Two Models of Corporate Social Responsibility to Communities

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TWO MODELS OF CORPORATE SOCIAL RESPONSIBILITY TO COMMUNITIES

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ABSTRACT

Corporations from the most economically developed countries have been joining together over the past 15 years to form organizations such as Caux Round Table, Social Venture Network, Business for Social Responsibility, and Canadian Business for Social Responsibility to widely promote corporate social responsibility and either to craft standards of social responsibility or to provide examples from members about how they enact corporate social responsibility. Although their views overlap, there are some inconsistencies in content, emphasis, rationales for corporate social responsibility, and audit recommendations. Examination of these four organizations reveals two quite different rationales for corporate social performance, one involving sharing wealth for a generalized benefit to society without concern for receiving a direct business benefit in return, and the other involving strategically designed and executed community involvement to create a virtuous cycle of investments in the community resulting in turn in business successes which continuously increase the wealth of both the community and the corporation.

I. INTRODUCTION

In 1986, business leaders of multinational companies from Europe, Japan, and North America met in Caux, Switzerland and have met there each summer since to craft standards of social responsibility they call Principles for Business (Caux Round Table, 2000). In 1987, owners of mostly small firms in the United States launched the Social Venture Network to develop their own standards of social responsibility (Social Venture Network, 2000). In 1992, several Fortune 500 and smaller US companies formed Business for Social Responsibility (BSR), which now includes more than 1,400 companies with revenues in excess of $1.5 trillion and more than six million employees (Business for Social Responsibility, 2000). Since then Canadian Business for Responsibility, an affiliate of BSR, has been formed which has crafted its own standards of social responsibility (Canadian Business for Social Responsibility, 2000).

Each of the four organizations supports different managerial ethics and criteria for ethical decision-making, although there are overlaps as well as inconsistencies among
them. This paper will first, outline the views of the four organizations; second, discuss problems in defining corporate social responsibility and organizational stakeholders; third, link the views of the four organizations to different ethical philosophies; fourth, consider evaluation and management of corporate social performance; fifth, offer a model to explain inconsistencies in enactment of corporate social responsibility; and lastly, present several propositions for future research.

II. CORPORATE SOCIAL RESPONSIBILITY ORGANIZATIONS

Business leaders in the most developed countries have created several forums that have taken positions on corporate social responsibility that overlap but are not precisely the same in content and sometimes differ in their underlying assumptions of what makes corporate socially responsible behavior desirable.

1. CAUX ROUND TABLE

For example, the vision statement and principles of corporate social responsibility of Caux Round Table have been shaped by the charismatic influence of Ryuzaburo Kaku, Chairman Emeritus of Canon Inc., and his view that corporations have a moral duty to respond to global problems of poverty, deterioration of ecological systems, and human conflicts (Kaku, 1997). Caux Round Table principles (Caux Round Table, 2000) include:

1. Respect human rights and democratic institutions and promote them wherever practicable.

2. Recognize government's legitimate obligation to the society at large and support public policies and practices that promote human development through harmonious relations between business and other segments of society.

3. Collaborate with those forces in the community dedicated to raising standards of health, education, workplace safety and economic well-being.

4. Promote and stimulate sustainable development and play a leading role in preserving and enhancing the physical environment and conserving the earth's resources.

5. Support peace, security, diversity and social integration.

6. Respect the integrity of local cultures.
7. Be a good corporate citizen through charitable donations, educational and cultural contributions, and employee participation in community and civic affairs.

2. SOCIAL VENTURE NETWORK

Similarly, Social Venture Network, which includes such environmentally "green" organizations as Ben & Jerry's Homemade (recently acquired by Unilever) and Tom's of Maine, views corporate social responsibility as a charitable mission and a moral duty. However, whereas Caux Roundtable globally supports human rights, quality of life, and sustainable development, Social Venture Network focuses on local communities. Social Venture Network principles (Social Venture Network, 2000) include:

1. Establish formal mechanisms to maximize and promote two-way communication with the local communities in which the company operates. Where appropriate, collaborate with community members to promote improvements in community health, education, workplace safety, diversity, and economic development.

2. View the community as an important stakeholder in company operations, consider the community in decision-making, and keep the community informed of the company's operations and plans, and of the impacts of the company's products, services, and activities.

3. Use procurement and investments to improve local economic and social development. Where possible, locate operations and investments in under-served communities to generate employment and training opportunities.

4. Contribute to the local community through corporate policies and programs that explicitly encourage corporate charitable giving, employee volunteerism, and in-kind contributions of goods and services to local organizations.

5. Focus on at least one critical community issue and use the company's financial and political weight to create change.

6. Serve on the boards of local organizations and institutions with a willingness to be involved over time and leverage company resources to provide creative in-kind or monetary contributions.

7. Engage employees and customers in choosing charitable causes.

8. Make special effort to train and employ marginalized, minority, and underemployed members of the local community.
9. Enter joint marketing partnerships with community groups to promote socially progressive causes.

3. BUSINESS FOR SOCIAL RESPONSIBILITY

In contrast to the emphasis on philanthropy by Caux Roundtable and Social Venture Network, in which direct benefits of community philanthropy to business are vague and undefined, Business for Social Responsibility (BSR) pointedly emphasizes that strategically planned and executed forms of benevolent behavior toward communities that facilitate attractive returns to stockholders are good investments of corporate resources. Members of BSR include 3M, American Express, AT&T, BP Amoco, Bank of America, Dayton Hudson, Ford, General Motors, Hewlett-Packard, Home Depot, Johnson & Johnson, Merrill Lynch, Motorola, Price Waterhouse, Prudential, Sears, Shell, AOL Time Warner, Toyota, Wal-Mart, and Walt-Disney (Business for Social Responsibility, 2000).

BSR, as a policy, has chosen not to define standards of corporate social responsibility for members. Instead, it serves as a forum for sharing ideas and experiences intended to help each member define its own standards of corporate social responsibility, to make its own decisions on how to enact them, and to evaluate and manage its corporate social responsibility programs with communities. BSR has outlined various domains of corporate social responsibility and provides vignettes from members about how they have strategically planned and executed investments in each domain to enhance business success. Within the domain of corporate social responsibility to communities, BSR members have reported (Business for Social Responsibility, 2000) that community involvement in the form of donating "money, time, products, services, influence, management knowledge and other resources" when strategically designed and executed have the following results:

1. Improved financial performance
2. Increased employee morale, retention, attendance, and performance
3. Development of employee skills
4. Enhanced company reputation
5. Improved access to markets
6. Increased attractiveness to investors
7. Increased customer goodwill and loyalty
8. Improved relationships with the community.

While Social Venture Network principles of partnering with local communities are presented like a creed, that is, a set of opinions and beliefs without tangible justification or results, Business for Social Responsibility rationalizes corporate social responsibility by identifying explicit benefits to business from partnerships with nonprofit organizations, government agencies, or other companies or stakeholders to fulfill community needs in such areas as healthcare, education, public safety, and environmental health. BSR identifies business benefits resulting from community partnerships (Business for Social Responsibility, 2000) in the following areas:

1. Expanded markets and creation of new services
2. Access to a broader, more talented labor pool
3. Enhanced employee skills and training
4. Increased employee retention
5. Increased competitive advantage
6. Enhanced brand image
7. Development of trust from the local community
8. Improved risk management in that problems that arise are much easier to resolve
9. Improved community welfare and a safer environment for employees and customers

Beyond local community partnerships, BSR reports evidence of the same beneficial business outcomes listed above resulting from global community involvement (Business for Social Responsibility, 2000) in which multinational companies act in a consistent manner at home and abroad in supporting local infrastructure development (including health care, education, and agriculture), enhancing job skills of local residents, providing investment and income flows through various community economic development initiatives and supporting local business development, introducing technology, and sharing standards and business practices with local companies…. In a growing number of cases, company activities are more than merely philanthropic. Rather, they are viewed as a strategic investment, creating stable business environments, training labor pools, engendering economically empowered local customer bases, and promoting overall economic growth.
4. CANADIAN BUSINESS FOR SOCIAL RESPONSIBILITY

BSR has links to smaller corporate social responsibility forums around the world. Canadian Business for Social Responsibility (CBSR) is an affiliate of BSR that has broken with BSR's stance of advocating that each member define its own code of conduct and be its own judge. CBSR has independently developed standards that can be used to externally audit the performance of members (Canadian Business for Social Responsibility, 2000). These principles include:

1. Socially responsible companies make explicit their commitment to a community well-being imperative. Their community partnership policy is in written form and is publicly available. The policy commits the company to forging enduring community partnerships and long-term relationships that contribute to the quality of life in the community.

2. Socially responsible companies provide information on local and regional social issues to their stakeholders through events and services, including company newsletters, "brown bag" sessions and public bulletin boards.

3. Socially responsible companies donate at least 1% of pre-tax profits to charitable organizations of which up to half may be contributed in volunteer time or donations in kind.

4. Socially responsible companies give priority to local employment and local suppliers.

5. Socially responsible companies allocate 20% of their annual donations budget to local community and economic development projects that address job skills training, job creation and self-sufficiency training.

CBSR, with a membership of smaller businesses than BSR, blends the rationalism of BSR with the local focus and moral imperative of Social Venture Network.

III. LITERATURE REVIEW

In academic literature on corporate social responsibility, there are problems of definition of exactly what is corporate social responsibility, problems of identifying what constitutes an enactment of corporate social responsibility and differing underlying assumptions of what makes corporate social responsibility desirable. Clarkson (1995) in an extensive review of theoretical papers and 78 field studies on corporate social performance, corporate social responsibility, and corporate social responsiveness, concluded that no theory has yet been developed that can provide a
framework or model "for the systematic collection, organization, and analysis of
corporate data relating to these important concepts… nor is there any general
agreement about the meaning of these terms from an operational or a managerial
viewpoint". Clarkson argued for abandoning models and methodologies concerning
corporate social responsibility and a shift to a stakeholder framework in which
relating corporate profit generation to creation of wealth for stakeholders avoids
problems of ambiguity and allows easy measurement in academic research.

Definitional, theoretical, and measurement concerns of the academic community
notwithstanding, business leaders of prominent firms in corporate social responsibility
forums have defined, however imperfectly and loosely, what corporate social
responsibility means within their forums, and they have crafted ways of enacting
corporate social responsibility and auditing corporate social performance. Companies
commonly use the, albeit "messy" and ambiguous, construct of corporate social
responsibility to explain and guide their own behavior with substantial variations
among companies in underlying assumptions, definitions, and enactments of corporate
social responsibility. Thus, Clarkson's argument for abandoning the "elusive" and
ambiguous construct of corporate social responsibility in favor of stakeholder theory,
premised on the notion that a universal theory to explain and predict business
behavior in this arena is possible and desirable, is sharply at odds with inconsistencies
of business behavior.

1. ETHICAL APPROACHES

Ethical choices inevitably involve assumptions about primary stakeholders whose
benefit should receive priority over other stakeholders. Essentially, Clarkson's
argument is that all stakeholder interests have to be considered, but he gives no
explanation of how to weigh them.

Utilitarianism. Utilitarianism is an ethical idea first put forth by Jeremy Bentham
(1789) and developed by John Stuart Mill and Herbert Spencer that the criterion of
morality is attaining the greatest happiness for the greatest number. Bentham argued
for political democracy in which institutions and laws serve society and place the
common good above individual self-interests. This moral philosophy approximates
Caux Round Table principles, which include promoting democratic institutions,
recognizing the role of government in partnership with business to promote human
development, and always keeping benefit to the general population as the primary
ethical decision-making criterion, thus replacing pure narrow self-interest with broad
stewardship.

Social Contract. John Locke (1689) argued, before Bentham introduced utilitarianism,
that individuals by nature act to assert their natural state of equality and independence
and freely enter into social contracts to work together in harmony if their natural rights and interests are upheld. David Hume (1740) reinforced this view by writing about naturally emergent common interests that exist at the core of social systems and require no legal covenants to be executed or enforcement by political authorities. This moral philosophy closely resembles Social Venture Network principles of voluntarily entering into mutually beneficial partnerships with local communities that fully preserve the rights and interests of all participating parties.

Individualism or *laissez-faire* approach. Adam Smith (1759) asserted that while selfish opportunism in advancing one's own interests at the expense of others has been assumed by philosophers such as Thomas Hobbes to be part of human nature, human interest in the fortune of others and their happiness brings pleasure. Thus, there is no need for a sovereign authority to coerce people or even common interests to be involved for people to act with civility toward one another. Following from this earlier assertion, Smith (1776) later argued that if every entrepreneur were free of interference to maximize business performance, over the long term it would result in greater wealth and dispersion of benefits within society as a whole. In Smith's theory, entrepreneurs would realize that short-term opportunism creates an atmosphere of mistrust that is counterproductive to business in the long term, and that to treat others as one would want to be treated is good for business and increases personal wealth along with the quality and quantity of goods and services available to society. This moral philosophy closely resembles Business for Social Responsibility justifications for investments in communities. Moreover, the aggressive campaign of BSR to disseminate its message and recruit business members suggests that BSR is committed to reaching and converting business from short-term opportunism to improve the overall climate for business. Canadian Business for Social Responsibility also displays this aggressiveness; however, CBSR is sharply different from BSR in declaring a code of conduct with explicit numerical performance requirements and in encouraging members to arrange for external audits of compliance.

2. EVALUATION AND MANAGEMENT OF CORPORATE SOCIAL PERFORMANCE

Carroll (1991) has proposed a hierarchy of criteria for evaluating corporate social performance: economic, legal, ethical, and discretionary. Organizations that are profitable and obey the law satisfy the first two corporate social performance criteria. Evaluating ethical and discretionary corporate social performance is not as straightforward. Putting shareholder's economic interests second to general public interests is ethical to the utilitarian, but not to a corporation with social contract ethics in which mutual gain of the corporation and the local community are foremost concerns, and not to a corporation with Adam Smith's ethics that assert pursuit of individual interests with honesty and integrity eventually results in a greater good for
all. With regard to discretionary responsibility, what seems to matter most is whether a benevolent action was voluntary and not whether it was pure charity or strategically planned and executed to bring about a business benefit exceeding the resources expended. Why should forethought about personal gain be regarded as less discretionary than absence of such forethought in pure charity?

Who should evaluate performance and according to what standards? CBSR advocates external audits according to explicit performance standards, while BSR considers standards and audits in-house matter. Caux Round Table and Social Venture Network present their principles in generalities without stating explicit performance levels that could be audited. Inconsistencies abound with chief executives, ethics committees, ethics ombudsmen, and corporate social responsibility organizations providing different perspectives.

IV. TWO MODELS OF CORPORATE SOCIAL RESPONSIBILITY

The concept of corporate social responsibility in business practice has many different interpretations, but underlying assumptions about cause and effect relationships can be clustered into two general categories. Caux Round Table and Social Venture Network principles suggest that it is the proper role of business to act in a socially responsible manner toward customers, employees, and investors; to earn surplus income; and to share this surplus in acts of corporate social responsibility that will benefit everyone over the long term by helping to establish or preserve a harmonious and healthy operating environment.

FIGURE 1
Share the Surplus Model
Business Success → Surplus Income → Sharing the Surplus with the Community

In the view of BSR, instead of business success simply leading to corporate social responsibility expressed in the form of charitable largess, corporate social responsibility is viewed as a fundamental cause of business success.

FIGURE 2
Investment to Increase Return Model

→ Investments in the Community → Business Success → Surplus Income

CBSR shares BSR's "practical benevolence" view but also shares Social Venture Network's view in advocating specific corporate social performance toward local communities, regardless of return on investment considerations.
V. PROPOSITIONS FOR FUTURE RESEARCH

Ryuzaburo Kaku (1996, 1997), Chairman Emeritus of Canon Inc., has had the greatest influence over the vision statement of Caux Round Table through his promulgating his philosophy of Kyosei. According to Kaku, the five stages of development of Kyosei are

1. Economic survival
2. Cooperating with labor
3. Cooperating outside the company
4. Global activism
5. Government as kyosei partner in rectifying global imbalances

Kyosei's fourth and fifth stages concern post-conventional morality (Graham, 1995) that goes beyond benefit to one's own social group to embrace global social benefits. The five-stage kyosei model reflects the Japanese tendency to analyze issues from the inside out; that is, from those who are viewed as most intimately associated with group survival, ichi, through daily interactions to those who are viewed as more peripherally associated, soto (Nakane, 1973). Social Venture Network, which consists of relatively small domestic companies, reflects only the first three levels of kyosei in its principles,

while Caux Round Table with a prosperous membership of multinational companies reflects all five levels of kyosei.

**Proposition 1**: Firms that develop a "share the surplus" view of corporate social responsibility will progress through the stages of kyosei as they grow in prosperity.

**Proposition 2**: Firms that develop a "share the surplus" view of corporate social responsibility will progress through the stages of kyosei as their activities become more international.

In contrast to the "share the surplus" view of corporate social responsibility, which could be premised on either utilitarian or social contract ethical philosophies, members of Business for Social Responsibility have adopted the "investment to increase return" view of corporate social responsibility, which could be premised on the laissez-faire ethical philosophy of Adam Smith.
Proposition 3: Firms that develop an "investment to increase return" view of corporate social responsibility will increase corporate social responsibility behaviors when they see tangible increases in returns resulting from corporate social responsibility behaviors.

VI. CONCLUSIONS

Currently, in the academic literature on corporate social responsibility, academics propose concepts as universal and reviewers are troubled by inconsistencies among their proposals. Both groups fail to recognize that in actual business practice, corporate social responsibility has different meanings, different underlying ethics, and is enacted in quite different ways by different businesses. Businesses have clustered themselves by self-selection into groups that share similar definitions, assumptions, and views of how to enact corporate social responsibility.

Caux Round Table and Social Venture Network share similar philanthropic views that social responsibility to communities is a moral imperative and is enacted through sharing surplus returns. Business for Social Responsibility has a pragmatically benevolent view that social responsibility to communities improves business success. Canadian Business for Social Responsibility leans toward BSR's view but also blends elements of moral imperative.

This study developed three propositions. These propositions provide a basis for further discussion, and they identify plausible relationships that can be tested to help clear away the confusion and ambiguities that now surround discussions of corporate social responsibility. Understanding how corporate social responsibility develops, how it is enacted, the benefits it brings and to whom, and what variables influence these processes should be of value to both business and government policy makers, and of theoretical interest to academicians.

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