Chapter 2
Corporate Citizenship: Social Responsibility, Responsiveness, and Performance

LEARNING OUTCOMES

After studying this chapter, you should be able to:

1. Explain how corporate social responsibility (CSR) evolved and encompasses economic, legal, ethical, and philanthropic components.
2. Provide business examples of CSR and corporate citizenship.
3. Differentiate between corporate citizenship, social responsibility, responsiveness, and performance.
4. Elaborate on the concept of corporate social performance (CSP).
5. Explain how corporate citizenship develops in stages in companies.
6. Describe the socially responsible investing movement.

TEACHING SUGGESTIONS

INTRODUCTION – This chapter explores several different aspects of the CSR topic and provides some insights into what CSR means and how businesses are carrying it out. An entire chapter is devoted to CSR concepts because it is a core idea that underlies most of the material in the textbook. This chapter also focuses on the concept of corporate citizenship.

KEY TALKING POINTS – In some ways this may be a difficult chapter to teach, since the instructor will be laying the foundation for future discussions that will more directly involve analyzing and evaluating corporate social performance. The current chapter focuses on the analytical tools we will be using rather than actually using those tools. In some ways this distinction can be likened to a teenager learning how the steering wheel, brake, and accelerator work in a car, rather than actually getting behind the wheel and driving. Of course, everyone would want a new driver to understand what the steering wheel does and which pedal to use when she needs to slow down. But that fact alone does not mean that the new driver doesn't want to skip the lesson on how to use the tools and just go drive. This is compounded by the fact that many students may have heard of or discussed the terms introduced in this chapter in other business courses, specifically corporate social responsibility, but they may not grasp that CSR requires the simultaneous execution of economic, legal, ethical and philanthropic responsibilities. Many students may struggle with the concept that these responsibilities need to be addressed concurrently by firms, since previous exposure to the concept may have focused on the idea that CSR is the culmination of the ethical and/or philanthropic activities of firms rather than the culmination of all four responsibilities. Consequently, students in your class may not be as anxious to delve into the intricacies of corporate citizenship, including corporate social responsibility, corporate social responsiveness and corporate social performance when they could be discussing a juicy corporate scandal. But it is important that students have better tools to help them dissect corporate citizenship than just their gut feelings as they will encounter business colleagues who will argue against and resist implementation of activities that emphasize corporate citizenship.

This chapter also is a good starting point for students to begin to focus on what they, as citizens, want from the business sector. Do they want corporations to simply recognize their various responsibilities to society, do they want them to make improvements, do they demand evidence that corporations are making improvements, or do they have more general concerns about the role business plays in society (corporate citizenship)? As they begin to contemplate the implications of their expectations of business, they also should begin to see why this topic has evolved and how the different models can inform their understanding of business's impact on society.

PEDAGOGICAL DEVICES – In this chapter, instructors may utilize a combination of:

Cases:

- Wal-Mart: The Main Street Merchant of Doom
- The Body Shop: Pursuing Social and Environmental Change
- The Body Shop's Reputation is Tarnished
- The Body Shop International PLC (1998-2010)
- The Benefit Corporation: Making a Difference while Making Money
- Using Ex-Cons to Teach Business Ethics
- Goldman Sachs and Greece
- The Hudson River Cleanup and GE
- The BP Oil Spill and Mental Health
- New Belgium Brewery: Building a Business on Sustainability
- Felony Franks: Home of the Misdemeanor Weiner
- Goodbye, Indiana- Hello, Mexico: The Whirlpool Plant Closing

Ethics in Practice Cases:

- Feeling "Used"
- The Socially Responsible Shoe Company
- Is There a Market for a Sustainable Hamburger?

Spotlight on Sustainability:

- "Myths" about Sustainability

Power Point slides:

Visit http://academic.cengage.com/management/carroll for slides related to this and other chapters.

LECTURE OUTLINE

I. THE CORPORATE SOCIAL RESPONSIBILITY CONCEPT
- A. Historical Perspective on CSR
- B. Modification of the Economic Model
  - 1. CSR's Acceptance and Broadening of Meaning
- C. Evolving Meanings of CSR
- D. A Four-Part Definition of CSR

1. Economic Responsibilities
2. Legal Responsibilities
3. Ethical Responsibilities
4. Philanthropic Responsibilities
5. The Pyramid of Corporate Social Responsibility
    a. Pyramid as a Unified Whole
    b. CSR Definition and Pyramid are Sustainable Stakeholder Models
    c. CSR in Practice

II. ARGUMENTS AGAINST AND FOR CORPORATE SOCIAL RESPONSIBILITY
- A. Arguments Against CSR
- B. Arguments for CSR
- C. The Business Case for CSR

III. CORPORATE SOCIAL RESPONSIVENESS

IV. CORPORATE SOCIAL PERFORMANCE
- A. Carroll's CSP Model

V. CORPORATE CITIZENSHIP
- A. Broad Views
- B. Narrow Views
- C. Drivers of Corporate Citizenship
- D. Benefits of Corporate Citizenship
- E. Stages of Corporate Citizenship
- F. Global Corporate Citizenship

VI. BUSINESS'S INTEREST IN CORPORATE CITIZENSHIP
- A. *Fortune*'s Rankings of "Most Admired" and "Least Admired" Companies
- B. The Conference Board's Ron Brown Award for Corporate Leadership
- C. *CR* Magazine Awards
- D. *U.S. Chamber of Commerce Corporate Citizenship Awards*

VII. SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE RELATIONSHIP
- A. Three Perspectives on the Relationship
- B. A Stakeholder Bottom-Line Perspective

VIII. SOCIALLY RESPONSIBLE OR ETHICAL INVESTING

IX. SUMMARY

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

Students should recognize that their answers to these discussion questions should be well reasoned and supported with evidence. Although some answers will be more correct than others, students should be aware that simplistic answers to complex questions, problems, or issues such as these will never be "good" answers.

1. The Pyramid of Corporate Social Responsibility is a graphic representation of Carroll's four-part definition of CSR. According to Carroll, society has four expectations of a corporation—economic, legal, ethical, and philanthropic. The pyramid shows the economic responsibility at the bottom, because it is the foundation upon which all others rest. Society's first expectation of a corporation is that it will be profitable. This is consistent with classical economic thought, which provides that management must maximize the profits of its owners. Companies that repeatedly do not show a profit will see falling stock prices and eventual bankruptcy and may find it more difficult (if not impossible) to meet their legal, ethical and philanthropic responsibilities. Several companies in both the automotive and airline industries struggled to meet their economic responsibilities and landed in bankruptcy as a result. The second level is legal, because society requires corporations to follow the law, just as they are required to make a profit. Companies can receive stiff penalties for breaking the law. In the last decade, hundreds of publicly-traded companies were investigated by federal regulatory agencies for abusive practices related to stock option grants and were subjected to penalties due to faulty accounting and public disclosures. The third level is the ethical responsibility—society expects ethical behavior of companies. The corporate scandals that shaped the beginning of this century pointed out that society expects honest and fair reporting of financial operations by executives. If this expectation is violated, the executives can face criminal charges, as Martha Stewart and several Enron officials discovered. More recently, executives in financial services firms have found themselves subject to public scrutiny for arguably unethical practices related to aggressive lending practices. On the other hand, companies may find themselves recognized for their ethical activities. Starbucks and the Timberland Company are often recognized for their ethical practices. At the top is the philanthropic responsibility. Society desires this of corporations, but the company has discretion in whether it performs at this level or not. Walmart and AT&T are two firms that are widely praised for their philanthropic endeavors, especially their charitable cash contributions. While the economic responsibility is the base of the pyramid, a CSR or stakeholder perspective would focus on the pyramid as a unified whole. Companies are expected to fulfill their economic, legal, ethical and philanthropic responsibilities simultaneously, meaning that companies need to concurrently (1) make a profit, (2) obey the law, (3) be ethical and (4) be a good corporate citizen. While the simultaneous fulfillment of all four responsibilities can be challenging, the best moral managers will use moral imagination to develop solutions to corporate dilemmas that meet all four responsibilities at the same time.

2. There are few, if any, legitimate arguments against CSR. The closest one could come to making a logical argument is that corporations should not be required to "fill the gaps" in social policy. That is, corporations should not be held responsible for providing funds and services for things that governments should be doing (e.g., school funding or social safety nets). The primary argument for CSR is that corporations are recognized as "persons" and receive as many, if not more, rights and privileges than do actual persons. If corporations are to benefit from such "citizenship," they should be expected to contribute to society, just

like actual persons are. The *Wall Street Journal* recently reexamined this debate in an August 2010 story entitled "The Case Against Corporate Social Responsibility." In this article, Dr. Aneel Karnani, a Professor of Strategy at the University of Michigan's Stephen M. Ross School of Business, argues that "in cases where private profits and public interests are aligned, the idea of corporate social responsibility is irrelevant: Companies that simply do everything they can to boost profits will end up increasing social welfare. In circumstances in which profits and social welfare are in direct opposition, an appeal to corporate social responsibility will almost always be ineffective, because executives are unlikely to act voluntarily in the public interest and against shareholder interests." This article certainly has prompted many in the pro-CSR camp to respond. In a *BusinessEthics.com* article entitled "Opinion: The Case Against the Case Against CSR," Tim Mohin, the director of corporate responsibility at AMD, contends that CSR is a win-win situation for companies and that smart companies take a long view and build brand value and investment with CSR.

3. Carroll's four-part definition of corporate social responsibility is "The social responsibility of business encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time." The concept of corporate social responsibility has been criticized because its focus is on accountability or obligation to meet certain minimum duties. Corporate social responsiveness is a more proactive and action oriented concept, wherein business firms anticipate social expectations and meet them before they are imposed as a new responsibility on the company. A corporation that obeys existing laws is displaying corporate social responsibility. An example of corporate social responsiveness would be a firm providing child care benefits to its working parents, thus responding to the reality of issues faced by working families. Corporate social performance focuses on what firms are actually able to accomplish – specifically, the outcomes or results of their acceptance of corporate social responsibility and implementation of corporate social responsiveness. Corporate social performance includes a recognition of the four corporate responsibilities identified by Carroll and measures the success of the firm's responsiveness to these responsibilities.

4. The Triple Bottom Line provides results of operations in three inter-related fields—economic, social, and environmental. The overriding theme in the Triple Bottom Line is sustainability of the firm's operations, its stakeholders' lives, and the environment. The CSR Pyramid recognizes four levels of responsibility—economic, legal, ethical, and philanthropic. Both models recognize the economic sphere. The Triple Bottom Line's social and environmental concepts could include elements of the legal, ethical, and philanthropic levels of responsibility in the CSR Pyramid.

5. This question is left to the class instructor as time and events will have altered the facts available at the time this is being written. At the time of this writing, the author would suggest that students review the corporate social responsibility reports of Starbucks, Southwest and Ben and Jerry's Ice Cream.

6. On the one hand, socially responsible investing seems to send the message that the investor is concerned about the firm's CSP. However, the fact that returns on ethical investing

approximate market returns seems to downplay this view. If the investor is truly concerned with the firm's CSP, he or she should be willing to accept a lower rate of return on the investment. In addition, the vast majority of investments never reach the firm. Unless the firm is offering a new issue of stock, the proceeds of the sale go to the previous owner of the securities, not to the firm.

GROUP ACTIVITY

Have students establish the parameters for a social screen for investments. Specifically, ask students to identify the criteria for socially responsible investments. Once the class establishes the "social screen" as a group, divide the students into groups of four to five students.

Each group will be given a theoretical account with $500 to invest in firms that meet the criteria established by the entire class. Each group should be given a week to research firms for potential investment. Each group should provide a summary sheet to the instructor allocating the $500 among socially responsible investments that meet the class criteria. Each group should track the return on their investments through the end of the semester and report the value of their portfolio at that time. Opportunity should be given to discuss why certain investments were made. Instructors may want to provide some type of reward for the group with the greatest return on investment. Groups that select companies that do not meet the class social screen should be disqualified.

INDIVIDUAL ASSIGNMENT

Have students read the August 2010 *Wall Street Journal* article entitled "The Case Against Corporate Social Responsibility," by Dr. Aneel Karnani (see http://online.wsj.com/article/SB10001424052748703338004575230112664504890.html). Ask students to independently research academic and business responses to this article. Students should summarize the arguments for and against Corporate Social Responsibility based upon their review of Dr. Karnani's article and their own independent research. Students then should state which argument that they find most persuasive and why.