What are corporate social responsibility and ethics and why do businesses care? 3
Corporate social responsibility and ethics 3
Contemporary CSR practice 4
Questioning the ethics of practice 5
Summary and review 6
WHAT ARE CORPORATE SOCIAL RESPONSIBILITY AND ETHICS AND WHY DO BUSINESSES CARE?

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Introduction

On 16 January 2018 Larry Fink, the CEO of $6 trillion investment firm BlackRock Inc., made headline news by sending a letter to the world’s biggest corporations with the strong advice that they need to actively contribute to society rather than just focussing on profitability. “Society is demanding that companies, both public and private, serve a social purpose” he insisted. Fink’s message was that if a company cherishes diversity, cares about the environment, and supports worker well-being then it will both meet its social responsibilities as well as prosper commercially. This was a serious, deliberate and powerful move coming, as it did, from the head of the world’s biggest asset management company. News of the letter quickly spread through the business world, becoming a hot talking point amongst the global business and political elite at Davos World Economic Forum just a week later. The response was largely positive, with many business leaders at the ready to brag about their corporate social responsibility (CSR) activities, corporate ethics programs and impact investment initiatives.

Fink’s letter insisted that ethics and CSR are good for business. Indeed, this idea that investments in ethics and social responsibility can yield positive business benefits is by now a widely accepted part of management thinking in the corporate world. Fink painted a picture where corporations’ commitment to social responsibility rivals that traditionally accorded to the state in liberal democratic countries. He argued that:

We […] see many governments failing to prepare for the future, on issues ranging from retirement and infrastructure to automation and worker retraining. As a result, society increasingly is turning to the private sector and asking that companies respond to broader societal challenges. Indeed, the public expectations of your company have never been greater.

Fink’s letter offers an illustrative introduction to contemporary concerns over corporate social responsibility and ethics, at a time where corporations are more powerful than ever, as well as being under pressure from society to participate and contribute socially and politically. In this article we explore the concepts and practices associated with Corporate Social Responsibility (CSR) and ethics; the very same concepts and practices that Fink was advocating. The article begins with a brief historical overview of the history of the development of CSR, moving on to review the key concepts and practices that corporations engage in today under the name of CSR. Having explained what CSR is, the article then considers various criticisms that CSR has been subject to, and asks whether profit making corporations do in fact genuinely embrace social responsibility and ethics, or whether it is a kind moral façade that does little to change the reality of the corporate pursuit of self-interest. The article ends with a summary and overview of the key points. Overall this article is intended as a critical introduction to corporate social responsibility that will allow you to draw your own conclusions about the possibilities of truly ethical business conduct.

Corporate social responsibility and ethics

Today CSR is widely regarded as the dominant approach to the management of an organization’s ethical relationships with groups and individuals who can impact on or are impacted on by an organization’s actions. With CSR we see a shift in attention from just the business-focussed activities of organizations towards their place within society more broadly. Traditionally within capitalist economies the dominant view was that business organizations primarily held responsibility for maximizing financial returns to their shareholders. With the advent...
of social responsibility it has been suggested that what business organizations are responsible for is much broader. Social responsibility implies that organizations should deliberate over and accept moral responsibility for not only their financial responsibilities but also the broader social effects of their actions.

Concern over the responsibilities of business started to be more broadly discussed in the 1950s. Applying the term ‘social responsibility’ to business organizations is generally credited to Howard R. Bowen in his book The Social Responsibilities of the Businessman published in 1953. In this book Bowen asked the direct question: “What responsibilities to society may businessmen [sic] reasonably be expected to assume?” Bowen’s response was to suggest that these responsibilities should be much broader than just seeking financially related goals such as increased profit, capital growth and so forth. In contrast he evinced that what businesses should do is 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 society”. For Bowen, the ethics of organizations is understood in relation to social costs and benefits as well as social values, rather than stemming entirely from economic matters.

What was beginning to be suggested in the 1950s was that a new form of capitalism was emerging. With this new capitalism laissez-faire economics dominated by maximizing the returns to capital was no longer the only concern. While the developing idea of CSR heralded a new form of capitalism aided by the enactment of a ‘corporate conscience’, this appreciative view was not without its critics. Perhaps the most virulent and well known of these was the Nobel prize winning economist Milton Friedman. Friedman is best known for his unapologetic statement that ‘the social responsibility of business is to increase profits’ – the title of his famous essay published in The New York Times in 1970. Friedman was clear in stating that a business itself cannot be said to have moral responsibilities; it is only to individuals that such responsibility can be attributed. With this individual focus, his attention was directed at the responsibilities of the executives of large publically listed corporations. He argued that the responsibilities of these executives should be understood entirely in terms of their commitments to the shareholders of the organizations so as to “make as much money as possible while conforming to the basic rules of the society”.

For Friedman the manager is understood first and foremost as an employee who is paid to do a job. As an employee the manager is responsible not for deciding what goals the organization should pursue, that being the responsibility of the owners of the business. Instead the manager is responsible for achieving the goals set out by the business owners who employ him or her. If a manager was to do otherwise, for example by pursuing socially valuable goals, then according to Friedman his or her motives would be political rather than commercial.

Although Friedman was defending the free market system he was not suggesting that matters of social value are unimportant. Instead he argued that laissez-faire capitalism was the way that those social values could be realised. Managers should be socially responsible according to Friedman, it is just that social responsibility can only be met by profit maximisation. Friedman is not an immoralist who valorises greed but rather he sees social values and business values as two separate domains.

While these debates were going on almost fifty years ago, they still shape contemporary views on social responsibility. Indeed, response to Larry Fink’s 2018 letter in the business press still referred back to Friedman and the debate about whether businesses should pursue social objectives, or just business objectives. The main difference today is that many believe, as does Fink himself, that if corporations attend to their social responsibilities then it is actually in their long term financial interests, or as explained in an official statement from BlackRock: “a factor in business continuity and success”.

Contemporary CSR practice

For today’s organizations Corporate Social Responsibility is a well-established practice. But what exactly is it that organizations do when they engage with CSR? In one sense we can respond to this question in terms of the level of engagement an organization has with CSR. At a most basic level corporations are responsible for remaining profitable and viable so as to be able to continue their role as employers and providers of
products and services. Moreover, if an organization is not financially viable as an on-going concern then it will not be able to meet its higher level responsibilities, for example to shareholders. Next, an organization must meet its legal responsibilities; the requirement to abide by the laws and customs of the societies in which a business operates. Beyond meeting its economic and legal responsibilities, organizations begin to take on more directly ethical responsibilities. This involves behaving consistently with social and ethical norms and expectations, not compromising on ethics for the sake of commercial objectives, and behaving as a good corporate citizen. At an even higher level, organizations can take on philanthropic responsibilities such that they make direct contributions of resources to the community so as to improve the quality of people’s lives.

As corporations take on higher levels of social responsibility they engage more deeply with a broader range of ‘stakeholders’. This notion of ‘stakeholders’ and ‘stakeholder management’ is central to CSR. Stakeholders are defined as any person or group that can affect, or is affected by, an organization and its pursuit of its goals. Originating as a concept in strategic management, the idea is that for an organization to be successful it must account for all of its stakeholders and manage its relationships with them productively. For large business organizations there can be a great many different types of stakeholders, for example:

- Shareholders
- The financial community
- Activist groups
- Customers
- Trade unions
- Employees
- Trade associations
- Competitors
- Suppliers
- Government
- Political parties

The engagement of organizations with these stakeholders can take five primary forms

1. **Implementation**
   This involves the programs and policies designed for an organization to achieve its CSR objectives. This can include environmental management, community engagement, socially responsible product design, and progressive human resource management practices.

2. **Stakeholder Engagement**
   This refers to how an organization ensures that it interacts with the expectations of key stakeholders in a manner that is respectful, open and honest and mutually beneficial.

3. **Measurement**
   This refers to the way that the effectiveness of organizations’ CSR initiatives are tracked and quantified, for example in relation to financial outcomes, environmental impact, and social indicators.

4. **Communication**
   This refers to the mechanism through which an organization communicates their CSR activities to their stakeholders, especially with a view to enhancing a positive corporate reputation.

5. **Business Case**
   This means the ways that an organization assesses and presents how its CSR activities yield direct business benefits such as competitive advantage, market share, revenues, and profits.

Across these different forms of action corporations ostensibly seek to achieve a form of social responsibility that focuses a part of their efforts on benefits that accrue to their internal and external stakeholders.

**Questioning the ethics of practice**

While on the surface it may appear that the adoption of corporate social responsibility is based on a genuine desire for corporations to contribute to society rather than just focussing on growth or profits, not everyone agrees. It has been noted, for example, that despite the increased prevalence of CSR practices across the corporate world it appears that organizations are still embroiled in financial, social and environment problems that they have caused. Think for example of the Volkswagen emission scandal of 2015. Volkswagen was widely regarded as a global leader in CSR and corporate environmentalism, yet it was found that they had installed devices in their cars designed to cheat emissions tests. This effectively meant that customers were misled to believe that the cars emitted much less pollution than was actually the case.

![Volkswagen Emissions Scandal](www.motortrader.com)

Examples such as this have been used to suggest that despite all of the CSR programs, the ethics of business...
has not improved. Indeed, it could be said that now more than ever before the business world is characterised by environmental disasters, financial scandals, managerial corruption, and the global erosion of labour rights, to name a few examples. It has thus been suggested that CSR and corporate ethics are in fact ideological tools, acting like a cloak that disguises selfish and damaging organizational behaviour with a thin layer of ethical respectability. Even Larry Fink admitted that the purpose of his advocacy of social responsibility was, at least in part, about ensuring that the economic system in which corporations prosper remains socially viable. As he wrote in his letter: “without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders”. This echoes the idea that business has adopted notions of social responsibility in order to ensure that they avoid public scrutiny over traditionally self-interested, or even predatory, business behaviour. It has also been suggested that CSR is used by corporations to forestall government intervention in to business activity. By proclaiming themselves as self-regulating and ethical, business and industry can argue that external scrutiny through regulation is not required. Following this reasoning, with the cloak of CSR in place, exploitative capitalism can expand its power unfettered by the boundaries of law.

If we regard CSR as an ideological tool of capitalism, the precise service to which that tool is put is that of corporate self-interest. Despite its rhetoric concerning social, community and ethical objectives, CSR can well be implemented in a manner that seeks to appease, control or even railroad stakeholders into withholding opposition from corporate prerogatives. The question is of course the extent to which the pursuit of self-interest can be regarded as ethically questionable. The classic liberal argument which we discussed earlier in relation to Milton Friedman suggests that managers are morally obliged to pursue the interests of shareholders in the form of profit maximisation. Such a view has developed further in more recent times, for example in the concept of ‘shared value’, defined as ways of doing business that make a company more competitive while at the same time contributing to the social and economic wellbeing of the community. The idea is that the best business outcomes can be achieved when this shared value approach is adopted, such that there is no conflict or compromise between social value to the community and economic value to a business. The result is that achieving business self-interest can create social value.

The idea that social and economic value might somehow work together in happy coincidence is not agreed by all, with others contending that the actual practice of global capitalism is very much at odds with social value. This is so precisely because corporations within the global capitalist system are built on a set of values that prize financial and economic logics built on self-interest. The point being that CSR does nothing to question the pursuit of self-interest by powerful corporations, but instead serves as an ideological smokescreen that doesn’t change their underlying self-interested objectives. At best, notions such as ‘shared value’ are understood as a form of ‘enlightened self-interest’ that are relatively rare to find, and at worse they remain a means through which a business can even further control its stakeholders by holding out the view that they are paternalistically supporting their interests. The issue is that while CSR clearly exists and has an influence on management behaviour, in the broad sense it has not served to address the fact that many organizations (including those that preach CSR) pursue their own interests at the expense of the interests of others; whether those others be employees, customers, government or the environment.

When organizations do pursue CSR initiatives self-interest is never far away. This has been called ‘instrumental CSR’: an approach where implementing CSR practices and programs is done primarily for the benefit of economic gain and profit maximization. Stakeholders, to the extent that they are engaged with, are to be manipulated for the purpose of increased competitiveness and profitability. The real danger is not just corporate hypocrisy, but rather that negative impacts of corporate action might be covered over by the façade of instrumental CSR activities. The ethical position of such instrumentalism is highly questionable and reflects what has been called an ‘ethics of Narcissus’. CSR reflects corporate narcissism when corporate discourses of ethics and responsibility seem to be self-obsessed and preoccupied. This preoccupation leads organizations to engage in CSR as a means to promote a positive image in the eyes of various stakeholders. What this masks, however, is that corporate ethics can be largely superficial, leaving organizations free to pursue their financial objective in largely self-interested ways. Moreover, if we believe that a true ethics is based on a genuine and non-selfish concern for the wellbeing of other people, then CSR might well be implemented in a way that is entirely devoid of ethical content.
Summary and review

This article has reviewed and critically assessed the meaning and practice of Corporate Social Responsibility and ethics. CSR is arguably the most common set of contemporary business practices that are associated with ethics. Principally it involves an organization identifying the key stakeholders who are impacted on by its actions, and then taking action to ensure that it meets its responsibilities to those stakeholders. This approach seeks to broaden the understanding of what an organization is responsible for. Where traditionally business organizations were taken to be solely responsible to their shareholders, with CSR that responsibility extends much more broadly to include other stakeholders such as customers, suppliers, employees, governments and communities. In taking up these responsibilities, organizations become involved in a range of initiatives including environmental management, community engagement, employee engagement, the modification of products, the redesign of business and philanthropy.

As we have seen in this article, discussions of CSR began formally in the 1950s when people began to question some of the unaccounted for and negative social and environmental effects that resulted from business activity. In its early stages CSR was broadly resisted by the business community; a resistance echoed in Milton Friedman’s famous pronouncement in 1970 that ‘the social responsibility of business is to increase profits’. Since then however, CSR has become established centrally within business activity, in part as a response by business to consumer sentiment and political pressure, and in part as a means to gain social legitimacy that can support business interests.

Despite its widespread acceptance in the corporate world, CSR has also come under considerable critique. While CSR may claim to be associated with ethics it has been claimed that it is really just a more sophisticated way through which business can pursue its own financial self-interest, without any genuine concern for others. With the growth of public pressure for heightened corporate responsibility, it is often the case that corporations engage in CSR to ward off bad publicity. Rather than changing anything fundamental about the way that business is conducted, CSR can end up being merely a ‘window dressing’ that serves to make an organization look good from the outside. Even more damning, CSR can be regarded as an ideological tool of capitalism that seeks to ward off government intervention and divert attention away from ethically questionable practices. In the end this means that CSR can be adopted largely instrumentally as a more sophisticated means for organizations to pursue their own financial self-interest.

It is without a doubt that CSR has matured in recent years so as to have become a serious dimension of business activity that all businesses have to contend with in some way. What is less clear is whether this reflects a genuine desire on behalf of organizations to behave in an ethical and responsible manner. Nevertheless, with statements like those made by Larry Fink receiving broad take up in the business world, it appears that Corporate Social Responsibility is with us for the foreseeable future as the principle means through which corporations will claim to operate ethically and in the broader interests of society. Whether these broader interests will truly be served is, and will remain, a matter of debate and contention.
Student activities

Literacy activity – vocabulary/concepts

Define each of the following terms in their correct business context:

Ethics, Corporate Social Responsibility (CSR), stakeholders, profit maximisation, shareholders, capitalism

1. What was the dominant traditional view of the responsibility of business organisations in a capitalist economy?
2. Outline the view expressed by Howard R. Bowen in the 1950s regarding the responsibilities of business organisations.
3. Contrast Bowen’s view of business responsibilities with the view of Milton Friedman.
4. This article outlines 4 levels of engagement a business organisation has with CSR in the contemporary business world. Summarise these levels in table form and add business examples. Begin your table as follows:

<table>
<thead>
<tr>
<th>Basic/ economic level</th>
<th>Legal level</th>
<th>Ethical level</th>
<th>Philanthropic</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Need to remain profitable</td>
<td>• Meet legal responsibilities</td>
<td>• Behave within social and ethical norms</td>
<td>• Direct contributions of resources to the community</td>
</tr>
</tbody>
</table>

5. Create a mindmap of the types of stakeholders for the global business Facebook.
6. Outline the 5 ways a business organisation engages with their stakeholders regarding CSR.
7. Explain what is meant by ‘shared value’.
8. What was the Volkswagen emissions scandal?
9. This article looks critically at business practice and corporate social responsibility. Create a table that summarises the case in favour of CSR practices (benefits to businesses as well as society) and the case against CSR practices (how CSR can be used for the self-interest of business organisations). Begin your table as follows:

<table>
<thead>
<tr>
<th>The case in favour of CSR</th>
<th>The case against CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Based on genuine desire to contribute to society</td>
<td>• Used to disguise damaging behaviour</td>
</tr>
</tbody>
</table>
| • Improves well-being of employees | • Examples of unethical behaviour: Volkswagen ...

10. Facebook case study: Research recent events regarding ethics and CSR relating to Facebook, including privacy issues and ‘fake news’. Write a brief report outlining the nature of the issues, how Facebook has attempted to manage these issues, and how this has affected Facebook’s profitability and worth. Discuss this case study with your classmates, exchanging your opinions in light of the arguments for and against contemporary CSR practice. Use the following links to aid your research:


https://www.reuters.com/article/us-facebook-results/facebooks-grim-forecast-privacy-push-will-erode-profits-for-years-idUSKBN1KF2U5
References


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