

Corporate Social Responsibility

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ABSTRACT

During the last 2 decades of the 20th century, the early strong flavor of CSR—the idea that business could and should contribute to a more just and healthy society—began to be ignored as the economic environment shifted to high inflation and interest rates, declining international competitiveness, and growing costs to comply with increasing government regulations. The backlash against CSR reflected the free-market conservative rhetoric of the “Reagan/Thatcher Revolution” of the 1980s. Executives were urged to focus on short-term profitability in order to increase stock prices rather than consider the welfare of all groups affected by their decisions. Downsizing, reengineering, and outsourcing broke the bonds that firms had formerly developed with employees, communities, and suppliers.

Key Words: ethics, citizen, corporate, global, market, responsibility, revolution, social

INTRODUCTION

Ironically or perhaps providentially, it was during this period that business ethics began to emerge in scholarly and popular business literature as a major topic to address the growing mistrust of executives by the public. As government's role in regulating business behavior diminished, what standards would managers apply when making decisions? The concept of the “stakeholder” also became widespread to capture the notion that firms were faced with many issues and interest groups beyond the traditional shareholder, employee, and consumer relationships (Freeman, 1984; Clarkson, 1998).

In the 1990s, corporate and scholarly attention shifted from the concept of CSR to favor the idea of “corporate citizenship.” Funding initiatives, conferences, awards programs, and research by major institutions such as the Conference Board (Alperson, 1995) and the Hitachi Foundation (Logan, Roy, & Regelbrugge, 1997) pointed to interest in corporate citizenship as a vehicle for corporate involvement in communities and social change. Academic research identified corporate citizenship as a new concept by progressive corporations to contribute to society and often as a new term to replace CSR, which had been criticized as difficult to define and measure (e.g., McIntosh, Leipziger, Jones, & Coleman, 1998; Tichy, McGill, & St. Clair, 1997). Corporate executives preferred the term corporate citizenship over CSR.

EMERGING 21ST-CENTURY CHALLENGES

While international trade has existed for centuries, the forces to create a truly global economy challenge the very identity of business organizations and call into question the structures and institutions for social control that fit 20th-century industries and economies. Three of these forces are described here: global competitive pressures ratcheting up the pace of change; the declining capacity for governments to deal with social and environmental needs; and increasing expectations from global stakeholder groups.

Technological “creative destruction” has always threatened mature industries with pressures for cost reduction and innovations to replace products and processes. In the 21st century, the pace of technological change with its drive to create “disruptive technologies” has become so rapid that products often do not have sufficient life cycles in which the producer can recoup research and development (R&D) costs. The search for cost-reduction strategies has pressured companies to use suppliers from faraway parts of the globe or open their own plants there. Outsourcing is becoming part of the initial business plan for new enterprises. The older concept of CSR, which developed in a period of high economic stability and relatively low international competitive pressures, is not adequately developed to deal with rapid turbulence, instability, and cross-cultural differences. In the past, the rules and norms of business behavior in most industries were primarily guided by national cultures, social institutions, and legal parameters. Companies typically had a home country and an organizational identity shaped by the home culture. In a global economy, a particular set of cultural norms are likely to have less influence, and national governments have less leverage because corporations have

many choices about where to do business. Pressures to minimize the costs of doing business include the costs of complying with regulations and social expectations. Thus, even basic legal responsibilities are likely to be minimized as some firms “shop around” for lax rules or enforcement.

A third force relates to increasing stakeholder expectations for ethical and responsible behavior, coupled with greater power to call attention to their needs and claims. Information is more widely available through instant global communication so company policies and practices in one locale can be easily compared to those in other locations.

II. NATURE OF CITIZENSHIP

The concept of citizenship is typically associated with individual persons and their status of membership in a political unit. Citizenship in a democracy involves participation in electing political leaders and protections based upon rights guaranteed by the political and legal constitutions of the polity. Most rights involve freedom from interference and freedom from harm. For example, the U.S. Constitution has a Bill of Rights that specifies rights of the citizens to freedom of speech and freedom of assembly, and the right against self-incrimination, among others.

Citizens also have duties, such as the duty to pay taxes and to serve in the military in many nations. Rules about when rights and duties apply to the citizen are determined by the political jurisdiction. For example, in the United States, the citizen’s right to vote and the duty for male citizens to register for military service occur at age 18. The right to representation at trial is granted to every citizen, regardless of age.

Another facet of citizenship is the formation of individual identity as a citizen of a particular place, which is bound up with the nature and history of the community and nation. Boundaries and rules of membership are highly significant, and the obligation to favor one’s own community over others becomes justifiable and, in heavily socialized cultures, is sometimes even required.

Considerable debate and often concern have focused on the questions of whether businesses can be and should be citizens in the same way that individual persons are. For example, should corporations have the same rights to free speech as individual citizens? Do they have the same duties? How are rules made for corporations that operate in many different political jurisdictions? If corporations have business dealings in many parts of the world, are they citizens everywhere they do business? As a way to begin to address these questions, the concept of GBC provides a framework in which to examine individual and organizational citizen status.

III. GLOBAL BUSINESS CITIZENSHIP (GBC)

Because citizenship is ordinarily a status of persons in a place, we need to examine two shifts in the level of analysis to arrive at GBC. That is, we need to move conceptually

1. from the individual person to the business organization as citizen, and
2. from the local polity to a global setting.

IV. CORPORATE CITIZEN

Despite the concerns raised earlier, it is not a leap of faith to think of business organizations as citizens of local communities or of nations, as in Cell 2. This is the fundamental perspective underlying current ideas about “corporate citizenship.” A corporate citizen is a business organization that is a responsible player in its local environment. Its community activities emphasize voluntarism and charity, not rights and duties, and the organization’s social identity tends to reflect the local culture.

The duties of citizenship need not be spelled out exactly in order to exist. That is, both individual and corporate citizens may be expected to fulfill some citizenship role without having that role specified precisely. The idea is to give back something relevant and significant in support of a long-term viable relationship between government and its citizens. Corporations that want to be “good citizens” have community-outreach initiatives that are intended to improve the quality of life of human citizens that include the workforce, customers, and other stakeholders. The employees may volunteer in community projects, and the firm may make financial contributions to the local schools or nonprofit arts organizations. In these ways, it demonstrates its willingness to give back to the community in which it operates.

V. GLOBAL CITIZEN

By the late 20th century, technological advances in communications and transportation had made it possible for billions of people around the globe to observe the same events contemporaneously, watch the same entertainment, eat the same food, experience the same disasters, and to some extent develop a shared understanding of their common humanity. An

understanding of the commonalities among peoples of different cultures rather than a focus on the differences between them gives one the sense of belonging to a larger human community and provincial thinking fades.

After World War II, the United Nations (UN) Declaration of Human Rights provided a common language of rights that has shaped national and international relations since that time. Having a common language of rights and a concept of universal “citizenship” gives credence and power to nongovernmental mechanisms of social control that can override the politics of national sovereignty. In particular, cross-national market pressures of consumption and investment, along with global media attention and risks to reputation, have come to the fore as viable social control mechanisms in the hands of global stakeholders concerned with human rights violations in sovereign nations.

VI. THREE APPROACHES TO CITIZENSHIP

When a company says it is a “good citizen,” what does that mean? Political theory offers a variety of meanings and types of citizenship, but recent scholarship has focused on three relevant approaches to citizenship: the minimalist theory of civic association, the communitarian model, and the universal principles perspective (Parry, 1991). These are useful in sorting out practical and ideological differences in relationships among persons, organizations, communities, and politics. To illustrate the differences among these three approaches, we use an example of how a business might define and respond to a pollution problem within each of these perspectives.

VII. MINIMALIST CITIZENSHIP: A STATUS OF CONVENIENCE

The minimalist theory of civic association values individual liberty and the pursuit of self-interest above all. The minimalist acknowledges that some restraints are necessary to keep others from infringing on one’s right to liberty, but restraints must be kept to a minimum, thus the name of this approach. To the minimalist, civic associations form when residents of a common jurisdiction recognize and agree to certain rules that regulate their conduct. Social units (like governments) exist because they are essential for individual survival, but social bonds are viewed as weak. Compliance with laws is seen as contributing to the achievement of one’s personal goals, and citizenship is viewed as a status of convenience as long as it serves the individual’s self-interests and liberty.

Civic association is not to be confused with community, which has the special meaning of shared interests and interdependence. The moral relationship among citizens in a civic association requires the right to justice and equal treatment under law. These rights could be put into effect as basic legal rights such as the right to protection from robbers, the right to legal representation, and so on. Rights evolve and are extended to more groups only as the association discovers intolerable problems that are not dealt with effectively under the more constricted system of rights. This essentially libertarian view of citizenship requires equal treatment in terms of “negative rights”—that is, the right of citizens to pursue their own interests without interference. This approach permits citizen participation in rule making but has no penalties for citizens who do not participate.

Minimalism has a direct counterpart in the stockholder view of the firm. Contracts—among persons who freely enter into them with full knowledge—form the assumed structure of business transactions in the minimalist perspective. The firm itself is not a real entity but is merely a “nexus of contracts” among suppliers of various inputs whose rights are negotiated as part of their contracts with the firm. In this view, shareholders provide capital and acquire property ownership. Management’s role is to coordinate the negotiating process among the various input providers, acting as agents for the shareholder-principals. Shareholders are vulnerable because their delegation of power to agent-managers leaves them with high monitoring and control costs and a subsequent higher risk that managers will succumb to temptation and act in their own interest instead of in the interest of the shareholders. Corporation law, in this view, exists largely to protect the shareholders from managerial opportunism, but only as a supplement to market forces, that is, as a correction to the rare market failure (Wood & Logsdon, 2001).

Managers operating with the minimalist perspective seek the lowest cost of production in order to maximize profit. They would prefer not to spend money to control pollution, but rather dump it into the air, water, or land. If other members of the polity sue because the waste is a nuisance or make a convincing case that their rights are being violated, managers will either install the minimum pollution-control equipment or they will relocate. A minimalist person or company has no loyalty or attachment to the civic association. Simply put, in a minimalist world, a business organization is merely a shell within which individual sales, employment, and investment contracts are negotiated and fulfilled.

VIII. COMMUNITARIAN CITIZENSHIP: ONE FOR ALL

Communitarian reasoning embeds citizens in a particular social context, rather than viewing them as essentially autonomous, detached decision makers and actors as the other two models do. One’s personal identity is bound up with the nature and history of one’s community, culture, or country. Boundaries and rules of membership become highly

significant, and the obligation to consider one's own community as more important than other communities becomes justifiable and perhaps even required.

Citizens of the community have a duty to participate in making rules about membership and conduct and in carrying them out in order to preserve the distinctive culture of the community. According to the communitarian view, rights have been overemphasized in some nations, such as in the United States, to the detriment of collective well-being, but the citizens' duties to the community are just as important as rights, if not more. In addition, communitarians recognize that guaranteeing rights is costly and time-consuming, and thus more stringent requirements for citizenship can make sense in political-economic terms. A communitarian society typically limits membership to "our" people, however defined.

The business organization in the communitarian view is not an empty shell or a mere "nexus of contracts," but a tangible and functioning member of a community, distinguishable from the individuals who own and work for the organization. Business organizations are entities that emerge to help the community and are expected to act in the community's interest as a duty of membership. And, indeed, the business organization wants to act in the community's interest because the community gives meaning to what the organization is and does.

In some ways this view is compatible with early definitions of corporate social responsibility—the idea that businesses should be responsible for how the benefits and harms of their actions are distributed. In addition, the communitarian view is consistent with the concept of corporate citizenship when it is focused exclusively on the concerns and welfare of specific communities (Wood & Logsdon, 2001).

A communitarian firm's response to pollution would take into account its community's understandings and norms about collective well-being. Such a firm would likely exercise willingly a duty not to harm the community. However, a communitarian approach to pollution control would be limited to its own specific community and would not include other communities where it does business but is not a member. Thus, a communitarian company-citizen might well keep local waters clean in its home community by putting its wastewater in the streams or sewers of other communities.

IX. CITIZENSHIP BASED ON UNIVERSAL PRINCIPLES

The universal principles perspective, a third prevalent view of citizenship, is based on the moral assumption of rights as necessary for the achievement of human agency—defined as the freedom to pursue one's interests. Citizens with this view see the primary role of government as securing and protecting these conditions of human agency, not just for oneself, but for every individual. Not only must the state protect negative rights of noninterference—those guarantees of human liberty such as protection of the right to free speech and assembly and the right to vote—but it must also identify and protect positive rights that must be provided in order to achieve autonomous human action, such as the right to education and the right to health care. A critical issue in this perspective is the possibility and process of arriving at a set of common values and related rights and duties that can be supported across cultural boundaries and perhaps political ones as well.

Individuals and societies delegate to business organizations much of their ability to achieve their diverse wants and needs, and they must therefore also give organizations a degree of freedom from direct and constant control. Privately owned organizations are given many important tasks needed by the society, such as job creation, economic growth, R&D, and provision of consumer goods. Organizations do not have rights and privileges identical to those of individual persons, but they do have limited rights and associated duties so that they can achieve these goals. The rights and privileges granted to business citizens are those needed to permit the organization to act appropriately as agents of people and societies. Ethical values and mechanisms of social control, such as honesty, trust, and rule of law are ways of structuring relationships and exchanges so that uncertainty is reduced and efficiency can be enhanced. The global business citizen integrates these basic ethical values and mechanisms of social control into its internal ways of making decisions and uses them as guidance everywhere they operate.

X. COMPARING VIEWS OF CITIZENSHIP

It is interesting that although the minimalist position and the universal-principles view seem to be far apart in perspective, they are united in their support of human autonomy and certain rights for citizens. They differ in the means acceptable to reach this desirable end. The minimalist view tends toward a "least government" approach, while the universal-principles view is more willing to accept the validity of government action to ensure rights. In contrast to both, the communitarian position does not emphasize individual liberty above all, preferring to balance concerns for liberty with concerns for the collective well-being. In addition, a communitarian society might have more or less government, depending on what the community believes is needed to enforce rights and duties in its particular context. Business organizations are viewed very differently in the three approaches to citizenship. Businesses in the minimalist view are just shells within which various actors (investors, employees, customers, suppliers) engage in contracts to pursue their own interests. The organization itself cannot be a citizen in this view. By contrast, firms in the

communitarian perspective are citizens in the sense of identifying with their home community and supporting its well-being. "Corporate citizen" is an appropriate term for a firm operating on communitarian assumptions. Such a company "thinks globally and acts locally" by having basic ethical values that apply everywhere it operates and by implementing those values in a manner consistent with and respectful of legitimate local cultural differences. (See Wood & Logsdon, 2001, 2002a; Logsdon & Wood, 2002, for further explanation of the comparisons between these approaches.)

XI. THE PROCESS OF GLOBAL BUSINESS CITIZENSHIP (GBC)

Multinational enterprises are not bound by the rules of a single community but are challenged to deal with differences among community norms, rules, and performance expectations. The traditional view is that corporations should conform to local practice by always following local laws and customs—"when in Rome. . . ." An alternative view has emerged over the past quarter-century that companies should apply uniform policies across their worldwide operations. Both of these approaches have weaknesses, but together they contain the seeds of an optimal hybrid strategy.

In international business, a company will struggle to decide between a multidomestic strategy, which tailors its strategy to local conditions, and a globally integrated strategy, which strives to achieve a unified strategy across all units (e.g., Daniels & Radebaugh, 1995).

First, ethical relativism is seen to be amoral or even immoral because it can readily allow companies to violate fundamental ethical principles. Ethical relativism does not accept basic universal principles. It is the "when in Rome" philosophy that values compliance with local norms above all. Operating in different ways in different cultures constitutes ethical relativism, which permits injustice to occur through violation of those principles that should be practiced everywhere. An example of ethical relativism would be allowing for racial discrimination in plants in South Africa when Apartheid was legally required while professing and practicing equal opportunity employment in the United States and Canada.

The problem, of course, is that managers trying to use a relativist approach can condone practices that are morally abhorrent to themselves and unacceptable to their companies.

CONCLUSION

GBC is based on the premise that most companies and their managers want to operate responsibly and ethically, and that they are striving to meet multiple pressures as best they can. These pressures are increasingly complex and growing in frequency and potential impact. GBC theory, process, and guidelines are offered as the conceptual and operational vehicle for bringing the moral conscience into the global economy in the 21st century and for helping managers deal with cross-cultural differences in a responsible way.

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