CHAPTER 1

Why Do Companies Engage in Corporate Social Responsibility? Background, Reasons and Basic Concepts

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INTRODUCTION

'The movement on corporate social responsibility has won the battle of ideas.' This was the opening line of a 20-page supplement on CSR in *The Economist* in early 2005 (Crook, 2005). In fact, for managers in today's global business world CSR is an acronym that can scarcely be avoided. Basically all of the world's top multinationals engage in CSR in some form and there is almost no country in which businesses have not taken up the challenge of CSR in some way. Even in a country such as India, in the West sometimes rather snobbishly dubbed an 'emerging economy',

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a company such as the Tata Steel Corporation prides itself on a legacy of no fewer than 100 years in active CSR (Elankumaran, Seal and Hashmi, 2005). And the contributions by leaders from various companies compiled in this volume speak for themselves. CSR is one of the key challenges for today's business leaders globally.

There is, however, less clarity about what 'corporate social responsibility' actually means. Apart from the novelty of CSR, one of the key problems is the plethora and heterogeneity of actors in the CSR world. The corporate world is not the sole context in which CSR is addressed in rather different approaches and strategies across the globe. CSR provides an arena for political actors and key players in civil society. It is also top of the agenda on many high-profile political platforms, such as the World Economic Forum, and governments have increasingly tried to influence the agenda, be it at the national level (such as the UK's minister for CSR in the Department of Trade and Industry) or via supranational initiatives (such as the Green and White Papers on CSR issued by the European Union). Furthermore, a burgeoning jungle of consultants, NGOs, foundations and other activist groups is proof of the topic's growing profile. And last but by no means least, this development has been pushed further by a growing number of academic institutes and centres across the globe, which have not only produced more literature on CSR but have also contributed to making CSR a central element of today's and tomorrow's business leaders' education.

In this introductory chapter to the *ICCA Handbook* I will try to provide some clarity in the understanding of the concept and a few yardsticks for navigating through the contemporary debate on CSR with all its fancy jargon and daily growing inventions of buzzwords.[1] In doing so, I will also try to provide some idea about the reasons why companies have taken up the challenge of CSR. I will start with a basic definition of CSR based on what could be

[1] In doing so I will closely follow the more in-depth analysis of my textbook, co-authored with Professor Andrew Crane (Crane and Matten, 2004).

considered the most longstanding and broadly accepted definition of CSR from an academic perspective. Subsequently, I will sketch out key arguments for CSR, each approaching the topic from a different perspective. Finally, I will provide an assessment of how the debate is likely to unfold in the future.

WHAT IS CSR? THE TEXTBOOK ANSWER

There has been some debate as to whether CSR is such a novel phenomenon at all. If one talked to someone like Sir Adrian Cadbury, one of the leading voices in the contemporary CSR debate on responsible corporate governance in the UK and beyond, he might easily argue that his great-grandfathers in the nineteenth century were already seasoned practitioners of CSR – albeit without labelling their considerable philanthropic engagement for their workforces in and local communities around the Cadbury's chocolate factories in Bournville near Birmingham in this way. Similar cases could be made by the Thyssens and Krupps in Germany or the Rockefellers, Dukes and Carnegies in the USA – all of whom spent considerable sums of money on promoting the general well-being of their society in the nineteenth and early twentieth centuries, be it in social projects, education or the arts (Cannon, 1994).

It was, however, in the United States in the early 1950s that the role of the corporation in society became subject to a more systematic debate and many consider Howard R. Bowen's book *Social Responsibilities of the Businessman* (1953) to be the landmark contribution in the still ongoing debate on CSR (Carroll, 1999). Arguably, from this starting point, the US in particular led the debate on the role and responsibilities of companies in society and by the 1970s a growing consensus on the understanding of CSR had emerged. The most longstanding and authoritative voice in this debate is management professor Archie Carroll, based

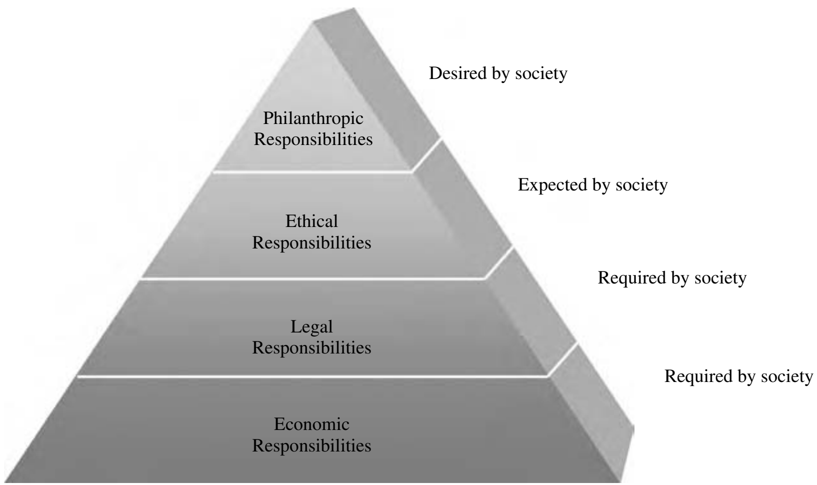


Figure 1.1 Carroll's (1991) Four-Part Model of Corporate Social Responsibility

at the University of Georgia, who suggested probably the most established and accepted model of CSR. It is the 'Four-Part Model of Corporate Social Responsibility' (Carroll, 1979), subsequently refined in later publications (Carroll, 1991; Carroll and Buchholtz, 2002). This model is depicted in Figure 1.1.

Carroll regards CSR as a multi-layered concept, which can be differentiated into four interrelated aspects – economic, legal, ethical and philanthropic responsibilities. He presents these different responsibilities as consecutive layers within a pyramid, such that 'true' social responsibility requires the meeting of all four levels consecutively. Hence, Carroll and Buchholtz (2000: 35) offer the following *definition*: 'Corporate social responsibility encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time.'

- **Economic responsibility**. Companies have shareholders who demand a reasonable return on their investments, they have employees who want safe and fairly paid jobs, they have

customers who demand good quality products at a fair price etc. This is by definition the reason why businesses are set up in society and thus a company's first responsibility is to be a properly functioning economic unit and to stay in business. This first layer of CSR is the basis for all the subsequent responsibilities, which rest on this (ideally) solid basis. According to Carroll (1991), the satisfaction of economic responsibilities is thus required of all corporations.

- **Legal responsibility**. The legal responsibility of corporations demands that businesses abide by the law and 'play by the rules of the game'. Laws are understood as the codification of society's moral views, and therefore abiding by these standards is a necessary prerequisite for any further reasoning about social responsibilities. In some sense, one might consider legal responsibility as a truism, which corporations have to fulfil just to keep their licence to operate. However, one only needs to open the business pages nowadays to see that the ongoing coverage of corporate scams, scandals and lawsuits reveals that abiding by the law, not bending the rules and not cutting corners, can hardly be taken for granted in today's business world. As with economic responsibilities, Carroll (1991) suggests that the satisfaction of legal responsibilities is required of all corporations seeking to be socially responsible.
- **Ethical responsibility**. These responsibilities oblige corporations to do what is right, just and fair even when they are not compelled to do so by the legal framework. For example, when Shell sought to dispose of the Brent Spar oil platform at sea in 1995, it had the full agreement of the law and the British government, yet still fell victim to a vigorous campaign against the action by Greenpeace as well as a consumer boycott. As a result, the *legal* decision to dispose of the platform at sea was eventually reversed, since the firm had failed to take account of society's (or at least the protestors') wider *ethical* expectations. Carroll (1991) argues that ethical responsibilities

therefore consist of what is generally *expected* by society, over and above economic and legal expectations.

- **Philanthropic responsibility**. Lastly, at the tip of the pyramid, the fourth level of CSR looks at the philanthropic responsibilities of corporations. The Greek work 'philanthropy' means literally 'the love of the fellow human' and by using this idea in a business context, the model includes all those issues that are within the corporation's discretion to improve the quality of life of employees, local communities and ultimately society in general. This aspect of CSR addresses a great variety of issues, including matters such as charitable donations, the building of recreation facilities for employees and their families, support for local schools, or sponsoring of art and sports events. According to Carroll (1991), philanthropic responsibilities are therefore merely *desired* of corporations without being expected or required, making them 'less important than the other three categories'.

The *advantage* of the four-part model of CSR is that it structures the various social responsibilities into different dimensions, yet does not seek to explain social responsibility without acknowledging the very real demands placed on the firm to be profitable and legal. In this sense, it is fairly pragmatic.

However, its main *limitation* is that it does not adequately address the problem of what should happen when two or more responsibilities are in conflict. For example, the threat of plant closures often raises the problem of balancing economic responsibilities (of remaining efficient and profitable) with ethical responsibilities to provide secure jobs to employees. A second problem with the model, and indeed with much of the CSR literature, is that it is strongly biased towards the US context. And in fact the more interesting contributions to recent debates have emerged elsewhere, such as in Europe (Matten and Moon, 2004a), Africa (Visser, Middleton and McIntosh, 2005) and Asia (Birch and Moon, 2004).

As mentioned earlier, alongside the initial debate on CSR, which originated in the US, the increasingly global spread of the idea has resulted in a number of reasons and concepts for companies to become involved in CSR. In the following four sections of this chapter I will map out four main avenues in which CSR ideas have been talked about over the last couple of years.[2]

ECONOMIC DRIVERS OF CSR: THE BUSINESS CASE

A first, and arguably the most widely embraced, reason for companies to engage in CSR is based on the insight that in many cases it simply makes good business sense to behave in a fashion that is perceived as responsible by society. This is based on a number of distinct, but related arguments, many of which tend to be couched in terms of enlightened self-interest, i.e. the corporation takes on social responsibilities insofar as doing so promotes its own self-interest. For example:

- Corporations perceived as being socially responsible might be rewarded with extra and/or more satisfied customers, while perceived irresponsibility may result in boycotts or other undesirable consumer actions.
- Similarly, employees might be attracted to work for, and even be more committed to, corporations perceived as being socially responsible.
- Voluntarily committing to social actions and programmes may forestall legislation and ensure greater corporate independence from government.

[2] In using those four main directions, I refer to a categorisation recently developed by business ethicist Domènec Melé, based at the University of Navarra (Garriga and Melé, 2004), which I draw on substantially in the following sections of this chapter.

- Making a positive contribution to society might be regarded as a long-term investment in a safer, better-educated and more equitable community, which subsequently benefits the corporation by creating an improved and stable context in which to do business.

Interestingly, this group of arguments was raised initially by one of the harshest critics of CSR. In 1970, just after the first big wave of the CSR movement in the US, Nobel-prize-winning economist Milton Friedman published an article that has since become a classic among all those who question the alleged social role of corporations. Under the provocative title 'The social responsibility of business is to increase its profits' (Friedman, 1970) he vigorously protested against the notion of social responsibilities for corporations. He based his argument on three main premises:

- Only human beings have a moral responsibility for their actions. His first substantial point was that corporations are not human beings and therefore cannot assume true moral responsibility for their actions. Since corporations are set up by individual human beings, it is those human beings who are then individually responsible for the actions of the corporation.
- It is managers' responsibility to act solely in the interests of shareholders. His second point was that as long as a corporation abides by the legal framework society has set up for business, the only responsibility of the managers of the corporation is to make a profit, because it is for this task that the firm has been set up and the managers have been employed. Acting for any other purpose constitutes a betrayal of their special responsibility to shareholders and thus essentially represents 'theft' from shareholders' pockets.
- Social issues and problems are the proper province of the state rather than corporate managers. Friedman's third main point was that managers should not, and cannot, decide what is in society's best interests. This is the job of government. Corporate managers are neither trained to set and achieve social goals, nor (unlike politicians) are they democratically elected to do so.

In arguing against CSR, Friedman (1970) in fact does not dispute the validity of such actions, but rather says that they are not CSR at all when carried out for reasons of self-interest, but merely profit-maximisation 'under the cloak of social responsibility'. This may well be true, and to a large extent depends on the *primary motivations* of the decision maker (Bowie, 1991). It is not so much a matter of whether profit subsequently arises from social actions, but whether profit or altruism was the main reason for the action in the first place. However, corporate motives are difficult, sometimes impossible, to determine. Moreover, despite numerous academic studies, a direct relationship between social responsibility and profitability has been almost impossible to unambiguously 'prove' (Griffin and Mahon, 1997; Waddock and Graves, 1997). Even though the overall weight of evidence seems to suggest some kind of positive relationship, there is still the issue of causality. When successful companies are seen to be operating CSR programmes, it is just as reasonable to suggest that CSR does not contribute to success, but rather that financial success frees the company to indulge in the 'luxury' of CSR.

Looking at CSR then as a business case would chiefly embrace the first level of responsibility of Carroll's pyramid (Figure 1.1): simply because CSR enhances profitability, corporations should take the interests, concerns and demands of wider society around them into account and address these in a way that results in a (long-term) profitable business environment. In the following I will have a look at two key areas in which this CSR approach has been rather influential.

CSR as increasing shareholder value

Even the most vehement opponents of CSR admit that certain voluntary initiatives to meet the interests of groups beyond the immediate owners of the firm can have a long-term positive impact for owners themselves – even though they would then consider 'CSR' to be a misnomer. In particular agency theorists, such as

Harvard's Michael Jensen (2002), generally not the usual suspects in the CSR world, have recently made the case for CSR as 'enlightened value maximisation'. The criteria for CSR activities for the corporation then should be in how far the money spent on wider society's interest has a long-term positive effect on the maximisation of shareholder value.

For many companies, the stock market provides a further incentive to engage in CSR. With the general public apparently becoming increasingly concerned about CSR, a large and rapidly growing body of shareholders that specifically factors ethical concerns into investment decisions has emerged (Rivoli, 1995; Taylor, 2001). Ethical investment is thus the use of ethical, social and environmental criteria in the selection and management of investment portfolios, generally consisting of company shares (Cowton, 1994). For a growing number of companies CSR is not so much an agenda pushed by their community affairs or human resources department, but rather an imperative raised by their CFO who finds compliance with investors' CSR-related criteria to be a key to lucrative procurement of capital.

The criteria for choosing an investment can either be negative or positive. Investors can either exclude certain companies with undesired features (negative screening) or adopt companies with certain desired features (positive screening). Besides investment brokers and portfolio management companies, the key actors in ethical investment are funds that offer investment opportunities in company shares complying with certain defined ethical criteria.

Increasingly, analysts and investment firms question companies on their ethical policies, as the existence of ethical funds has proven to be not just simply a new niche in the market, but has drawn attention to a previously ignored issue. As Rob Hardy, an asset manager from the investment banker JP Morgan Fleming in London puts it: 'We monitor the environmental and social profiles of the companies we invest in and adopt an engagement approach with the worst performers. I like to think we're waking companies up to

these issues' (Cowe, 2002). Ultimately, ethical investment obviously has an ongoing disciplinary effect on a wide range of companies, mainly because socially irresponsible behaviour makes them less attractive for a growing number of investors. This movement is further enhanced by the development of stock-market indexes, such as the US-based Dow Jones Sustainability Index or the UK-based FTSE4Good Index, which provide a performance ranking of a portfolio of companies listed in the index according to the fulfilment of certain CSR-related criteria.

CSR as competitive advantage

A growing number of voices link CSR activities directly to the competitive advantage of companies. For instance, strategy guru Michael Porter has applied his well-established model of competitive advantage to CSR (Porter and Kramer, 2002). He argues that in certain situations, CSR – in particular philanthropic investment into societal causes – will create a long-term competitive advantage not only for the individual company but also for the entire cluster in which the company operates. A classic example would be a software company that provides its software to schools or libraries for free. This will not only give students and local communities access to a scarce resource but in the long term will enhance computer literacy in society with long-term beneficial effects for the future market opportunities of the company itself, as well as for its competitors and other players in the industrial cluster. Furthermore, Porter and Kramer would argue that companies can do certain jobs better than governments, because they have the skills for specialised tasks, meaning that strategic philanthropy by companies would also contribute to making society competitive in a far more effective manner than government money could.

A similar win–win approach has gained unprecedented currency with the 'bottom of the pyramid' (BOP) concept developed by

C.K. Prahalad and others (Prahalad and Hammond, 2002; Hart, 2005; Prahalad, 2005). At the core of this approach is the simple insight that most Western multinationals, particular those producing mass consumer products such as food, detergents, cars, mobile phones etc., serve merely the upper 5 to 10 % of consumers in emerging or developing markets such as China, India, Brazil or Nigeria. A huge market of potentially up to four billion consumers has, however, remained untapped just because, these authors argue, Western corporations simply transfer their longstanding business models to countries in which consumer behaviour follows completely different patterns. Rather than, for instance, selling a 20-kilogram box of detergent to a consumer, a company should switch to selling its detergent in little sachets geared to income levels and consumption patterns, allowing consumers to buy just the amount of detergent they need for the day. One could cite a long list of successful examples from other industries, such as banking, communication technology, consumer electronics or transportation – to name but a few.

From a CSR perspective, the proponents of the BOP approach argue that a business model attuned to the needs and contingencies of emerging markets does not only provide these formerly disenfranchised people access to much coveted products taken for granted in the developed West, but also allows these people a much greater stake in the process of actual wealth creation. The latter is because much of the BOP thinking is predicated on the assumption that successful business models would also necessarily call for significantly larger parts of the value chain to be located within these markets. At the same time, by adopting the BOP approach these companies would also pursue their business interest, as this model would provide access to a larger global market.

It should be mentioned, however, that the BOP model has led to considerable controversy. While the CSR-related arguments of its proponents seem tantalising, critics have argued that BOP is in fact producing exactly the opposite of its intended effects: it

will make these countries even more dependent on the West, will reproduce rather problematic Western consumption and production patterns in the developing world and will ultimately infringe the economic independence and success of these countries, as Western multinationals will easily be able to force local competitors out of the market.

MANAGERIAL DRIVERS OF CSR: BALANCING STAKEHOLDER INTERESTS

A second group of reasons for companies to engage in CSR is related to their day-to-day business challenge of balancing the diverse interests of stakeholders. CSR in this perspective offers strategies and tools to address the issues and demands faced by the company in its relations with a variety of groups in society. Though implicitly linked to the business-case arguments discussed above, many business leaders tend to talk about CSR in a far more pragmatic fashion: rather than musing about the ideological status of CSR as profit maximisation, they see CSR as a way of tackling the day-to-day issues of maintaining the company's licence to operate. Typical questions here would be, for instance, the use of new technologies, undesired side effects of products, outsourcing of jobs or the environmental and social impacts of business on local communities. CSR provides companies with solutions in situations where they have to address all these different interests and work towards solutions acceptable to all parties involved.

Closely related to this pragmatic challenge is stakeholder theory, one of the main buzzwords of CSR and indeed the most popular theoretical concept in business–society relations. Furthermore, this perspective has also kindled considerable interest in the question of how one can actually manage the company's success, its 'corporate social performance' with regard to these day-to-day challenges. In the following, I will briefly examine each concept in turn.

Stakeholder theory of the firm

The stakeholder theory of the firm is probably the most popular and influential theory to emerge in the CSR area (Stark, 1994). While the term 'stakeholder' was first recorded in the 1960s, the theoretical approach was in the main developed and presented by Edward Freeman (1984) in the 1980s. The stakeholder approach begins by looking at various groups to which the corporation has a responsibility. The main starting point is the claim that corporations are not simply managed in the interests of their shareholders alone but that instead a whole range of groups, or *stakeholders*, have a legitimate interest in the corporation as well.

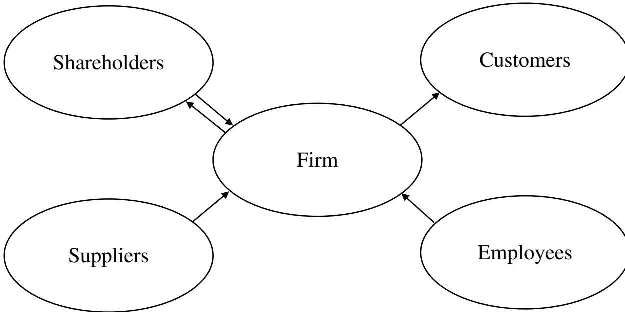
Although there are numerous different definitions as to who or what constitutes a stakeholder, Freeman's (1984: 46) original definition is perhaps the most widely used: 'A stakeholder in an organisation is . . . any group or individual who can affect, or is affected by, the achievement of the organisation's objectives.'

But what is meant here by 'affects' and 'affected by'? To provide a more precise definition, Evan and Freeman (Evan and Freeman, 1993) suggest we can apply two simple principles. The first is the principle of corporate rights, which demands that the corporation has the obligation not to violate the rights of others. The second, the principle of corporate effect, says that companies are responsible for the effects of their actions on others. In the light of these two basic principles a stakeholder can be defined in the following slightly more precise way: 'A stakeholder of a corporation is an individual or a group which either is harmed by, or benefits from, the corporation; *or* whose rights can be violated, or must be respected, by the corporation.'

This definition makes clear that the range of stakeholders differs from company to company, and even for the same company in different situations, tasks or projects.

Using this definition, then, it is not possible to identify a definitive group of relevant stakeholders for any given corporation

(a) Traditional managerial model of the firm



(b) Stakeholder model

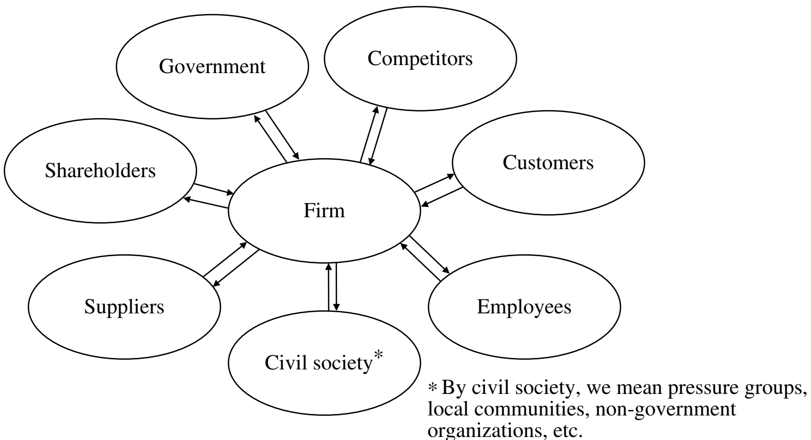


Figure 1.2 Stakeholder theory of the firm (adapted from Crane and Matten, 2004: 51)

in any given situation. However, a typical representation is given in Figure 1.2.

Figure 1.2(a) shows the traditional model of managerial capitalism, where the company is seen as only related to four groups. Suppliers, employees and shareholders provide the basic resources for the corporation, which then uses these to provide products for consumers. The shareholders are the 'owners' of the firm and are consequently the dominant group, in whose interest the firm should

be run. In Figure 1.2(b) we find the stakeholder view of the firm, where the shareholders are one group among several others. The company has obligations not only to one group but also to a whole variety of other constituencies that are affected by its activities. The corporation is thus situated at the centre of a series of interdependent two-way relationships.

Returning to the discussion earlier in this chapter regarding Milton Friedman's arguments against social responsibility, his second main objection was that businesses should only be run in the interests of their owners. This correlates with the traditional managerial model of the corporation, where managers' only obligation is to shareholders. Indeed, in legal terms, we have already seen that in most developed nations managers have a special *fiduciary relationship* with shareholders to act in their interests. Stakeholder theory therefore has to provide a compelling reason why other groups also have a legitimate claim on the corporation.

Freeman (1984) himself gives two main arguments. First, on a merely descriptive level, if one examines the relationship between the firm and the various groups to which it is related by all sorts of contracts, it is simply not true to say that shareholders constitute the only group with a legitimate interest in the corporation. From a *legal perspective* there are many more groups other than shareholders that appear to hold a legitimate 'stake' in the corporation since their interests are already protected in some way. There are not only legally binding contracts with suppliers, employees or customers but also an increasingly dense network of laws and regulations enforced by society; these signify that it is simply a matter of fact that a large spectrum of different stakeholders has certain rights and claims on the corporation. For example, in many countries legislation protects certain employee rights in relation to working conditions and pay, suggesting that, from a CSR point of view, it has already been agreed that corporations have certain obligations toward employees. Of course, among this broader set of obligations and rights, there are also obligations toward investors, but from a legal perspective

this does not remove the obligations the corporation also has to other stakeholders.

A second group of arguments comes from an *economic perspective*. First and foremost we find the problem of *externalities*: if a firm closes a plant in a small community and lays off the workers, it is not only the relation with the employees that is directly affected – shop owners will lose business, tax payments to fund schools and other public services will also suffer – but since the company has no *contractual* relation to these groups, the traditional model suggests that these obligations do not exist. Another even more important aspect is the *agency problem*: one of the key arguments for the traditional model lies in the fact that shareholders are seen as the owners of the corporation, and consequently the corporation's dominant obligation is to them. This view, however, only reflects the reality of shareholder's interests in a very limited number of cases. The majority of shareholders invest in shares not predominantly to 'own' a company (or parts of it), nor is their aim necessarily that the firm will maximise its long-term profitability. In the first place, shareholders often buy shares for speculative reasons, and are primarily interested in the development of the share price rather than in an 'ownership' stake in a physical corporation. Hence, it is not evident why the highly speculative and mostly short-term interests of shareowners should take precedence over the often long-term interests of other groups such as customers, employees or suppliers (for further details see the landmark contribution by Goshal, 2004).

According to Freeman, this broader view of responsibility towards multiple stakeholders assigns a new role to management. Rather than being simply agents of shareholders, management must take the rights and interests of all legitimate stakeholders into account. While they still have a fiduciary responsibility to look after shareholders' interests, managers must balance this with the competing interests of other stakeholders for the long-term survival of the corporation, rather than maximising the interests of just one group at a time. Furthermore though, since the company is obliged

to respect the rights of *all* stakeholders, this automatically implies that, to a certain extent, stakeholders should be able to participate in those managerial decisions that substantially affect their welfare and their rights. In a more developed form, Freeman has argued in favour of a *stakeholder democracy* where every corporation has a stakeholder board of directors, giving stakeholders the opportunity to influence and control corporate decisions. This also includes the idea of a model or a legally binding code of *corporate governance*, which codifies and regulates the various rights of stakeholder groups. Though under different labels, this appears to be more prevalent in Europe where, for instance, employee influence in corporate governance is far more developed than it is in the US, where stakeholder theory originated.

Corporate social performance

In this section I look at companies that view CSR pragmatically as a new area of management, which helps them to tackle new business challenges. From this perspective, it is only too natural to ask – if we are able to measure, rate and classify companies on their *economic* performance – why should it not be possible to do the same for a company's *societal* performances as well? The answer to this question has been given by the idea of *corporate social performance* (CSP) and again, the debate about adequate constructs has been long and varied in output. Donna Wood (1991) has presented a model many regard as the state-of-the-art concept and that has been extensively cited in the CSR literature. In terms of her model, corporate social performance can be observed as the *principles* of CSR, the *processes* of social responsiveness and the *outcomes* of corporate behaviour. These *outcomes* are delineated in three concrete areas:

- Social policies – explicit and pronounced corporate social policies stating the company's values, beliefs and goals with regard to

its social environment. For example, most major firms now explicitly include social objectives in their mission statements and other corporate policies. Some corporations even have rather explicit goals and targets in relation to social issues, such as Royal Dutch/Shell's commitment to reduce greenhouse gas emissions by 10% below 1990 levels by 2002.

- Social programmes – specific social programmes of activities, measures and instruments implemented to achieve social policies. For example, many firms have implemented programmes to manage their environmental impacts based on environmental management systems, such as ISO 14000/1 and EMAS, which include measures and instruments that facilitate auditing of environmental performance.
- Social impacts – social impacts can be traced by looking at concrete changes the corporation has achieved through the programmes implemented in any period. Obviously this is frequently the most difficult to achieve, since much data on social impacts is 'soft' (i.e. difficult to collect and quantify objectively), and the specific impact of the corporation cannot be easily isolated from other factors. Nevertheless, some impacts can be estimated reasonably well. For example: policies aimed at benefiting local schools can examine literacy rates and examination grades; environmental policies can be evaluated with pollution data; employee welfare policies can be assessed with employee satisfaction questionnaires; and equal opportunity programmes can be evaluated by monitoring the composition of the workforce and benchmarking against comparable organisations.

Clearly then, while the outcome of CSR in the form of CSP is an important consideration, the actual measurement of social performance remains a complex task. Many of the chapters authored by practitioners in this volume provide further details on how companies address the implementation of CSP in practice. One would expect that the more companies invest considerable resources

into their stakeholder relations and attempt to have a positive impact in society, the stronger their interest in actually having some yardstick to assess their effectiveness and their efficiency in this area.

ETHICAL DRIVERS OF CSR: 'DOING THE RIGHT THING'

A third motivation to engage in CSR, and in a sense the converse of the aforementioned reason, is that companies look for ways of doing business that are consistent with society's fundamental moral values. CSR here serves as a way to solve ethical dilemmas both within the company, such as discrimination or bribery, and in the company's business environment, such as human rights issues in suppliers' factories or the impact of the company's activities on global climate change. In some cases, these ethical issues are raised by society as a whole; in other instances it may be an individual manager or employee who raises these ethical concerns.

Below I will analyse two areas driven primarily by this particular motivation. The first is the concept of business ethics, arguably one of the most longstanding areas of practical concern and academic inquiry in the CSR area. The concept of sustainability is the second CSR topic inspired largely by ethical assumptions that has been rather powerful in particular in the business world.

Business ethics

In many ways, business ethics is the most longstanding pillar of CSR and in many business schools CSR would be taught as part of a business ethics course (Matten and Moon, 2004b). Business ethics can be defined as the study of business situations, activities and decisions addressing issues of right and wrong. Normally, one would argue that the legal framework of a society deals with these issues by

forbidding and sanctioning behaviour considered as morally wrong by the majority of society. The key reason then why companies engage in business ethics is that laws only cover a limited number of the situations in which firms are confronted with questions about right and wrong. For example, in many countries legislation does not prevent businesses from testing their products on animals, selling landmines to oppressive regimes, or forbidding their employees to join a union – issues which many business people might feel very strongly about in one way or the other.

Traditionally, business ethics – in particular in its American tradition – has chiefly focused on situations within the company and on ethical dilemmas individual managers might face. The typical approach would be to use certain ethical theories from philosophy and apply those principles to a particular business situation. For example, in the preceding section I discussed the *stakeholder concept* of the firm. Evan and Freeman (1993) argue that the ethical basis of this concept has been derived in essence from Immanuel Kant's ethics of duty. Drawing on Kant's 'categorical imperative', companies should treat employees, local communities, or suppliers not only as a means, but also as an end in themselves, e.g. as constituencies with rights, goals and priorities of their own. Evan and Freeman therefore suggest that firms have a fundamental *duty* to allow these stakeholders some degree of influence on the corporation. By doing this, they would be enabled to act as free and autonomous human beings rather than being merely factors of production (employees), or sources of income (consumers), etc.

Recently, in particular in the context of multinational corporations in developing countries, the issues of business and human rights has gained increasing momentum (Sullivan, 2003). Typical issues have been labour standards, the rights of indigenous populations, corruption and bribery or the relation of companies to oppressive regimes. Among the key CSR tools deriving particularly from the business ethics debate are corporate codes of ethics or codes of conduct.

As recent research has shown, virtually all multinational corporations in Europe and North America use some form of code (Bondy, Matten and Moon, 2004). Codes of ethics are voluntary statements that commit organisations, industries or professions to specific beliefs, values and actions and/or that set out appropriate ethical behaviour for employees. There are four main types of ethical codes:

- Organisational or corporate codes of ethics. These are specific to a single organisation. Sometimes they are called codes of conduct or codes of business principles, but basically these codes seek to identify and encourage ethical behaviour at the level of the individual organisation.
- Professional codes of ethics. Professional groups also often have their own guidelines for appropriate conduct for their members. While most traditional professions, such as medicine, law and accountancy, have longstanding codes of conduct, it is now also increasingly common for other professions, such as marketing, purchasing or engineering, to have their own codes of ethics.
- Industry codes of ethics. As well as specific professions, particular industries also sometimes have their own codes of ethics. For example, in many countries, the financial services industry has a code of conduct for companies and/or employees operating in the industry. Similarly, at the international level the World Federation for the Sporting Goods Industry (WFSGI) developed a code of conduct for its members in 1997 'to ensure that member companies satisfy the highest ethical standards in the global marketplace' (van Tulder and Kolk, 2001).
- Programme or group codes of ethics. Finally, certain programmes, coalitions or other subgrouping of organisations also establish codes of ethics for those participating in the specific programmes. For example, a collaboration of various business leaders from Europe, the US and Japan resulted in the development of a global code of ethics for business, called

the CAUX Roundtable Principles for Business. Sometimes, conforming to a particular programme code is a prerequisite for using a particular label or mark of accreditation. For instance, companies wishing to market their products as 'fairly traded' will have to abide by the code established by the relevant fair trade body, such as the Fairtrade Foundation in the UK, or Max Havelaar in the Netherlands.

Sustainability as a new normative agenda in CSR

Following the Rio Earth Summit of 1992, one concept in particular appears to have been widely promoted (though not unilaterally accepted) as the essential new conceptual frame for assessing not only CSR activities specifically, but also industrial and social development more generally. That concept is *sustainability*. Sustainability has become an increasingly common term in the rhetoric surrounding CSR, and has been widely used by corporations, governments, consultants, pressure groups and academics alike.

Despite this widespread use, sustainability is a term that has been utilised and interpreted in substantially different ways (Dobson, 1996). Probably the most common usage of sustainability, however, is in relation to *sustainable development*, which is typically defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (World Commission on Environment and Development, 1987). The concept clearly rests on a fundamental ethical assumption, whereby it is considered to be morally wrong to use resources in a manner that threatens the existence of future generations.

This, however, is only the core idea of an elusive and widely contested concept – and one which has also been subject to a vast array of different conceptualisations and definitions (Gladwin,

Kennelly and Krause, 1995). At a very basic level, sustainability appears to be primarily about system maintenance, as in ensuring that our actions do not impact upon the system – for example the earth or the biosphere – in such a way that its long-term viability is threatened. By focusing sustainable development on the potential for future generations to satisfy their needs, sustainability concentrates on considerations of *intergenerational equity*, i.e. equality between one generation and another. In this, the concept rests substantially on fundamental moral values concerning fairness and justice between and within generations of the earth population.

With its roots in environmental management and analysis, sustainability as a concept was for a long time largely synonymous with environmental sustainability. More recently though, the concept of sustainability has been broadened to include not only environmental considerations, but also economic and social considerations (Elkington, 1998). This is shown in Figure 1.3.

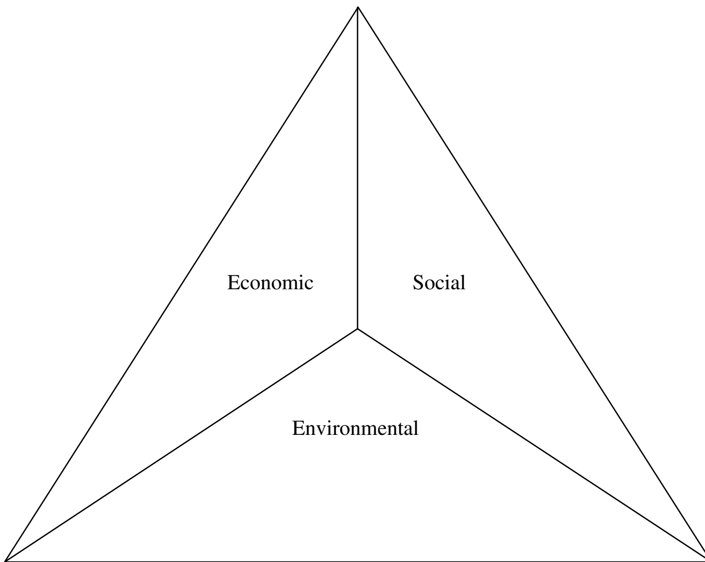


Figure 1.3 The three components of sustainability (adapted from Crane and Matten, 2004: 22)

This extension of the sustainability concept arose primarily because it is not only impractical, but even sometimes impossible, to address the sustainability of the natural environment without also considering the social and economic aspects of relevant communities and their activities. For example, while environmentalists have opposed road-building programmes on account of the detrimental impact of such schemes on the environment, others have pointed to the benefits for local communities, namely less congestion in their towns and extra jobs for their citizens. As I see it then, sustainability can be regarded as comprising three components – environmental, economic and social. This suggests the following definition: 'Sustainability refers to the long-term maintenance of systems according to environmental, economic and social considerations.'

While I regard this definition as sufficient for determining the essential content of the sustainability concept, it is evident that sustainability as a phenomenon also represents a specific goal to be achieved. The framing of sustainability as a goal for business is encapsulated most completely in the notion of a 'triple bottom line'.

The triple bottom line (TBL) is a term coined by John Elkington, the director of the SustainAbility strategy consultancy, who also vigorously advocates this idea and has written a number of influential books on corporate environmentalism. His view of the TBL is that it represents the notion that business does not have just one single goal – namely adding economic value – but that it has an extended goal set, which necessitates adding environmental and social value too (Elkington, 1998). In order to develop a clearer picture of just what the three components of sustainability actually represent in terms of a core idea in CSR, I shall examine each in turn.

- Environmental perspectives. As I mentioned briefly above, the concept of sustainability is generally regarded as having emerged from the environmental perspective, most notably

in forestry management (Hediger, 1999). The basic principles of sustainability in the environmental perspective concern the effective management of physical resources so that they are conserved for the future. All biosystems are regarded as having finite resources and finite capacity, and hence sustainable human activity must operate at a level that does not threaten the health of those systems. Even at the most basic level, these concerns suggest a need to address a number of critical business problems, such as the impacts of industrialisation on biodiversity, the continued use of non-renewable resources such as oil, steel and coal, as well as the production of damaging environmental pollutants like greenhouse gases and CFCs from industrial plants and consumer products. At a more fundamental level though, these concerns also raise the problem of economic growth itself, and the vexed question of whether future generations can really enjoy the same living standards as we do without a reversal of the trend towards ever more production and consumption.

- Economic perspectives. The economic perspective on sustainability initially emerged from economic growth models that assessed the limits imposed by the carrying capacity of the earth (Meadows *et al.*, 1974). The recognition that continued growth in population, industrial activity, resource use and pollution could mean that standards of living would eventually decline led to the emergence of sustainability as a way of thinking about how to ensure that future generations would not be adversely affected by the activities and choices of the present generation.

The implications of such thinking for CSR are situated on various different levels. A *narrow* concept of economic sustainability focuses on the economic performance of the corporation itself: the responsibility of management is to develop, produce and market products that secure the corporation's long-term economic performance. This includes a focus on strategies which, for example, lead to a long-term rise in share

price, revenues and market share rather than on short-term 'explosions' of profits at the expense of the long-term viability of a firm's success. An example of an unsustainable approach in this perspective would be the 'dot.com bubble' at the beginning of this century. A *broader* concept of economic sustainability would include the company's attitude towards and impacts upon the economic framework in which it is embedded. Paying bribes or building cartels, for instance, could be regarded as economically unsustainable, because these activities undermine the long-term functioning of markets. Corporations which attempt to avoid paying corporate taxes through subtle accounting tricks might be said to behave in an unsustainable manner: if they are not willing to fund the political-institutional environment (such as schools, hospitals, the police and the justice system) they erode one of the key institutional bases of their corporate success.

- Social perspectives. The development of the social perspective on sustainability has tended to trail behind the evolution of the environmental and economic perspectives (Scott, Park and Cocklin, 2000) and remains a relatively new phenomenon. The explicit integration of social concerns into the business discourse around sustainability can be seen to have emerged during the 1990s, primarily it would seem in response to concerns regarding the impacts of business activities on indigenous communities in less-developed countries and regions. It would be wrong to assume though that this means that local community claims on business (and other social issues) went entirely unheard by business, or unexamined by CSR scholars until this period.

The key issue in the social perspective on sustainability is *social justice*. Despite the impressive advances in standards of living that many of us have enjoyed, the UN *2001 Report on the World Social Situation* (UN, 2001) identified growing disparities in income and wealth within many countries, including much of Latin America, Eastern Europe and almost two-thirds of OECD countries. Similarly, the report highlighted a constantly growing divide

between richer and poorer countries. The UN also identified general under-provision and widespread deterioration of basic services in many countries, coupled with an inability to keep pace with even basic needs. As one of the main engines of economic development, business is increasingly bound up in such debates. Therefore a more just and equitable world, whether between rich consumers in the West and poor workers in developing countries, between the urban rich and the rural poor, or between men and women, remains the central concern in the social perspective on sustainability.

POLITICAL DRIVERS FOR CSR: BEING A GOOD CORPORATE CITIZEN

A fourth and more recent group of arguments advocates CSR as a way in which corporations can be accepted, responsible and well-integrated members of society. The key backdrop for corporations' thinking about these issues and their decisions to resort to CSR as a solution is the ongoing debate on the economic and political power of (mostly multinational) corporations in the global economy.

The rise in corporate power and influence over the past 20 years or so has been receiving growing attention from business, academics and the general public alike. We have seen various street demonstrations against growing corporate power, as well as targeted attacks on specific corporations, such as McDonald's, Monsanto, Coca-Cola, Nestlé or Shell. Moreover a number of influential books, such as David Korten's *When Corporations Rule the World* (2001), Noreena Hertz's *The Silent Takeover* (2001a) and Naomi Klein's best-selling *No Logo* (2000), have argued that the 'big brand bullies' have increasingly exercised more and more influence and control over society. There has also been a growing interest in these issues in recent films, the most prominent being *The Corporation*, based on Joel Bakan's book (2004). There is, however, considerable

controversy in the literature about this thesis: while this growing body of work sees a problem in the extended power residing in the corporate sector, some mainstream business writers still contend that even large MNCs are rather weak and politically dependent on national governments (e.g. Rugman, 2000).

The crucial point in the critical view is the argument that people's lives across the globe appear increasingly to be controlled and shaped no longer by governments but by corporations. Let us have a look at some examples:

- The liberalisation and deregulation of markets and industries during the rule of centre-right governments throughout the 1980s and the early 1990s (as exemplified by 'Thatcherism' and 'Reaganomics') has given more influence, liberty and choice to private actors. The more the market dominates economic life, the less scope there is for governmental intervention and influence.
- The same period has resulted in sweeping privatisations of major public services and formerly public-owned companies. Private actors now dominate major industries such as the media, telecommunications, transport, and utilities.
- Most industrialised countries have to varying degrees struggled with unemployment. Although governments are made responsible for this, at the same time their scope to influence these figures is increasingly constrained, since corporations take the decisions on employment, relocation or lay-offs.
- Globalisation facilitates relocation and means that companies can engage governments in a 'race to the bottom', i.e. corporations have tended to relocate to 'low-cost' regions where they are faced with only limited regulation (or at least enforcement) of pay and working conditions, environmental protection provisions and corporate taxation.
- Since many of the new risks emergent in industrial society are complex and far-reaching (often beyond the scope of individual countries), they would require very intricate laws, which in

turn would be very difficult to implement and monitor. Hence, corporations have increasingly been set the task of regulating themselves rather than facing direct government regulation. For example, in various legislative projects the European Union has set incentives for companies or industry to come up with self-regulation and self-commitments rather than imposing a law upon them from above. Consequently, companies – or bodies of organised corporate interests – are increasingly assuming the role of political actors in the sphere of social and environmental issues.

The central problem behind these trends, however, is clearly visible: the idea of democracy is to give people control over the basic conditions of their lives and the possibility to choose those policies that they regard as desirable. However, since many pertinent decisions are no longer taken by governments (and hence, indirectly by individual citizens) but by corporations (who are not subject to democratic election), the problem of corporate transparency and accountability to society becomes crucial.

Corporate citizenship as a new label for CSR

The main reaction by corporations with regard to this particular challenge has been to couch CSR strategies in the new terminology of 'corporate citizenship' (CC) or being a 'good corporate citizen'. There are a number of good reasons why this shift in terminology has taken place.

- As van Luijk (2001) has pointed out, industry has never been completely happy with some of the language used in CSR. To start with, the very notion of business *ethics* might be seen as somewhat suspicious, as it implies that 'ethics' is something that is not originally present in business, or even worse, which is

opposed to business; 'ethics' as such for many practitioners already has quite an elitist, even patronising slant to it.

- A similar argument can be made for corporate social *responsibility*: this, from a business point of view, could be seen to suggest a very admonishing and even reproachful connotation, apart from the fact that it was used by many proponents in the sense of reminding business of something *additional* they should do.
- It is also worth noting that most of the existing terms were initially introduced into the debate by academics, making it more difficult to establish legitimacy and a lasting place in the business world.
- 'Citizenship', on the other hand, has a rather different connotation for business. Not only was CC initially coined by practitioners, but it can also be said to highlight the fact that the corporation sees – or recaptures – its rightful place in society, alongside other 'citizens', with whom the corporation forms a community. Citizenship then focuses on the rights and responsibilities of all members of the community, who are mutually interlinked and dependent on each other (Waddell, 2000).

In many ways then CC represents a new label to describe practices encompassed by the label of CSR for more than 30 years. There is a slight emphasis on corporate giving, philanthropy and investments in the local community to enhance 'social capital' and in general companies use the CC terminology to emphasise their membership of a political, social and cultural community. However, on balance most companies and 98 % of the academic literature in essence use CC as a new label for CSR. It is no surprise then that many managers, in particular those who do not have an academic background in management, are often somewhat suspicious about a discipline which easily comes up with new buzzwords and catchphrases, without necessarily providing any new content or meaning. Unfortunately, CSR is no exception here and the new terminology of CC is chiefly a new way to market old ideas.

Corporate citizenship as a political concept

There is, however, a growing debate in the CSR literature concerning a better understanding of the new challenges in relations between society and business from a political perspective and addressing how to make better use of the citizenship concept to solve imminent and new CSR challenges facing corporations (Matten and Crane, 2005; Moon, Crane and Matten, 2005; Crane, Matten and Moon, 2006). The starting point of this debate is the idea that 'citizenship' is a concept that conceptualises roles, responsibilities and tasks for all members of a political community. In simplified terms, those communities consist of those who govern ('the government') and those who are governed ('the citizens'). Corporations are to be found on both sides of this dichotomy, as they increasingly assume roles similar to those of governments, as well as attempting to assume the role of a responsible and 'good' citizen in the community. Below I will briefly discuss both roles in turn.

First, if one considers *corporations as governments* (Matten and Crane, 2005) one could argue that they partly take over certain of the fundamental roles of governments. A key task of a government with regard to its people is to uphold and guarantee their basic rights as citizens. Corporations then may enter the arena of citizenship at the point where traditional governmental actors start to fail to be the only 'counterpart' of citizenship, the only actor to guarantee the governance of citizenship rights. Quite simply, they can be said to partly take over those functions with regard to the protection, facilitation and enabling of citizens' rights – formerly an expectation placed solely on the government. Let us consider some examples:

- Social rights (access to basic commodities such as education, healthcare, welfare, etc.). Many CSR activities, in particular in the developing world, pursue initiatives formerly within the province of the welfare state. Feeding homeless

people, improving working conditions in sweatshops, ensuring employees a living wage, providing schools, medical centres and roads, or even providing financial support for the schooling of child labourers are all activities in which corporations such as Shell, Nike, Levi Strauss and others have engaged under the label of CC.

- Civil rights (guarantee of free markets, private property, freedom of speech, etc.). Governmental failure again becomes particularly visible in developing or transforming countries. Drastic examples, such as the role of Shell in Nigeria and its apparent contribution to restricting the civil rights of the Ogoni people (Boele, Fabig and Wheeler, 2000), show that corporations might play a crucial role in either discouraging (as Shell) or encouraging governments to live up to their responsibility in this arena of citizenship. A positive example for the latter might be General Motors and other, mostly US, corporations in South Africa during the apartheid period, who, after being pressurised by their own stakeholders, eventually exerted some pressure of their own on the South African government to desist from violating the civil rights of black South Africans (De George, 1999).
- Political rights (right to vote, to hold office, etc.). Voter apathy in national elections has been widely identified in many industrialised countries, yet there appears to be a growing willingness on the part of individuals to participate in political action *aimed at corporations rather than at governments* (Hertz, 2001). Whether through single-issue campaigns, anti-corporate protests, consumer boycotts or other forms of sub-political action, individual citizens have increasingly sought to effect political change by leveraging the power, and to some extent vulnerability, of corporations.

The key consequence of this shift in roles is thus that corporations have to live up to certain demands that were originally made solely of governments. Incidentally, this is one of the

key differences between modern CSR and nineteenth-century philanthropy: while the activities of the latter led to some form of welfare state and government guarantees, modern CSR picks up these issues as a consequence of governments gradually retiring from the governance of these rights. I will discuss the implications in greater detail in the concluding section below.

Second, if one considers *corporations as citizens* (Moon, Crane and Matten, 2005) one can draw upon a rich heritage of ideas in political science, which has discussed contemporary and innovative forms of citizenship. These ideas have been informed by the developments discussed at the start of this section and focus on the possibilities for citizens to participate in the governance of societies. Here, corporations could indeed assume a more citizen-like role by taking part in societal governance. Again, let us consider some examples:

- Participation in governance: a key obligation of citizens is to participate in the governance of society and to advance the common good. Corporations enter the picture here in various ways. For instance, many corporations are involved in lobbying political actors, or through industry associations, attempt to influence and shape regulations. Furthermore, many corporations engage in extensive processes of stakeholder engagement and form partnerships with civil society actors on a variety of issues (Bendell, 2000).
- Contributing to social development: there is a growing claim on citizens to initiate social progress and development in civil society by becoming involved in a dense network of links to fellow citizens, rather than simply waiting for the welfare state to intervene. Many CSR programmes of corporations can be understood in exactly this fashion. An example is Hewlett-Packard's conceptualisation of itself as an organisation that 'is helping people overcome barriers to social and economic progress' and is 'learning to compete better in the region [South Asia] and around the world' (Dunn and Yamashita, 2003) as a

result of its engagement in the Kuppam region of India. This is not only described as the company's responsibility to this AIDS-infected area but also in terms of the value that the Kuppam community will contribute to Hewlett-Packard.

- Deliberation: citizens have the obligation to participate in society by directly engaging in processes from which a collective will can emerge. This aspect of citizenship particularly stresses the need for governance not to be merely exerted top-down by governments but instead to be embedded in extensive debate and deliberation in society if a democratic society is to flourish. Again, a considerable amount of CSR activities discussed in this book show that corporations have become quite active in this arena as well.

The citizenship perspective, however, raises some severe conditions for corporations wanting to be like citizens. One of the key conditions would be that corporations, in participating in society, do not just represent their own interests but to some degree also respect and advocate the general welfare of society. Among the key conditions, however, would be the need to be transparent and accountable to fellow citizens, which I will discuss in the next section.

Accountability and transparency as prerequisites for corporate citizenship

One central point in the CSR debate more recently is the question as to *who controls corporations* and *to whom are corporations accountable*. There are those like Friedman, as discussed above, who see it as a given that corporations are only accountable to their shareholders, and furthermore, are accountable to obey and comply with the laws of the countries in which they do business. However, there are also good arguments to support the view that since 'corporate

citizens' now shape and influence so much of public and private life in modern societies, they in effect are political actors, and thus have to become more accountable to society.

One argument, offered by Hertz (2001b) and others, is that, given the power of big corporations, there is more democratic power in an individual's choice as a consumer (for or against certain products) than in voters' choices at the ballot box. As Smith (1990) contends, consumption choices are to some extent 'purchase votes' in the social control of corporations. However, one should also recognise the limitations of the individual's power to affect corporate policy through purchase choices. There is little guarantee that consumers' social choices will be reflected in their consumer choices, nor that such social choices will be even recognised, never mind acted on, by corporations. After all, not only do corporations benefit from a massive power imbalance compared to individual consumers, but consumers are also constrained in executing their voting rights by the choices offered by the market. Perhaps most importantly, consumers are just one of the multiple stakeholders that corporations might be expected to be accountable to.

This has led to further questions regarding how corporations can be made more accountable for their actions to the broad range of relevant stakeholders. One important consequence for corporations seeking to become more accountable is to audit and report on their social, ethical and environmental performance through new accounting procedures, such as environmental accounting and social reporting (e.g. Gray *et al.*, 1997; Zadek, Pruzan and Evans, 1997; Livesey, 2002). Another important stream of literature has looked at broader issues of communication with stakeholders, together with the development of stakeholder dialogue and stakeholder partnerships (Bendell, 2000; Crane and Livesey, 2003). The key issue here is that corporate social activity and performance should be made more visible to those with a stake in the corporation in order to enhance corporate accountability. The term usually applied to this is transparency.

Although *transparency* can relate to any aspect of the corporation, demands for transparency usually relate primarily to *social* as opposed to *commercial* concerns, since traditionally corporations have claimed that much of their data are commercially confidential. However, it is evident that many social issues cannot be easily separated from commercial decisions. For example, Nike long claimed that the identity and location of their suppliers could not be revealed because it was commercially sensitive information that their competitors could exploit. However, concerns over working conditions in these factories led to demands for Nike to make the information public, which to some extent they have eventually agreed to do.

The tenor of current demands for greater corporate accountability and transparency, particularly as exemplified by the protest movement against global capitalism, MNCs and global governing bodies such as the IMF or the World Bank, suggests that these developments might no longer be an option for corporations. Increasingly, corporate accountability and transparency are being presented as necessities, not only from a normative point of view, but also with regard to the practical aspects of doing business effectively and maintaining public legitimacy. These topics then inform much of the contemporary debate in the CSR world.

CONCLUSION: WILL CSR BE MORE THAN AN EPHEMERAL MANAGEMENT FASHION?

In this chapter I have discussed four main arguments in favour of CSR as well as key concepts and ideas linked to these four ways of approaching CSR. Table 1.1 provides an overview of the main points.

Finally, one might want to ask to what extent CSR is just the buzzword of the era, which – like many other management fashions – will be forgotten in a few years. A number of arguments suggest that – while the language might change and 'CSR' might

Table 1.1 Reasons for engaging in CSR and basic approaches

Why CSR?	Motto	Nature of the drivers	Key ideas and concepts
CSR is enhancing the long-term profitability of the company.	'There is a clear-cut business case in CSR!'	Economic	• Shareholder value maximisation • Socially responsible investment • Competitive advantage • Bottom of the pyramid strategies
CSR solves day-to-day management problems.	'CSR enables us to manage our stakeholder relations!'	Managerial	• Stakeholder theory • Corporate social performance
CSR is the morally right thing to do.	'CSR means doing the right thing!'	Ethical	• Business ethics • Sustainability
CSR is a way to be a legitimate and accepted member of society.	'CSR makes us a good corporate citizen!'	Political	• Corporate citizenship • Accountability • Transparency

quickly be given another label by corporate PR specialists – the fundamental business challenge is here to stay. I will confine myself to just one aspect, though admittedly the most important one. All four reasons, in some way or the other, are implicitly predicated on the assumption that companies assume responsibility for social issues – or in Carroll's words – seek to live up to various societal expectations, because, at least for the foreseeable future, they are not likely to face any major competitors in this specific social role. The biggest 'competitor' for many of the issues addressed nowadays by CSR has traditionally been the nation state and its institutions. The key reason, however, why CSR has grown in importance over the last decade in most industrialised democracies lies in the fact that the role of governments, in particular the welfare

state, has been considerably reduced and constrained. This certainly applies to the birthplace of CSR, the US, where traditionally the state has assumed far less responsibility for social issues and where corporations have always been more exposed to social demands (Palazzo, 2002). Analysing the situation in Europe, it is unsurprising that the UK, after the Thatcher era and its impact on the British welfare state in the 1980s, has spearheaded the CSR movement in Europe (Moon, 2004). But even longstanding 'nanny states', such as Germany, Japan or Sweden, are increasingly facing pressures to reduce governmental provision of social services, to privatise more areas of public services and to devolve societal governance towards private actors.

These developments are underpinned by the fact that these governance deficits are even more pronounced in developing and emerging economies, one of the key drivers of CSR as discussed in this chapter. On top of that, an entirely new area is the increasing governance vacuum on the global level, where institutions such as the UN, the EU and others now increasingly involve private, most notably corporate, actors in addressing the most urgent social issues of our time. The UN Global Compact, discussed elsewhere in this book, is only one recent example.

Referring back to the four main reasons for CSR presented in this chapter (see again Table 1.1), from an *economic* perspective it is very likely that the areas where companies can make a profit by pursuing social causes, particularly at the 'bottom of the pyramid', will increase. *Managers* are very likely to discover that they will not be able to call on the state or the law to tackle issues and conflicts with their stakeholders in a growing number of their projects. With governments being reluctant to address issues such as global warming or to take a controversial stance on new technologies such as genetic engineering, companies are very likely to be confronted with a growing number of *ethical* controversies. And with corporations gaining more influence in the *political* process

and ongoing efforts to privatise public services, the calls for more transparency and accountability will certainly not vanish.

Critics of CSR, from Milton Friedman to the recent survey on CSR in *The Economist* (Crook, 2005), normally overlook this completely and still assume that 'the proper guardians of the public interest are governments' (Crook, 2005: 18). It is, however, understandable why they prefer to do so: if the driving forces leading to increasing CSR continue to develop, this could easily generate even greater exposure of corporations particularly to the political aspects of CSR. One might arguably see the CSR debate developing in this direction over the next few years. Growing demands for political control, accountability and transparency might, however, steer the ship of the corporate world into rather uncharted territories, where CSR will be increasingly appreciated as a guideline and framework for action.

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