THE SHIFT FROM ECONOMIC TO SOCIAL RESPONSIBILITY: THE TALE OF TWO ARGUMENTS

Issam A. Ghazzawi, University of La Verne
Marie E. Palladini, California State University Dominguez Hills

ABSTRACT

The choices human beings make today will determine the world in which they live tomorrow (DesJardins, 2007, p. xii). The arguments in this paper presuppose that the ideas of corporate social responsibility which embody the societal obligations of the firm have changed in the late twentieth and the early twenty-first centuries as compared to earlier years. This change is reshaping the face of today's organization and creating a society of hope that is built on the closer organization-societal relationship.

While some believe that companies will do well by doing good, others argue that doing what's best for society means sacrificing profits. The research contributes to corporate social responsibility literature by detailing both arguments and providing several implications concerning the social responsibility of the firm. Finally, the paper suggests a research agenda for the future.

KEY WORDS: Corporate social responsibility, corporate citizen, personal social responsibility, corporate reputation, brand performance.

INTRODUCTION

The era of the 1960s America was very different from prior eras. It was characterized by an anti-business attitude developed as many criticized the vested corporate interests that controlled the society's economic and political side (Ferrell, Fraedrich, & Ferrell, 2005). The same era observed the decay of urban America as parts of US cities became run down and undesirable to live in, contributing to economical, social, and environmental problems. It was also a time of growing ecological problems, namely pollution and disposal of nuclear and toxic wastes (Ferrell, Fraedrich, & Ferrell, 2005).

Accordingly, President John F. Kennedy was the first to articulate the concept of professional regulation serving the public interest that was outlined in the "Consumer Bill of Rights," as: (1) The right to safety "to be protected against the marketing of products and services that are hazardous to health or to life"; (2) the right to be informed "to be protected against fraudulent, deceitful, or grossly misleading information, advertising, labeling, or other practices, and to be given the facts needed to make informed choices"; (3) the right to choose " to have available a variety of products and services at competitive prices"; (4) the right to be heard "to be assured that consumer interests will receive full and sympathetic consideration in making government policy, both through the laws passed by legislatures and through regulations passed by administrative bodies"; (5) the right to education "to have access to programs and information that help consumers make better marketplace decisions"; and (6) the right to redress " to work with established mechanisms to have problems corrected and to receive compensation for poor service or for products which do not function properly" (Consumer Bill of Rights, n.d.).

In his infamous book "Unsafe at Any Speed", Ralph Nader (1965) severely criticized the US auto industry, particularly General Motors. He estimated that in 1964, auto accidents caused by the automobile manufacturers putting profit and style ahead of consumer safety cost our nation in $8.3 billion in property damage, medical expenses, lost wages, and insurance overhead expenses. These costs are equivalent to over two per cent of the US gross national product (Nader, 1965). Nader's consumer movement known as "Nader's Raiders" successfully fought for legislation that resulted in the passage of the Motor Vehicle Safety Act (1966), the option of seat belts in all cars (1967), and the mandatory seat belt in four states in 1984 (Marx, 1986; Ferrell, Fraedrich, & Ferrell, 2005; Carroll & Buchholtz, 2009).

The concept of "doing good" came to the US before the turn of the century in response to the challenges and forces facing society and businesses (Stroup, Neubert, & Anderson, 1987). Thus, since the 1960s, the expectations placed on business ethics have been steadily climbing. Society no longer looks at a firm's productivity alone to morally and ethically justify the organization. The trend is to look at how a company's wealth generation affects non-economic areas of society that include the welfare of the employees, customers, other stakeholders of the entire business system, and environmental concerns (Lantos, 2001).

Today, our world of the 21st century is filled with a variety of challenges such as population growth, globalization, world health crisis, poverty, the crisis of the environment, natural disasters (i.e. earthquakes, floods, etc.), climate change (global warming), water and food shortage, and diseases. Each challenge brings with it immense humanitarian consequences. These challenges require collaboration between government agencies and non-government organizations, innovative strategies, corporate social responsibility programs, and sustainability efforts to help reduce the combined impact on society. Strategic planning by companies included efforts to alleviate the negative impact of the challenges described above and encompassed solutions to some of these humanitarian and social problems. It is imperative that a discussion of contemporary corporate social responsibility programs reflects upon a company's perceived ethical obligation to embark upon social problem solving balanced against its economic duty to be profitable.

In his masterpiece "Management Challenges for the 21st Century," Peter F. Drucker (1999) described the social and political realities that must be addressed when formulating a responsible management strategy. These new realities facing the 21st century management include the declining birth rate in the developed world, the shifts in the distribution of disposable income, and increasing global competitiveness. Additionally, it is imperative that management be positioned to survive the economic, social, political, and technological transformation that is taking place.

DesJardins asserted that "business in the twenty-first century be practiced in a way that is economically vibrant enough to address the real needs of billions of people, yet ecologically informed so that the earth's capacity to support life is not diminished by that activity, and ethically sensitive enough that human dignity is not lost or violated in the process. Economics, ecology, and ethics form the three pillars of a sustainable society" (2007, p. 1).

The question whether business should be socially responsible or be restricted to "the profit motive", still occupies a large share of the debates regarding business ethics (Ciulla, Martin, & Solomon, 2007). Today the big question before business executives is whether businesses should think past maximizing the bottom line and try to do good. Such debate received many answers varying from the extreme positive-meaning unconditional yes (French, 1977 as cited in Ciulla, Martin, & Solomon, 2007; Patty, 1994; Maitland, 2002; Hay & Gray, 2002 as cited in Newton & Ford, 2006; Barner 2007) to an extreme rejection stating that the role of business is solely to maximize profit (Friedman, 1996; Newton & Ford, 2006; Stone, 2007).

The purpose of this paper is to provide a balanced view of corporate social responsibility ("CSR"). In it, we will detail the traditional arguments against CSR as well as present the arguments that support corporate involvement in finding solutions to social problems. The format of this paper proceeds as follows: The next section provides a review of the literature on corporate social responsibility and contains arguments for and against CSR. The following section develops the research framework propositions. Finally, the last section presents the conclusion and proposes managerial implications as well as directions for future researchers.

THEORETICAL FOUNDATION AND DEFINITION OF CORPORATE SOCIAL RESPONSIBILITY

In today's world, the expectation for businesses to behave ethically and morally is paramount. The bar has been steadily raised over the last fifty years, by creating the obligation for organizations to practice corporate social responsibility and accept some accountability for the welfare of society (Lantos, 2001). Researcher Archie Carroll (1979) and others believe that corporations should be judged on economic success combined with non-economic criteria. Due to the positive effects of CSR participation and the negative effects of non-participation, most companies today do more than merely pay lip service to CSR issues, and choose to actively engage in socially responsible activities (Chi-Shiun Lai, 2009).

Despite the proven positive effects of CSR, however, arguments against social responsibility, such as those enumerated by Griffin (2008) still exist, but with minimal support. These include: the purpose of business in U.S. society is to generate profit for owners; involvement in social programs gives business too much power; the potential for conflicts of interest; and business lacks the expertise to manage social programs (Griffin, 2008, p.101).

A few studies provide insight into the positive impact of an organization's CSR and its reputation as measured by consumers' perceptions of the corporation's products (Brickley, Smith, & Zimmerman, 2001; Lai, Chiu, Yang, and Pai, 2010; Jones, 2005; Smith & Higgins, 2000; Varadarajan & Menon, 1989; Varadarajan & Menon, 1988). According to Brickley et al., (2002), "a company's reputation for ethical behavior is part of its brand-name capital" (p. 1821). Research has also shown that shareholders are making socially responsible investments (SRI) in companies that adopt CSR. However, these investments may not be based primarily on moral or ethical choices, but on self-interested economic reasoning since CSR is said to add economic value to a firm (Petersen & Vredenburg, 2009).

The benefit of engaging in CSR is related in a speech delivered at the 2003 Business for Social Responsibility Annual Conference, by Carly Fiorina, former CEO, Hewlett-Packard:

> *For many years, community development goals were philanthropic activities that were seen as separate from business objectives, not fundamental to them; doing well and doing good were seen as separate pursuits. But I think that is changing. What many of the organizations that are represented here today are learning is that cutting-edge innovation and competitive advantage can result from weaving social and environmental considerations into business strategy from the beginning. And in that process, we can help develop the next generation of ideas and markets and employees (Fiorina, 2003, para. 27).*

Since 1982, UPS, its foundation, employees and retirees have donated $1 billion to United Way programs to improve lives and communities across the US (United Way, 2010-b). According to Scott Davis, UPS's chairman and CEO, the spirit of giving is alive and well at UPS even when the economy is tough (UPS, 2008). Examples of successful sustainability programs initiated at UPS include a program designed to offset carbon dioxide emissions produced via small package transportation in the United States. This ingenuity helped reduce long-term effects on the carbon footprint by allowing UPS customers an opportunity to actually buy carbon offsets for purchases made on the internet. Another effort to promote environmental sustainability is exemplified through the company's purchase of more than 101,000 vehicles world-wide which allowed UPS the opportunity to develop fuel efficiency for its own vehicle (UPS Sustainability Report 2009).

Another example of long-term solutions to community needs was exhibited by UPS, in 2010, as the world anxiously awaited the fate of 33 trapped miners. An internationally reported disaster occurred when 33 miners were trapped 2,000 feet below the earth's surface in Chile, and experts on the scene determined that the only way to rescue the miners was by drilling a hole into the ground. The Chilean Embassy reached out to UPS for logistics assistance and the company was able to facilitate the shipping services necessary to transport ten tons of equipment from a factory in the United States to Chile in a few days, and deliver it to the site of the disaster. (Sustainability at UPS, 2010).

In 2010, United Way honored UPS for its outstanding record of charitable giving with a "Thanks A Billion" advertisement that ran in the July 26 issue of Fortune Magazine to commemorate UPS's $1 billion in charitable giving (United Way, 2010-a).

In the honoring speech, Elise Buik, president and CEO of United Way of Greater Los Angeles said: "UPS is a driving force for positive change in our communities…Reaching a billion dollars in corporate giving is a remarkable milestone. In Los Angeles, UPS employees give more to our Creating Pathways Out of Poverty plan than any other company, providing evidence that being successful in business and giving back to the community can go hand in hand. We were proud to present them with our Spirit of L.A. award at this year's Corporate Philanthropy Summit." (United Way, 2010, para. 3).

UPS's charitable contributions totaled nearly $100 million in 2009 alone. UPS has built its legacy as a caring and socially responsible corporate citizen since its founding in 1907. It supports programs that provide long-term (i.e. sustainable) solutions to community needs. UPS promotes community involvement through its ongoing volunteerism. Its employees and their families contributed more than 1.2 million hours of community volunteer service. Additionally, it provides grant programs, environmental sustainability and corporate philanthropy.

Taking issue with the concept that Corporate Social Responsibility should be institutionalized, Karnani (2010) argues that the idea that companies will profit by being socially responsible and doing what's best for society is fundamentally flawed. In most cases, he argues, CSR results in a sacrificing of profits. Karnani asserts that "companies that simply do everything they can to boost profits will end up increasing social welfare. In circumstances in which profits and social welfare are in direct opposition, an appeal to corporate social responsibility will almost always be ineffective, because executives are unlikely to act voluntarily in the public interest and against shareholder interests" (2010, para. 8). Accordingly, the danger is tremendous when corporations become more focused on society as societal members look to them to address social issues and problems. This will discourage or delay more effective methods to improve societal problems when the corporation's profits and enhancing social welfare are in direct competition with each other (Karnani, 2010). As Corporate Social Responsibility is institutionalized, its meaning needs to be defined.

While the structure of this paper is based on the presentation of two opposing arguments on the subject of corporate social responsibility, it is also necessary to include several distinct and opposing definitions of the subject. The review of applicable literature revealed many definitions. Milton Friedman defined CSR as a requirement to increase business profit (2007), Skapinker (2010) defined it as the corporate usage of its resources to engage in activities designed to solely increase its profits. On the other hand, many argue that business has obligations to society in addition to pursuing profitability and that corporations have other responsibilities to customers, to employees, and to the society as a whole (Shaw & Barry, 1998).

Ferrell, Fraedrich, & Ferrell (2005) defines it as "the organization's obligation to maximize its positive impact and minimize its negative impact on the society" (p. 10); Kotler (2005) defines corporate social responsibility as an organization's voluntary commitment to improve society's well-being through its business practices and contributions of corporate resources (p.1); others define corporate social responsibility as the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving welfare of society at large independently of direct gains of the company (Kok, Van Der Wiele, McKenna, & Brown, 2001, p.287). Finally, in a narrowly defined position against CSR, ". . . the concept now lies on its deathbed. . . The

CSR concept's looseness and generality enable it to encompass such a wide variety of ethical practices that it has become meaningless" (Ludescher & Mahsud, 2010, p.123). The real ethical or unethical actors according to Ludescher & Mahsud (2010) are the people and not the abstract firms. Accordingly, CSR is distracting us from the real issues and the unethical practices.

THE CASE AGAINST CORPORATE SOCIAL RESPONSIBILITY

Adam Smith, a noted eighteenth-century philosopher and political economist stated in his influential work *"Wealth of Nations"* that self-interest would lead to bringing about the healthiest economic conditions for everyone—that is a laissez-faire system, based on an absolutely free economy (Smith, 1776). Smith asserted that in a free-market environment, if all of us pursue our own economic gains, we are led by an "invisible hand" that promotes the general good of our society (as cited in Shaw & Barry, 1998). In his defense of laissez-faire, Paul Snowden Russell stated that "businesses have neither the right, in law or morals, nor the ability to meddle with social responsibility. Customers, employees, and the general public are best served when the company simply does its job with maximum efficiency (as cited in Newton & Ford, 2006, p. 76).

Milton Friedman, neoclassical economist, Chicago School of Economics, espoused the most widely acclaimed argument for a purely profit-based position regarding CSR. In his 1960 book *Capitalism and Freedom,* and in his famous 1970 *New York Times Magazine* article, "The Social Responsibility of Business is to Increase its Profits" (1996), Friedman opines that "[In] a free society …there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profit so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud," (p.245). Friedman championed economic values, not social values, which he believed were outside the scope of a company's requirement to maximize shareholder value while acting legally, ethically, and honestly. An important rationale of the argument espoused by Friedman was his belief that the solution to social problems is the responsibility of government and social agencies, not businesses. An example of Friedman's position on this issue is further evidenced by his advice to corporate managers to refrain from infusing personal values in environmental and community matters if it would threaten shareholder wealth. For example, a responsible manager would close or relocate a plant if it improves profitability, even if it causes hardship to employees.

A profit motive argument distinguishable from Friedman's, is the position on CSR taken by Albert Carr (1996). Carr asserted that the sole purpose of business is to produce a product at a profit. Along with this purpose, and the presence of competition and negotiation, Carr branched away from Friedman and posited that businesspeople have a lower standard of ethics and morals than the rest of society. Carr compared business to the game of poker, where anything goes within the accepted rules of the game. Applying this standard to business allows misstatements and omissions of relevant facts during negotiations; described by Carr as bluffing other businesspeople. The only standard that Carr believed stands above economics is following the law. He argued that the morality of a person's business life is separate from the morality of the rest of his or her life; a concept that is non-existent (Johnston, 1990). It is important to point out that Friedman's position on economic CSR recognized ethical responsibilities in addition to legal responsibilities for businesses, and surpassed Carr's by encompassing a range of moral duties to stakeholders. These duties included: avoiding deception and fraud, engaging in open and free competition, and practicing fair play within the rules of the game (Boatright, 2000). Thus, Friedman neither believed in nor promoted the poker game analogy. This is important to note since many of Friedman's followers as well as his critics argued that his position was solely a no-holds-barred business approach. In accord with Friedman's profit only CSR, Theodore Levitt (1983), professed that the only social responsibility of a business, besides being profitable, is to practice basic honesty in its day to day affairs (Levitt, 1983).

In following Friedman's position, Anderson argued against the position that CSR costs should be treated as investments, rather than lost revenues (as cited in Stroup, Neubert, & Anderson, 1987). Investment is defined as "committing or use of (money, capital, etc.) for the purchase of property, securities, a business project, etc., with the expectation of a profit" (Anderson, as cited in Stroup, Neubert, & Anderson, 1987, p.24). The priorities of a company are to stay in business, to retain its employees, and generate a reasonable profit for the stockholders (Stroup, Neubert, & Anderson, 1987). According to Edward Harness, the Chairman of the Board of the Proctor and Gamble Company, "There is no charity for charity's sake in our handing out the Company's money or in asking the Company's people to give of their time. Procter & Gamble's support of civic campaigns is now and always will be limited to what we believe represents the enlightened self-interest of the business" (as cited in Stroup, Neubert, & Anderson, 1987, p.25).

A recent study to determine if environmentally friendly companies are rewarded in the financial markets showed support for Friedman's profit motive only argument for businesses. A three year study analyzing stock price change showed an inverse relationship between environmental friendliness and financial performance (McPeak, Devirian & Seaman, 2010).

A similar position was taken by Skapinker (2010), in his support of the position that responsible companies' first duty is survival. He argued that companies who are committed to both corporate social *responsibility* and sustainability can still fail. In his argument:

> *Enron was a benefactor to its home city of Houston. Lehman Brothers' programme of support for an inner-city London school was one of the most impressive I have seen. BP, under Lord Browne, its previous leader, promised a sustainable future beyond petroleum. Tony Hayward, his successor, insisted hydrocarbons would remain central, but that the world needed a more sustainable mix of energy sources"* (p. 11).

Ludescher and Mahsud (2010) argued that "CSR's gravest danger may be that it diverts our attention from the deeper ethical issues surrounding the real value of products and toward superficial considerations of business/society engagement and organizational ethics. CSR becomes nonsensical when it is applied to businesses whose mission is to create products that are addictive, hazardous, or destructive" (123).

Lantos (2001) argued that publicly-held companies that engage in what he described as "altruistic" CSR, participating in good works that are an expense to stockholders, is not legitimate CSR and should be avoided. Basically, good works done merely for the good of society should not be undertaken by companies. For example, if a business adopts an inner-city school and pours money and resources into it, what is the benefit to the company? There's no guarantee that there will better educated students, and if the future workers are better educated, that they will work for the philanthropic firm (Singer, 2000). Similarly, if a business provides training for the unemployed, what is the likelihood that they will be productive individuals, or even work for the donor?

Lantos (2001) distinguished altruistic CSR from ethical CSR, where a business avoids societal harms, as an obligatory responsibility of all organizations. A third type of CSR, strategic CSR, which includes good works that are also good for the business, is the only type of CSR that companies should practice. This is because strategic philanthropy, which serves as a marketing tool, is beneficial to firms and stockholders as well, and genuine philanthropy only serves as an additional expense (Lantos, 2001). Further, throughout much of America, individual wealth is dependent on the performance of the stock market, forcing corporate managers to take the necessary steps to increase stock prices (Boatright, 1999). This phenomenon leads to a tug of war between those arguing for strict profit maximization versus those arguing for better social performance (Lantos, 2001).

Another objection to CSR is that involvement in social programs gives business too much power (Griffin, 2009). It is arguable that humanitarian acts by corporations could give them undue influence over society. Theodore Levitt took a novel position and argued that when corporations take responsibility for society's welfare, it reduces pluralism and creates a monolithic society (Levitt, 1983). However, neither business nor government is a monolithic institution and it is unlikely that this will ever occur. The argument has minimum support in its position that if business takes on the societal responsibilities of the government; this will lead to the government's takeover of business, resulting in a merger of government and business into one powerful entity, sacrificing our democratic institutions (Bowie, 1995). In today's business climate, this argument is weak and unfounded, despite the government "take-over" of General Motors, which was due to a "bail out" of GM, and hardly related to GM's social responsibility activities.

In arguments against CSR, Griffin (1999) gives examples of conflicts of interest that could occur when a corporation is deciding between several charities as recipients of grant money. He relates a simple proposal where an executive must decide between the local civic light opera company or other non-profit organizations in the community. If the manager is an opera fan, she might be tempted to direct the funds to the civic light opera, with the benefit of front row seats for the opera season, rather than objectively considering the best interests of the company and the community (Griffin, 1999).

An expansion of this argument is evidenced by a position taken by Friedman (1996) that CSR endeavors can be an indication that an agency is experiencing a conflict between the interests put forth by managers and those held by shareholders. These situations can be seen through the use of CSR activities by managers to advance their own personal programs at a cost to shareholders (McWilliams & Siegel, 2001). Examples include corporate sponsorship of sporting events and the arts. These events might portray an appearance of corporate caring, but the primary motivator might very well be the non-pecuniary benefit experienced by managers by attending these functions, such as ego gratification (Cornwell et. al, 2001).

In deciding whether or not to engage in CSR, a well-founded argument against it is that corporate executives are lacking in the moral and social expertise necessary to make noneconomic decisions for the betterment of society (Freeman, 2001). An example includes the corporate giant, Exxon Mobil and its contribution to help save the Bengal tiger, the firm's corporate symbol and a rare and endangered species. Exxon Mobil's social responsibility efforts include donating money to zoos for captive breeding programs and educating the public about the tiger. Wildlife conservations argue, however, that Exxon Mobil's money would be better spent on efforts to stop the poaching of Bengal tigers, the worldwide illegal trade in tiger parts and products, and the destruction of tiger habitat (Griffin, 2008), exemplifying the argument that the corporation is an "inept custodian," (Shaw & Barry, 1998).

Friedman opined that CSR amounted to spending someone else's money, such as the shareholders or the customers , which confused executive decision making by hindering the focus on profit and placing the firm at a competitive disadvantage. Friedman posed the following questions: Whether managers were even competent to participate in matters of social concern? Whether imposing their values in society was even important? Whether they were stepping in the shoes of the increasingly difficult in order to avoid offending at least one important constituency (Carroll, 2001)? Novak (1996) lends credence to this line of questioning by his assertion that a corporation is an economic entity with specific organizational responsibilities, and is not a welfare agency. Its managers do not have the expertise or skills to be profitable, serve customers, manage employees, and provide social services, traditionally the responsibility of government.

A highly publicized example of corporate involvement in philanthropic activities, in which the firm has no subject matter expertise, was the case of Dayton Hudson Corporation and Planned Parenthood. In 1990, Dayton-Hudson, a conglomerate of retail stores (predecessor to the giant Target Corporation) donated $18,000 to Planned Parenthood. Pro-choice advocates boycotted its stores, picketed outside of them, wrote letters to newspapers, and publicly tore up credit cards, in opposition to Dayton Hudson's contribution (Gibson, 1992; DeWitt, 1990). Such actions produced a negative impact on the company's bottom-line, furthering the argument of some that companies should avoid controversial issues, particularly in areas where they are lacking any expertise, which ultimately result in offending a vast and important societal constituency (Carroll, 2001). The Dayton-Hudson example is demonstrative of the pressures external stakeholders place on holding businesses accountable for social issues and the financial risks that accompany actions that are considered by some to be socially unacceptable.

Businesses have missed the mark and have responded to these risks with superficial public relations campaigns and sophisticated, glossy CSR reports that highlight environmental and societal good deeds, when in fact, corporations should document what and where the environmental benefits are on a regional basis, rather than for the company in its entirety. Further, philanthropic deeds should be described in terms of impact on society rather than in terms of dollars and cents (Porter & Kramer, 2002)

There also remains the argument that there is very little real substance to what some firms claim to do. Examples include tobacco giant, Phillip Morris and its spending of $100 million boasting its $75 million in charitable donations in 1999 (Byrne, 1999; Porter & Kramer, 2002). This is a prime example of a business not having the expertise to manage social programs, proving that in some situations, the amount spent touting the firm's achievements is more than the amount spent on the so-called CSR activity itself (Alsop, 2002). Similar to the Phillip Morris example, Avon Products sent its 400,000, independent sales representatives in a door to door campaign to raise over $32 million to fund breast cancer prevention. It goes without saying that this is a good cause, but is not in an area that Avon has any inherent expertise. Even so, Avon generated favorable publicity, but failed to realize the full potential of its philanthropy to create any economic value for the company (Porter and Kramer, 2002). "As long as companies remain focused on the public relations benefit of their contributions, they will sacrifice opportunities to create social value" (Porter and Kramer, 2002, p.15).

THE CASE FOR SOCIAL RESPONSIBILITY

According to Robert Hay and Edmund Gray, "in the long run, businesses will only be successful if they are directed to the needs of the society. If they choose to ignore that advice, government regulation is likely to fill the gap between business operations and the welfare of the people the government is sworn to protect" (as cited in Newton & Ford, 2006, p. 76).

As businesses are directed more and more to address society's needs, the total corporate social responsibility model delineated by Carroll (1979) warrants consideration. This concept, defined CSR as a continuum of business obligations to society that included economic, legal, ethical, and philanthropic components (Carroll, 1979). Carroll later incorporated his four-part categorization into a ''Pyramid of Corporate Social Responsibilities'' (Carroll, 1991), which also depicted a continuum of responsibilities. The responsibilities, included an economic category, located at the base of the pyramid, and defined as the obligation of a business to produce goods and services, sell them at a fair price, and make a profit. The legal component included the firm's obligation to comply with laws and regulations, as required by the government and its own policies and guidelines. Ethical responsibilities related to a level of performance that society placed on businesses. The fourth and final category of CSR, located at the top of the pyramid, was philanthropic responsibilities, otherwise known as the good citizen component (Carroll, 1991).

As time progressed and CSR became more popular, interpretation and application of the pyramid to CSR initiatives was unclear and confusing to some scholars and practitioners. For example, placement of the most important component of the pyramid, economic responsibilities, at the bottom, was interpreted by some as meaning least important. Also, the meaning of ethical responsibilities versus philanthropic responsibilities needed clarification and proposed that philanthropic responsibilities would be considered under ethical and/or economic responsibilities. (Schwartz & Carroll, 2003) This led Schwartz and Carroll (2003) to suggest an alternative continuum of components based on three domains - economic, legal, and ethical – depicted in a Venn diagram to better illustrate the overlapping responsibilities of each component. This most recent continuum approach to CSR appropriately sets the stage for an analysis of the case for social responsibility.

The foundation of every business is its economic responsibility to be profitable. Friedman posited that management is "to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical custom" (Friedman, 1996). Today, the profit responsibility of business has evolved into more than just making money. Economic responsibility encompasses the profitability of the firm, but with commitment to various stakeholders including consumers, employees, suppliers, and community groups, in addition to stockholders. This component of the CSR continuum also relates to employee morale and the company's reputation for goodwill (Carroll, 1979).

Today's sophisticated business managers are very much aware of the increase in demands from employees, customers, suppliers, and government to engage in CSR. Stakeholders now expect firms to participate in societal issues such as unemployment, poverty, infrastructure, and to be proactive in addressing the effects of the business on society as a whole (Kok, 2001). How does a firm implement CSR and satisfy its various stakeholders, yet remain economically responsible over the long run? Kanter (2010) suggests implementation of a strategic plan containing a strong CSR directive compatible with the corporation's ongoing mission. A company's incorporation of social good into its business strategy leads to positive long-term performance. Thus, the company can "do well *and* do good", (Kanter, p.2) when it integrates societal benefits that correlate with its existing business. This is based on a number of factors including a more positive and stronger perspective of the company from its customers, employees, and the general public. Kanter cites the Proctor and Gamble Company (P&G) as an example of a business that addressed societal problems, which resulted in the development of innovative profit-making products within its traditional business. P&G initiated a program where its employees lived in Brazil and through observation of low-income households, developed new products such as affordable, environmentally-sound, and hands-friendly laundry detergent. Thus, as a result of a corporate strategic plan that included a CSR component, a company served a societal benefit, satisfied various stakeholders, developed a new profitable product, and boosted employee morale (Kanter, 2010). Burke and Lodgson (1996) also advocated this position and stated that when philanthropic activities are closer to the company's mission, they create greater wealth than other kinds of donations.

A few companies worthy of discussion have integrated CSR in their strategic planning. According to Marrianne Barner of IKEA (a global home furniture retailer founded in Sweden), "corporate social responsibility is IKEA's daily business. IKEA has set a sustainability objective requiring that all our activities have an overall positive impact on people and the environment. We have a list of key performance indicators to measure our progress on CSR issues, such as the environment" (Barner, 2007, p. 59). While it is not easy to link IKEA's CSR performance to its profitability, the belief is that their efforts have a positive impact on the company's bottom-line (Barner, 2007). Its mission of creating a better everyday life for the many that they aim to serve has made it easy for IKEA to incorporate social and environmental goals into its strategic planning (Barner, 2007). Another major company that embraced CSR is Campbell's Soup Company (2010). Campbell's Soup has a set of CSR objectives for the next decade that is aligned with the company's mission. Its business strategy includes sustainability and corporate *social responsibility* as one of its seven cores (Anonymous, 2010).

CSR has an effect on all aspects of a company's business. Consumers would rather purchase goods from companies they trust, just as suppliers want to form relationships with firms they can depend on. Employees today would rather work for a company with a strategic plan that includes social responsibility and warrants their respect. A firm's primary responsibility is to make an acceptable return on its owner's investment. CSR encompasses the requirement that while making a profit, the business has a duty to act within the legal guidelines established by the government and its regulating agencies. An extension of this legal responsibility of a firm is its ethical responsibility to not harm its stakeholders (Werther & Chandler, 2006). According to Freeman's stakeholder theory, corporations have responsibilities to their shareholders and other interest groups (Freeman, 1984).

"Corporations can use their charitable efforts to improve their competitive context – the quality of the business environment - in the location or locations where they operate." (Porter and Kramer, 2002, p.6) A few companies have initiated context focused charitable giving to achieve both social and economic gains. The argument put forth is that investing in philanthropic activities may be the only way to improve the context of competitive advantage and still create greater social value than individual donors can (Porter and Kramer, 2002). One example is Cisco Systems and its investment in the Cisco Networking Academy, a philanthropic education endeavor established to train computer network administrators. The context of this social endeavor was that the training academy would help alleviate potential strain on Cisco's growth while providing employment options to high school graduates. By focusing on social needs that will also affect its corporate context, and utilizing its own unique and sophisticated business attributes, Cisco began to demonstrate the true unrealized potential of CSR. (Porter and Kramer, 2002) It is well-founded that businesses don't operate in a vacuum and must consider the societal structure that surrounds them. Although education has historically been addressed as a social issue, better managed by government agencies, today we are seeing private sector charitable involvement in our educational system at an increased rate. (Ibanez, 2010) In the case of Cisco, its managers considered the fact that the education level and expertise of the local workforce could affect the competitive aspect of a business in the area. More specifically, Cisco Networking Academy focused on education and training needed to produce employment-ready network administrators, a skill contributing to its competitive edge (Porter and Kramer, 2002). Similarly, Apple has donated its computers to schools for many years as a means of introducing its product and system to young users. This philanthropic endeavor is a clear social benefit to the schools that receive them, and at the same time, allows Apple to expand its product market and develop more sophisticated buyers (Porter and Kramer, 2002).

To what extent does corporate social responsibility influence institutional investors? Waddock and Graves (1997) found a positive link between institutional investors' stock preferences and socially responsible organizations. They argued that CSR added value to an organization over the long term, which attracted leading institutional investors. Empirical testing of the relationship between CSR and financial performance has shown positive results (Beurden & Gossling, 2008; Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes 2003). The premise of the research was the parallel that CSR improves a company's financial performance by improving its relationship with its major stakeholders. From the cost side, as relationships improve, a certain degree of trust is built between the two sides, which ultimately lower certain transaction costs and associated risks. From the revenue side, when stakeholder relationships improve, this opens the door for new customers and investment opportunities, allowing the company to charge premium prices (Barnett, 2008). Margolis and Walsh (2001) found that approximately 100 studies looked at the relationship between corporate social performance and corporate financial performance over the last thirty plus years. Most of these studies showed a positive relationship between CSP and CFP (Margolis & Walsh, 2001). Generally, it is inferred that CSR does produce financial dividends for businesses, but this should be considered with caution, in view of the methodology used in such studies (Smith, 2003).

Although these studies showed a positive association between investors seeking financial performance and CSR; the economic value in the companies practicing CSR was not addressed. Petersen and Vredenburg (2009) posed the question: What did these investors perceive or measure that was of economic value in the companies that practiced CSR?

Many studies have been conducted on the relationship of CSR to long-term financial performance. Griffin and Mahon (1997) reviewed studies since the early 1970s pertaining to the CSR and shareholder value link (Belkaoui, 1976; Clarkson, 1995) finding the impact on the bottom line vague. Walley and Whitehead (1994) even considered the proposition that environmental initiatives increase a firm's profitability, but found the costs so high, that little to no economic payback was possible. More recent studies, however, suggest a positive correlation between corporate social responsibility and a company's financial performance (Frooman, 1997; Waddock and Graves, 1997). The research of Petersen and Vredenburg (2009) sought to determine why CSR and corporate financial performance appear to be correlated. They explored the why through perceptions of institutional investors of socially responsible firms in the oil and gas industry. These corporations believed that social and environmental issues were strategic imperatives in the survival of their organizations, which led to investments in education, health, public infrastructure, and other activities not related to their primary economic interests. Institutional investors responded that social responsibility was directly correlated to financial performance. The investors and managers identified specific activities that they believed added value to the companies. In relation to stock valuation, these investors did not identify a premium that they would be willing to pay for a socially responsible firm, but they believed that these socially responsible firms were positive assets for their portfolios (Petersen & Vredenburg, 2009)

In considering the perceived value of the stock of these companies, the function of risk-management was value determinative. CSR seemed to be valued as a means of achieving risk mitigation or enhancing the company's access to resources, rather than establishing its own financial worth. Investing in local communities in education, medical facilities or other socially oriented projects unrelated to the company's day to day business, was an important activity if it related to an economic outcome such as reducing terrorism, increasing market opportunities, or reducing the risk of being cut-off from resources (Petersen & Vredenburg 2009).

Kenneth J. Arrow, a prominent twentieth century theorist and a 1972 Noble prize winner examined and rejected the firm's profit maximization argument (Arrow, 1973). Maximizing profit has a major negative implication to society; it takes firms and people away from the altruistic motives expression. The wide spread argument that profit maximization is an obligation and that firms do it not because they like to do it, but it is a social obligation is merely not accurate (Arrow, 1973). While the assertion by some that profit always represents the firms net contribution or the value add to the product or the service, and that the profit should be as large as possible; this argument assumes that competition is fierce and the presence of competition leads firms to provide its social good (value add) at a lower price. Therefore, social justification for profit maximization by monopolies cannot be supported (Arrow, 1973).

Another component of Schwartz and Carroll's (2003) three domain approach to CSR is the corporation's ethical responsibilities. In view of the higher societal expectations placed on businesses, and the high visibility of even a hint of corporate wrongdoing, consideration must be given to the moral and ethical aspects of CSR. Davis contends that ". . . social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do. A profit maximizing firm under the rules of classical economics would do as much. Social responsibility goes one step further. It is a firm's acceptance of a social obligation beyond the requirements of the law" (Davis, p.313). In considering Davis' position, one might ask, what motivates a business to engage in CSR? The motivation behind a company's decision to implement a CSR policy or plan is as varied as the companies themselves. Graafland and van de Ven (2006) contend that a business is more likely to become involved in CSR when the impetus is moral, or intrinsic; as opposed to a strategic motive for CSR which is based on a long-term profit making belief. Albeit a laudable motive, support for this somewhat naive position is minimal.

In light of Carroll's definitions of philanthropic responsibilities, giving to charitable organizations readily fits under the ethical domain, and doesn't warrant separation into its own domain (Schwartz and Carroll, 2003). When analyzing the continuum of components included in an argument for CSR, corporate philanthropic responsibilities might be based on ethical as well as economic motives (Shaw and Post, 1993). Making charitable donations to organizations can help sustain the corporation's bottom line in the long run. When its strategy includes goals to increase sales, improve its public image, or raise employee morale, as the reasons for philanthropic deeds, then it is apparent that the business is motivated by economic reasons, rather than philanthropic responsibility (L Etang, 1994). The three domain continuum is exemplified by arguments put forth as early as the 1960s by advocates of CSR, who argued that it would limit regulation, in addition to improving corporate reputation, and employee recruitment and retention (Davis, 1960; Whetten, Rands, & Godfrey, 2002). Finally, although the legal component of CSR can be costly to a business that must comply with government regulations; failure to comply is even more expensive. It can lead to financial disaster as well as irreparable damage to the company's reputation (Pinkston & Carroll, 1996).

PUTTING IT TOGETHER: WHY SHOULD ORGANIZATIONS BE SOCIALLY RESPONSIBLE?

In his address to the National Industrial Conference Board, Sol M. Linowitz, the then chairman of the board of Xerox Corporation stated:

> *To realize its full promise in the world of tomorrow, American business and industry—or, at least, the vast portion of it—will have to make social goals as central to its decisions as economic goals, and leadership in our corporations will increasingly recognize this responsibility and accept it* (as cited in Shaw & Barry, 1998, p. 195).

Accordingly, the institutionalization of the Corporate Social Responsibility "CSR" concept requires a better understanding of its meaning. Therefore, the question before us is whether corporate social responsibility is merely to maximize profit or to be construed broadly to include other responsibilities. These responsibilities include ethical conduct, avoiding harm to society and actively contributing to the well-being of society.

While the first expression of corporate social responsibility took the form of philanthropic contributions in most firms, many of these philanthropic contributions were related to causes of direct interest or benefits to business leaders, its employees, or its communities (Stroup, Neubert, & Anderson, 1987). Since these contributions are voluntary, many business owners, managers, employees, and even recipients believe that corporations are giving something away (Stroup, Neubert, & Anderson, 1987). Accordingly, some managers view philanthropic giving as competing for scarce resources. It is merely expenditure. Similarly, corporate shareholders view it as competing for dividends (Stroup, Neubert, & Anderson, 1987).

This paper takes the position that when looking at social responsibility, the total corporate social responsibility of business is: "Economic Responsibilities + Legal Responsibilities + Philanthropic Responsibilities" (Carroll & Buchholtz, 2009, p. 46) in addition to its ethical responsibilities. This broad definition emphasizes the firm's relationship to its stakeholders and society. Therefore, this paper supports the view that those who argue against corporate social responsibility are viewing the concept very narrowly by limiting their viewpoint to the philanthropic category, rather than focusing on the unified concept of social responsibility.

Milton Friedman asserted that in a free enterprise system (like ours), corporate executives are employees of the owners of the corporation and therefore have direct responsibilities toward their employers. These responsibilities summate doing business according to owners' (or shareholders in publicly traded corporations) wishes or desires, including maximizing profit and conforming to the societal rules (Friedman, 1996). In arguing the economic responsibilities of management to its owners, corporations might commit resources (financial and non-financial) to provide amenities to its community. By doing so, it will be in the long term interest of the company to attract desirable employees (Friedman, 1996). This is perfectly fine and ethical. Corporations exist to provide value. Through the concept of value providing for the social good, managers have the right to pursue the economical goals of profit making while pursuing altruistic motives.

According to Arrow (1973), altruistic motives are those in which gratification is as legitimate as the selfish motives behind them. While the expression of such motives needs to be fostered in our society, a selfish profit maximizing form of economic behavior does not help express altruistic motives. Accordingly, while there is no argument about the profit motive of the corporation, it has other responsibilities to its employees, its customers, and its society. Corporations are not merely deserted islands; they affect their societies and are affected by these societies. Therefore, a larger societal role is expected from these corporations.

As far as legal responsibilities, Adam Smith called it a fundamental pre-condition of social order. It is a system of positive law that embodies the rules of conduct based on justice (Smith 1776).

> *As the violation of justice is what men will never submit to from one another, the public magistrate is under necessity of employing the power of the Commonwealth to enforce the practice of this virtue.* (Smith, 1773, p. 10).

In the pursuit of profit, the action of some mangers is reflected in a *caveat emptor* philosophy—meaning, let the buyer beware (Newton & Ford, 2006). This philosophy and behavior is characterized by managers who are not concerned with product quality or safety. They are only concerned with the proceeds from selling the goods. As far as their relationship to their employees, managers of this type view labor as a commodity that will be sold and bought at a price in the marketplace. On the contrary, the philosophy of socially responsible managers is *caveat venditor*—meaning, let the seller beware (Newton & Ford, 2006). This is a belief that the corporation is responsible for making and selling safe and quality products and services to customers. Additionally, it treats employees with dignity, respect and as long term investments for the good of the company. As far as accountability, managers are responsible to the owners (or shareholders), to their employees, and to society at large (Graafland, J. & De Ven, 2006; Newton & Ford, 2006). In a broader sense, it also means embracing the federal and state equal employment opportunity laws applicable to employees and the society in general. The strategic and moral motives are important in the firm's relationship to its stakeholders (Graafland, J. & De Ven, 2006).

By being ethical and going beyond legal requirements, firms will gain many advantages including insulation from changes that may result in new legal constraints and requirements. Ethical responsibilities require firms to engage in business practices in a fashion that is acceptable with societal values and norms including the fair employment and the environmental implications of its production and services (Gallagher, 2005; Cascio, Young, & Morris, 1997). Socially responsible firms and their executives and managers will agree that the profit motive is important for the corporation's sustainability. However, a firm's ultimate survival is built on achieving the interests of society based on respecting the law and refraining from cheating or misleading its employees, customers, or other stakeholders. While some business practices are perfectly legal, its adherence to societal values and norms could be ethically unsound (Cascio et al., 1997; Chen, Patten, & Roberts, 2008).

IMPLICATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

As this study attempts to contribute to the literature on corporate social responsibility through presenting the arguments and the counter arguments based on an extensive review of literature, this paper has several practical implications for managers and practitioners.

First, it is important to view the CSR concept as an integrated one that encompasses corporate economic responsibilities to its owners or shareholders, corporate ethical responsibilities, corporate legal responsibilities, and corporate philanthropic responsibilities to its communities. It suggests that the integrated the sum of social responsibility of business is equal to: "Economic Responsibilities + Ethical Responsibilities + Legal Responsibilities + Philanthropic Responsibilities.

Second, the corporation is a citizen in the broader society, which impacts many groups and is impacted by society. This interaction and the corresponding impact must create a social bond that governs the corporation's relationship to its society. Accordingly, organizations must have an adequate control and cost benefit analysis to ensure that its CSR efforts are producing the results that meet its planned objectives.

Third, corporations should institutionalize ethics as the first step towards broadening corporate social responsibility. Institutionalized ethics and ethical behavior are paramount in ensuring ethical behavior towards employees, customers, and society at large. Doing so requires that organizations must mandate that all employees read and understand the organization's code of ethics and sign a statement regarding their commitment to it at a minimum.

This paper suggests that further research with focus on the integrated approach to corporate social responsibility--economic responsibilities + legal responsibilities + philanthropic responsibilities is required to assess the organizational overall successful performance. Additionally, case studies of corporations that adapt the broader definition of CSR and semi-structured interviews with key executives should be conducted in order to examine the causal applicability of such a concept.

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THE AUTHORS

Issam A. Ghazzawi is the associate professor of management at the University of La Verne. He received his Ph.D. from the University of Pittsburgh. His current research and cases' interests focus on job satisfaction, organizational development, organizational design, motivation, and Leadership. He is the past president of the Western CaseWriters Association.

Marie Palladini is an assistant professor at California State University Dominguez Hills, College of Business and Public Policy, Department of Public Administration. She received her J.D. from Southwestern University, Los Angeles. Her current research focuses on the value of student internships, women in leadership, and interactive learning pedagogy.