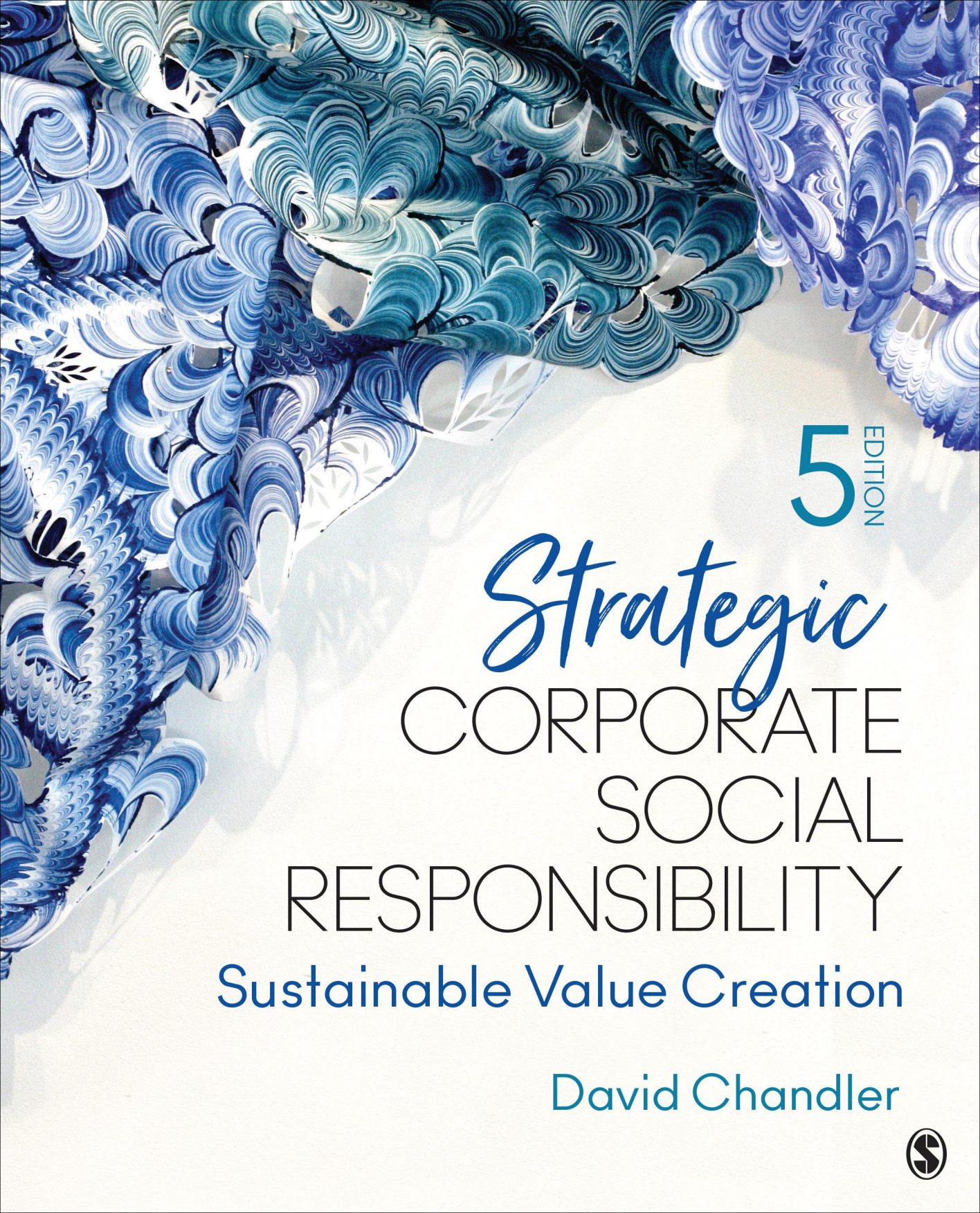

5 EDITION

Strategic CORPORATE SOCIAL RESPONSIBILITY

Sustainable Value Creation

David Chandler

Strategic Corporate Social Responsibility

5th Edition

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GLOSSARY

Consistent definitions, rhetoric, and vocabulary are the entry point to understanding any discipline, yet they remain fiercely debated in the field of *corporate social responsibility* (CSR). As such, the range of terminology used can be a source of confusion for executives, academics, journalists, and other students of CSR. Ostensibly part of the same discussion, for example, it is common to see CSR referred to in numerous ways:

- "Corporate responsibility" or "corporate citizenship"
- "Conscious capitalism" or "sustainable business"
- "Corporate community engagement" or "strategic philanthropy"
- "Sustainability" or "corporate environmental responsibility"
- "Corporate social performance" or "corporate social strategy"

Often, different terms are being used to mean similar things, yet heated debates can sprout from semantic subtleties. In order to clarify some of this confusion and provide a consistent vocabulary with which to read this book, brief definitions of key concepts are provided in this glossary.

CSR TERMS

These terms are discussed in the CSR literature (some more widely than others) and referred to throughout this book.

Accountability: The extent to which a firm attends to the needs and demands of its stakeholders (see *Transparency*).

Activism: Actions (e.g., campaigns, boycotts, protest) by individuals, nonprofit organizations, or NGOs designed to further social, political, or environmental goals.

Advocacy advertising: Efforts by firms to communicate social, environmental, or political positions to stakeholders (see *Cause-related marketing*).

Anthropocene: A new geological epoch, estimated to have begun in 1950, due to the effects of human behavior on the planet's ecosystem. It replaces the Holocene epoch.

Aspirational recycling: "People setting aside items for recycling because they believe or hope they are recyclable, even when they aren't" (see *Recycling*).[1]

Attention economy: A business model that depends on the amount of time spent with the product, such as an app, often underwritten by advertising revenue.

Badvertising: Advertising, marketing, or PR activities by a firm that promote socially irresponsible behavior, often generating a backlash by stakeholders.

Balanced scorecard: A means of measuring the impact of a business across multiple stakeholder groups.

B Corp: A certification awarded to firms that meet specific standards of transparency and accountability set by the nonprofit B Lab (http://www.bcorporation.net/).

Benefit corporation: A type of legal structure for businesses (http://benefitcorp.net/) that is available only in those US states that have passed benefit corporation legislation.

Behavioral biometrics: A collection of unique online behaviors, gathered surreptitiously via a phone or keyboard, which can be used to confirm an individual's identity.[2]

Biodiversity: The variety of species alive on Earth.

Bottom of the pyramid: A concept introduced by C. K. Prahalad and Stuart L. Hart that discusses the market potential for firms among the poorest societies.[3]

Brand hijacking: When an antisocial or otherwise offensive/peripheral group becomes associated with a firm's product or service, without the express permission of that firm.

Business citizenship: Socially oriented actions by firms designed to demonstrate their role as constructive members of society.

Business ethics: The application of ethical theory to organizational decision making.

Cap-and-trade: A market established to buy and sell the right to emit carbon. It is underwritten by government-issued credits and is designed to limit the total amount of carbon in the atmosphere.

Carbon budget: The amount of carbon that can *safely* be emitted, by all countries combined, before the damage to the planet's climate becomes too severe.

Carbon capture: A range of technological innovations designed to remove carbon from the Earth's atmosphere.

Carbon footprint: A firm's total emissions of carbon-related greenhouse gases, often measured in terms of tons of carbon or carbon dioxide (see *Greenhouse gas*).

Carbon insetting: A firm's integration of sustainable practices directly into the supply chain to take responsibility for its carbon emissions (see *Carbon offsetting*).

Carbon intensity: A measure of a firm's environmental impact that is calculated by dividing carbon emissions by annual sales.

Carbonivore: An organization or technology that removes more carbon from the air than it emits, "either storing it, turning it into a useful product or recycling it."[4]

Carbon negative emissions: The extraction from the atmosphere of previously emitted carbon via technology such as solar geoengineering.

Carbon-neutral: A state when a firm's net carbon emissions are zero. This is achieved by offsetting existing emissions with carbon reduction efforts (see *Net positive*).

Carbon offsetting: A firm's reduction of its carbon footprint by paying for environmentally beneficial behavior by a third party (see *Carbon insetting*).

Carbon trading: See *Cap-and-trade*.

Cash mob: A group of community members who use social media to assemble at a given date and time to spend money in support of a local business.

Cause-related marketing: Efforts to gain or retain customers by tying purchases of a firm's goods or services to the firm's philanthropy (see *Advocacy advertising*).

Circular economy: A means to reduce waste via greater efficiency or by reuse, repair, or recycling (see *Cradle-to-cradle*).

Civic engagement: Efforts by a firm to improve a local community.

Clicktivism: A form of protest that is conducted online via social media.

Climate change: The term used to describe the effect of human economic activity on the planet's atmosphere and weather systems.

Climate finance: Investments designed to generate carbon-neutral outcomes.

Closed-loop recycling: Products recycled into the same product (e.g., plastic bottles recycled into more plastic bottles)—retaining quality, rather than downcycling, where quality deteriorates (see *Downcycling*).

Closed-loop sourcing: Utilizing existing materials to create zero waste (see *Circular economy*).

Coalitions: Collections of organizations, stakeholders, or individuals who collaborate to achieve common goals.

Cobot: A robot that is designed to complement people at work, rather than replace them—"a collaborative robot."[5]

Compliance: Actions taken by firms to conform to existing laws and regulations.

Conscious capitalism: An economic system based on four principles that encourage the development of values-based businesses: higher purpose, stakeholder orientation, conscious leadership, and conscious culture (see *Values-based business*).

Conscious consumer: A customer "who considers the social, environmental, ecological, and political impact of their boycott and boycott actions."[6]

Conspicuous virtue: Consumption intended to demonstrate not wealth ("conspicuous consumption") but "innate goodness."[7]

Consumer activism: Efforts by customers to have their views represented in company policies and decision making. Organized activism is more likely referred to as a "consumer movement," which can advocate for more radical changes in consumer laws.

Consumer boycott: Customers who avoid specific industries, firms, or products based on performance metrics or issues that they value.

Consumer buycott: Customers who actively support specific industries, firms, or products based on performance metrics or issues that they value.

Corporate citizenship: See *Business citizenship*.

Corporate philanthropy: Contributions by firms that benefit stakeholders and the community, often made through financial or in-kind donations to nonprofit organizations.

Corporate responsibility: A term similar in meaning to *CSR*, but preferred by some firms because it de-emphasizes the word *social*.

Corporate social opportunity: A perspective that emphasizes the benefits to firms of adopting CSR, mitigating the perception of CSR as a *cost* to business.[8]

Corporate social performance: The benefits to the firm (often measured in traditional financial or accounting metrics) gained from implementing CSR.

Corporate social responsibility (CSR): A responsibility among firms to meet the needs of their stakeholders and a responsibility among stakeholders to hold firms to account for their actions.

Corporate social responsiveness: Actions taken by a firm to achieve its CSR goals in response to demands made by specific stakeholder groups.

Corporate *stakeholder* responsibility: A responsibility among all of a firm's stakeholders to hold the firm to account for its actions by rewarding behavior that meets expectations and punishing behavior that does not meet expectations.

Corporate sustainability: Business operations that can be continued over the long term without degrading the ecological environment (see *Sustainability*).

Cradle-to-cradle: A concept introduced by William McDonough that captures the zero-waste, closed-loop concept of the circular economy (see *Circular economy*).[9]

CSR deficit: The difference in stakeholder value created between what is theoretically possible and what is actually created by the firm. The deficit can be calculated as an aggregate amount across all stakeholders, or within each stakeholder group.

***CSR Threshold*:** The point beyond which the need to be responsive to a broader set of stakeholders becomes essential to the survival of the firm and/or industry.

Deindustrialization: A process of industrial decline in one country, often due to the outsourcing of production to another part of the world.

Digital philanthropy: Donations to a charitable cause or disaster relief made possible by Internet technology, often via mobile devices.

Downcycling: A recycling process that reduces the quality of the recycled material over time (see *Recycling* and *Upcycling*).

Eco-efficiency: An approach to business that is characterized by the need to "do more with less" and popularized by the phrase "reduce, reuse, recycle."

Ecopreneur: An entrepreneur who utilizes for-profit business practices to achieve environmental goals (see *Social entrepreneur*).

Ecosystem: A self-sustaining community.

Enlightened self-interest: The recognition that firms can operate in a socially conscious manner without forsaking the economic goals that lead to financial success.

Ethics: A guide to moral behavior based on social norms and culturally embedded definitions of *right* and *wrong*.

E-waste: Toxic pollutants that are a byproduct of discarded consumer electronic goods, such as televisions, computers, and smartphones.

Extended producer responsibility: Ownership of a product and its environmental consequences, up and down the supply chain.[10]

Externality: See *Externality* under "Strategy Terms."

Fair trade: Trade in goods at prices above what market forces would otherwise determine in order to ensure a *living wage* for the producer (see *Living wage*).

Freecycling: A process by which items that are no longer needed are donated to others who can put them to productive use (see *Recycling*).

Garbology: The study of what humans throw away.[11]

Gig economy: A metaphor for the evolving nature of *work* that is characterized by short-term, insecure *gigs* performed by self-employed freelancers or micro-entrepreneurs and traded online (see *Sharing economy*).[12]

Glass cliff: Similar to a glass ceiling, which constrains success, the glass cliff is a "theory that holds that women are often placed in positions of power when the situation is dire . . . and the likelihood of success is low."[13]

Global change: The combination of change to the climate and other natural features of the planet, such as the soil and the sea (see *Climate change*).

Global Compact: A United Nations–backed effort to convince corporations to commit to multiple principles that address the challenges of globalization.[14]

Globalization: The free flow of people, ideas, trade, and finance around the world.

Global Reporting Initiative (GRI): A multi-stakeholder organization designed to produce a universal measure of a firm's CSR efforts.

Global warming: See *Climate change*.

Glocalization: "Dealing with big global problems through myriad small or individual actions."[15]

Grassroots: A social movement that originates among individuals and grows upward.

Greenhouse gas: A gas that pollutes the atmosphere by trapping heat, causing average temperatures to rise (e.g., carbon dioxide; see *Carbon footprint*).

Green noise: "Static caused by urgent, sometimes vexing or even contradictory information [about the environment] played at too high a volume for too long."[16]

Greenwash: "The act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service"[17] (see *Pinkwash*).

Gross National Happiness (GNH): An attempt, most advanced in the Kingdom of Bhutan, to replace gross domestic product (GDP) as the primary measure of an economy's health and well-being.[18]

Human rights: Freedoms that are an integral element of what it is to be human.[19]

Impact investing: A variety of investment tools (e.g., mutual funds, low-interest loans, and bonds) that seek to solve social problems not previously addressed by market forces. The measurement of outcomes/impact is emphasized (see *Social finance*).

Inclusive capitalism: The idea that "those with the power and the means have a responsibility to help make society stronger and more inclusive for those who don't."[20]

Individual social responsibility: The application of CSR concepts to the individual.

Integrated reporting: The publication of a firm's economic, environmental, and social performance in a unified document (see *Triple bottom line*).

Intrapreneurship: A combination of the terms *innovation* and *entrepreneur* to capture innovative behavior within a large, bureaucratic organization.

Iron Law of Social Responsibility: The axiom that those who use power in ways society deems abusive will eventually lose their ability to continue acting in that way.[21]

Islamic finance: An investment philosophy guided by sharia law, which prohibits the investment of funds in firms that generate "the majority of their income from the sale of alcohol, pork products, pornography, gambling, military equipment or weapons."[22]

Leanwashing: Advertising by food- or nutrition-related companies that misleadingly suggests a product is healthy (e.g., using terms such as *natural* on labels).

Lifecycle pricing: An economic model designed to minimize waste by including the total costs of a product or service in the price that is charged to the customer.

Living wage: A level of pay intended to meet an employee's basic living standards, above subsistence levels. A *living wage*, which is culturally embedded, is usually set at a higher level than a *minimum wage*, which is legally defined (see *Fair trade*).

LOHAS: An acronym that stands for "lifestyles of health and sustainability."

Microfinance: A range of personal financial services (e.g., loans, accounts, insurance, and money transfers) provided on a smaller scale to meet the specific needs of poorer consumers and structured to encourage entrepreneurship (see *Social finance*).

Moral hazard: To take risk in search of personal benefit where the consequences of that risk are not borne by the individual. The effect is to *privatize gains* and *socialize losses*.

Natural capital: The stock of all resources that exist in the natural environment.

Natural corporate management (NCM): A business philosophy "based upon genetic, evolutionary, and neuroscience components that underlie and help drive corporate management, including behavior, organizational, and eco-environmental relationships."[23]

Net positive: An effort by a firm to ensure that it draws on few or no virgin natural resources in its operational processes (see *Carbon-neutral*).

Nongovernmental organizations (NGOs): Organizations that operate with a legal and accounting structure that allows them to pursue political, environmental, and/or social goals without the need to generate a profit (see *Nonprofits*).

Nonprofits: Nonprofits are similar to NGOs but often differ by having a domestic, rather than an international, focus (see *Nongovernmental organizations*).

Organic: A method of producing food without using pesticides, chemical fertilizers, or other industrial aids; designed to promote ecological balance and preserve biodiversity.

Pastorpreneur: A religious figure who applies business principles to a church or related religious activity, or who applies religious principles to a business.

Peak oil: The maximum possible production of oil, after which output will decline.[24]

Philanthrocapitalism: An approach to philanthropy that seeks to mirror common business practices—greater transparency and more measurable outcomes.[25]

Philanthropreneur: An individual who donates to a specific charitable organization or issue and actively intervenes in the management of that donation.

Philanthropy: A donation made, by either an individual or an organization, to a charity or charitable cause.

Pinkwash: "When a company promotes pink-ribboned products and claims to care about breast cancer while also selling products linked to disease or injury"[26] (see *Greenwash*).

Planetary boundaries: The limits of the Earth within which human life can exist.

Public policy: Government decisions aimed at establishing rules and guidelines for action with the intent of providing benefit (or preventing harm) to society.

Recycling: A process by which resources are reclaimed from discarded materials and put to productive use (see *Downcycling* and *Upcycling*).

Renewable energy: A source of energy that is non-carbon-based (e.g., solar, wind, or tidal energy). Also referred to as *alternative energy* or *green energy*.

Resilience: The ability of organisms and organizations to adapt to a changing climate.

Responsibility: To be responsible for something is to be accountable for it. If there is no consequence for doing (or not doing) something, there is no responsibility. Stakeholders define a firm's *responsibility* by rewarding behavior they like and punishing behavior they dislike.

Sharing economy: The peer-to-peer exchange of "shared assets" that are owned by individuals, rather than firms, and rented for short periods among an online community (see *Gig economy*).[27]

Shwopping: An exchange program by which customers trade in used clothing (to be donated) for vouchers that can be used to purchase new clothes.[28]

Slow money: An offshoot of the "slow food" movement that, instead of focusing on local food, emphasizes impact investments in local businesses.[29]

Social cost of carbon: The cost associated with emitting carbon that accounts for all the consequences of the emissions; currently estimated to be approximately $40 per ton.[30]

Social entrepreneur: An entrepreneur who applies for-profit business practices to an issue that previously did not have a market-based solution (see *Ecopreneur*).

Social finance: An approach to finance that emphasizes the social return on an investment, measured by various criteria (e.g., ethical, faith-based, and environmental), in addition to seeking to secure financial returns for investors (see *Impact investing*).

Social innovation: An approach to business by which firms seek to meet not only the technical needs of their customers, but also their broader aspirations as citizens.

Social license: The ability of a firm to continue to operate due to stakeholder approval of its activities.

Socially responsible investing (SRI): A portfolio investment strategy that seeks returns by investing in firms or projects that pursue ethical or values-based goals.

Social value: The benefit (or harm) of a firm's activities in terms of nonmonetary metrics, as defined by each of the firm's stakeholders.

Sofapreneurs: Individuals who are able to earn money working at home due to online connectivity as part of the gig economy (see *Gig economy*).[31]

Stakeholder: An individual or organization that is affected by a firm (either voluntarily or involuntarily) and possesses the capacity and intent to affect the firm.

Strategic corporate social responsibility (strategic CSR): The incorporation of a CSR perspective within a firm's strategic planning and core operations so that the firm is managed in the interests of a broad set of stakeholders to optimize value over the medium to long term.

Surveillance capitalism: An economic system populated by firms with business models that rely on the collection of personal data, often surreptitiously, to be sold to advertisers.

Sustainability: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"[32] (see *Corporate sustainability*).

Sustainable Development Goals (SDGs): Seventeen goals and 169 targets introduced by the United Nations to replace the Millennium Development Goals.[33]

Sweatshops: Factories that employ children or apply working standards with little, if any, respect for their well-being. Conditions are deemed to be unsafe and unfair, often in comparison to minimum legal conditions established in more affluent societies.

Techlash: A political and social response to the dominance of the largest technology firms intended to constrain their business: "It will be the 21st-century equivalent of the antitrust era, with the tech giants vilified as malevolent quasi-monopolists whose behavior is weakening democracy, suppressing competition and destroying jobs."[34]

Transparency: The extent to which a firm's decisions and operating procedures are open or visible to its external stakeholders (see *Accountability*).

Triple bottom line: An evaluation of the total business by comprehensively assessing a firm's financial, environmental, and social performance (see *Integrated reporting*).

Upcycling: A recycling process that increases the quality of the recycled material over time (see *Recycling* and *Downcycling*).

Values: Fundamental beliefs or principles, formed from an individual's morals and ethics, that guide behavior.

Values-based business: A for-profit firm that is founded on a vision and mission defined by a **strategic CSR** perspective (see *Conscious capitalism*).

Whistle-blower: An insider who alleges organizational misconduct and communicates those allegations of wrongdoing outside the firm to the media, prosecutors, or others.

Woke capitalism: The need for firms to align themselves with the progressive values (and associated causes) of key stakeholders to be successful in the marketplace.

STRATEGY TERMS

The intersection between strategy and CSR is central to **strategic CSR**. As such, in addition to the preceding CSR terms, there are a number of specialized terms used throughout this book to describe a firm's strategy or strategic decision-making processes.

Agency: The ability of an individual to act with free will.

Agent: An individual appointed to act on someone else's behalf (see *Principal*).

Board of directors: The formal authority to which the CEO and executives of the firm are ultimately responsible (see *Corporate governance*).

Business: A process of economic exchange by which organizations seek to generate profits by satisfying their stakeholders' needs (see *Company*).

Business-level strategy: The strategy of a specific business unit within a firm, either differentiation or low-cost, that enables the firm to build a sustainable competitive advantage (see *Corporate-level strategy*, *Differentiation*, and *Low-cost*).

Capabilities: Actions that a firm can do, such as pay its bills, in ways that add value to the production process.

Company (or corporation): A legal organizational form permitted to engage in business. The word *company* comes from the Latin word *companio*, the literal translation of which originally meant "breaking bread together"[35] (see *Business*).

Competencies: Actions a firm can do very well.

Competitive advantage: Competencies, resources, or structural positioning that separate the firm from its competitors in the marketplace (see *Sustainable competitive advantage*).

Core competence (or capability): The processes of the firm that it not only does very well, but is so superior at performing that it is difficult (or at least time-consuming) for other firms to match its performance in this area.[36]

Core resource: An asset of the firm that is unique and difficult to replicate.

Corporate governance: The structure and systems that serve to hold the firm legally accountable (see *Board of directors*).

Corporate-level strategy: The strategy of the firm, including which industries in which to compete and whether to enter into partnerships with other firms via joint ventures, mergers, or acquisitions (see *Business-level strategy*).

Creative destruction: A concept introduced by Joseph Schumpeter to describe the process by which markets innovate—destroying the old to create space for the new.

Differentiation: A *business-level strategy* firms use to distinguish their products from those of other firms on the basis of some component other than price (see *Low-cost*).

Economic value: The benefit (or harm) of a firm's activities in terms of monetary metrics, as defined by each of its stakeholders.

Externality: The effect of a transaction (either positive or negative) on a third party not involved in the primary exchange (see *Internality*).

Fiduciary: A legal responsibility of one party to another.

Firm: A business organization that marshals scarce and valuable resources to produce a good or service that it then sells at a price greater than its cost of production.

Five forces: A macro-level analysis of the competitive structure of a firm's industry (see *Industry perspective*).[37]

Governance: A system of checks and balances that shapes an organization's behavior.

Human capital: The skills and knowledge of people that enable them to succeed in the workplace (see *Social capital*).

Industry perspective: An external perspective of the firm that identifies the structure of the environment in which the firm operates (in particular, its industry) as the main determinant of its success (see *Five forces* and *Resources perspective*).

Internality: The "overlooked costs people inflict on their future selves, such as when they smoke, or scoff so many sugary snacks that their health suffers"[38] (see *Externality*).

Lifestyle brand: A reputation built more on an appeal to customers' aspirational values.

Low-cost: A *business-level strategy* used by firms to distinguish their products from the products of other firms on the basis of more efficient operations (see *Differentiation*).

Market segmentation: A process of dividing up consumers into groups with similar characteristics (often based on demographic information).

Mission: A statement of what the firm is going to do to achieve its vision. It addresses the types of activities the firm seeks to perform (see *Vision*).

Net present value: The value today of an investment that will mature in the future.

Offshoring: Relocating jobs to overseas countries in search of lower labor costs.

Onshoring (or reshoring): Returning jobs closer to home in order to create more flexible and responsive supply chains.

Operational effectiveness: "Performing similar activities *better* than rivals perform them"[39] (see *Strategic positioning*).

Opportunity cost: The benefit that would have been created if an alternative course of action had been chosen.

Price premium: The amount of money that consumers are willing to pay above cost (essentially, the profit on a product) for some attainable value (perceived or real).

Principal: An individual (or group of individuals) who appoints someone to act on his or her behalf (see *Agent*).

Profit: The residual value (positive or negative) of a firm's transactions after subtracting costs from revenues.

Prosumer: A consumer who improves the firm's products by providing information (e.g., completing surveys) or promotion (e.g., on social media).[40]

Resources perspective: An internal perspective of the firm that identifies its resources, capabilities, and core competencies as the main determinant of its sustainable competitive advantage (see *Industry perspective*).

Social capital: The connections among people that enable them to succeed in the workplace (see *Human capital*).

Strategic analysis: The process conducted by firms to analyze their operational context (internal and external) as the basis for its strategy (see *Strategy formulation*).

Strategic planning: The process (often annual) whereby a firm's executive team creates or reformulates plans for future operations (see *Strategy formulation*).

Strategic positioning: "Performing *different* activities from rivals or performing similar activities in *different ways*"[41] (see *Operational effectiveness*).

Strategy: The actions that the firm takes in order to build a competitive advantage in the marketplace that can be sustained (see *Tactics*).

Strategy formulation: The construction of a firm's strategy, usually done during regular planning sessions (often annually) by the senior executives of the firm.

Strategy implementation: The application of a firm's strategy in practice, ideally done by all employees in the organization on a day-to-day basis through regular operations.

Sunk cost: An investment of resources that cannot be reclaimed.

Supply chain: The linkages formed by relationships among organizations that provide a firm with the materials necessary to produce a product (see *Value chain*).

Sustainable competitive advantage: Competencies, resources, or structural positioning that separate the firm from its competitors in the marketplace over the medium to long term (see *Competitive advantage*).

SWOT analysis: A tool used to identify a firm's internal strengths and weaknesses and its external opportunities and threats. The goal is to match the firm's strengths with its opportunities, understand its weaknesses, and avoid any threats.

Tactics: Day-to-day management decisions made to implement a firm's strategy (see *Strategy*).

Value: The importance of something to somebody, determined by the combination of its scarcity and an individual's values, and often expressed in monetary terms (see *Values* under "CSR Terms").

Value chain: An analysis that identifies each value-adding stage of the production process. This analysis can be applied within a firm (*value chain*) or among firms (*supply chain* or *value system*).[42]

Value creation: The generation of a perceived benefit for an individual or group, as defined by that individual or group.

Value system: Essentially the same as a firm's supply chain (see *Value chain*).

Vision: A statement designed to answer why the firm exists. It identifies the needs it aspires to solve (see *Mission*).

VRIO: An acronym of the four characteristics a resource must possess in order for it to be the source of a firm's sustainable competitive advantage: Is the resource **V**aluable? Is it **R**are? Is it costly to **I**mitate? Is the firm **O**rganized to capture this potential value?

PREFACE

The fifth edition of *Strategic Corporate Social Responsibility* (*Strategic CSR*) appears more than a decade after the Financial Crisis and almost two decades after the collapse of Enron, yet corporate malfeasance remains a staple of the daily news.[1] In spite of strong competition for our attention and outrage from politicians around the world, corporations continue to shock us with their seemingly oblivious behavior. Whether it is VW creating software to skirt emissions testing, Wells Fargo opening phantom bank accounts for larger sales commissions, Purdue Pharma obscuring the addictive nature of prescription opioids, or Facebook trading our private information for advertising dollars, firms continue to risk the wrath of their stakeholders in pursuit of short-term profit. Societal welfare appears to be an afterthought rather than a strategic imperative—an approach to business that is harming public perceptions of capitalism:

> About a year ago the Institute of Politics at Harvard released survey results showing that more than half of respondents between 18 and 29 do not support capitalism, the free market system that underpins our economy. An astonishing one-third said they support socialism. . . . [In the US,] capitalism is now condemned as an elitist system that enriches a few at the expense of the many.[2]

At the same time, we continue to progress as a society as firms create, innovate, and bring products to market that elevate our standard of living. Whether it is Starbucks pledging to hire veterans and immigrants, Airbnb revolutionizing the hotel industry, Google creating contact lenses that can measure the blood sugar levels in diabetics, or Ben & Jerry's recommitment to social activism and "whirled peace,"[3] firms continue to create value for their stakeholders in pursuit of long-term profit. In short, "business is one of the great creative forces propelling humanity forwards."[4] Today, innovations abound in artificial intelligence, space travel, fintech, global communications, medicine and biotech, carbon capture, and many more areas. Much of this discovery is driven by for-profit firms, and even when sourced elsewhere, it is usually scaled and brought to market by firms.[5] The result is a stunning increase in wealth and well-being worldwide:

> The world is about 100 times wealthier than 200 years ago and, contrary to popular belief, its wealth is more evenly distributed. . . . The vast majority of poor Americans enjoy luxuries unavailable to the Vanderbilts and Astors of 150 years ago, such as electricity, air-conditioning and colour televisions. Street hawkers in South Sudan have better mobile phones than the brick that Gordon Gekko . . . flaunted in [the movie] *Wall Street* in 1987.[6]

So which is it? Are firms purveyors of evil that take advantage of us at every turn? Or are they the source of most of the value that is created in society? Is the pursuit of profit the root of all our problems, or is it the potential solution to those problems? This book exists to help navigate this treacherous terrain. More specifically, it delves into the field of study that has become known as *corporate social responsibility* (CSR).

WHY CSR MATTERS

CSR is pervasive because the for-profit firm is the cornerstone of an advanced society. Firms are the most efficient entity we have for transforming scarce and valuable resources into the products and services on which we rely. But it is clear that firms are also indicative of much that is wrong with our society. While businesses produce much of what is objectively *good*, they can also cause great harm, as pollution, layoffs, industrial accidents, and economic crises amply demonstrate. Central to the concept of CSR, therefore, is deciding where companies fit within the social fabric. Firms do not exist independently of society; they are an integral part of society. But they are also a legal and social construction—a tool designed by us as an aid to progress. We have created them, which also means we can change them . . . if we want to. Either way, firms are central to who we are and what we want to become. As such, I believe that the most important question we face is *What is the role of business in society?* This question is existential. The answer will determine our collective standard of living—today, tomorrow, and for generations to come. It is also an outcome we can shape. The short answer, of course, is that firms exist to create *value*. But it is how they create value, and for whom, that matters. This is what makes CSR so complex and ambiguous; it is also what makes CSR integral to the firm's strategy and day-to-day operations.

CSR is complicated further because firms are only one part of society. Governments are crucial because they set the rules and parameters within which society and businesses operate. In addition, nonprofit or nongovernmental organizations (NGOs) exist to fill the gap where no legislative or market-based solution currently exists—they reach into areas of society where politics and profit often do not go. Nevertheless, without the innovation that the market inspires, social and economic progress declines, in time reducing our standard of living to some primitive level. A simple thought experiment underscores this: Look around you and subtract everything that was produced by a business. What is left?

CSR matters, therefore, because it encompasses all aspects of business. And businesses matter because they dominate our lives. They are the place where most of us spend most of our waking hours. They also make most of the products that we buy. They provide us with an income, and they surround us as the foundation of the communities in which we live. By encompassing issues as diverse as corporate governance, supply chain management, environmental pollution, corruption, and employee safety and pay (in short, everything the firm does), CSR *is* business today. It is wildly complex and highly dynamic because the ideal mix of operational goals and societal expectations is constantly evolving. Along the way, difficult questions arise: Why does a business exist? What does *profit* represent? What obligations do businesses have to the societies in

which they operate? Are these *obligations* voluntary, or should they be mandated by law? To whom are companies accountable? In other words, what does it mean for a firm to act *responsibly*? Or perhaps more accurately, who determines what *responsible* looks like?

Strategic CSR provides a framework with which readers can explore these questions. This book identifies the key issues of debate, models them around conceptual frameworks, and provides both the means and the resources to investigate this intensely complex topic. What makes this exploration exciting and worthy of study is that CSR is ever present: Jobs and job losses, financial bailouts and record profits, corruption and scientific breakthroughs, pollution and technological innovations, personal greed and corporate charity all spring from the relentless drive for innovation in the pursuit of profit that we call *business*. As such, CSR can be studied only at the heart of operations, where core competencies mold the business strategies that enable firms to compete with each other. And when they compete in the marketplace, CSR offers a sustainable path between unbridled capitalism and rigidly regulated economies. CSR helps managers optimize both the *ends* of profit and the *means* of execution, with the goal of creating value for the firm's broad range of stakeholders.

CSR AS VALUE CREATION

The fifth edition of *Strategic CSR*, therefore, is a road map. It provides a framework that firms can use to navigate the complex and dynamic business landscape. Increasingly, effective managers must balance the competing interests of the firm's stakeholders—understanding what they want today and, perhaps more essentially, what they will want tomorrow. *Strategic CSR* was written in the hope of creating a more responsive business culture in which for-profit firms take their rightful place as the primary solution to society's largest problems. But we have a lot of work to do. What is clear is that CSR is central to the effort. It is not an optional add-on. Rather, it is an essential refinement of the market model—an operating philosophy for firms that seeks to optimize growth (and profits) over the medium to long term. It is a strategic imperative that is central to operations. It is how firms create value—the central concern that CEOs face every day. CSR is not one way of doing business among many; it is *the* way of doing business in the globalized, wired world in which we live.

While this book celebrates the positive role that for-profit firms play in our lives, therefore, it also details how that role can be improved. It is an endorsement of the profit motive and capitalism, but it argues that competitive forces generate the greatest welfare when embedded in a framework of values. Markets work best when all stakeholders act according to their personal ethics and morals (whether as customers, or employees, or any of the other roles we adopt daily). In other words, this book advocates for *evolution* rather than *revolution*—it seeks to shape what is practical and realizable, not wish for what is ideal and out of reach. There is a reason why our economic system has evolved the way it has. This book acknowledges this and, starting with what we know about human psychology and economic exchange, builds a manifesto for change that business leaders can embrace. It does so by offering a strategic lens as the best perspective

through which firms should approach CSR because it is through strategic (re)formulation that organizations adapt to their social, cultural, and competitive reality.

Hence, **strategic CSR** is best viewed from a stakeholder perspective that embraces an operating environment made up of multiple constituent groups (internal and external) that have a stake in the firm's profit-seeking activities. It demonstrates the value to firms of defining CSR in relation to their operational context and then incorporating a CSR perspective into their strategic planning and throughout the organization. The situations change, but the questions remain the same: Who are the primary stakeholders? Which claims are legitimate? How do we prioritize among competing interests? What value are we creating, and for whom? Is our business sustainable? Such questions force managers to understand CSR from a stakeholder perspective within each firm's operating context.

The goal is to avoid the harm that accompanies the worst corporate transgressions and build success that can be sustained over generations. In that sense, this book explains how firms can act to create value for most of their stakeholders, most of the time, over the medium to long term. In other words, this book presents a framework that places stakeholder value creation at the center of the firm's strategic planning and day-to-day operations. To be clear—CSR is not an option; it is what businesses do. Being able to respond efficiently and effectively to the needs and demands of stakeholders (who have increasingly powerful tools at their disposal to convey those needs and demands) is not only the key to success in today's global business environment—it is the key to survival.

Talking about CSR in terms of *value creation* means that it becomes the responsibility of the CEO and senior executives in the organization. Value creation speaks to what is core about a firm, across functional areas. While preconceived notions of *CSR* and *sustainability* may cause some CEOs to prejudge or reject these ideas, *value creation* cannot be avoided. In fact, it must be embraced. In order to rebut the idea of CSR as a cost to business, supporting arguments must be embedded in operational and strategic relevance. In the process, CSR moves from an optional add-on to center stage—it is there because it involves all of the firm's stakeholders, internal and external. It is therefore incorrect to say that firms can choose to do CSR or choose to ignore it. On the contrary, all firms do CSR (they all create value); it is just that some do it better than others.

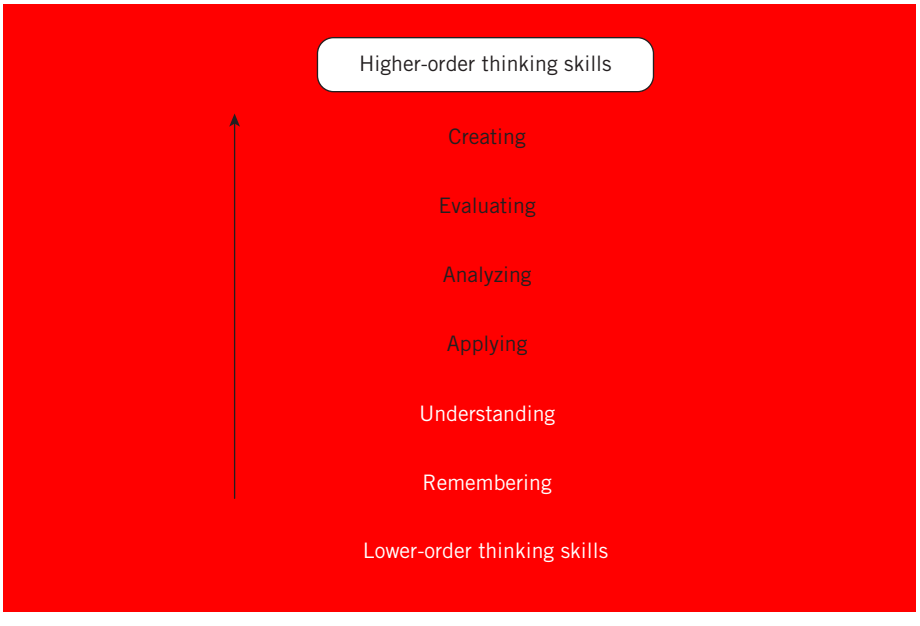
Strategic CSR exists because this argument is not yet widely understood, by either executives or business schools. CSR is too often ignored, partly because, on the surface at least, it is more obvious in its absence. Value created can be hard to measure, while harm inflicted is readily apparent after the fact. The *Deepwater Horizon* oil spill in 2010, for example, demonstrates the consequences for both the firm ("$61 billion in cleanup costs, federal penalties and reparations to individuals and businesses")[7] and society ("killed 11 workers and released 3.2 million barrels of oil into the Gulf of Mexico over almost three months")[8] when stakeholder interests are ignored. Similarly, the devastating effects of the Financial Crisis linger, as "frustration with a system that hasn't produced a satisfying recovery for tens of millions of Americans" breeds distrust and resentment of essential economic, social, and political institutions.[9] CSR is not an abstract concept; it is real and resides at the center of almost everything we do.

STUDYING CSR

What makes this book a unique tool for navigating this landscape is its approach and underlying thesis: Exploration is the best method of learning. For those who like to form their own opinions, *Strategic CSR* offers a guided tour. It is designed to provoke via a series of questions, examples, and case studies that guide the search for solutions. Engagement with the material is central and essential. Using this approach, the goal is to cover all of Bloom's learning stages, from remembering through creating (Figure P.1). In my own investigation, I have found that there are no simple answers and few absolutes. CSR is not a set of objective policies and practices; it is the creation of value, as determined by the firm's stakeholders. Rather than provide specific answers, therefore, the goal here is to formulate the *best* questions that consider a broad range of perspectives, provoke vibrant debate, and encourage further research. While every topic cannot be covered, this book provides a launching pad (via key concepts), along with the means to explore (via additional sources and references).

Central to the pedagogy of this book, therefore, is the idea that it does not dictate answers and solutions. Unlike most books about CSR, the argument presented is more descriptive than normative—it seeks to understand the world as it is, rather than assume it is something else; it recognizes humans for what they are, rather than what we would

Figure P.1 Bloom's Taxonomy of Learning



Source: Lorin W. Anderson & David R. Krathwohl (Eds.), *A Taxonomy for Learning, Teaching, and Assessing: A Revision of Bloom's Taxonomy of Educational Objectives* (New York: Longman, 2001).

wish them to be. While there are certainly aspirational ideas, the goal here is to draw on what we know about economics, sociology, and psychology to understand how for-profit firms and economies (and, ultimately, society) work. Once the argument is grounded in this reality, we can begin to design the firms we would like to have. Without this grounding, however, much of the CSR debate constitutes wishful thinking combined with good intentions. Why is this distinction important? The difference between dealing with *reality* as opposed to *ideals* is the difference between good and bad solutions.

If all of this sounds confusing, then welcome to **strategic CSR**. In order to fully comprehend the framework that is detailed in these pages, you have to wrap your mind around the complexity of how societies and economic systems work. What is the for-profit firm? What is its purpose? What does profit represent? How do firms succeed or fail in the marketplace? What is the relationship between the firm and the environment within which it operates? All of these questions are central to understanding **strategic CSR**. They are also essential for your future as a business leader and an informed citizen.

Executives and managers need a framework that captures this complexity and offers a guide to decision making. In short, they need to understand **strategic CSR**—value creation for the firm's broad set of stakeholders that is sustainable over the medium to long term. The current economic system is unsustainable, which means that substantive change must occur, and occur soon. The fifth edition of *Strategic CSR* can help bring about this change, but only with your help. This book provides a glimpse of the future that is possible; it can be realized only with your full support and engagement.

Good luck!

David Chandler
July 2019

P.S. I am British and currently live and work in the US. As such, it is inevitable that my view of the world is skewed by the news, politics, and values of the society in which I have spent so much time. Nevertheless, having grown up in the UK and having spent many years living in Asia (Hong Kong and Japan), my goal in this book is to present my ideas in a way that appeals to the broadest audience. Wherever relevant, I try to introduce examples from around the world and account for the cultural differences of which I am aware.

Intellectually, I believe **strategic CSR** applies to all firms and economies—my hope is that presenting it from a global perspective conveys this. While the relative importance of different stakeholders will vary from culture to culture, the idea that the for-profit firm is merely a tool invented to advance societal progress is consistent. And as a tool, firms reflect the collective set of values in the society in which they are based. In other words, firms will do what we want them to do. If you have an issue with the existence or behavior of a particular firm, therefore, then you have an issue with the society that shaped it. The key lesson of this book is that firms are not the problem; they are the solution—if there is a problem, the source lies in the actions of all the firm's stakeholders (i.e., in all of us). As such, the power to change lies within each of us and in the collective. If we want a *better* society, it is up to us to create it. And if we decide to do so, for-profit firms will be there to ensure our efforts are as efficient as possible.

PLAN OF THE BOOK

Strategic Corporate Social Responsibility (*Strategic CSR*) is organized into six distinct parts that, together, provide a comprehensive overview, core concepts, innovative models, and practical examples of **strategic CSR**. Throughout, useful teaching tools, related sidebars, online sources, and provocative questions for discussion and debate allow easy application in the classroom.

CONTENT CHAPTERS

In Part I, the first two chapters of *Strategic CSR* lay the foundation for the book. In particular, Chapter 1 defines CSR, providing detail about where this subject came from and how it has evolved. In discussing this history, four arguments for CSR are presented (ethical, moral, rational, and economic), which cover the breadth of how this subject has traditionally been taught. Chapter 2 builds on this foundation to discuss the key drivers of CSR today—affluence, sustainability, globalization, communication, and brands. As each driver has become a defining characteristic of business, it increasingly alters stakeholder expectations of the for-profit firm.

Part II reflects the importance of a stakeholder perspective to the intellectual framework underpinning **strategic CSR**. Though firms are economic entities that exist to meet specific operational goals, the most effective way to achieve these goals is by considering the needs and values of the broad range of groups that have a stake in the outcome. Chapter 3 launches this argument by defining who qualifies as a *stakeholder* and by presenting the core model that describes the relationships these actors have with firms. Moreover, Chapter 3 presents a model that allows managers to prioritize among stakeholders when their interests conflict. Chapter 4 extends stakeholder theory further by arguing that, in addition to firms' duty to listen to their stakeholders, stakeholders have an equal (if not more important) responsibility to hold firms to account for their actions.

Part III is new to the fifth edition of *Strategic CSR* and presents a legal perspective. Chapter 5 opens this discussion by investigating the evolution of corporate rights and responsibilities (what the firm can do and what it has to do) in the context of corporate governance. By understanding this historical and legal framework, we better understand firms' motivations and guiding principles. Chapter 6 extends this discussion by revealing the history of the corporation in order to challenge the myth that prevents the widespread adoption of a stakeholder perspective—that the fiduciary responsibility of managers and directors is to operate the firm in the interests of its shareholders. In the United States (and many other countries), this widespread belief is not grounded in legal reality.

Part IV explores CSR from a behavioral perspective—a nonrational (i.e., *human*) explanation for organizational actions. In particular, Chapter 7 discusses the motivating role of profit in the broader discussion about capitalism that emerged following the Financial Crisis—investigating the extent to which our current economic model should be reformed. It also challenges the common refrain that firms have long focused on producing economic value and today must also produce social value. In reality, there is no *economic value* and no *social value*—there is only *value*, which the firm creates (or destroys) for each of its stakeholders. Chapter 8 introduces the concept of behavioral economics and discusses how this exciting field can advance the value creation process. This chapter also looks at the variety of ways in which we measure CSR, a task that is essential in order to hold firms to account for their CSR performance. Before we can develop an effective CSR measure, however, all costs need to be included in the production process. This is achieved via the concept of *lifecycle pricing*.

Part V reflects the origins of **strategic CSR**. Although the ideas discussed in this book are relevant across functional areas in the business school, they find a natural home within strategic management. Chapter 9 introduces the discussion at the intersection of strategy and CSR by examining the three pillars of strategy—analysis, formulation, and implementation. It discusses why traditional analytical tools (principally, the resource and industry perspectives) are no longer sufficient to succeed in business today and why a CSR perspective is increasingly essential. Further, it introduces the concept of the *CSR Threshold*, which helps with both strategic analysis and strategy formulation, and explains how a *CSR Filter* enables decision making as part of strategy implementation. Chapter 10 extends this discussion by defining **strategic CSR** in terms of its five foundational components—incorporating a holistic CSR perspective within the firm's strategic planning and core operations so that the firm is managed in the interests of its broad set of stakeholders to optimize value over the medium to long term.

Part VI concludes *Strategic CSR* by demonstrating how firms can embed a **strategic CSR** perspective throughout the organization by building values-based businesses that serve the interests of their broad range of stakeholders. Chapter 11 leads off this section by investigating the origins of *sustainability* and its relevance to firms today, but also highlighting the inadequate efforts made to date to create an environmentally sustainable economy. Chapter 12 rounds out Part VI by summarizing the ideas discussed in this book in terms of the ultimate outcome of **strategic CSR**—*sustainable value creation*.

Also new to this edition, the appendix tackles the challenge of implementing a **strategic CSR** perspective throughout the firm. While the first six parts of the book detail the key components of the **strategic CSR** framework, ultimately this book is a practical tool. It is intended to equip managers and executives with the knowledge they need to run the firm in the interests of its broad set of stakeholders. To this end, it is just as important to be able to do **strategic CSR** (to implement it) as to know what it is.

CASE STUDIES

The case studies that complete the first five parts of *Strategic CSR* reflect the extent to which CSR affects all aspects of a firm's operations. Part I finishes with a discussion

about the prominence of religion in society and business, and the emergence of Islamic finance. The stakeholder perspective in Part II is complemented with a case study that emerges from the crisis of capitalism that occurred in the aftermath of the Financial Crisis. The new Part III contains a case study that looks at our evolving perceptions of the media (in particular, social media), and the implications for privacy of the rise of firms such as Facebook. A case study about social impact bonds (impact investing) rounds out Part IV, illustrating how any aspect of business today can be understood through the lens of a stakeholder perspective. And Part V is completed with the case of a firm that implements **strategic CSR** effectively throughout its supply chain—Starbucks.

Part VI concludes with some *final thoughts*. The guiding purpose of this book is to ask the question *What is the role of business in society?* The answer **strategic CSR** provides has profound implications for the way we understand business, the way we conduct business, and, therefore, the way that we teach business.

SUPPLEMENTARY MATERIALS

CSR NEWSLETTER

As a result of the dynamic nature of **strategic CSR** and the static nature of this book, I write and distribute the *CSR Newsletter* throughout the long fall and spring semesters. The goal is to provide up-to-date examples taken from daily news sources that extend the case studies, questions for debate, and online references provided throughout this text. The topical themes covered in each issue of the *Newsletter*, together with access to the complete library of past issues that are archived on my blog (http://strategiccsr-sage.blogspot.com/), capture the breadth of the CSR debate and provide an added dimension to classroom discussion and student investigation into this complex subject.

To sign up for the *CSR Newsletter*, please e-mail me at david.chandler@ucdenver.edu.

ADDITIONAL ONLINE SUPPORT

As a supplement to this book, there is an online library of resources for instructors (password-protected) and students that is hosted on the SAGE website: **study.sagepub.com/chandler5e**.

Instructor Resources

- Test bank
- PowerPoint® slides
- Lecture notes
- Sample syllabi
- Transition guide
- Video and multimedia resources

Student Resources

- eFlashcards
- Video and multimedia resources

ACKNOWLEDGMENTS

The fifth edition of *Strategic Corporate Social Responsibility* is the most recent step in a journey that began in Japan in 1995. It was only when I left the familiarity of the society in which I was raised that I began to question the expectations placed on firms that I had previously taken for granted. Once I realized there are different ways to structure society, it is a natural progression to explore how best to generate optimal outcomes. As a result, I will spend the rest of my career answering the question *What is the role of business in society?* But this is not a solitary endeavor. I could not have reached this point without the advice and assistance of many friends and colleagues along the way.

Primarily, I would like to thank William B. Werther Jr. of the University of Miami, my coauthor on the first three editions of *Strategic CSR*. Quite simply, this book would not exist were it not for Bill's involvement from the beginning. When I first approached him with an 80-page Word document and an idea, he had the knowledge, contacts, and patience to help me turn it into what this project has become.

Similarly, I would like to acknowledge the formative role in the development of this project played by Anita Cava of the University of Miami's Business Law Department. Both as an inspiration in the classroom and in her support as a colleague, Anita continues to embody ethics in practice. The values and lessons she instills in her students are resources they carry for a lifetime—I know that I certainly have.

It is important to recognize that *Strategic CSR* is possible, in large part, because of the prior and ongoing work of many leading scholars in the field of CSR. An important early mentor for me was William C. Frederick of the University of Pittsburgh. I first encountered Bill while I was applying for PhD programs. His generosity to a complete stranger was something I was never able to fully repay. Not only was Bill a towering intellectual force, but he was one of the kindest people you could hope to meet. Bill passed away in March 2018; his influence is imprinted on the field of CSR forever.

There were many other leaders in CSR, many of whom I do not know personally, but whose work informed my own. In particular, I would like to acknowledge the pioneering work of Howard Bowen of the University of Iowa, Archie B. Carroll of the University of Georgia, Thomas Donaldson and Thomas Dunfee at the University of Pennsylvania, R. Edward Freeman of Virginia University, Stuart L. Hart of Cornell University, Laura Pincus Hartman of Boston University, Andrew Hoffman of the University of Michigan, Thomas M. Jones of the University of Washington, Joshua Margolis of Harvard University, Jim Post of Boston University, C. K. Prahalad of the University of Michigan, Lynn Stout of Cornell University, and Sandra Waddock of Boston College. Their work, along with the work of many other influential scholars, provided the foundation of the field of CSR/business and society to which this text aims to contribute.

SAGE Publishing and I are also indebted to the colleagues who kindly agreed to review the fourth edition of *Strategic CSR* in preparation for this edition: Terrence B. Dalton of the University of Akron, Michelle Gee of the University of Wisconsin–Parkside, Marcel Minutolo of Robert Morris University, John Tichenor of Stetson University, Mary Williams of the University of Akron, and Cory Young of Ithaca College. Additional valuable insights were provided by Mark A. Buchanan of Boise State University. The constructive feedback of these colleagues about the fourth edition ensured that the fifth edition is considerably better than it otherwise would have been.

It is also important to acknowledge the hundreds of students who have sat in my class throughout my career. For the most part, I teach Strategic Management as the capstone course of the full-time and part-time MBA programs at my university. But if the point of strategy is to build a sustainable competitive advantage in the marketplace, then the way to do this in business today, I believe, is for the firm to create value for a broad range of its stakeholders. In other words, although I teach *strategy*, I might as well be teaching **strategic CSR**. I see no difference between the two subjects and believe they will increasingly overlap as more business schools understand the importance of *sustainable value creation*. My students have been very patient as I have come to this realization and presented my ideas and the arguments to support them in class. The resulting discussions made those ideas and arguments better and, as such, helped refine the framework that **strategic CSR** has become. I am grateful to them all.

Finally, I would like to express my warm gratitude to the editorial and production teams at SAGE Publishing, who have all been an incredibly supportive and responsive resource, ensuring a timely update of this book. Specifically, I would like to thank Maggie Stanley, Acquisitions Editor for Business and Management textbooks, who expertly oversaw the publication of the fifth edition; Sarah Panella and Andrew Lee in SAGE's marketing department; Candice Harman, cover designer; Jody Cook, who provides excellent sales support; and Lauren Holmes (with support from Rodney Carveth of Towson University), who managed the production of the Instructor and Student Resources so efficiently. I would also like to express my thanks and gratitude to the wonderful production and copyediting team of Tracy Buyan at SAGE and Laureen Gleason, who were attentive, flexible, and extremely efficient in helping convert my unvarnished manuscript into a wonderful finished product.

Finally, the support at different points throughout this journey of Reid Hester, Director of College Editorial, and Bob Farrell, Executive Editor at SAGE, and the vision and professionalism of Lisa Cuevas Shaw, Vice President of Publishing and Professional Learning Group at Corwin, helped ensure that this book, which is not a typical textbook, continues to be published. It is good to work with a publishing company that not only invests in CSR but enacts the values and practices detailed in this book on a day-to-day basis.

PART ONE

CORPORATE SOCIAL RESPONSIBILITY

Part I of *Strategic Corporate Social Responsibility* (*Strategic CSR*) demonstrates the breadth and depth of corporate social responsibility (CSR).

Chapters 1 and 2 lay the foundation for this book by defining CSR and related concepts, while outlining how this subject has evolved over time. Chapter 1 provides core definitions, identifies the different arguments for CSR (ethical, moral, rational, and economic), and shows why CSR is of growing importance for firms, large and small. Chapter 2 then discusses the five key drivers of CSR today—affluence, sustainability, globalization, communication, and brands. As these drivers have become defining characteristics of modern life, they have altered stakeholder expectations of business. Though firms exist to generate a profit, they can achieve this most effectively by broadening their perspective and avoiding a self-defeating focus on the short term. Without an understanding of the complex environment in which it is embedded, a firm can become exploitive, antisocial, and corrupt, losing the societal legitimacy that is necessary to remain viable over the medium to long term.[1]

Part I finishes with a case study that discusses the relationship between organized religion and capitalism. In particular, it focuses on the rise of Islamic finance to examine how broad "non-business" factors, such as religion, are increasingly influencing corporate decisions.

WHAT IS CSR?

People build organizations to leverage their collective resources in pursuit of common goals. As organizations pursue these goals, they interact with others inside a larger context called society. Based on their purpose, organizations can be classified as for-profit, government, or nonprofit. At a minimum, *for-profits* seek to make a profit, *governments* exist to define the rules and structures of society within which all organizations must operate,[1] and *nonprofits* (including NGOs—nongovernmental organizations) emerge to fill the gaps when the political will or the profit motive is insufficient to address society's needs.[2] Aggregated across society, each of these different organization types represents a powerful mobilization of resources. In the United States alone, for example, there are more than 1.5 million "tax-exempt organizations" working to fill needs not met by either government or the private sector.[3]

Within society, therefore, there is a mix of these organizational forms. Each performs different roles, but each also depends on the others to provide the complete patchwork of exchange interactions (of products and services, financial and social capital, etc.) that constitute a well-functioning society. Whether labeled as corporations, companies, firms, or proprietorships, for example, for-profit businesses interact constantly with government, trade unions, suppliers, NGOs, and other groups in the communities in which they operate, in both positive and negative ways. Each of these groups, therefore, can claim to have a stake in the operations of the firm. Some benefit more, some are involved more directly, and others can be harmed by the firm's actions, but all are connected in some way to what the firm does on a day-to-day basis. Definitions of who qualifies as a firm's *stakeholder* vary (discussed in detail in Part II). For now, it is sufficient to note that it includes those individuals and groups that have a *stake* in the firm's operations.[4]

While stakeholders exist symbiotically with companies, the extent to which managers have paid attention to their interests fluctuates. Depending on factors such as the level of economic and social progress, the range of stakeholders whose concerns a company seeks to address has shifted—from the earliest view of the corporation as a legal entity that exists at the behest of governments in the 19th century, to a narrower focus on shareholder rights early in the 20th century, to the rise of managerialism by mid-century, and back again in the 1970s and 1980s to a distorted focus on shareholders due to the rise of agency theory.[5] Since then, as the expectations of business in society evolve,

firms are again adopting a broader stakeholder outlook, extending their perspective to include the communities in which they operate and social issues about which they feel passionate. As a result, managers are more likely to recognize the interdependence between the firm and each of these groups, leaving less room to ignore their separate and pressing concerns.

Just because an individual or organization meets the definition of an "interested constituent," however, this does not compel a firm (either legally or logically) to comply with every demand that stakeholder may make. Deciding which demands to prioritize and which to ignore, however, is a challenge—even more so as social media provides individuals with the power to disseminate their grievances worldwide. If ignored long enough, affected parties may take action against the firm (such as a product boycott), or turn to government for redress, or even write a song and post it to YouTube.[6] Such protests can cause significant brand damage (and even revenue loss), particularly if the grievance remains unaddressed once it becomes widely known.[7]

In democratic societies, laws (e.g., antidiscrimination statutes), regulations (e.g., tax-exempt status for nonprofits), and judicial decisions (e.g., fiduciary responsibilities of directors)[8] provide a minimal framework for business that reflects a rough consensus of the governed. However, because (1) government cannot anticipate many issues, (2) the legislative process takes time, and (3) a general consensus is often slow to form, laws often lag behind social convention and technological progress. This is particularly so in areas of high complexity and rapid innovation, such as bioethics or artificial intelligence. Thus, we arrive at the discretionary area of decision making between legal sanction and societal expectation that business leaders face every day—an area of ambiguity that generates two questions from which the study of CSR springs:

What is the role of the for-profit firm in society?

Does the firm have broader social responsibilities (beyond making a profit)?

CSR, therefore, is both critical and controversial. It is *critical* because the for-profit sector is the largest and most innovative part of any free society's economy. Companies intertwine with society in mutually beneficial ways, driving progress and affluence—creating most of the jobs, wealth, and innovations that enable society to prosper. They are the primary delivery system for food, housing, healthcare, and other necessities of life. Without modern corporations, the jobs, taxes, donations, and other resources that support governments and nonprofits would decline significantly, further diminishing general well-being. Businesses are the engines of society that propel us toward a better future, which suggests an interesting thought experiment: If you wanted to do the most social good in your career, would you enter public service (politics or nonprofits), or would you go into business? Fifty years ago, the best answer would probably have been "public service." Today, business is the more effective vehicle for social good.

At the same time, CSR remains *controversial*. People who have thought deeply about *Why does a business exist?* or *What does profit represent?* do not agree on the answers. Do firms have obligations beyond the benefits their economic success provides? In spite of the rising importance of CSR, many still draw on the views of the Nobel Prize–winning economist Milton Friedman to argue that society benefits most when firms focus purely on financial success.[9] Others look to the views of business leaders who have argued for a broader perspective, such as David Packard (cofounder of Hewlett-Packard):

> I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. . . . A group of people get together and exist as an institution that we call a company so that they are able to accomplish something collectively that they could not accomplish separately—they make a contribution to society.[10]

This book navigates between these perspectives to outline a view of CSR that recognizes both its strategic value to firms and the social benefit such a perspective brings to the firm's many stakeholders. The goal is to present a comprehensive assessment of *corporate social responsibility* that, on reflection, suggests that Friedman and Packard were not as far apart as their respective proponents assume.

A NEW DEFINITION OF CSR

CSR
A responsibility among firms to meet the needs of their stakeholders and a responsibility among stakeholders to hold firms to account for their actions.

The entirety of CSR can be discerned from the three words this phrase contains. CSR covers the relationship between *corporations* (or other for-profit firms) and the *societies* with which they interact, focusing on the *responsibilities* that are inherent on both sides of these ties. CSR defines society in its widest sense, and on many levels, to include all stakeholder groups that maintain an ongoing interest in the firm's operations.

Stakeholder groups range from clearly defined customers, employees, suppliers, creditors, and regulating authorities to other, more amorphous constituents, such as the media and local communities. For the firm, tradeoffs must be made among these competing interests. Issues of legitimacy and accountability exist, such as when a nonprofit claims expertise in an area, even when it is unclear exactly how many people support its vision. Ultimately, therefore, each firm must identify those stakeholders that constitute its operating environment and then prioritize their level of importance. Increasingly, firms need to incorporate the concerns of those key stakeholder groups within their strategic outlook or risk losing societal legitimacy. CSR provides a framework that helps firms embrace these decisions and adjust the internal strategic planning process to increase the long-term viability of the organization.

This framework is broad, however, and definitions regarding the mix of interests and obligations have varied considerably over time.[11] In 1979, for example, Archie Carroll defined CSR in the following way: "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time."[12]

THE CORPORATE SOCIAL RESPONSIBILITY HIERARCHY

Archie Carroll was one of the first academics to make a distinction between different kinds of organizational responsibilities. He referred to this distinction as a firm's "pyramid of corporate social responsibility" (Figure 1.1):[13]

Figure 1.1 The Corporate Social Responsibility Hierarchy

Source: Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons*, July–August 1991, p. 42.

- Fundamentally, a firm's *economic responsibility* is to produce an acceptable return for investors.
- An essential component of pursuing economic gain within a law-based society, however, is a *legal responsibility* to act within the framework of laws and regulations drawn up by the government and judiciary.
- Taken one step further, a firm has an *ethical responsibility* to do no harm to its stakeholders and within its operating environment.
- Finally, firms have a *discretionary responsibility*, which represents more proactive, strategic behaviors that benefit themselves or society, or both.

As a firm progresses toward the top of Carroll's pyramid, its responsibilities become more discretionary in nature. In Carroll's vision, a *socially responsible* firm encompasses all four responsibilities within its culture, values, and day-to-day operations.

While useful, however, this typology is not rigid.[14] One of the central arguments of this book is that what was ethical or even discretionary in Carroll's model is becoming increasingly necessary due to the shifting expectations placed on firms. Yesterday's ethical responsibilities can quickly become today's economic and legal necessities. In order to achieve its fundamental economic goals today, therefore, a firm must incorporate a stakeholder perspective within its strategic outlook. As societal expectations of the firm rise, the penalties imposed for perceived behavior lapses will become prohibitive.

Definitions, therefore, can and do evolve. It seems that, in terms of CSR, the variance is considerable, with at least five dimensions identified: environmental, social, economic, stakeholder, and "voluntariness."[15] And, of course, there is variance not only within countries over time, but also across countries and cultures.

European Union (EU): "Corporate social responsibility (CSR) refers to companies taking responsibility for their impact on society. The European Commission believes that CSR is important for the sustainability, competitiveness, and innovation of EU enterprises and the EU economy. It brings benefits for risk management, cost savings, access to capital, customer relationships, and human resource management."[16]

Association of Southeast Asian Nations (ASEAN): The Mission of the ASEAN CSR Network is to "promote and enable responsible business conduct in ASEAN to achieve sustainable, equitable and inclusive social, environmental and economic development."[17]

United Nations (UN): "CSR is presented as a management concept and a process that integrates social and environmental concerns in business operations, and a company's interactions with the full range of its stakeholders."[18]

While these definitions may seem similar on the surface, the debate around CSR is most apparent in the detail of implementation. The potential danger is that, to the extent that CSR means different things to different people (in reality), action can be ineffective or, at worst, counterproductive:

> Right now we're in a free-for-all in which "CSR" means whatever a company wants it to mean: From sending employees out in matching t-shirts to paint a wall for five hours a year, to recycling, to improving supply-chain conditions, to diversity and inclusion. This makes it difficult to have a proper conversation about what [CSR] should be.[19]

For the purposes of this book, it is important to emphasize that CSR is both a means and an end. It is an integral element of the firm's strategy—the way the firm goes about

delivering its products or services to markets (*means*). It is also a way of maintaining the legitimacy of the firm's actions in the larger society by bringing stakeholder concerns to the foreground (*end*). Put another way, CSR is both a *process* and an *outcome*. At any given moment, CSR describes the process by which firms react to their stakeholders' collective set of needs. CSR is also the set of actions that are defined by what stakeholder demands require. Over time, while the process remains the same (firms should always seek to respond to the interests of their stakeholders), the actions that are required to do this will necessarily evolve in response to shifting norms, values, and societal expectations. As such, references to "CSR" in this book will sometimes be to the process and sometimes to the outcomes. The underlying principles that determine the relationship between the two, however, remain consistent. Either way, a firm's success is directly related to its ability to incorporate stakeholder concerns into its business model. CSR provides a means to do this by valuing the interdependent relationships that exist among firms and their stakeholders. The challenges associated with managing these relationships were apparent to Peter Drucker as far back as 1974:

> The business enterprise is a creature of a society and an economy, and society or economy can put any business out of existence overnight. . . . The enterprise exists on sufferance and exists only as long as the society and the economy believe that it does a necessary, useful, and productive job.[20]

As such, CSR covers an uneven blend of different issues that rise and fall in importance from firm to firm over time. In other words, while the stakeholders stay the same, the issues that motivate them change. Whether the concern is wages, healthcare, or same-sex partner benefits, for example, a firm's employees are central to its success. A firm that consistently ignores its employees' legitimate claims is a firm that is heading for bankruptcy. CSR is a vehicle for the firm to discuss its stakeholder obligations (both internal and external) and a way of developing the means to meet these obligations, as well as a tool to identify the mutual benefits that result. Simply put, CSR encourages a firm to manage its stakeholder relations because these ties are essential to its success and, ultimately, its survival. Implementing CSR, therefore, requires the firm to acknowledge:

> That markets operate successfully only when they are embedded in communities; that trust and co-operation are not antithetic to a market economy, but essential to it; that the driving force of innovation is pluralism and experiment, not greed and monopoly; that corporations acquire legitimacy only from the contribution they make to the societies in which they operate.[21]

CSR encompasses the range of economic, legal, ethical, and discretionary actions that affect a firm's economic performance. At a minimum, of course, firms should comply with the legal or regulatory requirements that relate to day-to-day operations. To break these regulations is to break the law, which does not constitute socially responsible behavior. But legal compliance is merely a minimum condition of CSR.[22] Taking these obligations as a given, the framework presented in this book focuses on the ethical

and discretionary concerns that are less precisely defined and for which there is often no clear societal consensus, but that are essential to address. Firms do this (minimizing competitive risk while maximizing potential benefit) by fully embracing CSR and incorporating it within the firm's strategic planning process.

THE EVOLUTION OF CSR

The call for social responsibility from businesses is not new. While specific issues may change, societies have always made demands of firms. In short, "the pursuit of profit has been 'unloved' since Socrates declared that 'the more [men] think of making a fortune, the less they think of virtue.'"[23] As a result, ancient Chinese, Egyptian, and Sumerian writings often delineated rules for commerce to facilitate trade and ensure broader interests were considered. Ever since, public concern about the interaction between business and society has grown in proportion to the growth of economic activity:[24]

> There has been a tradition of benevolent capitalism in the UK for over 150 years. Quakers, such as Barclays and Cadbury, as well as socialists, such as Engels and Morris, experimented with socially responsible and values-based forms of business. And Victorian philanthropy could be said to be responsible for considerable portions of the urban landscape of older town centres today.[25]

Evidence of social activism intended to influence firms' behavior stretches back across the centuries. Such efforts mirrored the legal and commercial development of corporations as they established themselves as the driving force of market-based societies. Periodically, society stepped in when business was deemed to be causing more harm than good: "The first large-scale consumer boycott? England in the 1790s over slave-harvested sugar."[26] Although crude and lacking the efficient communication that social media enables today, it is clear that these early consumer-led protests paved the way for today's "politics of consumption."[27] Protests could be effective—initially in terms of raising awareness, but soon after in terms of tangible, legislative change:

> Within a few years, more than 300,000 Britons were boycotting sugar, the major product of the British West Indian slave plantations. Nearly 400,000 signed petitions to Parliament demanding an end to the slave trade. . . . In 1792, the House of Commons became the first national legislative body in the world to vote to end the slave trade.[28]

More recently, early academic interest in the topic of CSR in the 1950s was quickly followed by broader societal awareness that resulted in pressure on firms to respond. In particular, books such as *Silent Spring* (1962), *Unsafe at Any Speed* (1965), and *The Feminine Mystique* (1963) were "credited with being catalysts for the environmental movement, the consumer movement, and the feminist movement, respectively."[29] While the extent to which these external forces influence corporate decisions will vary, it is clear

that CEOs have always faced pressure to conform to societal expectations. What is notable today is how quickly such issues emerge and diffuse. The experience of the late Ray Anderson, founder and chairman of Interface Carpets,[30] in relation to the environmental practices of his company, is instructive:

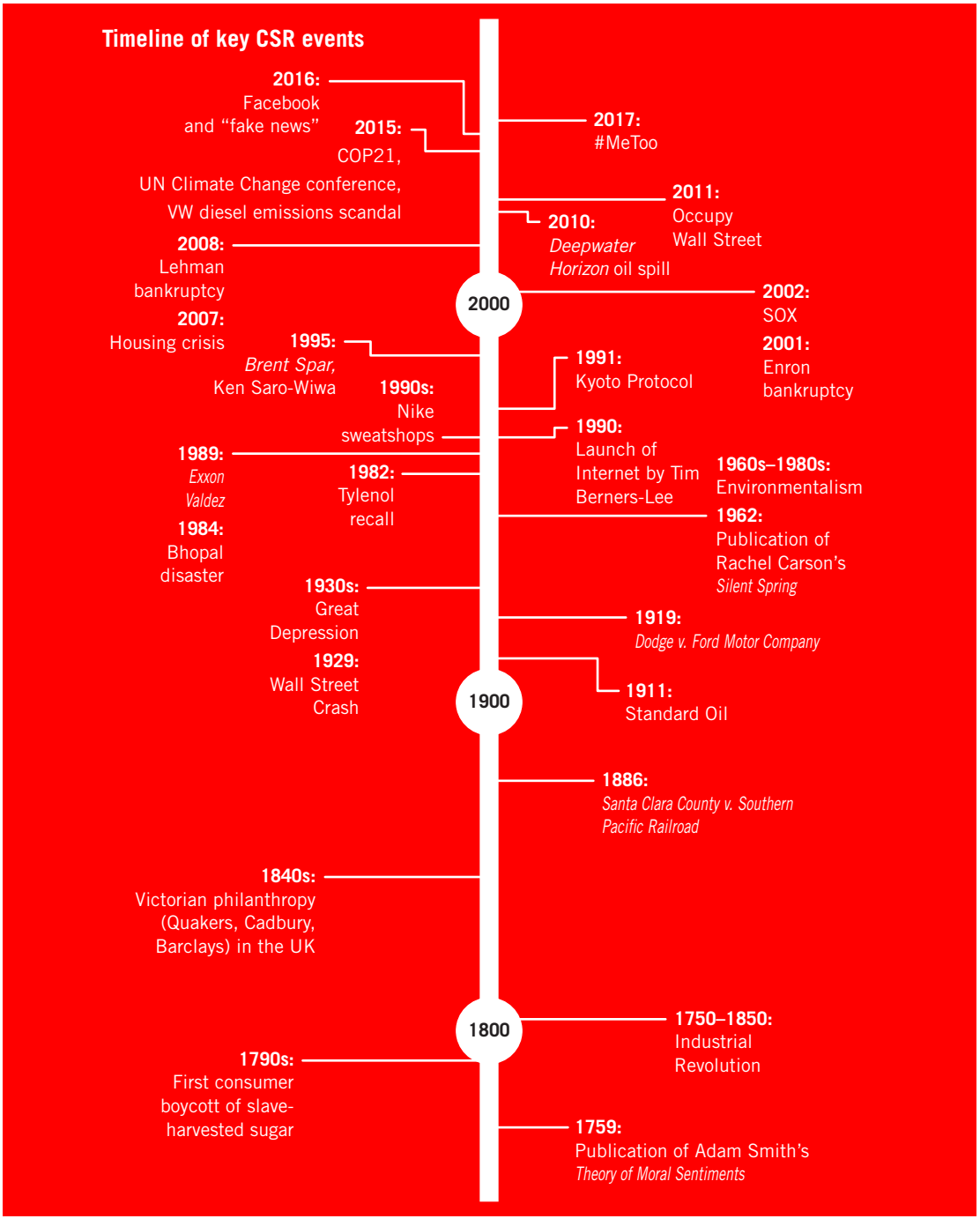
> One day . . . it dawned on me that the way I had been running Interface is the way of the plunderer, plundering something that is not mine; something that belongs to every creature on earth. And I said to myself, . . . the day must come when this is illegal, when plundering is not allowed [and] . . . people like me will end up in jail. The largest institution on earth, the wealthiest, most powerful, the most pervasive, the most influential, is the institution of business and industry—the corporation, which also is the current present day instrument of destruction. It must change.[31]

Leaders such as Anderson face a balancing act that addresses the tradeoffs among the firm's primary stakeholders, the society that enables the firm to prosper, and the environment that provides the raw materials to produce products and services of value. When elements of society view leaders and their firms as failing to act *appropriately*, activism results. That was just as true of 18th-century Britain as it is today. Current examples of social activism in response to firms' perceived lack of responsibility are in this morning's news and online social media. Whether the response is government regulation of products that are hazardous, consumer boycotts of firms that advocate overtly religious principles, or NGO-led campaigns to eradicate sweatshops abroad, societal concerns have become an increasingly relevant topic in corporate boardrooms, business school classrooms, and family living rooms. Figure 1.2 illustrates some of the key events that have defined the progress of CSR over the centuries.

This ongoing evolution ensures that meeting society's expectations is not a static target. Widespread industry practices, which were previously considered discretionary or ethical concerns, can be deemed illegal or socially unacceptable due to aggressive prosecution or novel activism. In recent years, for example, the growing criticism of investors who use high-frequency trading algorithms to gain *unfair* advantages when trading[32] indicates the danger of assuming that yesterday's accepted practices will continue to be acceptable. Tomorrow, it could be continued opposition to the legalization of marijuana that draws the ire of stakeholders, and beyond that, the spread of artificial intelligence. Firms operate against an ever-changing background of what is considered *socially responsible*. These ever-changing standards compound the complexity faced by corporate decision makers. Worse, these standards vary from society to society, even among cultures within a given society. Faced with a kaleidoscope of evolving expectations, the challenge for a manager is to understand what the firm's stakeholders want today and, perhaps more importantly, what they will want six months from now.

Nevertheless, the pursuit of economic gain remains a necessity. CSR does not repeal the laws of economics under which for-profit firms must operate (to society's benefit). The example of Malden Mills demonstrates that, unless a firm is economically viable, even the best of intentions will not enable stakeholders to achieve their goals.

Figure 1.2 The Evolution of CSR



MALDEN MILLS

Aaron Feuerstein, CEO of Malden Mills (founded in 1906, family-owned),[33] was an excellent employer. He operated "a unionized plant that was strike-free, a boss who saw his workers as a key to his company's success."[34] In 1995, however, a fire destroyed the firm's main textile plant based in Lawrence, Massachusetts, an economically deprived area in the north of the state. Feuerstein then had a decision to make:

> With an insurance settlement of close to $300 million in hand, Feuerstein could have, for example, moved operations to a country with a lower wage base, or he could have retired. Instead, he rebuilt in Lawrence and continued to pay his employees while the new plant was under construction.[35]

His decision to keep the factory open and continue meeting his obligations to his employees when they needed him most was applauded in the media:

> The national attention to Feuerstein's act brought more than the adulation of business ethics professors—it brought increased demand for his product, Polartec, the lightweight fleece the catalogue industry loves to sell.[36]

In addition to full pay, Feuerstein continued to provide all employees with full medical benefits and guaranteed them a job when the factory was ready to restart production:

> "I have a responsibility to the worker, both blue-collar and white-collar," Feuerstein later said. "I have an equal responsibility to the community. It would have been unconscionable to put 3,000 people on the streets [at Christmas] and deliver a death blow to the cities of Lawrence and Methuen. Maybe on paper our company is [now] worth less to Wall Street, but I can tell you it's [really] worth more."[37]

But the increased demand for Polartec clothing wasn't enough to offset the debt he had built up waiting for the plant to be rebuilt: $100 million.[38] This situation was compounded by an economic downturn, as well as cheaper fleece alternatives flooding the market. Malden Mills filed for bankruptcy protection in November 2001.[39]

The Polartec example demonstrates vividly the complexity of CSR. While an imperfect measure of a firm's success, profit is clearly essential. If the goal is to create value, the firm needs to stay in business. Would Malden Mills have avoided bankruptcy if it had initially fired half its employees and relocated the factory elsewhere? What is the firm's responsibility to continue delivering a valued product to its customers, and does this outweigh the firm's duties to its employees? The answers to these questions are difficult and will change depending on the issue at hand. What is clear is that good intentions do not replace the need for an effective business model, and no firm, whatever the motivation, can or should indefinitely spend money it does not have. Which actions should be pursued depend on many factors specific to the firm, its industry, and the society in which it is based. Manufacturing offshore in a low-cost environment, for example, remains a valid strategic decision, particularly in an increasingly globalized world. This

choice is strategic because it can provide a competitive advantage for some firms (such as Apple),[40] even while other firms (such as Zara)[41] see strategic value in onshoring operations due to rising costs and a shorter, more responsive supply chain:

> Offshore production is increasingly moving back to rich countries not because Chinese wages are rising, but because companies now want to be closer to their customers so that they can respond more quickly to changes in demand. And some products are so sophisticated that it helps to have the people who design them and the people who make them in the same place.[42]

All business decisions have both economic and social consequences. The trick to success is to manage the conflicting interests of stakeholders in order to meet their ever-evolving needs and concerns. As societies rethink the balance between economic and social progress, CSR will continue to evolve in importance and complexity. And although this complexity muddies the wealth-creating waters, an awareness of these evolving expectations holds the potential to create a competitive advantage for those firms that do it well. The previous examples indicate that the cultural context in which the concept of *social responsibility* is perceived and evaluated is crucial.

Different societies define the relationship between business and society in different ways. Expectations spring from many factors, with wealthy societies having greater resources and, perhaps, more demanding expectations that emerge from the greater options wealth brings. The reasoning is straightforward: In poor democracies, general well-being is focused on the necessities of life—food, shelter, transportation, education, medicine, social order, jobs, and so on. *Luxuries*, such as a living wage or environmental regulations, add costs that may cause them to be delayed. As societies advance, however, expectations change and *general well-being* is redefined. A corresponding shift in the acceptable level of response by firms quickly follows, as this example of air pollution and public transportation in Chile indicates.

In the 1980s, air pollution in downtown Santiago, Chile, was an important issue, just as it was in Los Angeles, California. The problem, however, was addressed differently due to the varying level of economic development in these two pollution-retaining basins.

While stringent laws went into effect in Los Angeles, in Chile, necessities (including low-cost transportation) got a higher priority because of widespread poverty. After more than a decade of robust economic growth, however, Chileans used democratic processes to limit the number of cars entering Santiago and imposed increasingly stringent pollution standards. This shift in priorities reflected their changing societal needs, along with the growing wealth to afford new rules and legal actions.

Different expectations among rich and poor societies are a matter of priorities. The need for transportation, for example, evolves into a need for nonpolluting forms of transportation as society becomes more affluent. Though poor societies value clean air just as advanced ones do, there are other more pressing concerns (such as keeping costs low). As a society prospers, new expectations compel producers to make vehicles that pollute less—a shift in emphasis. In time, these expectations evolve from a discretionary option to a mandatory (legal) requirement.

In short, it is in the best interest of any organization (for-profit, nonprofit, or governmental) to anticipate, reflect, and strive to meet the changing needs of its stakeholders. In the case of a for-profit firm, the primary stakeholder groups are its employees and customers, without whose support the business fails. Other constituents, however, from suppliers to shareholders to the local community, also matter. Firms must satisfy these core constituents if they hope to remain viable over the long term. When the expectations of different stakeholders conflict, CSR enters a gray area, and management has to negotiate among competing interests. An important part of that conflict arises from different expectations, which, in turn, reflect different approaches to CSR.

FOUNDATIONS OF CSR

Strategic CSR represents an argument for a firm's economic interests, where satisfying stakeholder needs is central to retaining societal legitimacy (and achieving financial viability). Much debate (and criticism) in the CSR community, however, springs from well-intentioned parties who argue from perspectives that differ along philosophical and ideological lines. Understanding these different arguments (ethical, moral, rational, and economic), therefore, is essential to comprehend the full breadth and depth of CSR.

An Ethical Argument for CSR

The danger of promoting a perspective of CSR that focuses primarily on its strategic value to the firm is that the ethical and moral foundations on which much of the CSR debate rests are ignored. The advantage of making the business case for CSR is that it is more convincing to those most skeptical of broadening the firm's responsibilities and, as a result, is more likely to be implemented. In other words, the business case is expedient—it offers the greatest potential gain because it will appeal to the widest possible audience of people who need to be convinced. The danger in downplaying an ethical or moral component to CSR, however, is that doing so ignores an intellectual philosophical foundation that many believe is essential to understanding CSR.

There are three essential components encapsulated within the concept of business ethics: normative, descriptive, and practical ethics. *Normative ethics* draws on moral philosophy to categorize individual actions as either *right* or *wrong* in specific situations. *Descriptive ethics* explains why individuals make these *right* or *wrong* decisions. And *practical ethics* applies ethical principles that determine *right* and *wrong* actions to day-to-day decision making. Underpinning each of these three core components, of course, is the assumption that *right* and *wrong* can be determined. This assumption glosses over the issue of whether ethical values are relative or absolute. An ethical argument for

CSR states that, rather than being relative constructs (i.e., varying from individual to individual and culture to culture), ethical values are absolute (i.e., inalienable *rights* that are consistent across cultures and applicable to all humans). Absolute values are easily definable and, as such, exist as a standard against which behavior can be assessed.

Although many discussions around CSR assume an ethical component, the precise relationship between ethics and CSR is often unspecified. As such, the late Rushworth Kidder poses an essential question when he asks: "Can a socially responsible company be unethical?"[43] In constructing an answer, Kidder conceptualizes CSR as a subset of ethics:

> Responsibility . . . is one of five distinct core values that define, globally, the idea of ethics. A necessary but not sufficient condition for ethics, it needs to be fleshed out by the other four values: honesty, respect, fairness, and compassion. Ethics requires all five. So can an individual or a corporation have a strong sense of responsibility without necessarily being honest? Yes. The opposite can also arise, where a deeply honest person proves to be irresponsible. These are two big, different ideas.[44]

An ethical argument for CSR essentially rests on one of two philosophical approaches—consequentialist reasoning or categorical reasoning.[45] Consequentialist (or teleological) reasoning locates ethicality in terms of the outcomes caused by an action. This stream of thought is closely aligned with utilitarianism, which was most famously advocated by the 18th-century English political philosopher Jeremy Bentham:

> An action is considered ethical according to consequentialism when it promotes the good of society, or more specifically, when the action is intended to produce the greatest net benefit (or lowest net cost) to society when compared to all the other alternatives.[46]

In contrast, categorical (or deontological) reasoning "is defined as embodying those activities which reflect a consideration of one's duty or obligation."[47] As such, categorical reasoning represents more of a process orientation than the outcome-oriented focus of consequentialist reasoning. This perspective closely maps to Immanuel Kant's categorical imperative, but it also includes guiding principles such as religious doctrine and core values such as trustworthiness, honesty, loyalty, accountability, and a broad sense of citizenship (i.e., acting out of a sense of responsibility to the common good).

CSR is an argument based on two forms of ethical reasoning—*consequentialist* (utilitarian) and *categorical* (Kantian). Consequentialist reasoning justifies action in terms of the outcomes generated (the greatest good for the greatest number of people), while categorical reasoning justifies action in terms of the principles by which that action is carried out (the application of core ethical principles, regardless of the outcomes).