

## Corporate Social Responsibility

Daniel Brown

A Senior Thesis submitted in partial fulfillment  
of the requirements for graduation  
in the Honors Program  
Liberty University  
Spring 2013

Acceptance of Senior Honors Thesis

This Senior Honors Thesis is accepted in partial fulfillment of the requirements for graduation from the Honors Program of Liberty University.

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George Young, Ph.D.  
Thesis Chair

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Stephen Preacher, D.B.A.  
Committee Member

---

Kyle Hammersmith, M.Ed.  
Committee Member

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Brenda Ayres, Ph.D.  
Honors Director

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Date

### Abstract

This paper will address Corporate Social Responsibility (CSR) and its far-reaching implications. Initially, the term CSR will be introduced and defined to provide the backbone for the following discussions. The paper will address the theoretical constructs of CSR, managerial strategies for implementing CSR and the application of stakeholder theory. The thesis is built upon Dr. Archie Carroll's four-part CSR construct. In addition, international standards of CSR, with a focus on Nike, Inc.'s actions, will be evaluated.

### **Introduction to CSR**

Corporate Social Responsibility (CSR) is a far-reaching concept in the field of business. Carroll and Shabana (2010) suggest the implications of CSR and its components have grown steadily throughout previous decades. To fully understand the magnitude of CSR, it is important to comprehend the meaning of the phrase and its relation to a firm's strategy. Maon et al. (2009) note that "CSR has moved from ideology to reality and represents an important dimension of contemporary business practices" (p.71). The preceding half-century has provided nearly forty identifiably distinct, academic definitions for CSR, and this number may be an underestimation (Carroll & Shabana).

Reaching a single working definition for CSR is nearly impossible. The most logical and applicable definitions arise from a conglomeration of the numerous working definitions of the term. Carroll and Shabana (2010) view CSR as the intertwining of economic, legal, ethical, and discretionary responsibilities that a firm has to its stakeholders. This construct is hierarchal in structure. Economic responsibilities are the most central, and discretionary the least of the four. The four-tiered model proposed here has been validated by numerous studies in the past half-century (Carroll & Shabana; Gupta, 2012). Carroll and Shabana suggest that CSR entails a firm's societal obligations beyond those of the economic and legal nature.

### **Managerial Implementation**

The management function is extremely important when trying to incorporate CSR initiatives into a firm's operations. Maon et al. (2009) points out that CSR strategy and implementation "could be considered an organizational change process" (p.72). Without

managerial guidance, the employees will not know what CSR entails or how to incorporate it into business operations (Gupta, 2012). The aforementioned statements highlight the need for a business firm's missions and values to align and incorporate its CSR goals (Maon et al; Gupta). Maon et al. states that "[a] strong leader might create a vision for the future aligned with the demands from the environment; this leader also must communicate the vision in an inspiring way so that employees act accordingly" (p.79). Without a tangible plan from management on how to incorporate CSR goals in operations, employees will not have the resources to successfully implement these initiatives. Managers may choose to utilize different strategies to implement CSR initiatives.

Benchmarking competing firms' successful CSR strategies allows firms to more effectively implement CSR into operations (Maon et al., 2009; Gupta, 2012).

Benchmarking allows a manager to gauge how to employ her firm's CSR initiatives at a higher efficiency based on the actions of competitors (Maon et al.). Analyzing how a competitor is effectively applying CSR strategy to its business will help the firm identify and hopefully apply those same effective standards to its own operations. Maon et al. suggests that networking is one viable opportunity to better understand other firms' successful CSR implementation practices.

Kurt Lewin was a psychologist who developed the force field model of change (Maon et al., 2009). Lewin's (1951) model, compared to less proactive strategies such as benchmarking, is a more directed and internal approach to the problem of effective CSR implementation. The model consists of three phases: unfreezing, moving, and refreezing (Maon et al.). The unfreezing stage challenges older paradigms that have been long

established in the business firm's operations (Maon et al.). Moving is the stage where a firm realizes that implementing CSR initiatives is necessary to business practicality (Maon et al.). Once the previous two stages have been carried out, the refreezing of the new standards takes place (Maon et al.). This process is dynamic and requires proactive leadership in order for objectives to be realized.

### **Stakeholder Theory**

To fully incorporate CSR into a business strategy, the individual business firm and its management must understand the firm's relationship with the stakeholder.<sup>1</sup> The evolution of a business firm's growing responsibility to society, beyond that of merely maximizing profit for shareholder, has led to the institution of stakeholder theory. The paradigm has shifted from a business strategy solely focused on profit as the community now believes that business firms have a more profound responsibility to its stakeholders, even if some profits are sacrificed in the process (Carroll & Shabana, 2010). Maon et al. (2009) proposes that a balance must be struck between returning profits to shareholders and managing the complex interests of stakeholder groups. The stakeholder idea is a central dogma in regards to CSR (Maon et al.).

Stakeholders represent a nearly endless group of people, depending on the industry and locale in which the firm operates (Maon et al., 2009). Stakeholders range from the employees of a business firm to the residents of a town in which a business operates. The stakeholders are the connection between the goals of the business firm and the societal expectations for it (Maon et al.; Dobers, 2009; Smith, 2011). Being able to distinguish the goals and expectations of those with established interests (stakeholders) in

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<sup>1</sup> Groups or individuals who are directly or indirectly impacted by the actions of a business firm (Maon et al.).

a firm and those with none will help an organization avoid the misappropriation of valuable resources (Maon et al.). Management is tasked with solving the problem of how to prioritize and address stakeholder interests, while simultaneously maintaining profitability.

In order to perform their jobs adequately, managers must distinguish which stakeholder groups warrant expedited managerial responses and which will be addressed in the near future (Dobers, 2009; Maon et al., 2009). It is important to note that no stakeholder group's concerns should go unattended. The large amount of stakeholders and stakeholder groups make it necessary for managers to partition stakeholders by relevance to company operations (Dobers; Maon et al.; Smith, 2011). Maon et al. suggest that dividing stakeholders into primary and secondary classifications will allow managers to more effectively address stakeholders by importance.

Perhaps the most important aspect of stakeholder relations, in regard to CSR, is transparency and adequate reporting of CSR cumulative results (Gupta, 2012; Maon et al., 2009; Smith, 2011). Transparency promotes stakeholder trust and builds positive relationships between the firm and stakeholder groups (Maon et al.). CSR initiatives must be periodically evaluated to ensure they conform to company strategies and do not jeopardize financial sustainability and profits (Carroll & Shabana, 2010). In addition to periodic evaluation, annual reports containing fully disclosed financial and social cost/benefit analysis of CSR activities will help maintain an environment of transparency and trust between a firm and its stakeholders (Gupta; Maon et al.). Gupta suggests that just as increasing focus on marketing within a firm does not guarantee increased profits, there is also no reason to think the CSR firms will always outperform non-CSR firms.

### **Why Be Socially Responsible?**

Good corporate behavior is no longer an option. A (2008) survey from the Economic Intelligence Unit Corporation indicates that managers accept that CSR and profitability are inseparable (Carroll & Shabana, 2010). Firms must realize that society expects upright corporate citizenship (Carroll & Shabana; Maon et al., 2009). Firms that have suffered irreparable harm because poor corporate citizenry stretch across all sectors of business. Numerous financial institutions' predatory lending practices have drawn the ire of stakeholders, while apparel brands, such as Nike (Maon et al.), have experienced uproar because of foreign labor malfeasances ranging from child labor to poor working conditions. Carroll and Shabana note that in a CSR sense, "proacting is better than reacting" (p. 89). Incorporating CSR initiatives into a firm's marketing campaign enhances corporate image and allows the firm another avenue to increase relative market share. The days of pure profit motivation seem to be ending as a societal push toward CSR is leading almost all firms to adapt some form of CSR in an effort to appease stakeholders concerns.

Furthermore, successful firms have embraced CSR because it gives them a competitive business advantage over firms that do not (Carroll & Shabana, 2010; Smith, 2011). The competitive advantage extends into many functions of the firm and its relationship with stakeholders. For instance, Smith notes the generally accepted notion that "firms with good social responsibility may attract better employees and increase current employees' motivation, morale, commitment, and loyalty to the firm" (p. 231). Obtaining and retaining the most skilled employees in a sector should be the desire of all firms. As firms increase competitive advantage through CSR initiatives, brand awareness



also rises (Smith). Eisingerich and Bhardwaj (2011) conclude stakeholders are more likely to pardon negative information from firms with positive CSR standing. In order to maintain approval from stakeholders to carry out CSR functions, competitive firms should ensure that initiatives coincide with the interests of its stakeholders (Carroll & Shabana).

### **Corporate Social Responsibility and Carroll's Construct**

CSR is an idea that has been constantly evolving as business firms are continually more aware of the community around them. CSR encompasses a business firm's obligation to society beyond simply maximizing its profits (Carroll, 1999; Garriga & Mele, 2004; Rowley & Berman, 2000; Shum & Yam, 2011). CSR was not taken seriously and sometimes mocked by business firms before the late 1970s (Lee, 2008).

The change in approach toward CSR can be partially attributed to the enactment of new legislation that created many of the regulatory government agencies during this time period (Carroll, 1991). The new legislation provided business firms with an added incentive to earmark appropriate amounts of fiscal resources to CSR, rather than face harsh government regulation (Eilbirt & Parket, 1975). The attitude toward CSR changed drastically by the late 1990s, as CSR was now a mainstream idea being promoted by different facets of society, ranging from corporations to governments (Lee, 2008).

Many different economists and business professionals have developed their own definitions of CSR. A recurring idea in most theories is that a firm which turns a profit ultimately will provide a greater benefit to society. Manne (1962) states that "[t]raditional economic theory had it that the general welfare would be most satisfactorily provided for if each individual or firm sought to maximize its own economic position in competition

with others” (p. 56). Furthermore, Harold Johnson suggests that business firms with strong profit motivations are likely to engage in CSR activities after reaching profit goals and then act as if CSR was in fact the more important goal (Carroll, 1999). Successful business firms require a prosperous and healthy society to maximize profits. A society of this nature increases the demand for business. Society needs responsible business firms and business firms need a healthy society in order for both to engage in a system of utility maximization (Porter & Kramer, 2004). Companies that practice CSR beyond financial means will end up like most other inefficient businesses: In a position where prices must be raised, employee’s salaries furloughed, and ultimately with a high probability of going out of business (Grigoryan, 2011).

Although many different theories regarding CSR exist, Carroll has developed a comprehensive, hierarchal framework for CSR. Carroll is considered one of the foremost authorities on the subject of CSR. Carroll divides a business firm’s responsibilities into the four distinct categories of economic, legal, ethical, and discretionary. Carroll ranks the categories by their importance, with economic ranking the highest and discretionary ranking the lowest (Aupperle, Carroll, & Hatfield, 1985). Although the economic component of being a CSR firm ranks highest in importance as an individual category, a study performed by Carroll and his colleagues concluded that when weighed as one component, the non-economic components of the construct were nearly double the importance of the economic component alone (Aupperle, Carroll, & Hatfield). Each individual business firm, depending on its size, management ideology, overall strategy, and other varying business conditions, determines its own schemata for applying the four principles in Carroll’s CSR construct. The pyramid structure is simply a framework for

business firms to reference (Carroll, 1991). Carroll also posits that “corporate citizenship addresses the relationship between companies and all their important stakeholders, not just employees” (Carroll, 1999).

### **Carroll’s Economic Construct Component**

The economic responsibilities of a business firm, in relation to CSR constitute the underpinning on which legal, ethical, and discretionary responsibilities rest (Shum & Yam, 2011). Prior to playing any other role, the business firm was the rudimentary economic module of society (Carroll, 1991). Society anticipates that a business firm will produce output at a profit (Carroll, 1999; Aupperle, Carroll, & Hatfield, 1985). The expectation of profit is a result of how a capitalistic economy is intended to work (Carroll). Without maintaining profitability, a business firm will not have the resources necessary to partake in CSR activities. Similar to how a private individual is expected to earn money in order to be considered a relevant societal participant, business firms are also required to gross enough income so that it is able to pay bills and recompense investors. Profitable corporations reward society by providing strong returns to investors and at the same time guaranteeing the continuity of products, services, and other benefits the business firm provides (Carroll, 1998). However, a simple measurement of profits and related CSR activities cannot be relied upon alone when considering the criteria for a socially responsible business firm. Until scandal broke, Enron was considered a business firm at the forefront of CSR and its shares were commonly owned by responsible funds (Lee, 2008).

An important concept within the economic framework of CSR is the stakeholder versus shareholder dilemma. A shareholder legally owns a portion of the business firm

while a stakeholder holds an undeniable personal interest in the business firms operations. Stakeholders may be employees, suppliers, communities, and other entities that may not legally own any share of a firm, but are affected by the decisions the firm makes (Manne, 1962). A 1967 study noted that executives at business firms feel that their primary responsibility was to shareholder's interests (Eilbirt & Parket, 1973). After numerous discussions on the stakeholder versus shareholder dilemma, it is now widely accepted that firms must aim to satisfy its stakeholders, just as it would shareholders (Shum & Yam, 2011; Carroll, 1991; Manne; Carroll, 1998; Lee, 2008; Garriga & Mele, 2004). Managers within a business firm must weigh the importance of each stakeholder claim and make a decision on whether or not to pursue the stakeholder's interest. A manager must weigh stakeholder claims on a basis that measures the stakeholder's legitimacy and power (Carroll).

Corporations have a primary responsibility to maximize shareholder wealth and to engage in activities that coincide with profitability. Johnson's (1970) lexicographic utility theory insists that business firms with "strong profit motives and performance" are likely to engage in discretionary CSR profit goals are reached (Carroll, 1999). Many companies partake in CSR because these activities ultimately cost less than not participating (Porter & Kramer, 2004; Grigoryan, 2011; Shum & Yam, 2011). An example of a firm saving on costs and simultaneously engaging in CSR activities can be seen in BP's decision to internalize carbon dioxide emissions. The firm reportedly saved a net of \$600 million with the incorporation of this practice (Mackenzie & Hodgson, 2005). Nike, a multi-national designer and manufacturer of sport's apparel and footwear, was forced to change its foreign labor practices after reports of child labor abuse (overworking, poor

conditions, etc.) surfaced in the *New York Times* in the early 1990s (Porter & Kramer). Although Nike spent years accumulating community goodwill through charitable contributions and other CSR activities, one act of social negligence set the brand back years and cost Nike millions of dollars. The Nike situation outlines the economic importance of business firms consistently maintaining a social conscience in every aspect of its business, from labor practices to advertising campaigns. It is abundantly clear that economic prosperity within a business firm overlaps with and, even at times, directs the CSR activities in which business firms partake.

### **Carroll's Legal Construct Component**

Business firms that strive to be good citizens within their respective business domains, in the same manner as individual citizens, are required to obey all laws (Carroll, 1998). Furthermore, business firms must stay diligent and adhere to new legislation or adjust to changes in legislation. The law acts as the basic framework for what business firms can and cannot do. Business firms are expected to maintain profitability while at the same time adhering to all legislation (Carroll; Carroll, 1999). Obeying the laws constitutes a fulfillment of the “social contract” between the business firms and the societies in which it operates (Carroll).

Another legal element of CSR revolves around the capacity of business executives to carry out CSR activities at the expense of investors. In totality, U.S. states recognize the right of a business to make a charitable contribution. However, the judicial guideline known as the business judgment rule serves as an important structure for how business executives are allowed to allocate funds for CSR activities. Unless an executive

acts in a way that can be deemed irrational, she is given much leeway as to how she wants the business to approach its CSR activities (Grigoryan, 2011).

The law represents society's codified ethics (Carroll, 1998). Obedience to the laws of society is not a choice for business firms; it is a requirement (Carroll, 1999). Business firms are expected to reach economic benchmarks while following all applicable laws (Carroll). Legislation is often enacted when it is believed that the marketplace cannot provide fair business competition on its own (Carroll). The rules established by the law are designed to support economic transactions and wealth maximizing resource allocation (Carroll). Contract law and minimum wage law are examples of how legislation is enacted for the betterment of business and society (Carroll). Contract law aims to ensure fair interactions and fulfillment of obligations between and by business firms while minimum wage law helps to ensure that workers are not exploited. Clearly, laws are implemented to bring about social benefits as well as ensuring fair business competition (Carroll).

### **Carroll's Ethical vs. Legal Construct Component**

While certain elements of the legal category overlap with elements of ethics, the two categories are distinct. The law is in place to highlight the basic "rules of the game" (Carroll, 1999; Edmondson & Carroll, 1999). In contrast, the ethical requirements of a business firm are the ethical norms or mores society expects a business firm to uphold (Carroll). Ethics entail behavior that extends "over and beyond legal requirements" (Carroll). The law is in place to define the minimum requirements of acceptable corporate behavior. In order for a business to fulfill its ethical obligation to society, it must go beyond mere compliance with the law (Carroll, 1998). Laws are designed to manifest

ethical standards (Carroll). However, just because a certain action of a firm falls within the legal boundaries, the action may not be considered ethical by society in aggregate (Grigoryan, 2011). The actions of Goldman Sachs' executives before the "The Great Recession" of 2007 provide an example of the aforementioned scenario. In short, one arm of Goldman Sachs bet heavily against a financial instrument being sold by another arm of the company. While these actions were technically legal, they most certainly were not ethical.

Oftentimes the law does not establish clear boundaries between what actions are voluntary and what actions are mandatory (Carroll, 1998). Many other issues arise when only legal, and not ethical considerations are addressed by business firms. For instance, laws are not always current, some legislation may not address pertinent social issues, and laws often trail behind ethical thinking (Carroll). Proactive ethical responsibility by business firms will likely close many legal loopholes where laws may be ambiguous (Shum & Yam, 2011).

### **Carroll's Ethical Construct Component**

The ethical category of Carroll's construct is far reaching. According to Edmondson and Carroll (1999), ethics are the "unwritten codes, norms, and values implicitly derived from society and as such, go beyond the law." Furthermore, a firm that desires to be regarded as an upstanding corporate citizen is economically profitable, obeys the law, and aims to function in an ethical fashion (Carroll, 1998). Business ethics revolve around whether a business firm's behavior is good or bad, just or unjust, or fair or unfair (Carroll; Shum & Yam, 2011). Changes in business ethics usually occur faster than laws can adapt (Carroll, 1991). Unfortunately, the different ethical responsibilities of

business firms are often poorly defined and constantly debated in the public realm as to their legitimacy (Carroll). The ambiguity of ethics makes it hard for business firms to address all ethical concerns. Managers must be the ethical teachers of a firm (Carroll). Proper managerial attention to ethics provides the foundation for ethical actions by all employees of the firm.

Unethical business practices often leave business firms vulnerable to litigation and sometimes stiff regulatory penalties. Recently, allegations of phone hacking by News Corp. have led to numerous civil and criminal complaints against the firm. Shareholders have come out in droves to condemn the company's practices and leadership. News Corp. CEO Rupert Murdoch recently commented on the scandal, saying that "[t]here is simply no excuse for unethical behavior" (O'Toole, 2011). The scandal has decimated the firm's financial resources as it must now reallocate capital to settle the ongoing complaints. Not only does News Corp. face severe financial penalties for its unethical behavior, the company will always have its name associated with the scandal. This association could cost News Corp. millions in brand equity. Clearly, lapses in ethical accountability are going to cost News Corp. millions, if not billions of dollars. This situation underlines the necessity of ethical behavior within the business landscape.

Sound ethics within business firms are necessary where specific laws are not yet in place to reflect society's position on an issue. In addition, managers must take responsibility to ensure that all necessary ethical considerations are taken. Not only does it serve the economic interests of the firm to have ethical managers, but it also impacts what the manager's subordinates consider acceptable or unacceptable behavior (Carroll, 1998). Managers in firms with codes of ethical conduct, in some instances, are legally



bound by the words in the firm's code (Shum & Yam, 2011). Because the line between mandatory CSR and voluntary CSR activities is thin, the necessity for a business firm to have an overall ethical approach in its activities is even greater (Shum & Yam).

### **Carroll's Voluntary CSR Activities Construct Component**

The final element of Carroll's CSR construct is voluntary or philanthropic activities. Philanthropy is defined by Carroll (1998) as the "desire to help humankind through acts of charity, whether done by private citizens, foundations, or corporations." Philanthropy is concerned with the actions of a corporation in response to society's expectation of good corporate citizenship by business firms. Philanthropy is often manifested in corporate initiatives or acts that stimulate human welfare or goodwill (Carroll, 1991). The main difference between a business firm's ethical responsibilities and philanthropic responsibilities is that the community expects the firm to be ethical, but does not necessarily expect it to make philanthropic contributions to society (Carroll). Society does not provide a clear explanation of a business firm's philanthropic responsibilities (Carroll, 1999). Therefore, the philanthropic motivation and performance of a business firm is often difficult to ascertain and evaluate (Aupperle, Carroll, & Hatfield, 1985). Philanthropic giving is becoming increasingly strategic as business firms see it as an opportunity to build positive brand recognition and goodwill within the community (Carroll). For this reason, corporations desire CSR activities to be widely known and publicized (Parke & Eilbert, 1975).

According to a study conducted by Shum and Yam (2011), the strongest correlation between Carroll's four CSR categories exist between the ethical and philanthropic elements. One survey suggests that upwards of three fifths of citizens wish

business executives would go beyond profit maximization to encompass broader societal objectives (Shum & Yam). Chick-fil-A is a corporation that has embraced the idea of good corporate citizenship. Some voluntary CSR initiatives put in place by CEO S. Truett Cathy include a charitable foundation, ten foster homes, a summer camp, two scholarship programs, and many other programs that benefit society. Chick-fil-A saw double-digit sales increases for a number of years, confirming that a business firm can be a good corporate citizen and at the same time prosper economically (Carroll, 1998).

Many reasons exist to explain why corporations engage in philanthropic activities. However, according to Edmondson and Carroll (1999), the top three reasons for corporations to engage in voluntary CSR activities are as follows: To protect and improve the environment in which to live, work, and do business; to practice good corporate citizenship; and to give back with little or no direct or indirect company interest. Following closely in fourth is the motive of realizing the good public relations value of voluntary CSR. Voluntary CSR is often performed in a way that increases a business firm's brand recognition and competitive advantage (Shum & Yam, 2011). One reason that did not appear relevant to voluntary CSR motivations was giving back because of pressure from peers, customers, and/or suppliers (Edmondson & Carroll). When a business firm's voluntary CSR activities reflect the company's overall mission, it creates greater wealth within the community than do other forms of voluntary CSR. Performing voluntary CSR in an arena where the business firm has extensive knowledge and resources allow for the activities performed to be more impactful on the community (Garriga & Mele, 2004). For instance, an internet technology (IT) firm that teaches free computer literacy classes at a community center will be more beneficial than a fast food

firm attempting to do the same. Furthermore, when a business firm's size or profits are reduced, its potential to perform CSR activities is also reduced (Parket & Eilbert, 1975).

### **International CSR and the Nike Case**

The Nike brand and image is recognized in nearly every nation. Nike has distribution outlets and manufacturing facilities in a number of countries throughout the world. The international scope of Nike's business places an impetus on the firm to ensure that all practices conform to internationally accepted standards. Unfortunately, many of these standards are vague, some applying in one country, but not in another. Locke, Kochan, Romis, and Qin (2007) discuss the ambiguity of international social responsibility standards. Because of the lack of a "strong system of global justice," multi-national firms face pressure from activist organizations to implement corporate "codes of conduct" that govern its actions in locations where formal legislation is ambiguous or absent (Locke et al., p. 21). Nike has experienced these pressures in response to the firm's use of labor in less developed markets, such as China, Indonesia, Thailand, and Vietnam. De Tienne and Lewis (2005) note that Nike lacked corporate awareness and control of manufacturing in many countries where it had sub-contracted foreign labor resources.

A recent focus by activist groups on improving labor conditions has forced Nike to reevaluate the standards it applies to manufacturing subsidiaries in countries without established safeguards in the labor market. Nike has realized that a business must go beyond the bare minimum to proactively ensure internationally accepted labor standards are being adhered to in all countries in which the firm operates.

### **Divergent International CSR Standards**

Addressing CSR on an international level is often difficult for firms. Divergent standards of practice make it difficult for organizations to decide how to most effectively fulfill social responsibility requirements internationally. Hill (2006) indicates that “informal law” has a broad impact on international CSR implementation. Informal laws are not legally enforceable, rather relying on self-regulation and moral guidelines imposed by collective agreements or international guidelines (Hill). Nike has been impacted by the divergent nature of international legislation. The firm’s labor practices in Asia have been heavily scrutinized and classified as abusive in some cases. Although the actions taken by Nike and its subsidiaries may be completely legal in the respective countries, they do not reflect on overall attentiveness to internationally acceptable labor standards. A CSR firm must go beyond mere legal compliance and apply a sound ethical strategy.

Nike manufactures many of its products in China and Vietnam, which place a disproportionally low importance on social responsibility, compared with European and North American countries. Welford (2005) conducted a study which indicated that only 10% of Asian firms have policies concerning human rights. Asian firms are likely only to take action if an issue directly affects the firm (Welford). Some Asian nations, including Japan and South Korea, have more developed policies regarding fair wage, working conditions, and work week limitations, than in Chinese dominated economies (Welford). Nike recently faced a number of publicity nightmares as a result of its labor practices in Indonesia, Pakistan, China, Vietnam, and Cambodia (Locke et al., 2007). Allegations of underpaid workers surfaced in Indonesia, child labor usage in Cambodia and Pakistan, along with poor working conditions in China and Vietnam have showcased a lack of

attentiveness, by Nike, to international CSR concerns (Locke et al.). Although the employees affected do not work directly for Nike, the firm has been heavily criticized for its ineffective response to the issue.

Nike has spent much of the last decade attempting to rebuild its foreign labor relations image. The firm has taken a number of steps to ensure that it engages in socially responsible practices that meet similar standards that U.S. companies are required to follow. Doorey (2011) indicates that, in 2005, Nike was the first firm to release information about the foreign manufacturing facilities it utilizes. Furthermore, Nike has increased the minimum age requirements of factory workers to eighteen and insisted that foreign manufacturing facilities adhere to United States Occupational Safety and Health Administration (OSHA) standards for indoor air quality (Locke et al., 2007). The moves promote an international transparency regarding social responsibility, specifically foreign labor usage (Doorey). Nike now employs a number of expatriates to audit foreign manufacturing facilities to ensure it is not only compliant with local laws, but also adhering to internationally accepted, socially responsible labor practices. The aforementioned events show that Nike understands the necessity of socially responsible actions that extend beyond the requirements of local legislation.

### **Nike: Economic Implications of CSR**

Because many different theories and definitions regarding CSR exist, Carroll provides a comprehensive hierarchal approach to CSR. Although the economic component of being a CSR firm ranks highest in importance as an individual category, a study performed by Carroll and his colleagues concluded that, when weighed as one component, the non-economic mechanisms of the construct were nearly double the

importance of the economic component alone (Aupperle, Carroll, & Hatfield, 1985).

Nike should understand how corporate actions in foreign nations impact the economic viability of the firm.

The firm must also realize that some actions may lead to short-term profits, but do not promote long-term sustainability. For example, if Nike continues to neglect the needs of its foreign labor force, the firm will experience renewed public outcry and possibly face sanctions or an outright boycott of its products. However, if Nike continues to partake in initiatives that rectify past labor issues, the firm will be viewed in a positive light. Furthermore, the initial costs of enacting a monitoring system for foreign manufacturing facilities will be offset, as the legal, public relations, and other affected business units will no longer have to devote numerous resources to the issue. Nike will also be able to use the developments as a promotional device showing the good Nike does in foreign communities.

### **Nike: Legal Implications of CSR**

Business firms that strive to be held in high regard by stakeholders are required to obey all applicable laws (Carroll, 1998). Ignorance is not an excuse for legal deviance. As previously mentioned, a firm's "social contract" is fulfilled by complete adherence to applicable legislation (Carroll, 1999). Internationally, laws and regulations are often ambiguous and vary between countries. Evans (2007) notes that "weak governance" on the international level changes the way firms approach legal requirements in the international setting (p. 313). In many cases, "Activists expect corporations to not simply abide by local laws and norms, but indeed to set them, and occasionally even to disregard them where they contradict other, usually western-based norms" (Evans, p. 314). Nike's

international legal responsibilities are to follow all laws enumerated by local legislations. However, as Evans noted, it is often not satisfactory to simply follow local laws, firms must go beyond local legal requirements in its operational activities. Going beyond the legal framework of a country to ensure socially acceptable conditions is a function of a firm's ethical responsibilities.

### **Nike: Ethical Considerations**

The ethical category of Carroll's construct is far reaching. A firm that desires to be regarded as an upstanding corporate citizen is economically profitable, obeys the law, and aims to function in an ethical fashion (Carroll, 1998). Business ethics focus on the aggregate right or wrong of a firm's activities (Carroll; Shum & Yam, 2011). The importance of ethical business practice is magnified on an international level. In addition to following ethical guidelines accepted domestically, Nike must consider what is ethical in foreign countries where it operates. This has been a pervasive issue for Nike and its manufacturers.

As mentioned earlier, Nike has been the subject of public outcry, not only because it was operating illegally in foreign countries, but also because its manufacturers were engaging in predatory labor practices that would be unacceptable in the United States. Nike responded to allegations of unethical foreign labor practices with a number of corporate policies that aimed to increase foreign transparency and improve working conditions. The policies show that Nike is more aware that it has an ethical responsibility to eliminate foreign labor abuses and ensure that manufacturing facilities are treating workers in a socially responsible, ethical manner. Strong ethical positioning not only improves corporate image, but it also shields corporations from litigation resulting from

situations where it is barely in compliance with local law. Operating in an ethical manner provides a buffer zone between corporate actions and applicable legislation.

### **Nike: Philanthropic Initiatives**

Philanthropic actions present international firms, like Nike, the opportunity to engender international goodwill toward its brands and products. Some philanthropic activities Nike has engaged in include building schools and living quarters for foreign employees who work in Nike manufacturing facilities. These actions are not required of Nike, but show the firm is committed to social responsibility in its foreign worksites.

### **Recommendations for Nike**

Clearly, Nike has subjected itself to the ire of activists because of its questionable labor practices of the past. Nike has made great strides toward socially responsible labor practices in the past two decades. In addition to the numerous initiatives put in place by Nike to reform its labor practices, the firm now employs eighty corporate social responsibility and compliance managers, with nearly half residing in countries where Nike maintains manufacturing facilities (Locke et al., 2007). Furthermore, “[a]ll Nike personnel responsible for production or compliance receive training in Nike’s code of conduct, labour practices, and cross cultural awareness...” (Locke et al., p. 25). Nike has taken numerous proactive steps to promote socially responsible behavior in its foreign manufacturing facilities, however, there are still numerous actions that can be taken to further improve Nike’s foreign labor situation.

Nike should establish anonymous reporting systems for foreign employees to report labor abuses without fear of reprisals. This will promote an increased level of accountability within managers at Nike contracted manufacturing facilities. Upon discovery of violations, Nike should work to proactively address the issues in a way



reprimands managers, without harming the employment situation of workers. Nike must also continue its philanthropic activities in foreign communities, helping to develop local economies and promote the well-being of all citizens. Furthermore, Nike must ensure that its standards are beyond what is required by local laws. Instead of a relative system of standards, there must be a universally accepted, absolute set of standards developed and applied by Nike in all locations where its products are manufactured and sold. An absolute set of labor standards will ensure that Nike operates all facilities in the same, socially responsible manner.

Most importantly, a corporate ideological change must occur from the top down. Top management must embrace all initiatives that promote socially responsible behaviors, domestically and internationally. Without dedication from top management, employees will not sense that foreign labor practices are an important priority for the company. It must no longer be acceptable to skirt internationally acceptable conditions under the shield of local laws. Nike has been proactively tearing down what was once considered acceptable in its corporate culture. The firm must continue to approach foreign labor practices with due diligence to ensure maximum compliance. The continued dedication will allow Nike to reimage its brand away from the previously negative connotations derived from its abusive foreign labor practices and toward one of a firm that embraces its social obligations in the international community.

### **Conclusion**

Carroll provides business firms with an excellent construct to help understand its obligations to the shareholder and stakeholder. How a firm decides to fulfill its obligation to society will vary depending on the management and organizational structure of the

firm. The four constructs are shaped similar to a pyramid with economic responsibility at the base to provide a building block for the legal, ethical, and voluntary responsibilities of a business firm (Shum & Yam, 2011). Each element is closely related to the other (Carroll, 1998). An upstanding corporate citizen maximizes its profits while simultaneously fulfilling its obligation to others (the legal, ethical, and voluntary aspects of Carroll's construct) (Carroll). In the most basic of terms, a business is called upon by society to maintain profitability, abide by the law, be ethical, and be a good corporate citizen (Carroll, 1991). The Nike case provides pertinent examples of how CSR initiatives can impact the perception and ultimately, the profitability of a business firm.

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