as potential consumers, employees, or investors depending on the nature of the question. The WalkerInformation study painted a detailed account of the impact of corporate social responsibility on business firms' reputations and its relationship to stakeholder decisions to purchase from, become employed by, or invest in a particular company.[53]

In one of its questions, WalkerInformation sought to discover what the general public perceived to be the activities or characteristics of socially responsible companies. Figure 2–9 summarizes what the sample said were the top 20 activities/characteristics of socially responsible companies. The items in this listing are quite compatible with our discussion of CSR earlier in this chapter. It should be noted that most of these characteristics would be representative of the legal, ethical, and philanthropic/discretionary components of our four-part CSR definition.

Another issue of interest in the WalkerInformation study was the question of corporate reputation and the impact on reputation of both traditional purchase drivers (such as product quality, price, convenience, and service) and citizenship or social responsibility drivers (such as community support, business practices, employee treatment, and environmental concern). The research disclosed that the significant majority of respondents are still concerned with price, quality, and service, but they are also concerned with how a company practices business, treats employees, invests in the community, and cares for the environment. Figure 2–10 demonstrates how the respondents ranked the importance of the various factors in terms of their impact on company reputation.

FIGURE 2–9 Top 20 Activities/Characteristics of Socially Responsible Companies

- Makes products that are safe
- Does not pollute air or water
- Obeys the law in all aspects of business
- Promotes honest/ethical employee behavior
- Commits to safe workplace ethics
- Does not use misleading/deceptive advertising
- Upholds stated policy banning discrimination
- Utilizes "environmentally friendly" packaging
- Protects employees against sexual harassment
- Recycles within company
- Shows no past record of questionable activity
- Responds quickly to customer problems
- Maintains waste reduction program
- Provides/pays portion of medical
- Promotes energy-conservation program
- Helps displaced workers with placement
- Gives money to charitable/educational causes
- Utilizes only biodegradable/recycling materials
- Employs friendly/courteous/responsive personnel
- Tries continually to improve quality

SOURCE: WalkerInformation, 1994. Used with permission.

Although quality, service, and price dominated the top five, it is important to note the roles played by business practices, employee treatment, and the other social responsibility factors. WalkerInformation's conclusion was that the public thinks CSR factors impact a company's reputation just as do traditional factors, such as quality, service, and price. A related question pertains to the impact of social irresponsibility on firm reputation. The WalkerInformation study found that companies that are ethical and obey the law can reap rewards from CSR activities and enjoy enhanced reputations. However, those that are perceived to be unethical or that do not obey the law can do little in the way of CSR activities to correct their images. Thus, the penalties for disobeying the law are greater than the rewards for helping society. Later in the book we will examine some of the other findings of the WalkerInformation study.

SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE

One issue that comes up frequently in considerations of corporate social performance is whether or not there is a demonstrable relationship between a firm's social

FIGURE 2–10 Importance of General Business Factors for Reputation

SOURCE: WalkerInforamtion, 1994. Used with permission.

responsibility or performance and its financial performance. Unfortunately, attempts to measure this relationship are typically hampered by measurement problems. The appropriate performance criteria for measuring financial performance and social responsibility are subject to debate. Furthermore, the measurement of social responsibility is fraught with definitional problems. Even if a definition of CSR could be agreed on, there still would remain the complex task of operationalizing the definition.

Over the years, studies on the social responsibility–financial performance relationship have produced varying results.[54] In one of the more recent studies of this relationship, Lee Preston and Douglas O'Bannon examined data from 67 large U.S. corporations covering the years 1982–1992. They concluded that "there is a *positive* association between social and financial performance in large U.S. corporations."[55]

It is important to note that there have been at least three different views, hypotheses, or perspectives that have dominated these discussions and research. Perhaps the most popular view, which we shall call Perspective 1, is built on the belief that socially responsible firms are more financially profitable. To those who advocate the concept of social performance, it is apparent why they would like to think that social performance is a driver of financial performance and, ultimately, a corporation's reputation. If it could be demonstrated that socially responsible firms, in general, are more financially successful and have better reputations, this would significantly bolster the CSP view, even in the eyes of its critics.

Over the past two decades, Perspective 1 has been studied extensively. Unfortunately, the findings of most of the studies that have sought to demonstrate this relationship have been either flawed in their methodology or inconclusive. Numerous studies have been done well, but even these have failed to produce conclusive results. In spite of this, some studies have claimed to have successfully established this linkage. For example, a study by Covenant Investment Management, a Chicago investment firm, concluded that social concern pays. This study found that 200 companies ranking highest on Covenant's overall social responsibility scale had outperformed the Standard & Poor's 500-stock index during the 5 years (1988–1992) studied.[56] To be considered a valid finding, however, the Covenant research would have to be subjected to careful scrutiny.

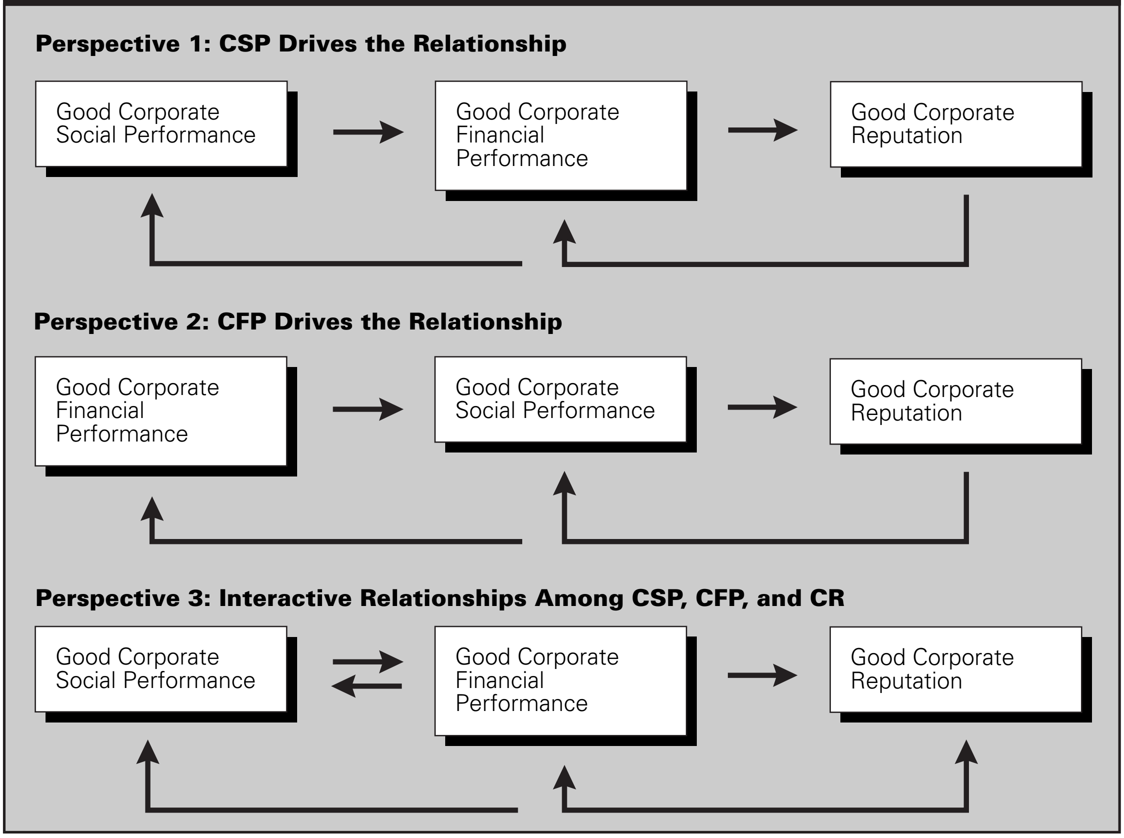
Perspective 2, which has not been studied as extensively, argues that a firm's financial performance is a driver of its social performance. This perspective is built somewhat on the notion that social responsibility is a "fair weather" concept; that is, when times are good and companies are enjoying financial success, we witness higher levels of social performance. In their study, Preston and O'Bannon found the strongest evidence that financial performance either precedes, or is contemporaneous with, social performance. This evidence supports the view that social-financial performance correlations are best explained by positive synergies or by "available funding."[57]

Perspective 3 argues that there is an interactive relationship among social performance, financial performance, and corporate reputation. In this symbiotic view, the three major factors influence each other, and, because they are so interrelated, it is not easy to identify which factor is driving the process. Regardless of the perspective taken, each view advocates a significant role for CSP, and it is expected that researchers will continue to explore these perspectives for years to come. Figure 2–11 depicts the essentials of each of these views.

A basic premise of all these perspectives is that there is only one "bottom line"—a corporate bottom line that addresses primarily the stockholders', or owners', investments in the firm. An alternative view is that the firm has "multiple bottom lines" that benefit from corporate social performance. This *stakeholder-bottom-line* perspective argues that the impacts or benefits of CSP cannot be fully measured or appreciated by considering *only* the impact of the firm's financial bottom line.

To truly operate with a stakeholder perspective, companies need to accept the multiple-bottom-line view. Thus, CSP cannot be fully comprehended unless we also consider that its impacts on stakeholders, such as consumers, employees, the community, and other stakeholder groups, are noted, measured, and considered. Research may never conclusively demonstrate a relationship between CSP and financial performance. If a stakeholder perspective is taken, however, it may be more straightforward to assess the impact of CSP on multiple stakeholders' bottom lines. This model of CSP and stakeholders' bottom lines might be depicted as shown in Figure 2–12.

FIGURE 2–11 Relationships Among Corporate Social Performance (CSP), Corporate Financial Performance (CFP), and Corporate Reputation (CR)



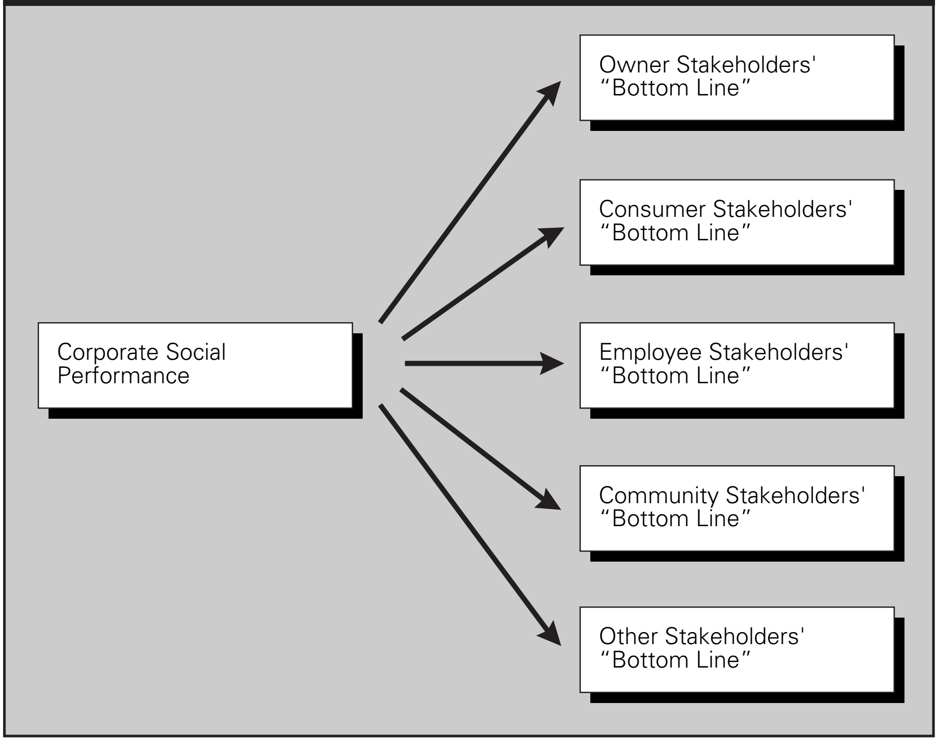
SOCIALLY CONSCIOUS OR ETHICAL INVESTING

The media, academics, and special-interest groups are not alone in their interest in business's social performance. Investors are also interested. The ***socially conscious or ethical investing*** movement arrived on the scene in the 1970s and has continued to grow and prosper.

Historically, social responsibility investing dates back to the early 1900s, when church endowments refused to buy "sin" stocks—then defined as shares in tobacco, alcohol, and gambling companies. During the Vietnam War era of the 1960s and early 1970s, antiwar investors refused to invest in defense contracting firms. In the early 1980s, universities, municipalities, and foundations sold off their shares of companies that had operations in South Africa to protest apartheid. In the 1990s, self-styled socially responsible investing has come into its own.[58]

Socially conscious investments in pension funds, mutual funds, and municipal and private portfolios exceed $1 trillion. However, managers of socially conscious

FIGURE 2–12 Relationship Between Corporate Social Performance (CSP) and Stakeholders' Multiple "Bottom Lines"



funds do not use only ethical or social responsibility criteria to decide which companies to invest in. They typically consider a company's financial health before all else. Moreover, a growing corps of brokers, financial planners, and portfolio managers are available to help people evaluate investments for their social impacts.[59]

The concept of "social screening" is the backbone of the socially conscious investing movement. Investors seeking to put their money into socially responsible firms want to screen out those firms they consider to be socially irresponsible or to actively invest in those firms they think of as being socially responsible. Thus, there are negative social screens and positive social screens. Some of the negative social screens that have been used in recent years include the avoidance of investing in tobacco manufacturers, gambling casino operators, defense or weapons contractors, and firms doing business in South Africa.[60] In 1994, however, with the elimination of the official system of apartheid in South Africa, this was eliminated as a negative screen by many.

It is more difficult, and thus more challenging, to implement positive social screens, because they require the potential investor to make judgment calls as to what constitutes an acceptable or a good level of social performance on social investment criteria. Criteria that may be used as either positive or negative screens, depending on the firm's performance, might include the firm's record on issues such as equal employment opportunity and affirmative action, environmental protection, treatment of employees, corporate citizenship (community-minded behavior), and treatment of animals.

The financial performance of socially conscious funds shows that investors do not have to sacrifice profitability for principles. For example, the Domini 400 Social Index, which measures the performance of stocks in "socially responsible" mutual funds, outperformed Standard and Poor's 500-stock index for 3 consecutive years (1995–1997). The gains in the Domini Index show that investors can find financial performance *and* social accountability.[61]

It should be added, however, that there is no clear and consistent evidence that returns from socially conscious funds will equal or exceed the returns from funds that are not so carefully screened. Therefore, socially conscious funds are valued most highly by those investors who really care about the social performance of their investments and are willing to put their money at some risk. A recent study concluded that there is no penalty for improved CSP in terms of institutional ownership and that high CSP tends in fact to lead to an increase in the number of institutional investors holding a given stock.[62]

The Council on Economic Priorities indicates that there are at least four reasons why there has been an upsurge in social or ethical investing:[63]

1. There is more reliable and sophisticated research on CSP than in the past.
2. Investment firms using social criteria have established a solid track record, and investors do not have to sacrifice gains for principles.
3. The socially conscious 1960s generation is now making investment decisions.
4. The Reagan administration's cutbacks on social service programs and regulation have brought an increased public awareness of the need for new and innovative corporate initiatives.

In recent years, several different guides for socially responsible investing have been published. For example, the Council on Economic Priorities published *The Better World Investment Guide*.[64] This volume discusses the history of ethical investing and the many different social screens that have been used for evaluating the social performance of companies. A significant portion of this volume is dedicated to an analysis of companies and their records on 12 criteria, including charitable contributions, advancement of women, minority advancement, military contracts, animal testing, and the environment. Another book, *Investing from the Heart,* provides A-to-Z coverage of topics of interest to socially conscious investors.[65] Finally, *The Social Investment Almanac: A Comprehensive Guide to Socially Responsible Investing* deserves special mention. A unique part of this volume is its treatment of social investing outside the United States.[66] With the advent of the World Wide Web, social investors can now receive up-to-date guidelines and data on social investing. For example, the Social Investment Forum has its own Web site dedicated to the topic, with insights into social and financial performance data.[67]

Socially conscious funds continue to be debated in the investment community. The fact that they exist, have grown, and have prospered, however, provides evidence that the idea is a serious one and that there truly are investors in the real world who take the social performance issue quite seriously.

SUMMARY

The corporate social responsibility concept has a rich history. It has grown out of many diverse views and even today does not enjoy a consensus of definition. A four-part conceptualization was presented that broadly conceives CSR as encompassing economic, legal, ethical, and philanthropic components. The four parts were also presented as part of the Pyramid of CSR.

The concern for corporate social responsibility has been expanded to include a concern for social responsiveness. The responsiveness focus suggests more of an action-oriented theme by which firms not only must address their basic obligations but also must decide on basic modes of responding to these obligations. A CSP model was presented that brought the responsibility and responsiveness dimensions together into a framework that also identified realms of social or stakeholder issues that must be considered. The identification of social issues has blossomed into a field now called “issues management” or “stakeholder management.”

The interest in corporate social responsibility extends beyond the academic community. On an annual basis, *Fortune* magazine polls executives on various dimensions of corporate performance; one major dimension is called “Social Responsibility.” The Council on Economic Priorities published a landmark volume entitled *Rating America’s Corporate Conscience,* which further heightened public interest in the social and ethical domains of business performance. The Business Enterprise Trust now gives awards for exceptional social performance. A new organization, Business for Social Responsibility, promises to be on the cutting edge of CSR practice. Walker-Information has investigated how the general consuming public regards social responsibility issues.

Finally, the socially conscious or ethical investing movement seems to be flourishing. This indicates that there is a growing body of investors who are sensitive to business’s social and ethical (as well as financial) performance. Studies of the relationship between social responsibility and economic performance do not yield consistent results, but social efforts are nevertheless expected and are of value to both the firm and the business community.

KEY TERMS

Business for Social Responsibility (BSR) (page 27)

community obligations (page 30)

corporate social performance model (page 44)

legal model (page 29)

paternalism (page 30)

philanthropy (page 30)

Pyramid of CSR (page 37)

responsibility (page 41)

responsiveness (page 41)

social obligation (page 42)

social responsibility (page 42)

social responsiveness (page 42)

socially conscious or ethical investing (page 55)