

Using Corporate Social Responsibility as a Business Strategy

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For many Fortune 500 corporations, CSR has become a big business. Combined, such companies now spend billions of dollars doing good deeds and self-promoting those myriad efforts to the public. The expectation, of course, is that ethically minded consumers will prefer the products and services of these companies. But is it ethical for such companies to use CSR strategically? Should business and social responsibility mix in this way? Many companies now claim that their products are made with high ethical standards or eco-friendly production methods. Starbucks, for instance, recently declared it has invested over \$70 million to promote sustainable coffee harvesting and that 99% of the coffee beans in its beverages are “ethically sourced.” Meanwhile, other companies are starting to tout their living wage and health care policies. At Whole Foods, for example, the average hourly wage was \$18.89 in 2013. As John Mackey, the company’s cofounder and co-CEO, likes to say, “There’s no inherent reason why business cannot be ethical, socially responsible, and profitable.” But even if a company can be ethical and profitable at the same time, are Starbucks, Whole Foods, and other such ethically minded companies any more virtuous than their competitors?

Consider Starbucks’s highly touted ethical-sourcing program. Although Starbucks has invested significant resources (\$70 million) in this campaign, it’s not clear how much of this money has been devoted to advertising. Also, for what it’s worth, Starbucks generated well over \$16 billion in revenue in 2014, the year before it announced it reached its 99% ethical-sourcing plateau. Critics argue that Starbucks

has invested a mere 0.0003% of its annual revenue to do what it should be doing anyway.

For its part, Whole Foods claims that, “Buying organic supports the small, family farmers that make up a large percentage of organic food producers.” But this claim is misleading at best. In reality, although there are a lot of small, family-run organic farmers, their share of the organic crop—and their share of the produce sold at Whole Foods—is minuscule. Whole Foods, of course, knows this, so its claim about the “small family farmers that make up a large percentage of organic food producers” is dubious, if not downright fraudulent.

Discussion Questions

1. *Stakeholder theories:* What is the impact of CSR on the internal and external stakeholders of businesses that deploy CSR as part of their business strategy? Could it backfire if consumers object to what appears to be using social responsibility as a marketing ploy? Can you think of other examples of CSR efforts by organizations as part of their branding efforts? Has it helped or hurt the public’s perception of the business?
2. *Ethical decision-making:* Is it ethical to use CSR strategically to promote a company’s “ethical brand” or attract new customers? What measures could managers use to ensure that companies are truly committed to social responsibility that they tout as part of their brand?

Take a Position: Corporate Social Responsibility as a Strategy

Issue: Should organizations integrate CSR into their overall strategic planning process?

Sub-Issues:

1. Are there any examples of CSR efforts that should stand alone and not be a part of a strategy?
2. Is CSR just a way for managers to “check a box” for stakeholders, or is there a genuine desire on the part of most managers to benefit society through their business operations?

Different Corporate Social Responsibility Views and Schools of Thought

- There are three schools of thought that define CSR in practice: the narrow view, the moderate view, and the broad view.
- A narrow view of CSR emphasizes a corporation's duties to its shareholders.
- A moderate view of CSR focuses on a business's responsibility to create economic value and solve social issues at the same time.
- Businesses committed to a broad view of CSR aim to solve global social issues in ways that honor ethical values and respect people, communities, and the natural environment in a sustainable manner.
- Explicit CSR is different from implicit CSR; the former is more firm driven, and the latter is more culturally driven.

CORPORATE SOCIAL RESPONSIBILITY AND ITS LIMITATIONS

LO 2.4 Compare arguments for and against the use of CSR by businesses.

On its face, to some managers and researchers, the concept of CSR is straightforward and noncontroversial: Business should strive to contribute to various societal interests as well as to give back to society through philanthropy. Yet a more critical examination of CSR exists and focuses on its potential to be costly and perhaps even hypocritical. For example, could a company's CSR strategy harm its own shareholders? What are the costs of CSR, and who bears them? Let's consider some of the downsides to CSR alongside its benefits.

Benefits and Costs

While the majority of CSR conceptualizations are from a positive approach and are focused primarily on the benefit to society, there is a growing literature on **corporate social irresponsibility** and **corporate hypocrisy**.²¹ And while reporting on a firm's positive acts is common, as mentioned previously, so is media coverage of socially irresponsible business practices—causing some doubt about the integrity of these socially responsible acts and leading to greater skepticism about corporate intentions. It likely goes without saying that firms want to steer clear of appearing hypocritical, or deceptively claiming to be what they are not, or issuing statements that are in fact false representations of the true reality.²² Likewise, managers need to avoid the social harm caused by being irresponsible.

There are multiple benefits of a clear CSR strategy, and many of its proponents point to cost savings based on reforming internal and external practices as a justification for a CSR program. Often, these efforts result in less of a need for government regulation of business, saving both the company and society the costs associated with regulation. Doing so can also promote long-term profits and savings for the business. Let's suppose, for example, the management team at High Flyers Corp. start the planning phase for a new facility with the objective that its design and use is aligned with the company's commitment to a sustainable environment. However, implementing this policy may result in extra upfront costs during a new construction project. High Flyers' challenge is to focus on *long-term* cost savings yielded by energy efficiency

corporate social irresponsibility: When the firm causes some social harm and should be held in contempt for the harm.

corporate hypocrisy: When a firm deceptively claims to be what it is not or to be doing something it is not.

practices, such as natural light design and use of smart systems to control power output. If the extra up-front costs reach a break-even point in the foreseeable future, then High Flyers ultimately returns long-term value to shareholders (via the energy cost savings) while reducing its pollution output and contributing to an overall reduction in environmental harm. One could argue these efforts result in better relationships with stakeholders too. In fact, as we have discussed earlier in this chapter, some managers see CSR strategy as an investment similar to investing in a marketing campaign that promotes and strengthens their brand.

Opponents of CSR argue that only large corporations have the luxury to engage in CSR strategies because they are costly to run, so they may not yield costs savings in the long-term and are not as feasible for certain businesses. As a practical matter, small and mid-sized businesses may not have sufficient assets to wait for a return, such as energy costs savings. Given this, one primary criticism of CSR is that it disproportionately favors wealthier companies over start-ups, small, and mid-sized businesses. Likewise, some stakeholders do not view CSR favorably. Consumers are often bearing the costs of the CSR program as the real cost is passed on to them through higher prices for products and services. And there is considerable subjectivity of how and when, for example, philanthropic CSR strategies should end—having achieved their intended impact—and how much of the firm’s resources should be devoted to it at any given time.²³

Others believe the onus of social responsibility is on the individual and not the corporation because the company has primary responsibilities to the shareholders, as discussed in Chapter 1 and earlier in this chapter. Some commentators also question the inherent ability of a management team to develop a CSR strategy in accordance with the moral standards of both the internal and external stakeholders.²⁴ Even in relatively small companies where managers and shareholders are one in the same, there can be a moral disconnect on how CSR resources should be allocated. Lastly, critics view CSR as potentially leading to perceptions of corporate hypocrisy at worst and CSR skepticism at best. Figure 2.3 illustrates primary arguments for and against CSR.



Amazon Ups the Ante

As Amazon became only the second company in history to reach \$1 trillion dollars in market during 2018, it remained haunted by press reports of low employee wages and poor warehouse working conditions. Despite having substantial CSR efforts such as the Amazon Career Choice Program that prepays 95% of tuition for employees to take courses for in-demand fields regardless of whether the skills are relevant to a career at Amazon, the public's perception of Amazon as a good corporate citizen was waning. After the *New York Times* published a report detailing Amazon's negative workplace culture and mistreatment of its workforce, the company, while denying the most serious allegations, increased its oversight of third-party providers and affirmed that the well-being of its employees was a top priority. Still, Jeff Bezos, Amazon's famous founder and CEO, had become a target of politicians and commentators that decried the wealth inequality between Amazon's executive management and their labor force and compared Bezos to the robber barons of a bygone era. Senator Bernie Sanders cosponsored a bill called the Stop BEZOS Act that would tax corporations for every dollar of public assistance that their workers received. Faced with criticism and a shortage of workers in retail generally, Amazon announced

it would boost its minimum hourly rate to \$15, surpassing all other major retailers and the highest minimum wage required by a state.

Discussion Questions

1. What factors were at work in Amazon's decision to raise its minimum wage?
2. Is \$15/hour a fair wage? Should Amazon raise the wages of mid-level workers as well? Explain.

Critical Thinking

1. Use your favorite search engine to find Amazon's statements on CSR. Interestingly, despite the size and the scope of its business, Amazon does not release an annual sustainability or CSR report. The website remains the only source of information about the range of sustainability programs and measures initiated by the company. Why do you think Amazon doesn't follow the practices of others in reporting its CSR efforts?
2. Based on your Amazon CSR research, what type of CSR strategy does it employ? Could it be perceived as an example of CSR hypocrisy? Explain your answers.

KEY TAKEAWAYS

Corporate Social Responsibility and Its Limitations

- Advantages of CSR: Cost savings, decreased need for government regulation, promotion of long-term profits, improved relationships with stakeholders, improvement in societal need
- Disadvantages of CSR: Favors larger businesses, higher costs to consumers, not all benefit equally, may have an adverse impact on brand and reputation

CORPORATE SOCIAL RESPONSIBILITY STRATEGIES AND TRENDS

LO 2.5 Identify current strategies used by businesses to achieve their CSR objectives.

CSR strategies vary widely because organizations are so different in terms of size, resources, culture, geography, and other factors that influence strategic decision-making. Workforces that are largely from the millennial generation tend to favor volunteerism over corporate giving. Smaller and midsized business have to be cost conscious, so they tend to favor low-cost strategies such as strategic partnerships. We discuss some of the current trends in CSR strategies here, but it is important to note that new strategies often grow from existing strategies.

Cause Marketing

Cause marketing is a form of CSR that raises awareness for a particular cause through the provision of marketing, sponsorship, and promotional activities. For example, the Subaru Loves Pets initiative is part of a cause marketing strategy because participating Subaru retailers across the country work alongside the automaker's established network of local animal organizations (e.g., the ASPCA) to collect supplies needed to keep animals healthy, happy, and ready to find homes. Retailers will also provide Subaru Loves Pets shelter supply kits, created in partnership with BarkBox.

Corporate Philanthropy

Philanthropy is the voluntary raising and distributing of money by an organization to a variety or focused set of business-relevant causes, most commonly through a re-grant program or direct partnerships with service providers in the community. For example, Alphabet (Google) provided a \$2.4 million grant to GiveDirectly, a nonprofit organization that distributes direct monetary contributions to the poor. Table 2.2 provides an illustration of how much other corporations give as part of their CSR strategies.

Strategic Partnerships

Strategic partnerships are one of the most common methods for developing a CSR strategy. For example, Michelin's Uniroyal tires partnered with the World Wildlife Fund (WWF) to form the Tx2 alliance, which aims to reduce poaching and habitat loss for tigers in Asia and Africa. Their goal is to double the number of tigers in the wild by 2022, and the effort is funded through a Uniroyal tire rebate. For every Uniroyal tire rebate redeemed during the promotional period, Michelin donates \$20 to the WWF wild tiger efforts, with no set limit. The Uniroyal rebate customer receives a WWF/Uniroyal co-branded "Save the Tiger" kit, which includes a plush tiger, a tiger decal, a species card, and a save-the-tigers-themed reusable tote bag.

Table 2.2 Largest Corporate Foundations by Total Giving

Name	Total Giving
Gilead	\$446,700,000
Walmart	\$301,000,000
Wells Fargo	\$286,500,000
JPMorgan Chase	\$250,000,000
Microsoft	\$169,000,000
Goldman Sachs Group	\$168,500,000
ExxonMobil	\$168,500,000
Chevron	\$168,500,000
Bank of America	\$168,500,000
Alphabet (Google)	\$167,800,000
Citigroup	\$142,800,000
Merck	\$132,500,000
Coca-Cola	\$117,300,000

Source: The 13 Most Philanthropic Companies in the World, by Sion Phillipott, 16 July 2018. <https://www.careeraddict.com/corporate-philanthropy>. Accessed October 16, 2019.

Volunteerism

Organizations deploy volunteerism as a CSR strategy by providing an incentive or permission for employees to volunteer for a business relevant cause. For example, Starbucks encourages its employees to volunteer in local community projects through its Volunteer-Match program. PriceWaterhouseCoopers (PwC) introduces new hires to their employee volunteer program during their orientation. New hires work together to build a bike that they then donate to a local youth organization.

Socially Responsible Business Practices

Socially responsible business practices as a CSR strategy involves an examination of current and planned business operations. As part of the planning process, managers aim to engage in specific socially responsible activities that are consistent with the values and preference of customers, suppliers, employees, or the local community. The goal is to ensure third parties, who represent the business, are aware of the business's CSR commitment and follow certain practices that align with the business's values. One example of a third party who regularly represents organizations are attorneys. As part of a holistic CSR strategy, some businesses have imposed guidelines on their outside attorneys in an effort to harmonize legal representation with social values. For example, Walmart has specific internal CSR guidelines that instruct its attorneys to behave ethically during litigation.

Google's Corporate Social Responsibility Strategy and Project Maven

The announcement by Google in June 2018 that it would not seek another contract for its work providing artificial intelligence (AI) for a U.S. Department of Defense project was a culmination of months of internal struggle that pitted shareholder interests against stakeholder interests. However, after a backlash from employees and other stakeholders, Google updated its CSR strategy to include specific policies on AI research. These policies include a specific prohibition of deploying Google technologies that “cause or are likely to cause overall harm.” Nor will Google participate in developing “weapons or other technologies whose principal purpose or implementation is to cause or directly facilitate injury to people.”²⁵

The origins of Google's AI controversy began in September 2017 after its management team announced that Google was awarded a contract for \$28 million to work with the Pentagon on a program dubbed “Project Maven.” The project required Google to develop and support AI algorithms that the Department of Defense used to analyze footage from military drones. It was touted by Google as “a large government program that will result in improved safety for citizens and nations through faster identification of evils such as violent extremist activities and human right abuses.” According to the *New York Times*, two sets of e-mails reveal that Google's senior leadership was enthusiastically supportive of Project Maven primarily because it would help pave the way for larger Pentagon contracts. Privately, though, the e-mails showed a deep concern about how the company's involvement would be perceived. Google's chief AI scientist urged colleagues in an internal e-mail to avoid “any mention or implication of AI” in public statements about the Pentagon contract and warned that it may become “red meat to the media” and ultimately damage Google.²⁶

News of the Pentagon contract and Google's AI efforts fueled an extraordinary internal debate and protest. Employees feared the partnership would pivot toward developing weaponry and other offensive technology. Its top technical talent complained the Pentagon contract betrayed its

principles, while profit-oriented officials at Google worried the protests would damage its chances to secure more business from the Department of Defense. Several AI scientists resigned in protest, while others called for the company to cancel the Maven contract. The growing protests resulted in a petition signed by about 4,000 employees who demanded a clear policy stating that neither Google nor its contractors will ever build warfare technology.

Discussion Questions

1. Given Google's reaction to the petition and protests, which CSR strategy did Google follow to resolve their dilemma? Explain.
2. Employees are one set of stakeholders impacted by Google's decision. What other stakeholders might have been involved, and what were their interests? Did all stakeholders have the same interests?
3. What did Google's chief scientist mean by warning her colleagues of AI being “red meat to the media”? How could the use of the term AI damage Google? Explain.

Critical Thinking

1. Critics of the protests and of Google's reaction point out that Google's actions will ultimately make no difference to society because plenty of other tech companies are waiting to fill Google's shoes with a Pentagon contract. Does that strike you as convincing? Explain.
2. Use your favorite search engine to find Google's current AI policies and principles. While it makes clear that although Google will not engage in contracts for use of its AI research to develop weapons, it also specifically affirmed that Google would pursue contracts with the Pentagon in the future so long as it was consistent with its principles. Is there any contradiction in their CSR strategy? Is it consistent with a broad-based view of CSR, a moderate view, or a narrow view? Explain.

Corporate Social Responsibility Strategies and Trends

Businesses put into practice a variety of strategies to achieve CSR objectives. Those discussed in this chapter are as follows:

- *Cause marketing*: Raising awareness for a particular cause through the provision of marketing, sponsorship, and promotional activities
- *Corporate philanthropy*: The voluntary raising and distributing of money by an organization to a variety of focused set of business relevant causes, most commonly through a re-grant program or direct partnerships with service providers in the community
- *Strategic partnerships*: Partnering with a social organization to raise funds for that organization
- *Volunteerism*: Incentivizing employees to volunteer time or services to a business relevant cause
- *Socially responsible business practices*: Establishing business operations standards that are in line with the business's values

SUMMARY

This chapter continues our discussion presented in Chapter 1 by focusing on how managers sometimes use stakeholder and shareholder perspectives to carry out their daily operations by incorporating CSR. Organizations are faced with challenges that often require managers to take an integrated approach

which balances legal, economic, ethical, and societal concerns. While many agree that integrating CSR is an important goal for any business, some also debate the *degree* to which a business and its managers prioritize its societal objectives and the resources allocated to CSR initiatives.

KEY TERMS

broad view (CSR) 32

corporate hypocrisy 36

corporate social irresponsibility 36

corporate social responsibility (CSR) 24

moderate view (CSR) 32

narrow view (CSR) 32

securities fraud 29

triple bottom line 29

REVIEW QUESTIONS

1. In your own words, define *corporate social responsibility (CSR)*.
2. Give an example of a business practice that represents each of the four pillars of CSR.
3. Provide an example of how CSR can be an effective business strategy.
4. Describe and provide an example of each of the three views of CSR discussed in the chapter.

5. Explain how a CSR strategy can backfire on a company. Provide an example.
6. Choose one of the strategies discussed to achieve CSR objectives, and using a current company, provide

an example of how they could implement that strategy.

MANAGER'S CHALLENGE

Employee Participation in Corporate Volunteer Efforts

Data Metrics, a privately held corporation, is in the process of planning a fundraising event in partnership with the American Heart Association. The event will consist of a 5K run along with a dinner whereby participants will be asked to pledge \$150 per person to attend. The top management is very supportive of this cause and strongly encourages participation from the employees of Data Metrics. All employees have been given 20 hours of company paid time to work on organizing and promoting this event. However, not all of the employees are on board with this cause.

Some feel that it is a very personal decision to participate in these types of charitable events and would rather not see this type of thing enter their workplace environment. In addition, other employees feel a closer allegiance toward other causes, such as breast cancer or diabetes. However, these employees fear they will be viewed negatively by management if they do not participate.

Source: Dawn R. Elm, PhD, David A. & Barbara Koch Distinguished Professor of Business Ethics and Leadership, University of St. Thomas, Opus College of Business. 2018 Global Business Ethics Teaching Workshop, Bentley University, 2018. Used with Permission.

Framing Questions

1. Should all employees be required to participate in Data Metrics's volunteer efforts?
2. How can managers ensure that Data Metrics's fundraising event will not distract employees from their "regular" work?
3. What things should management consider in selecting a cause that will be both acceptable to participating employees and impactful?

Assignment

Prepare a two-page internal communication plan that would help managers roll out this initiative in a way that encourages participation while discouraging employees from feeling forced to participate or is outside of their level of comfort. Be sure to include a checklist of specific actions that managers can take to implement this fundraising project.