Chapter 1
Corporate Social Responsibility: A Review of the Concept and Analysis of the Business Case for Corporate Social Responsibility in the Twenty-First Century

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Abstract This paper reviews the concept of corporate social responsibility (CSR) with a view toward understanding its meaning and component parts, and examines the business case for corporate social responsibility. The business case for CSR refers to arguments made in support of the reasons businesses should accept and advance CSR activities. The business case is concerned with CSR benefits to corporations, and particularly with the bottom-line financial gains for businesses pursuing CSR activities. In developing this paper, we provided conceptual definitions of CSR as well as arguments that have been made in favor of the notion of business assuming any responsibility to society beyond profit-seeking and maximizing its own financial wellbeing for its shareholders.

1.1 Introduction

The concept of corporate social responsibility (CSR) has been the subject of considerable debate among scholars and practitioners. In spite of the ongoing debates as to what it means and what it embraces, it has developed and evolved in both academic as well as practitioner communities around the world. Although the term corporate social responsibility (CSR) is still generally used today, related concepts such as business ethics, corporate citizenship, and corporate social performance are competing to replace it (Carroll & Shabana, 2010). All these terms are

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somehow related in that they contain underlying themes such as community, morals, and accountability (Schwartz & Carroll, 2008). They also refer to the collective of policies, practices, investments, and tangible results deployed and achieved by a business corporation in the pursuit of its stakeholders' interests (Carroll & Shabana, 2010). CSR concept focuses on corporate self-regulation mainly associated with ethical issues, human rights, health and safety, environmental protection, social and environmental reporting, and voluntary initiatives involving support for community projects and philanthropy (Carroll & Shabana, 2010). The need for corporations to be socially responsible has been discussed in the literature and has been a topic of academic study for years (Moir, 2001). This paper is structured as follows: in the first section, we discussed the definition of CSR. In the second section, we analyzed the arguments in support of CSR. Finally, the paper concludes with summary and conclusions.

1.2 What Is Corporate Social Responsibility?

In the last two decades, several definitions of CSR have emerged in management and organizational literature. Corporate social responsibility covers the broad areas of responsibilities corporations have to the societies within which they operate. More specifically, CSR involves a business identifying its stakeholders and incorporating their needs and values within the day-to-day decision-making process. Furthermore, the notion that profit maximization is the only legitimate goal of management has been recognized as one end of a continuum, while at the other end is the recognition that corporations are the trustees of societal property that should be managed for the public good. For example, Friedman (1962) argues that the business of business should remain business, whereas Abrams (1954) speaks of a firm's responsibility to maintain an equitable and working balance among the claims of the various groups such as employees, customers, and the public at large. Other scholars such as Fredrick (1994) argue that profit maximization should not be the only legitimate goal of business. Fredrick (1994) indicates that corporations have an obligation to society other than their shareholders and beyond what is prescribed by law or business contract.

There are several definitions of CSR. However, in this chapter we will touch upon only a few definitions of CSR to illustrate its evolving nature and meaning. Here are some of the most popular ones:

> *The World Business Council for Sustainable Development (WBCSD) defines CSR as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workers and their families as well as of the local community and society at large (WBCSD,* 2012*).*

> *Carroll defines social responsibility of business as encompassing the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Carroll,* 1979*).*

The UK Institute of Directors defines CSR as 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 to which they attempt to protect the environment (Ruth Lea, 2002).

The European Commission on CSR defines CSR as "the responsibility of enterprises for their impacts on society". Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of: maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large, and identifying, preventing, and mitigating their possible adverse impacts (European Commission, 2011).

In this paper, we use Carroll's categories of CSR to illustrate the evolving nature and problems of defining CSR. The four dimensions of CSR—defined by Carroll (1979) as economic, legal, ethical, and philanthropic—address the incentives for initiatives that are useful in identifying specific kinds of benefits that flow back to companies, as well as society, in their fulfillment of CSR activities. Carroll's definition of CSR has been successfully used by researchers and practitioners for over two decades; we decided that this might be an appropriate definition to use for the purpose of this paper.

1.2.1 Economic Responsibility of Business

According to Carroll (1979), the economic responsibility of a business is "to produce goods and services that society desires and to sell them at a profit" (Carroll, 1979, p. 500). Carroll claims that by doing so, businesses fulfill their primary responsibility as economic units in society. According to Carroll (1991, p. 41), the profit-making principle was originally set in terms of "acceptable profits"; however, the concept later changed to profit maximization. The principle of profit maximization is endorsed and amplified by the classical economic view led by Milton Friedman (1962), who argues that there is one and only one social responsibility of business, which is to use its resources to engage in activities designed to increase its profits so long as it stays within the rules of the game—which is to say, engages in open and free competition without deception or fraud. Drucker (1954, 2006) presents an alternative perspective within the classical school perspective. He argues that profit performs three main functions. First, it measures the effectiveness of business activities; second, it provides a "risk premium" necessary for the corporation to stay in business; and third, it insures the future supply of capital. Therefore, a profitability objective of a business measures both maximum and minimum profits a company can and must make in order to remain in business (Drucker, 1954, 2006).

Some scholars argue that the principle of maximizing shareholder wealth may not be in the interests of shareholders. For example, Barnett (2007) argues that excessive financial performance may decrease the ability of a company to influence its stakeholders. He explains that doing too well financially can lead stakeholders to perceive that a firm is not doing enough in other areas. He further reasons that excessive profit may give a negative signal to the border stakeholders that indicate that a firm is extracting more from society than it is returning, and can suggest that profits have increased because the firm has exploited some of its stakeholders in order to favor shareholders. This can create a feeling of distrust among stakeholders who are looking to establish or maintain relations with the firm (Carroll & Shabana, 2010).

Although there are differences between these two views in terms of corporate profit, the notion of economic responsibility in terms of financial profit to stockholders is accepted and required by both views. One may even argue that maximizing shareholder wealth in the long run is a fundamental principle that both views agree upon. The real difference could be that the classical economic view ignores the long-term negative effects of the application of the maximization principle. In contrast, the opposite view applies the maximization principle for long-term benefits, which entails that such a principle may be ignored in certain short-term considerations (Carroll & Shabana, 2010).

1.2.2 Legal Responsibility

The legal responsibility of business refers to the positive and negative obligations put on businesses by the laws and regulations of the society in which it operates (Carroll & Shabana, 2010). According to Carroll and Shabana (2010), the legal responsibility of business constitutes the totality of the responsibility of business towards society. With respect to the scope of legal responsibility, some advocate its expansion to encompass more regulation. Proponents of this view assert that regulation is necessary for the fulfillment of CSR. For example, De Schutter (2008) argues that the business case for CSR rests on certain presuppositions about markets and the business environment, which cannot be simply assumed, but should be positively created by a regulatory framework for CSR.

On the other hand, some oppose such claims and state that engagement in CSR activities and management of stakeholder relations should continue to remain voluntary. For example, Phillips, Freeman, and Wicks (2003) reject the claim that stakeholder theory, which contends that firm performance is influenced by the firm's management of its relationships with its stakeholders, promotes expanding or changing laws and regulations. They indicate that stakeholder theory does not require a change in the law to remain viable (Phillips et al., 2003). The two opposing camps continue to present their arguments to justify the need for the expansion or contraction of the legal requirements imposed on business. Supporters of regulation question the ability of the free market mechanism to support CSR activities (Valor, 2008; Williamson, Lynch-Wood, & Ramsay, 2006). They contend that market failure and the business environment are not rewarding firms engaging in CSR activities. In contrast, opponents of regulation argue that the free market mechanism promotes the interest of individuals, and in turn society, by rewarding CSR activities that are actually favored by individuals. Corporate social responsibility activities that are not rewarded by the market are those activities that individuals do not value and are therefore unwilling to support (Carroll & Shabana, 2010).

1.2.3 *Ethical Responsibility*

Whereas economic and legal responsibilities symbolize ethical norms about fairness and justice, ethical responsibility on the other hand refers to those activities and practices that are expected or prohibited by society even though they are not codified into law (Carroll, 1991). According to Carroll (1991), ethical responsibility represents those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights. The business ethics movement of the past decade has firmly established an ethical responsibility as a legitimate CSR component. This is shown as one of the layers of the CSR pyramid; it must be constantly recognized that it is in dynamic interplay with the legal responsibility category. That is, it is constantly pushing the legal responsibility category to broaden or expand while at the same time placing ever higher expectations on businesspersons to operate at levels above that required by law (Carroll, 1991).

1.2.4 *Philanthropic Responsibility*

Philanthropic responsibility includes those corporate activities that are in response to society's expectation that businesses be good corporate citizens; this comprises actively engaging in programs to promote human welfare or goodwill (Carroll, 1991). Furthermore, Carroll (1991) includes business contributions to financial resources or executive time, such as contributions to the arts, education, or the community, as philanthropy. Carroll states that a loaned-executive program that provides leadership for a community's United Way campaign is one example of philanthropy. Thus, the difference between philanthropy and ethical responsibility is that the former is not expected in an ethical or moral sense. For example, communities desire corporations to contribute their money, facilities, and employee time to humanitarian programs, but they do not regard the firms as unethical if they do not provide the desired level. Hence, philanthropy is more voluntary on the part of businesses; however, there is always the societal expectation that businesses provide it (Carroll, 1991). According to Carroll (1991), one notable reason for making the distinction between philanthropic and ethical responsibility is that some firms feel they are being socially responsible simply by being good citizens in the community.

Based on the description of CSR outlined above, we next examine the business case for CSR to assist top management in integrating CSR in their organizations.

1.3 Arguments in Favor of CSR

The business case for CSR refers to the justification that the specific benefits to businesses in terms of an economic and financial sense would flow from CSR activities (Carroll & Shabana, 2010). Studies have shown that corporate social responsibility provides measurable benefits to businesses (Kurucz, Barry, & Wheeler, 2008). One of the arguments made in favor of CSR usually begins with the notion that it is in a business's long-term self-interest to be socially responsible (Carroll & Shabana, 2010). Supporters of this view believe that if business is to have a healthy environment in which to function in the future, it must take actions now that will ensure its long-term survival. A second argument in favor of CSR is based on the notion that future government intervention can be avoided if business policies fulfill society's expectations. Another justification for CSR holds that being proactive is better than been reactive, in the sense that anticipation, planning, and initiation are more practical and less costly than simply reacting to social problems once they have appeared (Carroll & Buchholtz, 2012).

1.3.1 Company Reputation and Legitimacy Arguments

Reputation and legitimacy arguments maintain that firms may strengthen their legitimacy and enhance their reputation by engaging in CSR activities (Carroll & Shabana, 2010). Mainlining a good reputation remains an important benefit that affects almost all levels of organizational function. It has been argued that corporate social responsibility programs can effectively build and enhance a firm's reputation (Stephenson, 2009). Stephenson argues that by developing a solid corporate social responsibility program, companies can expand their business, attract new customers, improve shareholder value, and develop better relationships with local communities. Additionally, a firm can achieve a competitive advantage by attracting additional loyal customers because of its positive image.

In addition to CSR activities enhancing a firm's ability to attract new consumers and investors, employees, too, express a preference for working for more socially responsible companies. Smith also argues that strong vendor standards and independent monitoring helps build a firm's reputation and the value of its brand, which are among its most valuable assets (Smith, 2003). An example of a CSR activity directed at developing reputation and legitimacy is cause marketing. Cause marketing is a strategy where, in addition to emphasizing product advantages, product benefits are linked to appeals for charitable giving (Smith & Alcron, 1991).

The benefits of this strategy include creating purchasing incentives and enhancing company and product images. Through cause marketing, companies are able to illustrate that they can, mutually, pursue their profitability goals and meet the needs of the different stakeholders in society. Therefore they are able to demonstrate that they "belong" to society. For example, General Mills Inc., through its subsidiary Yoplait USA Inc., donated $1.5 million to the breast cancer cause through its Breast Cancer Initiative (Yoplait, 2009a). The company donated 10 cents for every "pink lid" that consumers sent to the company as proof of purchase (Yoplait, 2009b). Another example of cause marketing is the buy RED initiative. RED is a simple idea that transforms the incredible collective power of consumers into a financial force to help others in need (RED, 2009). Companies participating in the RED initiative donate 50 % of their profits from the product to purchase and distribute antiretroviral medicine to battle AIDS in Africa (RED, 2009). Both examples illustrate how firms are able to underscore that their pursuit of financial gains is not inconsistent with the pursuit of social goals, but rather that both goals may be pursued simultaneously.

Accordingly, firms succeed in establishing that their pursuit of financial gains is a legitimate pursuit and is not carried out at the expense of social welfare. Corporate philanthropy is another CSR activity that aims to enhance corporate legitimacy and reputation. Chen, Dennis, and Roberts (2008) suggest that corporate philanthropy may be a tool of legitimization. They argue that some firms that have negative social performance in the areas of environmental issues and product safety use charitable contributions as a means for building their legitimacy. Kamens (1985) also argues that firms can use philanthropy to strengthen their legitimacy through managing their local need and creating trust. Corporations can also work to enhance their legitimacy and reputation through disclosure of information regarding their performance on different social and environmental issues (Brammer & Pavelin, 2004). One such disclosure practice is corporate social reporting. Corporate social reporting refers to the issue of stand-alone reports that provide information regarding a company's economic, environmental, and social performance (Carroll & Shabana, 2010). A review of Fortune 500 companies' web sites shows that the majority of information there consists of corporate social reporting. This tends to support the argument that corporate disclosure and social reporting legitimizes firms' stands on society.

1.3.2 Competitive Advantage Argument

The competitive advantage argument contends that by engaging in certain CSR activities firms may improve their competitiveness. Stakeholders currently demand that corporations behave ethically in their dealings with the public as well as engaging in a socially responsible manner. These demands should be seen as opportunities rather than limitations for corporations. Firms strategically manage their resources to meet these demands and exploit the opportunities associated with them for the benefit of the firm. "Competitive advantages" has been cited as one of the top two justifications for CSR in a survey of business executives reported in Fortune (2003). Firms can build their competitive advantage through CSR programs and initiatives by carefully crafting a unique strategy that aligns their corporate strategies with CSR programs. This unique strategy can serve as a basis for setting a firm apart from its competitors and, accordingly, its competitive advantage. For example, Smith (2005) argues that an explicit statement of EEO policies would have additional benefits to the cost and risk reduction, discussed above. Such policies would provide the firm with a competitive advantage because firms without inclusive policies may be at a competitive disadvantage in recruiting and retaining employees from the widest talent pool.

Corporate social responsibility initiatives can also contribute to strengthening a firm's competitive advantage through enhancing its relationships with its customers. For example, Pivato, Misani, and Tencati (2008) demonstrate that CSR initiatives enhance brand loyalty. In another study, Bhattacharya and Sen (2004) indicate that there is a positive link between CSR and consumer patronage, spurring companies to devote greater energies and resources to CSR initiatives. Corporate social responsibility initiatives were also found to have a positive impact on attracting investment. According to Smith (2005), many institutional investors avoid companies that violate their organizational mission, values, or principles. They also seek to do business with companies that have good records on employee relations, environmental stewardship, community involvement, and corporate governance.

According to Porter and Kramer (2002), a business may gain competitive advantages through CSR, such as its philanthropic activities, when such activities are directed at causes where there is a common interest between the economic gains and the social benefits. For example, Bruch and Walter (2005) argue that companies use philanthropy to enhance their competitive advantage through combinations of market (external) and competence (internal) orientations. Through a market orientation, companies design their philanthropic activities to fit external demands and meet the expectations of key stakeholders. The companies therefore improve their competitive advantage through improved marketing and selling capabilities, higher attractiveness as an employer or better relationships with governmental and non-governmental organizations (Bruch & Walter, 2005). For example, Deutsche Lufthansa AG has improved its relationship with communities within which it operates by operating a community-involvement program (Bruch & Walter, 2005). McDonald's Corporation has done likewise by supporting Ronald McDonald House Charities as its largest corporate donor (Ronald McDonald House Charities, 2010).

Through a competence positioning, companies can align their philanthropic activities with their capabilities and core competencies. In so doing, they avoid distractions from the core business, enhance the efficiency of their charitable activities, and assure unique value creation for the beneficiaries' (Bruch & Walter, 2005). For example, McKinsey & Co. offers free consulting services to non-profit organizations in social, cultural, and educational fields. Beneficiaries include public art galleries, colleges, and charitable institutions (Bruch & Walter, 2005, p. 50). Home Depot Inc. has been providing rebuilding know-how to the communities victimized by Hurricane Katrina (Home Depot, 2009). Strategic philanthropy, defined as the process by which contributions are targeted to serve direct business interests while also servicing beneficiary organizations (Tokarski, 1999), helps companies gain a competitive advantage and, in turn, boosts their bottom line (Seifert, Morris, & Bartkus, 2003). Corporate philanthropy, in this case, is used as a means of advancing corporate interests. In sum, corporate social responsibility programs enhance a firm's competitive advantage to the extent that they influence the decisions of the firm's stakeholders in its favor. Firms build a competitive advantage by engaging in those CSR initiatives that meet the perceived demands of stakeholders. In other words, one or multiple stakeholders will prefer the firm over its competitors specifically because of the firm's engagement in such CSR initiatives.

1.3.3 Equal Employment Opportunity and Cost Reduction Arguments

CSR activities in the form of equal employment opportunity (EEO) policies and practices can, according to Smith, also enhance long-term shareholder value by reducing costs and risks (2005). Smith contends that explicit EEO statements are necessary to illustrate an inclusive policy that reduces employee turnover through improving morale. Smith's (2005) argument is in line with the contentions of other scholars such as Berman, Wicks, Kotha, and Jones (1999), Robinson and Dechant (1997), and Thomas and Ely (1996) who maintain that the lack of diversity may cause higher turnover and absenteeism from disgruntled employees (Berman et al., 1999). Cost and risk reduction justifications contend that engaging in certain CSR activities will reduce the firm's inefficient capital expenditures and exposure to risks. The principal view that has been expressed by scholars and practitioners is that the demands of stakeholders present potential threats to the viability of the organization, and that corporate economic interests are served by mitigating the threats through a threshold level of social or environmental performance. Cost and risk reduction may also be achieved through CSR activities directed at the natural environment. A number of researchers (Berman et al., 1999; Dechant, Altman, Downing, & Keeney, 1994; Hart, 1995; Shrivastava, 1995) contend that being environmentally proactive results in cost and risk reduction. Berman et al. (1999) states that being proactive on environmental issues can lower the costs of complying with present and future environmental regulations and may enhance firm efficiencies and drive down operating costs. Environmentally responsible commitments may also reduce the negative impact of social concern. For instance, lawsuits filed in 1999 against 27 well-known retailers on behalf of Saipan garment workers demonstrate the business risk associated with inadequate vendor standards (Smith, 2005).

Furthermore, corporate social responsibility activities directed at managing community relations may also result in cost and risk reductions (Berman et al., 1999). Building positive community relationships may contribute to the firm's attaining tax advantages. In addition, positive community relationships decrease the amount of regulation imposed on the firm, because the firm is perceived as a sanctioned member of society. According to Carroll and Shabana (2010), cost and risk reduction arguments for CSR have been gaining wide recognition among managers and executives; for example, in a survey of business executives by PricewaterhouseCoopers, 73 % of respondents indicate that "cost savings" are one of the top three reasons companies are becoming more socially responsible. Cost savings obviously attracts top management attention as a specific bottom-line benefit to CSR (Fortune, 2003).

1.3.4 The Win-Win Argument

CSR programs are beneficial to communities. For example, when a company opens a production or service facility in a community, it will provide employment for individuals in the community as well as for other local businesses in the community. In this way, it is increasing opportunities for local employees to improve their means of living. For example, employees will have more money to spend in the local economy, thus bolstering revenues for business and tax revenues for local governments. By the same token, community CSR programs undertaken by a firm can facilitate further growth of the firm. For example, a location of a computer company in a community may contribute to the development of programs for IT professionals in local communities. This in turn can improve the firm's access to human capital in the community. With more access to human capital, the company will be able to expand its operations and generate more business in the local community. More business should, all things being equal, mean more profit. This will translate into more growth, more tax revenue, and more economic growth in the local community. Thus, while a CSR program developed by a company may not include the local community, the end result can well be an overall improvement in economic health and growth for the community. When placed in this context, it becomes evident that the development of CSR programs creates a partnership between the firm and the community in which it operates. While the reality might be that even if the intentions of firm's CSR program is not aimed directly at the community, but rather for the long-term improvement of the firm, the community will nevertheless receive a number of pertinent benefits as well. More tax revenues generated by the firm will result in more funding for community programs that will benefit residents. Further, the organization will be able to offer more jobs and a stable source of employment for community members. Overall, indirect benefits of CSR have critical importance for the development of the community as well as the success of organizations.

1.4 Summary and Conclusions

The rationale for the business case for CSR can be categorized under the following arguments: (1) company reputation and legitimacy, (2) equal employment opportunity and cost and risk reeducation, (3) competitive advantage, and (4) creating win–win situations through synergistic value creation. To summarize, proponents of cost and risk reduction arguments suggest that CSR allows a firm to take advantage of tax benefits or avoid strict and excessive government regulations, which would lower its operating cost. The firm in turn may also lower the risk of opposition by its stakeholders through CSR activities. Those in favor of legitimacy and reputation arguments hold that CSR activities may help a firm strengthen its legitimacy and reputation by demonstrating that it can meet the competing needs of its stakeholders, and at the same time operate profitably in a global business arena. A firm therefore would be perceived as a member of its community, and its operations would be endorsed by the community at large. Competitive advantage arguments contend that by adopting certain CSR activities, a firm may be able to build strong relationships with its stakeholders and garner their support in the form of lower levels of employee turnover, access to a higher talent pool, and customer loyalty. Consequently, the firm will be able to differentiate itself from its competitors. The win-win synergistic value creation arguments hold that CSR activities may present opportunities for a firm that would allow it to fulfill the needs of its stakeholders and at the same time pursue its profit objectives. However, the pursuit of these opportunities is only possible through CSR activities. Growing support for the business case among academic and practitioners is evident. Generally, the business case for CSR is being made by research evidence documenting and explaining that CSR has a positive economic impact on a firm's financial performance.

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