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Chair of Foundations of Business
Administration and Theories of the Firm

Seminar in Corporate Social Responsibility

Spring Term 2011

Theme 3: Theoretical Introduction: CSR

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1. Introduction

http://www.youtube.com/watch?v=Z_QtIEsbB7o

Today's objectives:

- What is Corporate Social Responsibility (CSR)?
- Which steps occur related to the CSR hierarchy?

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Content

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1. Introduction
2. Shareholder Value Theory
3. Stakeholder Theory
4. Corporate Social Responsibility Theory
 - I. Origin of CSR
 - II. 1950 – Modern era of social responsibility begins
 - III. 1960 – CSR literature expands
 - IV. 1970 – Definitions of CSR proliferate
 - V. 1980 – Fewer definitions, more research and alternative themes
 - VI. 1990 – CSR further yields to alternative themes
5. Discussion

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2. Shareholder Value Theory

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- Goal: Maximization of shareholder value
- Milton Friedman: *„In such an economy, there is one and only one social responsibility of business – to use resources and engage in activities designed to increase its profits so long as it stays within the rules of the game ...“* (Friedman and Friedman, 1962, p. 133)
- CSR as a drag-on for shareholder value creation
- Drucker: Convert CSR into business opportunities

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2. Shareholder Value Theory



Acceptance:

- Democracy
- Market economy and liberties included in economic activity

Controversial subject:

- Public and private parts of the business are fully separated

2. Shareholder Value Theory



Strengths:

- Efficient wealth creation
- Achieving a better economic performance for the whole system
- The conditions of a free and competitive market lead to wealth creation

Weaknesses:

- Economic performance is not the whole public good
- Shareholder value maximization frequently reflects short-term profits
- Long-term profitability can only be achieved if management takes into account stakeholders' interests
- Laws are imperfect and exhibit loopholes

3. Stakeholder Theory



- Stakeholders: groups and individuals who can affect or are affected by corporate actions
- Stakeholder vs. Stockholder
- Freeman and Velamuri (2006): Main goal of CSR is to create value for stakeholders
- Firm as a system of stakeholders
- Principle of Corporate Rights
- Principle of Corporate Effects

3. Stakeholder Theory



Managers should

- acknowledge and actively monitor stakeholders' concerns
- listen to and openly communicate with stakeholders
- adopt processes that are consistent with stakeholders' concerns
- recognize interdependence of efforts and rewards among stakeholders
- work cooperatively with other entities
- avoid activities that might endanger human rights or create other risks
- acknowledge potential conflicts between their own role as stakeholders and their responsibilities for stakeholders' interests

3. Stakeholder Theory

**Strengths:**

- ethically superior to Shareholder Value Theory
- addresses concrete interests and practices
- related to business success
- creating value for stakeholders also creates value for shareholders

Weaknesses:

- can be used as excuse for managerial opportunism
- neglects duties owed to shareholders
- treats all stakeholders' interests equally

4. Corporate Social Responsibility



What does CSR mean?

<http://www.youtube.com/watch?v=WefocEmmMVC&feature=related>

4. I Corporate Social Responsibility – Origin



Origin of CSR:

- 1920: Corporate conscience came up
- Fortune magazine: *“American capitalism seemed to be what Marx predicted it would be and what all the muckrakers said it was – the inhuman offspring of greed and irresponsibility. It seemed to provide overwhelming proof of the theory that private ownership could honor no obligation except the obligation to pile up profits.”* (The permanent revolution, 1951, p. 88)
- Corporations recognized that it was their purpose to solve the social problems

4. I Corporate Social Responsibility – Origin



- Labor, public and political pressure led to an increase in safety and sanitary conditions, to payments for accidents, retirement and death
- New problems arose with the growing size of companies in the years before WWI
 - A new sensitivity to community opinion took form

4. I Corporate Social Responsibility – Origin



Examples:

- Rockefeller (1923): *“Shall we cling to the conception of industry as an institution primarily of private interests, which enables certain individuals to accumulate wealth, too often irrespective of the well-being, the health, and the happiness of those engaged in its production? Or shall we adopt the modern viewpoint and regard industry as being a form of social service, quite as much as a revenue-producing process?”*
- U.S. Steel: position of balance
- General Electric: Be a good citizen
- Ford: Service = Increase of production and productivity

4. I Corporate Social Responsibility – Origin



- Important conditions for the beginning of CSR:
 - An ever-widening circle of citizens affected by large companies
 - The unification of the labor force
 - The application of mass production
 - The growing political power of organized labor and other groups

4. II Corporate Social Responsibility – 1950s



- Bowen (1953): *“What responsibilities to society may businessmen reasonably be expected to assume?”*
- Fortune magazine survey 1946: 93.5% agreed!
- Bowen (1953): *“It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.”*
- Bowen – The father of CSR

4. III Corporate Social Responsibility – 1960s



- Davis (1960) – the runner-up to Bowen
 - Relation between social responsibility and business power
 - Social responsibility should be seen in a managerial context
- Frederick (1960)
 - Businessmen should oversee the operation of an economic system that fulfills the expectations of the public
 - Sustainability
- McGuire (1963)
 - Social responsibilities contain political interest, interest in the welfare of the community, in education, and in the happiness of a firm's employees

4. III Corporate Social Responsibility – 1960s



- Davis and Blomstrom (1967):
 - Reflection on the needs and interests of others who may be affected by business actions
- Davis:
 - *“businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest”* (1960, p. 70)
 - *„The substance of social responsibility arises from concern for the ethical consequences of one’s acts as they might affect the interests of others.”* (1967, p. 46)

4. III Corporate Social Responsibility – 1960s



- Walton (1967):
 - The realization of the intimacy of the relationships between the corporation and society is indispensable to pursue the firm’s goals.
 - The essential ingredients of CSR include a degree of voluntarism
 - Acceptance that costs are involved for which it may not be possible to gauge any direct measurable economic returns

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4. IV Corporate Social Responsibility – 1970s

- More specific definitions of CSR
- Alternative emphasis
 - Corporate Social Responsiveness
 - Corporate Social Performance
- Social legislation of the early 1970s
 - Environmental Protection Agency (EPA)
 - Equal Employment Opportunity Commission
 - Occupational Safety and Health Administration
 - Consumer Product Safety Commission

→ new significant and legitimate stakeholders of business

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4. IV Corporate Social Responsibility – 1970s

Committee for Economic Development (CED): „three concentric circles“ approach



Inner circle: basic economic functions (*growth, products, jobs*)

Intermediate circle: changing social values and priorities (*fair treatment*)

Outer circle: responsibilities in improving social environment (*poverty, urban blight*)

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4. IV Corporate Social Responsibility – 1970s

Archie B. Carroll



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Research Interests:
 Business Ethics, Corporate Social
 Responsibility/Stakeholder Management

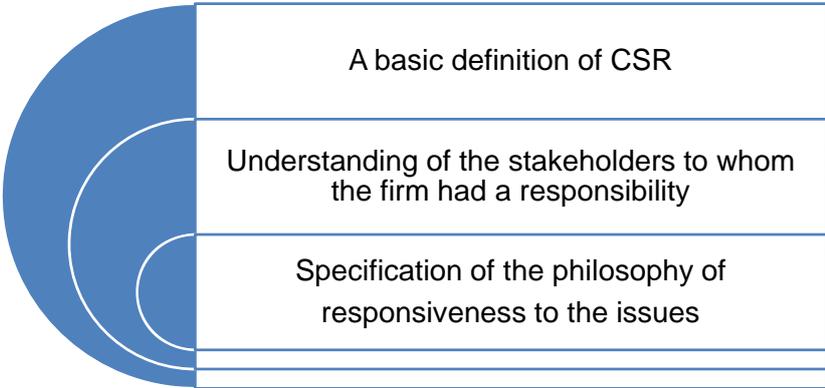
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4. IV Corporate Social Responsibility – 1970s

1979: A definition of CSR (Carroll, 1979, p. 500)



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4. IV Corporate Social Responsibility – 1970s  Universität Zürich 

1979: A four-part definition of CSR (Carroll, 1979, p. 500):

“The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time. “

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4. IV Corporate Social Responsibility – 1970s  Universität Zürich 

1979: A four-part definition of CSR (Carroll, 1979, p. 500)

Economic responsibility

- Produce goods/services and sell them at a profit

Legal responsibility

- Society expects business to obey the law

Ethical responsibility

- Kinds of behaviors and ethical norms that society expects business to follow

Discretionary responsibility

- Strategic, voluntary benefits that business provides to society (in-house programs for drug abusers, training the unemployed,..)

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4. V Corporate Social Responsibility – 1980s



- **Fewer definitions, more research, and alternative themes**
- **understanding of the relation between CSR and profitability**
- CSR not as a set of outcomes, but as process (Jones, 1980)
- CSR patterned after Maslow's need hierarchy (Tuzzolino and Armandi, 1981)
- CSR and its relation to financial performance (Cochran and Wood, 1984)
- Evolution of the Corporate Social Performance model:
Framework of principles, processes and policies (Cochran and Wartick, 1985)
- "Corporate social policy process" (Epstein, 1987)

4. VI Corporate Social Responsibility – 1990s



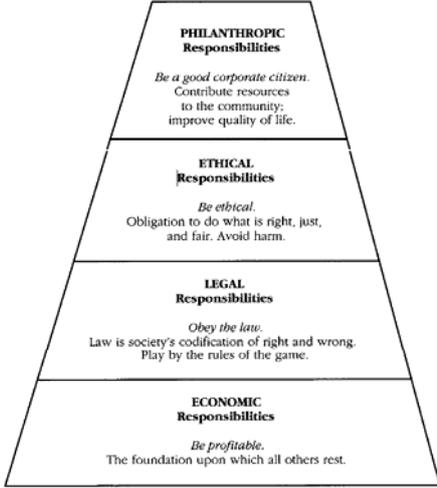
Major themes:

- CSP, stakeholder theory, business ethics theory, corporate citizenship
- **Revision of Carroll's four-part CSR definition** (Carroll, 1991)
 - ECONOMIC responsibilities
 - LEGAL responsibilities
 - ETHICAL responsibilities
 - PHILANTHROPIC responsibilities

"The CSR firm should strive to make a profit, obey the law, be ethical and be a good corporate citizen" (Carroll, A.B. 1991, S. 40)

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4. VI Corporate Social Responsibility – 1990s



The diagram is a pyramid divided into four horizontal sections. From top to bottom, they are:

- PHILANTHROPIC Responsibilities**: *Be a good corporate citizen. Contribute resources to the community; improve quality of life.*
- ETHICAL Responsibilities**: *Be ethical. Obligation to do what is right, just, and fair. Avoid harm.*
- LEGAL Responsibilities**: *Obey the law. Law is society's codification of right and wrong. Play by the rules of the game.*
- ECONOMIC Responsibilities**: *Be profitable. The foundation upon which all others rest.*

Illustration 1: The Pyramid of Corporate Social Responsibility (Carroll, A.B. 1991, S. 42)

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4. VI CSR and Stakeholders

- stakeholders' legitimacy and power
- reconcile managers' and stakeholders' claims

Functions of stakeholder management

- describe
- understand
- analyze
- manage

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4. VI CSR and Stakeholders


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- Who are our stakeholders?
- What are their stakes?
- What opportunities and challenges are presented by our stakeholders?
- What corporate social responsibilities do we have to our stakeholders?
- What strategies, actions or decisions should we take to deal with these responsibilities?

(Carroll 1991)

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4. VI CSR and Stakeholders


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Types of CSR

<i>Stakeholders</i>	Economic	Legal	Ethical	Philanthropic
Owners				
Customers				
Employees				
Community				
Competitors				
Suppliers				
Social Activist Groups				
Public at Large				
Others				

Source: Carroll 1991: Stakeholder/Responsibility Matrix

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4. VI CSR and Stakeholders

- Immoral managers
→ only profitability and success count
- Amoral managers
→ oblivious to negative effects of their business decisions
→ intentional vs. unintentional moral managers
- Moral managers
→ follow law AND ethical principles






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4. VI CSR and Stakeholders

Owners and Shareholders:

- immoral: managers' interests more important than shareholders' (Agency theory)
- amoral: no special thought given to shareholders
- moral: shareholders' interests central

Employees:

- immoral: employees can be manipulated and taken advantage of
- amoral: employees are treated according to legal standards
- moral: employees are treated with respect

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4. VI CSR and Stakeholders



Customers:

- immoral: customers are taken advantage of
- amoral: no consideration of customer perspective
- moral: customers are regarded as equal partners

Community:

- immoral: community and environment are exploited
- amoral: legal standards are followed, but nothing more
- moral: active involvement, strategic philanthropy

5. Discussion



„GAP“ Example

http://www.liveleak.com/view?i=f80_1193903117

- Who is responsible for these unacceptable labor conditions?
- How can CSR contribute to improving such situations?

Do you know any similar examples?

5. Discussion



- Nestlé scandal related to powdered milk in Africa
- Retailer „Lidl“ spies on its employees
- Ford Pinto
- ...

5. Discussion



- How do you think the recent financial crisis has changed the companies' attitude towards CSR?



5. Discussion



• Do you consider CSR practically relevant for business firms today? Why?

• Do you know any companies that have already implemented CSR strategies?

• What about CSR in a future prospect?

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5. Discussion



Novartis:
<http://www.pharma.us.novartis.com/info/about-us/corporate-citizenship/people-communities.jsp>

KPMG:
<http://www.kpmg.com/CN/en/WhoWeAre/Corporate-Social-Responsibility/Pages/Focus.aspx>

UBS:
http://www.ubs.com/1/e/about/corp_responsibility.html

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Thank you for your attention!

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