The Corporate Social Responsibility Debate

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Abstract

The purpose of this study is to evaluate the arguments concerning corporate social responsibility (CSR). The two sides of the debate are stakeholder theory and shareholder theory. Proponents of stakeholder theory support providing for the discretionary expectations of society. On the other hand, advocates of shareholder theory maintain that businesses should simply obey the law and maximize shareholder wealth. Although CSR is enthusiastically espoused by many social progressives, it is not a panacea for society's ills. The conclusion of this study is that corporations should focus on legally maximizing shareholder wealth based on ethical principles. CSR should only be pursued if doing so accomplishes this function.

The Corporate Social Responsibility Debate

Corporate Social Responsibility (CSR) has recently become a strongly debated topic. What is the business of business? Should businesses attempt to solve societal ills? Or should businesses merely maximize shareholder wealth? Both sides of the CSR debate have been forcefully attacked and vigorously defended. Have the warnings concerning CSR from the accomplished economists Theodore Levitt and Milton Friedman become irrelevant in the modern era? Until recently, there was hardly any disagreement that the objective of a business was to maximize long-term shareholder wealth.

CSR Defined

During the past century, CSR has been defined in a multitude of ways (Dahlsrud, 2008). These definitions range from performing standard ethical practices to enhancing the welfare of society. Some even propose that the concept of CSR has become void of meaning. Others claim that the varying definitions of CSR are congruent, with each of the definitions relating to the effects of a business on its stakeholders. Nevertheless, one of the most complete and frequently cited definitions comes from Archie Carroll (1979), a business management professor at the University of Georgia: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (p. 500). Even though it is popular, Carroll’s definition is too broad. A better definition is posited by the Commission of the European Communities (2006):

> [CR] is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their

> stakeholders on a voluntary basis. It is about enterprises deciding to *go* beyond minimum legal requirements and obligations stemming from collective agreements in order to address societal needs. (p. 2)

For the purposes of this thesis, CSR is defined as corporations engaging in voluntary social efforts that transcend legal regulations (Davis, 1973; Piacentini, MacFadyen, & Eadie, 2000; Van Marrewijk, 2003; McWilliams & Siegel, 2001). These voluntary social efforts include charitable giving, environmental activism, and community service.

History of CSR

After being attacked and rejected by business leaders for decades, the notion of CSR has suddenly become a central facet of the modern corporation: "Corporate social responsibility (CSR) has been transformed from an irrelevant and often frowned-upon idea to one of the most orthodox and widely accepted concepts in the business world during the last twenty years or so" (Lee, 2008, p. 53).

Dodge v. Ford Motor Company

The CSR debate entered the courtroom in 1919 with the Dodge v. Ford Motor Company court case, which concerned the proper role of business. The majority opinion of the case had a distinctively conservative view of CSR. The case centered on the proper use of shareholder funds. Henry Ford, Ford's founder, strongly believed in providing a Ford vehicle for everyone. Therefore, he planned to reduce the price of a Ford from $440 to $360. However, shareholders complained that this action would prove to be detrimental because the primary responsibility of Ford Motor Company was to provide them with a profit. The case concluded:

> A business corporation is organized and carried on primarily for the profit of the stockholders. The power of the directors is to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end and does not extend to a change in the end itself, to the reduction of profits or to the nondistribution of profits among stockholders in order to devote them to other purposes. (Ostrander, 2002, p. 259)

This decision presented the view of most people concerning the role of business until the middle of the 20th century; businesses were created to enhance shareholder wealth, not redistribute it.

Historical CSR Figures

The first key statement to specifically mention the social responsibility of business emanated from Harvard University. The business school dean, Donald David urged the incoming MBA class to perceive the responsibilities that were to be assumed by business leaders. These responsibilities consisted of going beyond the financial interests of shareholders and supporting social causes (Spector, 2008).

Some other historical leaders in the CSR discussion were Levitt and Friedman. Levitt, in 1958, exhorted businessmen to take heed of the dangers of social responsibility. Likewise, in the 1960s, Friedman warned about the negative consequences of social responsibility. Friedman offered a conservative, economic view of CSR. In a *New York Times* article, Friedman (1970/2002) asserted, “There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game” (p. 230).

CSR Today

Today, textbooks, magazines, journals, newspapers, websites, and books consistently mention CSR. An emphasis on CSR permeates higher education. One cannot open many business textbooks that do not flaunt the benefits of this exalted concept. CSR has become popular throughout the world. For instance, the Asia-Pacific CSR group was founded in July 2004. This group was founded to promote favorable environmental and human resource regulations across the region (Gautam & Singh, 2010).

Businesses are increasingly implementing CSR policies. For example, many firms in the airline industry have incorporated CSR into their business structures. In recent decades the airline industry has been pressured into reducing their negative environmental effects. Consequently, airline firms are focusing on reducing emissions and aircraft noise (Cowper-Smith & de Grosbois, 2011).

Reasons for firms implementing CSR include strategy, defense, and altruism. Many corporate executives believe that CSR creates a competitive advantage for firms, thus leading to greater market share. CSR can differentiate a company from its competitors by engendering consumer and employee goodwill (McWilliams & Siegel, 2001). CSR may also be used to preempt competitors from gaining an advantage. Once a firm in an industry has implemented CSR policies successfully, rival firms may be forced to engage in CSR as well. If they do not exercise CSR, these rival firms are in danger of losing consumer loyalty. On the other hand, some firms are involved in CSR simply because they believe it is the right thing to do. Regardless of the underlying reasons, CSR has become a commonly used term in the business arena (Lindgreen, Swaen, & Maon, 2009). N. Craig Smith (2003b), a former professor at Harvard Business School, argued that “The impression created overall is that the debate about CSR has shifted: it is no longer about whether to make substantial commitments to CSR, but how” (p. 55).

Stakeholder Theory

On one side of the argument are those who believe in providing for society’s discretionary expectations. In addition to making a profit and obeying the law, a company should attempt to alleviate or solve social problems. This view is commonly advocated through stakeholder theory. This theory maintains that corporations should consider the effects of their actions upon the customers, suppliers, general public, employees, and others who have a stake or interest in the corporation (Jensen, 2002; Smith, 2003a; Freeman, Wicks, & Parmar, 2004; Lee, 2008; Schaefer, 2008). Supporters reason that by providing for the needs of stakeholders, corporations ensure their continued success. A renowned company that exhibits the stakeholder view is Johnson and Johnson. Their credo lists the corporation’s responsibilities in the following order: customers, employees, management, communities, and stockholders (Seglin, 2000/2002). Proponents of stakeholder theory maintain that increasing shareholder wealth is too myopic a view. According to stakeholder theory, increased CSR makes firms more attractive to consumers. Therefore, CSR should be undertaken by all firms.

Legitimacy Theory

In a more extreme version of stakeholder theory, legitimacy theory claims that corporations have implicit contracts with stakeholders to provide for their long-term needs and wants. By providing for the desires of stakeholders, the corporation legitimizes its existence (Guthrie & Parker, 1989). Because society provides important benefits to the corporation, the corporation is obligated to promote society's interests in return. The theory in effect claims that because corporations have the resources, they should engage in social ventures. In addition, legitimacy theory maintains that larger firms have a greater responsibility than smaller firms.

Let Business Try

An argument voiced for stakeholder theory is that society should let business attempt to solve society's problems because other institutions have clearly failed to do so (Davis, 2001). In order for business as an institution to retain its social authority, business must meet the needs of society. Proponents of the argument, which is also known as the Iron Law of Responsibility, contend that, "society ultimately acts to reduce the power of those who have not used it responsibly" (Davis, 2001, p. 314). However, opponents of stakeholder theory disagree. How can businesses that are not specialized or elected to serve in social areas do a better job than political institutions?

Problems with Stakeholder Theory

Denies Fiduciary Responsibility

Stakeholder theory has some significant disadvantages. For instance, stakeholder theory runs directly counter to corporate governance. Since shareholders are owners of the firm, the firm should be operated to maximize their returns. Stakeholder theory transfers the corporation's focus from shareholders to the needs of stakeholders. By implementing unprofitable CSR programs, firms are denying their fiduciary responsibility to shareholders.

Oversimplification

Society has numerous problems that have existed for many years such as poverty and pollution. If these problems were as simple to solve as stakeholder theory advocates maintain, they would have been remedied long ago by profit-seeking firms focused on benefiting society (Karnani, 2010). Many businesses have discovered, however, that the pursuit of society's welfare often leads to a reduction in profits. If managers pursued CSR activities that hampered profits they would likely be out of a job. The owners of a firm desire a return on their investment, and would likely fire a manager that purposely opposed this objective. Social problems are more complex than stakeholder theorists claim.

Overregulation

Another critical argument voiced against stakeholder theory is the overregulation argument. This argument maintains that the pursuit of CSR would lead to more rigorous environmental and social regulations for businesses across the world. These regulations would then make it more difficult for undeveloped nations to keep pace with developed nations. David Henderson (2009), a Visiting Professor at the Westminster Business School and the London School of Economics asserted, "When conditions differ widely between countries, as they do, prescribing and enforcing such common standards . . . restricts the scope for mutually beneficial trade and investment flows. It holds back the development of poor countries by suppressing employment opportunities within them" (pp. 13-14). The potential for overregulation strikes a formidable blow to stakeholder theory.

Competing Interests

One of the core problems of stakeholder theory is the presence of competing interests within and outside a firm. Supporters of stakeholder theory argue for a multi-fiduciary relationship between managers of a corporation and all of a firm’s stakeholders. By definition a fiduciary relationship involves promoting the interests of one group above others; however, “as most everyone recognizes, the interests of shareholders, customers, suppliers, employees, and communities in the management of a firm's assets are conflicting” (Marcoux, 2003, p. 4). Shareholders want the highest return possible through capital gains and/or dividends at the lowest possible risk. Customers desire quality products, low prices, and excellent service. Employees crave high wages, excellent working conditions, and a handsome benefits package. These competing demands from stakeholders make stakeholder theory untenable. It would be difficult to balance these desires in practice. Some stakeholders would be satisfied while others would be disgruntled (Jensen, 2002).

The implementation of CSR would likely cause significant disagreement among shareholders as well. Some of the shareholders would promote CSR. On the other hand, some shareholders would support the sole pursuit of profit. Even if shareholders agreed that CSR were beneficial, they may differ as to where it should be directed. Furthermore, the stakeholders would be competing for the implementation of various CSR programs. How could a business manager discern which program(s) would be the best to pursue?

Shareholder theory (as discussed later) overcomes this weakness of stakeholder theory by focusing corporate efforts on a single objective, maximizing shareholder wealth. For example, a firm with a store operating in one region becomes unprofitable.

The firm considers closing the store to avoid harming shareholders. Stakeholder theory may suggest that the company leave the store open to continue to provide for the store's employees and community. Shareholder theory proponents would propose that unless leaving the store open would maximize long-term shareholder wealth, it should be closed.

Although stakeholder theory sounds reasonable, it may introduce more problems than it solves. It is practically impossible to serve the interests of each of the stakeholder groups simultaneously.

Competitive Disadvantage

Another argument against stakeholder theory is the competitive disadvantage argument. This argument is that "because social action will have a price for the firm it also entails a competitive disadvantage" (Smith, 2002, p. 232). Therefore, advocates of this argument deem that social actions should not be initiated by businesses. The problem with this argument is that social actions may actually foster public support of a corporation. The ethical action of Johnson and Johnson executive David Collins serves as a prominent example. In 1982, Collins recalled the entire Tylenol product line after cyanide-laced capsules of the brand had caused several deaths in Chicago. As an article in *Workforce*, a popular human resource magazine, proclaimed, "To this day, Collins' response is cited as the textbook example of how decisive action, grounded in sound ethical values, can avert a crisis, and even bolster a company's support over the long run" (Fandray, 2000, pp. 75-76).

Contrary to the argument, social responsibility may actually provide a competitive advantage. Even if social responsibility results in short-term losses; it can engender loyal employees and communities and consequently reap long-term dividends: "CSR is also proving to benefit companies. The most commonly identified corporate advantages include maintaining and improving reputation or brand image, government relations, brand differentiation, customer loyalty and employee recruitment and retention" (Walton, 2010, p. 10). However, proponents of stakeholder theory go too far in their support of discretionary social expenditures. The benefits of profitable CSR initiatives must be balanced with the fact that unprofitable CSR initiatives may put a firm at a competitive disadvantage.

Greenwashing

Another problem with stakeholder theory is that it is reactive instead of proactive. Some corporations engage in CSR solely in response to crises. In other cases, the primary CSR action for firms is merely reporting. This reporting is usually in the form of feel-good stories with a lack of concrete social action: "The content of CR very often is misleadingly substantial: the reports are thick and seemingly contain much information, but the actual extent of what is done beyond legal requirements remains limited (Fougere & Solitander, 2009, pp. 221-224).

Although many companies advocate CSR in theory, they would not in practice increase stakeholder welfare at the expense of shareholder wealth (Karnani, 2010). These firms may promote their reputation in the community through rhetoric and advertisements related to their CSR efforts. However, they do this to shift the focus from their flaws or to increase business. This is a practice known as "greenwashing." These firms are not pursuing CSR to benefit society. They are pursuing CSR to take advantage of consumers who are sold out to the concept of CSR.

Destroys Pluralism

Friedman and Levitt feared the usurping of the authority of political institutions by businesses as a result of CSR. Such a combination of governmental and corporate authority would result in a fusing of the two institutions into a powerful, unified entity. Friedman and Levitt were concerned about the potential socialistic consequences of this fusing. They firmly believed in the concept of pluralism. Pluralism requires the separation of power between the various institutions of society. Friedman and Levitt did not desire to see an oppressive centralized government. As Levitt (1958/1979) stated in his article "The Dangers of Social Responsibility," "Government's job is not business, and business's job is not government. And unless these functions are absolutely separated in all respects, they are eventually combined in every respect" (p. 139).

Shareholder Theory

On the other side of the debate, shareholder theory proposes that the corporation should legally maximize long-term shareholder wealth (Jensen, 2002; Smith, 2003a; Schaefer, 2008). By providing a necessary product or service at a reasonable price, a business is benefiting society. In financial language, shareholder theory advocates that a firm should maximize the present value of all future cash flows (Danielson, Heck, & Shaffer, 2008). It is unnecessary and unwise to spend shareholder money for unprofitable social causes. The shareholders have made an investment and are dependent on the firm to provide them with a return. Steve Milloy, a mutual fund manager and critic of CSR, proclaimed the following: "Shareholders do not hire CEOs to be the U.N., to act like a government or to be a charity. They were hired to make money for shareholders. Business is society's wealth-creation machine" (as quoted in Weiss, Kirdahy, & Kneale, 2008, para. 5). Milloy's argument is similar to the reasoning of Adam Smith and Milton Friedman. The business of business is to make money. By serving the needs of shareholders, businesses generate wealth that benefits society. If CSR initiatives increase the bottom line, then shareholder theory advocates recommend implementing such initiatives. However, using shareholder money in an unprofitable manner is wrong. No matter how noble the cause, it is inappropriate to be generous with another's money.

Abandon CSR

On the extreme end of shareholder theory are some scholars who believe that CSR should be abandoned altogether. Although they concede that CSR has increased global awareness of business ethics, the concept is no longer practical. For example, Freeman and Liedtka, professors at the University of Virginia's Darden School of Business, argued that CSR has failed and should be forsaken. They claimed that CSR has not delivered on its promise to create the good society. Furthermore, they asserted that the concept of CSR promotes incompetence by prodding business managers to improve society's shortcomings. According to Freeman and Liedtka, businessmen do not have sufficient expertise regarding individuals and communities to alleviate social problems (Freeman & Liedtka, 1991).

The Role of Political and Social Institutions

A common argument voiced in support of shareholder theory is that social actions are the role of political and social institutions, not businesses. Bill Shaw (1988), former chair of the Philosophy Department at San Jose State University, asserted, "Friedman will not be dislodged until it can be shown that the social and political institutions of this nation . . . are inadequate to promote the common good and social justice" (p. 538). Shaw insisted that the government through its regulations determines the moral responsibilities of a corporation. This argument has been challenged on several levels. First of all, the government would be hard pressed to have a law regulating every possible decision that a corporate executive may face. As a result, there would inevitably be loopholes that would allow immoral corporate actions. Additionally, the government would likely be influenced by lobbying and financial support from political action committees. If the government were to approve a lower standard of morality than a corporation formerly held, should that company reform to conform to that lower standard? Likewise, the government could pass laws that blatantly contradict the corporation's ethical standards. Ethical imposition by the government would most likely result in subjective morality, dependent on the views of those holding political authority and the cultural norms of society.

Business should make decisions based on an objective ethical code in addition to the laws of society. Thomas Mulligan (1990), assistant professor of management at Brock University, emphasized, "Ethics is more fundamental than law. It is more appropriate to use moral principles to test the validity of laws than to invoke laws to test the validity of moral principles" (p. 99).

Although the government is an imperfect mediator of moral responsibilities, it does provide a baseline for morality. Nonetheless, corporations should aspire to go beyond the legal minimum in their actions by following an objective ethical code of conduct.

Adam Smith and Self-Interest

An historical figure who supported the concept of shareholder wealth maximization was the Scottish philosopher, Adam Smith. Smith argued that the pursuit of profit ultimately promotes social welfare through the “invisible hand.” Smith posited that human nature made it far more likely for individuals to act out of self-interest than out of pure benevolence, and that self-interested actions ultimately benefit society. For example, one would not expect to receive food from the butcher or baker on the basis of their benevolence, but due to their own self-interest. Smith (1776/1981) stated in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*:

> As every individual, therefore, endeavors as much as he can to employ his capital in the support of domestick industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it. By preferring the support of domestick to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. (p. 456)

Thus, Smith reasoned that the firm helps society more when they further their own interest (profit) than when they deliberately seek society’s benefit.

Milton Friedman and CSR

In addition, Nobel Prize-winning economist Milton Friedman was a more modern proponent of shareholder theory. In an article entitled, “The Social Responsibility of Business Is to Increase Its Profits,” Friedman outlined the concept of shareholder wealth maximization. Friedman believed that a focus on discretionary social investments was improper for corporations. The goal of the corporation is to provide a return to shareholders. By focusing on external social responsibilities, the corporation is distracted from its sole purpose. Friedman asserted that corporations do not know how to properly invest in social causes (This argument is commonly cited as the inept custodian argument) (Friedman, 1970/2002). Therefore, such decisions should be in the hands of individuals, not corporations. Brian Schaefer (2008), in the *Journal of Business Ethics*, countered Friedman by stating that firms could solve the inept custodian argument by seeking to hire executives who are experts in social responsibility: “The ability to distribute funds effectively for social purposes, and perhaps also some experience in doing so, could become highly desired traits on a corporate executive’s resume” (p. 302). Yet, hiring more employees would increase costs which may not be justified if profitable CSR activities are not available.

Throughout his article, Friedman is clear with regard to his emphasis on shareholder wealth maximization as an imperative of the corporation. Friedman did not support the funding discretionary social activities: “Friedman is adamant that unless a clear mandate from the company's owners is provided, 'philanthropic' activities which do not serve to improve a firm's profitability . . . should not be funded by firms” (Stratling, 2007, p. 67). When an individual businessman asserts social responsibility through the use of corporate cash, he is spending stockholder money. Friedman deemed this as a tax upon stockholders of which they have no decision regarding how it is spent. Consequently, he believed that the individual is free to pursue social responsibility, while the corporate executive lacks the ability to properly perform such actions (Friedman, 1970/2002). To this day, Milton Friedman's ideas remain a crucial part of the CSR debate.

Problems with Shareholder Theory

Externalities

Shareholder theory is not without its shortcomings. In normal business transactions, externalities may occur. These externalities are costs or benefits to third parties in a business transaction. For example, an industrial firm is considering opening a plant in the United States. The proposed plant is known to emit a vast amount of pollutants that would seriously harm the environment and the health of citizens in close proximity. Although building the plant would provide benefits in the form of greater profitability, the construction would also result in negative externalities to the community. Therefore, increasing shareholder wealth does not always increase stakeholder welfare.

Focus on Short-Term Profit Maximization

Another argument voiced against shareholder theorists is that a focus on shareholder wealth encourages businesses to focus on short-term profit maximization (Smith, 2003a). This is a misguided assumption. As mentioned earlier, the shareholder model is focused on long-term profit maximization (Danielson, Heck, & Shaffer, 2008).

Just Treatment of Stakeholders

Likewise, some claim that shareholder theory does not encourage businesses to treat their employees and other stakeholders justly. This argument has a simple counterargument. Just treatment of a company's stakeholders is prerequisite for a successful business. The company that treats its employees poorly is probably going to have an uncommitted, weak workforce. As a result, such a company's profits would suffer. Shareholder theory would not prevent firms from investing in financially beneficial activities (Smith, 2003a).

Recent Corporate Scandals

Opponents of shareholder theory assert that recent corporate scandals including Enron, Tyco, and Worldcom expose the inefficiencies of shareholder theory (Freeman, Wicks, & Parmar, 2004). However, these companies were focused on maximizing short-term not long-term shareholder value. Additionally, the managers of these organizations were engaging in clearly fraudulent activities by promoting their personal welfare above the shareholder's welfare (Smith, 2003a). Advocates of shareholder theory proclaim: "The shareholder model—when viewed from a long term perspective—still provides the best framework in which to balance the competing interests of various stakeholders (including both current and future stakeholders) when making business decisions" (Danielson, Heck, & Shaffer, 2008, p. 65).

The Normative Case for CSR

Two common justifications for CSR activities are the normative case and the business case. The normative case follows the reasoning of stakeholder theory, while the business case is in line with shareholder theory.

The normative case for CSR proposes that corporations should engage in CSR because it is valiant and good to do so. The failure of government to address society's needs has led to a plea for the corporate sector to address these needs (Smith, 2003b). A prominent example of the normative case for CSR is Merck's treatment of river blindness. Even though there was no market for the drug except in the world's poorest regions, Merck spent tens of millions of dollars developing a drug that cured the disease (Smith, 2003b).

There are dissenters to the normative case for CSR. They proclaim that if these extraneous projects do not contribute to shareholder value, the firm is failing in their obligations to investors. Solely having the means to engage in socially responsible actions does not justify them. If social actions provide a profitable return and competitive advantage to the firm in the long term, the corporation should pursue such actions. Nevertheless, investing in causes contrary to some of the shareholder's values is wrong. Using another's money, even for charity, is misappropriation. Although a firm may desire to do well, only if CSR benefits the business should it be undertaken.

The Business (Strategic) Case for CSR

The business or strategic case for CSR (doing good in order to make a profit) has recently become more pronounced. Proponents of the business case affirm that engaging in CSR can set a company apart from its competitors. As the preferences of employees, consumers, and shareholders are changing, the economic value of CSR has increased: "Consumers are demanding more than 'product' from their favorite brands. Employees are choosing to work for companies with strong values. Shareholders are more inclined to invest in businesses with outstanding corporate reputations" (Starbucks, 2001, p. 3).

As a result of the increasing importance of CSR, many companies including Starbuck's have set up reporting systems to measure their CSR. There are now many stock market indices measured according to CSR standards. This focus on CSR has pressured many firms to more closely scrutinize their social responsibility efforts.

A sound description of the business case for CSR is posited by business professors John Martin, William Petty, and James Wallace. They claimed that CSR investments are critical in helping companies maintain positive stakeholder reputations. Without positive stakeholder reputations, firms would most likely suffer from lost sales, negative publicity, and a discontented workforce. Therefore, the trio reasoned that CSR programs are a valuable means of increasing shareholder wealth. Yet, Martin, Petty, and Wallace (2009) emphasized that the returns of the proposed CSR investments must be evaluated: "As with any corporate investment, each dollar of investment in a corporate stakeholder group should be justified by at least a dollar of expected return over a finite time horizon" (p. 117).

Examples of Strategic CSR

Examples of the business case for CSR abound. In recent years, there have been numerous business breakthroughs that have resulted in profits and the enhancement of society. One of these breakthroughs is the production of fuel-efficient vehicles. For example, Toyota released the hybrid Prius. This resulted in significant profits for the company. However, German and American automakers that did not react to the hybrid trend were left at a competitive disadvantage. Likewise, many companies have committed to buying fair-trade goods, such as Starbuck's. This initiative involves paying small suppliers more for goods that are sold at premium prices, such as chocolate and coffee. Consumers are becoming more conscious of fair trade practices: “Like consumer awareness of organic products a decade ago, fair trade awareness is growing” (Downie, 2007, para. 8). Additionally, many fast-food chains have expanded their menus to include healthier items. These items have also resulted in increased profits.

Some may argue that the adoption of these changes is the result of an increased emphasis on social welfare. Aneel Karnani (2010), Professor of Strategy at the University of Michigan’s School of Business, begs to differ: “Social welfare isn’t the driving force behind these trends. Healthier foods and more fuel-efficient vehicles didn’t become so common until they became profitable for their makers” (para. 11). Each of these programs is ultimately founded on the enhancement of shareholder wealth. If these projects were not potentially profitable, then businesses would not have pursued them.

The strategic or business case for CSR seems to be logical and consistent. CSR efforts are strategic in nature when they lead to increased revenues. CSR may produce cost reductions by attracting more qualified and loyal employees. CSR can increase the revenues of firms by differentiating their products from competitors. If consumers see CSR as a valuable part of a company’s brand, they may be willing to pay a premium for the company’s products and services. By serving the needs of both stockholders and stakeholders, strategic CSR is a win-win situation (Husted & Salazar, 2006).

Difficulty of Implementing Strategic CSR

Discovering and implementing CSR activities that satisfy both stakeholders and stockholders is not easy. It takes much research to discern whether a product with a CSR attribute is purchased because of its CSR association or due to other product features. For example, many shampoo products have the CSR attribute “not tested on animals” on the label. However, the reasons for the ultimate purchase of shampoo may have to do with its price, quality, ingredients, scent, advertising, or any combination of these factors. As a result, it is difficult to quantify the financial effects of CSR efforts.

Justifiable Social Responsibility

In addition to the strategic case for CSR, there are other justifiable avenues for undertaking social responsibility. Individuals, mission-driven firms, sole proprietors, and partners are not tied by fiduciary duties to shareholders. As a result, these groups can engage in unprofitable social responsibility activities, if desirable.

Individuals

Individuals are free to invest in social causes. Individuals can support charities, churches, or other societal causes with their personal money. Similarly, shareholders can choose to invest their returns in social causes if they so desire. For instance, individuals who favor social responsibility efforts may choose to invest in the Portfolio 21 mutual fund. This mutual fund invests solely in companies with proven track records of environmental business practices (Portfolio 21 Investments, n.d.).

Mission-Driven Firms

Firms that are mission-driven and focused on CSR are also tenable. Mission-driven firms clearly spell out in their mission statements the intent to undertake certain CSR initiatives. An example of a mission-driven firm is Greyston Bakery, a producer of gourmet desserts. A few of Greyston Bakery’s social agendas are to provide affordable housing for homeless and low-income families, and to provide affordable healthcare for people with HIV (Greyston Bakery, n.d.). Because shareholders know (or should know) that a mission-driven firm is supporting social causes, they can make a conscious decision whether to invest in the firm or not.

Investors may choose to invest in a mission-driven firm for two reasons. The mission-driven corporation may be more efficient at social responsibility than charitable organizations. Additionally, corporate giving is tax-advantaged in comparison to private giving because individuals must pay a dividend tax. As a result of these benefits, shareholders would be inclined to support corporate philanthropy over personal philanthropy. However, if corporate giving goes to undesirable social causes, personal giving would be favored (Baron, 2007).

Sole Proprietors/Partners

Additionally, sole proprietors or partners who choose to invest their company's money in social causes are free to do so. This is comparable to individuals donating to social causes.

Companies have several options regarding social responsibility. They can engage in strategic CSR, mission-driven CSR, or not engage in CSR and thus allow shareholders to make private charitable donations. When deciding which CSR strategy to pursue, firms must consider the benefits and costs to their shareholders: "When corporate social giving is an imperfect substitute for personal giving, firms that practice CSR have a lower market value than profit-maximizing firms" (Baron, 2007, p. 685).

CSR Implementation

Even if a company adopts the shareholder model, it will likely engage in strategic CSR. Therefore, a discussion of the implementation of CSR is in order. Ultimately, CSR strategy will be unique for different firms. For the pressures of the market along with the characteristics and norms of the particular industry will determine the costs and benefits of implementing CSR (Smith, 2003b). In some industries, CSR may not be necessary. However, in other industries CSR may be the norm. Additionally the region or country in which the firm is located has a significant impact on CSR implementation. A study from the *Journal of Business Ethics* concluded that, “the region or country of a company can condition the level, components and motives of its social behavior” (Sotorrío & Sánchez, 2008, pp. 388-389). For instance, European and North American firms differ in their CSR efforts. European firms, on average, exhibit more CSR than North American firms. This disparity exists because European firms must comply with stronger consumer desires, media pressure, and governmental regulations concerning CSR.

Before undertaking any CSR, firms must thoroughly consider the effects of such actions. Seemingly profitable CSR initiatives may be attacked as self-serving by the public. For CSR actions that are not beneficial to shareholders, the best option may be to invoke the help of other corporations, individuals, governments, and NGOs. A study by Sankar Sen and C. B. Bhattacharya (2001), in the *Journal of Marketing Research*, found that “all consumers react negatively to negative CSR information, whereas only those most supportive of the CSR issues react positively to positive CSR information” (p. 238). As a result, managers need to avoid consumer perceptions of social irresponsibility. Managers should only pursue CSR actions that are widely and strongly supported by the firm’s consumers.

Once CSR programs are initiated, firms should assess their success and utility. Firms should determine the CSR expectations of the communities in which they operate. The company’s view of CSR and the community’s view of CSR may be misaligned.

Susan Walton, associate chair of the department of communications at Brigham Young University, suggested invoking the support of PR professionals through the use of social media. For example, by posting CSR reports online, firms can broadcast their efforts. Finally, it is important for firms to encourage consumer feedback concerning CSR practices to uncover areas needing improvement and areas in which they are doing well (Walton, 2010).

Results of CSR

With the emphasis on CSR in today's society, one would expect CSR activities to provide a positive return to a firm. However, this conclusion has been contested by business scholars including David Vogel, the chair of business ethics at the University of California-Berkeley. Consider the socially responsible firm Starbucks. Although they have benevolent labor policies and have committed to providing coffee growers with fair profits, the firm has not encountered success in recent years. This failure is largely due to overexpansion of the company and the reluctance of consumers to pay such a high price for a cup of coffee. Yet, the case of Starbucks seems to indicate that CSR does not affect financial performance in a meaningful way (Vogel, 2008).

Effect of CSR on the Purchases of Consumers

While CSR does not seem to significantly affect overall financial performance, research indicates that CSR activities by companies *could* affect the purchasing decisions of consumers. A commonly-cited study by marketing professors Tom Brown and Peter Dacin (1997) revealed, "When consumers know about such activities, our research indicates that CSR associations influence the overall evaluation of the company, which in turn can affect how consumers evaluate products from the company" (p. 80). According to Brown and Dacin, negative CSR associations *can* result in negative consumer product evaluations, while positive CSR associations *can* result in positive consumer product evaluations. Overall, the conclusions of the article are too vague; of course, CSR *could* affect consumer evaluations of companies. Brown and Dacin leave much to be desired regarding the connection between CSR activities and consumer reactions.

Lack of CSR Awareness

Although CSR activities *could* affect the purchasing decisions of consumers, few consumers are aware of or concerned about the social responsibility of companies. A study by Alan Pomering and Sara Dolnicar (2009), marketing professors at the University of Wollongong in Australia, concluded that consumers in Australia had low awareness of the CSR practices of banks in the nation. Vogel (2008) argued that consumers are still more concerned about factors other than CSR in their buying decisions: "'Ethical' products are a niche market: Virtually all goods and services continue to be purchased on the basis of price, convenience and quality" (para. 7). The market for CSR is too small to have a major impact on the profit margins of firms.

Additionally, many firms are not consistently responsible or irresponsible. Therefore, consumers would not know which firms to purchase from anyway. For example, the same company (Merck) that developed a cure for river blindness with the drug Mectizan also demonstrated irresponsibility. Merck withheld information concerning the dangerous side effects of its popular drug Vioxx (Werther & Chandler, 2011). Firms that report numerous CSR programs may simply be engaging in greenwashing. Even in the niche market for ethical products, consumers may find it difficult to decide which firms to support.

In reaction to the results, stakeholder theory advocates would argue that CSR is the right thing to do whether it generates a profit or not. In contrast, shareholder theory proponents would argue that this lack of CSR awareness impairs the case for CSR. If firms cannot make profits from engaging in a CSR activity, then that activity is detrimental to shareholder wealth and should not be implemented.

Conclusion

The entire CSR debate hinges on one’s view of the corporation. Is the corporation responsible to shareholders to make a profit? Should a firm engage in initiatives that are not supported by shareholders and/or that do not result in the maximization of shareholder wealth? The findings of this study indicate that the stakeholder and shareholder theories are both incomplete. Firms should maximize long-term shareholder wealth, but not at the expense of stakeholders and ethical guidelines. They should not deliberately harm stakeholders to make a profit, and they should not go out of their way to promote stakeholders’ interests if doing so does not increase shareholder wealth. Firms cannot be profitable in the long term if they have poor relations with their stakeholders. At the same time, firms cannot meet all the needs of their stakeholders and remain profitable. Additionally, business decisions should be based on an objective ethical code of conduct. Government officials should not determine ethics.

Shareholders, as individuals may freely give of their money to benefit society. Similarly, mission-driven firms, sole proprietorships, and partnerships are free to support social actions. However, using the money that shareholders have invested in a corporation to support unprofitable causes is clearly wrong. Therefore, businesses should make a profit, obey the law, act according to an ethical standard, and only pursue CSR activities that improve long-term shareholder wealth.

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