

## **CORPORATE SOCIAL RESPONSIBILITY: NOT WHETHER, BUT HOW?**

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## **Corporate Social Responsibility: Not Whether, But How?**

### Abstract

Corporate social responsibility (CSR) is not a new idea. However, CSR has never been more prominent on the corporate agenda than it is today. This paper examines the pressures for increased corporate attention to CSR and whether this attention is warranted and likely to be sustained. The paper differentiates between the business case for CSR and the normative case and concludes that often there may be a compelling business case for making a substantial commitment to CSR, but an individual firm must assess the extent to which the general business case for CSR applies to its specific circumstances. It is suggested that for some firms (e.g., in the pharmaceutical and resource extraction industries) CSR may be a major influence on corporate strategy, though it is unclear whether these examples reflect unique characteristics of these industries or an early warning of pressures likely to be experienced in other industries. Companies making a substantial commitment to CSR—because of a business or a normative case—are likely to find that this involves major challenges with respect to the formulation and implementation of CSR strategy, not least because of the uncertainties forever associated with determining a firm's societal obligations.

While corporate social responsibility (CSR) was widely discussed in the last forty years of the twentieth century, the idea that business has societal obligations was evident at least as early as the nineteenth century. In Britain, visionary business leaders in the aftermath of the Industrial Revolution built factory towns, such as Bourneville (founded by George Cadbury in 1879) and Port Sunlight (founded by William Lever in 1888 and named after the brand of soap made there), that were intended to provide workers and their families with housing and other amenities when many parts of the newly industrialized cities were slums. A similar pattern also emerged in the United States—George Pullman’s town built on the outskirts of Chicago was described as “the most perfect city in the world.”<sup>1</sup>

Consider Saltaire, founded in 1851 by Sir Titus Salt (1803-1876) just outside Bradford, then the world’s wool textile capital. In the mid-nineteenth century, Bradford was also known as the most polluted town in England, with factory chimneys churning out black, sulphurous smoke and factory effluent and sewage being dumped into the local river that also provided the town’s drinking water, leading to cholera and typhoid. Average life expectancy in Bradford was only 20 years. Daniel Salt and Sons was one of the most important textile companies in Bradford and the largest employer. In response to conditions in the city and needing a suitable site for a new factory, Titus Salt moved from Bradford and built a new industrial community called Saltaire. By the time of his death in 1876, this included 850 houses for his workers, each served with fresh water from Saltaire’s own reservoir, as well as a park, church, school, hospital, and a library.

Unfortunately, Saltaire was the exception rather than the rule and the “dark Satanic mills” described by William Blake (1757-1827) were more likely to be the norm. Moreover, this was paternalistic capitalism; like Lever and Cadbury, Salt also wished to promote moral virtue among his workers. As an account of the founding of Saltaire observes, “Bradford was polluted,

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<sup>1</sup> Margaret Crawford, Building the Workingman’s Paradise: The Design of American Company Towns. New York: Verso, 1995; “The Strange Death of Corporationville,” The Economist, 23 December 1995, p. 73.

unhealthy and immoral; at Saltaire the physical, material and moral improvement of the workers was to be promoted by a good employer.”<sup>2</sup> Nonetheless, while Salt would not have been familiar with the term, he clearly supported the fundamental idea embedded in corporate social responsibility, “that business corporations have an obligation to work for social betterment.”<sup>3</sup>

Salt and other philanthropic industrialists of the Victorian period were motivated by a desire to do good, but they were also motivated by enlightened self-interest. Salt recognized that his mill workers would be more productive if he offered an improved work environment and better living conditions. He also realised that Saltaire would be less vulnerable to the political unrest and militancy evident at that time among some sections of the population in Bradford, and strikes and other disputes were rare in Saltaire. Indeed, some have asked: “Was Salt’s paternalism (consciously or not) ultimately a device for securing a compliant, captive workforce which could be indoctrinated into disciplined behaviour that ensured continued profits?”<sup>4</sup> While acknowledging that the realisation of Salt’s vision secured the continuing profitability of his business, the historian Styles rejects these pejorative interpretations of Salt and Saltaire: “It fulfilled the obligations he believed he owed his workers.”<sup>5</sup>

### ***Key Characteristics of CSR***

CSR refers to the obligations of the firm to society or, more specifically, the firm’s stakeholders—those affected by corporate policies and practices. Saltaire and other early examples of paternalistic capitalism reveal three important characteristics of CSR. First, it is not a new idea, the hype surrounding it today notwithstanding.<sup>6</sup> Second, firms engaging in CSR often have

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<sup>2</sup> John Styles, *Titus Salt and Saltaire: Industry and Virtue*. Shipley, England: Salts Estates Ltd., 1994, pp. 12-13.

<sup>3</sup> William C. Frederick, “From CSR<sub>1</sub> to CSR<sub>2</sub>: The Maturing of Business-and-Society Thought,” *Business and Society* 33 (2), 1994, p. 151.

<sup>4</sup> Styles, *op. cit.*, p. 38. Crawford (*op. cit.*) suggests that this motivation was evident in the founding of a number of American company towns.

<sup>5</sup> Styles, *op. cit.*, p. 39.

<sup>6</sup> As Frederick (*loc. cit.*) writes: “By the mid-1920s, business representatives and executives were beginning to speak of the need for corporate directors to act as trustees for the interests, not just of stockholders, but other social

mixed motivations and this article will differentiate between the “business case” and the “normative case” for CSR. Third, while there is substantial agreement that CSR is concerned with the societal obligations of business, there is much less certainty about what these obligations might be or their scope. Salt’s ideas for social betterment did not meet with universal approval and he opposed legislation to prohibit child labor. Even corporate champions of CSR today, such as Starbucks meet with opposition from NGOs (non governmental organizations) and others.<sup>7</sup> As Sethi observed nearly 30 years ago, the operational meaning of corporate social responsibility is supremely vague and, he suggested, it can mean all things to all people.<sup>8</sup> These three characteristics of CSR are particularly important as we consider its recent rise to prominence and the challenges it poses.

### ***Prominence of CSR***

CSR has never been more prominent on the corporate agenda than it is today, its historical origins and the uncertainty about the societal obligations of business notwithstanding. CSR has been one of the leading topics at recent World Economic Forum (WEF) meetings. A report from the WEF observes that the three key pressures of “corporate competitiveness, corporate governance and corporate citizenship, and the linkages between them, will play a crucial role in shaping the agenda for business leaders in the coming decade.”<sup>9</sup> It elaborates on corporate citizenship, as follows:

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claimants as well... Corporate philanthropy, the history of which stretched back into the 19<sup>th</sup> century, was accompanied by a growing belief that business and society were linked together in organic, if not yet well understood, ways.”

<sup>7</sup> Since March 2001, thousands of activists are said to have taken part in protests outside Starbucks’ cafes in over 300 cities in the U.S., Canada, New Zealand, and England over the poverty of third world coffee farmers and other issues. See, for example: [www.obgo.org/starbucks.htm](http://www.obgo.org/starbucks.htm)

<sup>8</sup> S. Prakash Sethi, “Dimensions of Corporate Social Performance,” *California Management Review* (Spring) 1975, pp. 58-64. See note 9 on the meaning and terminology of CSR.

<sup>9</sup> World Economic Forum’s Global Corporate Citizenship Initiative in partnership with The Prince of Wales International Business Leaders Forum (WEF), “Responding to the Challenge: Findings of a CEO Survey on Global Corporate Citizenship,” [www.weforum.org/corporatecitizenship](http://www.weforum.org/corporatecitizenship), January 2003, p. 2. Also see: “Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards,” [www.weforum.org/corporatecitizenship](http://www.weforum.org/corporatecitizenship), January 2002. In the latter document, the WEF acknowledges the use of different terminology for what it refers to as

In the face of high levels of insecurity and poverty, the backlash against globalization and mistrust of big business, there is growing pressure on business leaders and their companies to deliver wider societal value. This calls for effective management of the company's wider impacts on and contributions to society, making appropriate use of stakeholder engagement.<sup>10</sup>

Similarly, the World Business Council for Sustainable Development (WBCSD), a coalition of 120 international companies, refers to the increasing calls for business to assume wider responsibilities in the social arena and claims that CSR "is firmly on the global policy agenda."<sup>11</sup> Among the many other organizations that are advocating greater attention to CSR are the International Business Leaders Forum (IBLF), Business for Social Responsibility (BSR), and Business in the Community (BITC).<sup>12</sup>

Governmental organizations also are involved. In the U.K., there is a minister for CSR and in its second report on CSR, published in 2002, the Department of Trade and Industry (DTI) states: "The Government has an ambitious vision for corporate social responsibility: to see private, voluntary and public sector organisations in the U.K. take account of their economic, social and environmental impacts, and take complementary action to address key challenges based on their core competences—locally, regionally, nationally and internationally."<sup>13</sup> The European Commission adopted a new strategy on CSR in July 2002. Announcing the policy paper, Anna Diamantopoulou, Commissioner for Employment and Social Affairs commented: "Many businesses have already recognized that CSR can be profitable and CSR schemes have mushroomed. However, the EU can add value in at least two key ways: by helping stakeholders

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"corporate citizenship", including "corporate responsibility", "sustainable development", and the "triple-bottom-line". Each can have nuances of meaning (e.g., the term sustainable development often is used to emphasize environmental impacts). In this paper, the term corporate social responsibility is used to be consistent with the established academic literature of the field.

<sup>10</sup> WEF (2003), p. 2.

<sup>11</sup> WBCSD, "Corporate Social Responsibility: Meeting Changing Expectations." Report from World Business Council for Sustainable Development, March 1999, [www.wbcSD.ch](http://www.wbcSD.ch), p. 2.

<sup>12</sup> The sheer volume of publications emanating from organizations advocating CSR in itself speaks to the increased prominence of the topic.

<sup>13</sup> U.K. Government Department of Trade and Industry, "Business and Society: Corporate Social Responsibility Report 2002," [www.dti.gov.uk](http://www.dti.gov.uk), p. 4

to make CSR more transparent and more credible, and by showing that CSR is not just for multinationals—it can benefit smaller businesses too.”<sup>14</sup>

### ***A Shift in the Debate on CSR?***

Historically, there have been periods of heightened interest in CSR in the past, such as the late ‘60s and early ‘70s.<sup>15</sup> At that time, business organizations such as The Conference Board in the U.S. and the Confederation of British Industry in the U.K. issued calls for business to give greater attention to CSR. What is different today is that these calls are more broadly expressed, more specific and more urgent. The calls are coming from business associations with the express purpose of promoting CSR (e.g., WBCSD, BSR, IBLF) as well as the general business associations and also are coming from governmental organizations (e.g., U.K.’s DTI). Often, these calls include concrete recommendations for action, such as CSR audits and stakeholder engagement (e.g., WEF, WBCSD), in contrast to what were often worthy platitudes from business associations in the past.

The urgency stems from a realization that the criticism of business is more far-reaching than ever before. This is in part because, with globalization, business itself is more pervasive and more powerful. The extent of this criticism is evidenced, for example, by protests at global meetings of the World Trade Organization since Seattle in 1999 as well as actions targeting individual firms.<sup>16</sup> Moreover, the demands for greater social responsibility are coming from mainstream quarters of society, as well as protesters at global meetings.<sup>17</sup> The accounting and

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<sup>14</sup> Institute for Global Ethics, “Europe Tackles Corporate Social Responsibility,” [www.globaethics.org/newsline](http://www.globaethics.org/newsline), July 30<sup>th</sup>, 2002.

<sup>15</sup> See, for example, David Vogel, *Lobbying the Corporation: Citizen Challenges to Business Authority*. New York: Basic Books, 1978; S. Prakash Sethi, *Up Against the Corporate Wall: Modern Corporations and Social Issues of the Seventies*. Englewood Cliffs: Prentice Hall, 1974.

<sup>16</sup> Naomi Klein, *No Logo*. London: Flamingo, 2000; Noreena Hertz, *The Silent Takeover*. London: Random House, 2001.

<sup>17</sup> Roger L. Martin, “The Virtue Matrix: Calculating the Return on Corporate Responsibility,” *Harvard Business Review*, 80 (March), 2002, pp. 68-75.

governance scandals associated with Enron, WorldCom and other major U.S. corporations that emerged in 2002 have further damaged the public standing of business.

However, criticism of business is also more far-reaching because more is expected of business today, with the growing recognition of the failure of governments to solve many social problems and, for this and other reasons, the diminished scope of government (at least in the U.S. and Europe). The private sector is increasingly called upon to address social problems and, accordingly, shoulder greater social responsibilities in addition to righting the wrongs for which it is more directly responsible, such as pollution or product safety.<sup>18</sup>

The terrorist attacks in the U.S. on September 11<sup>th</sup>, 2001 have also added to the urgency of the calls for greater attention to CSR, with businesspeople seemingly now more attuned to global inequities. One indication is a survey of 264 Fortune 1000 CEOs which found that 52% believed that corporations acting responsibly to communities around the world can ebb the support of terrorist groups.<sup>19</sup>

There appears to be much greater and more widespread substance to the CSR responses of individual firms than we have seen in the past. Most large corporations now at least espouse a commitment to CSR and in some cases their initiatives appear to go substantially beyond corporate philanthropy and corporate communications that attempt to defend the firm's societal contributions.<sup>20</sup> Certainly, CSR is no longer the preserve of Public Affairs or restricted to smaller firms that champion CSR in line with social enterprise goals, such as the Body Shop or Ben and Jerry's. Even corporate critic Naomi Klein talks of a "massive shift" in a more socially responsible direction by many multinationals, though she views the response as haphazard and

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<sup>18</sup> Many U.S. and global firms are responding by devoting significant time and resources in support of community involvement projects. See: David Hess, Nikolai Rogovsky and Thomas W. Dunfee, "The Next Wave of Corporate Community Involvement: Corporate Social Initiatives," California Management Review 44 (Winter), 2002.

<sup>19</sup> Survey by Jericho Communications in 2002. [www.jerichopr.com/releases/jericho3](http://www.jerichopr.com/releases/jericho3).

<sup>20</sup> SustainAbility, "Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting." London: SustainAbility and the United Nations Environment Program, 2002; Hess et al., op. cit.

inadequate.<sup>21</sup> The impression created overall is that the debate about CSR has shifted, that no longer is it about whether to make substantial commitments to CSR, but how?

The balance of this article examines the pressures for greater attention to CSR, including the reaction of critics of firms that have responded to these pressures. It asks: Should firms be making a substantial commitment to CSR? More specifically, is there a requirement for some firms to make a greater commitment to CSR, but not others? Does an increased requirement for some firms also indicate the form that CSR should take? What other challenges need to be overcome in the development and execution of CSR initiatives? It is suggested that in the answer to *whether* to make a substantial commitment to CSR lies the clues as to *how* such a commitment should be made. Of critical consideration is the extent to which arguments in general for greater attention to CSR have specific application to individual firms. CSR strategy for any given firm may be best formulated through an understanding of where these arguments do or do not apply to that organization.

First, a detailed example is drawn from the pharmaceutical industry to illustrate the extent to which CSR can have profound implications and how, for some multinational corporations, CSR may assume a strategic significance. Using this example, the normative case for CSR and the business case are more clearly differentiated. Next, the pressures for greater attention to CSR are identified, both in the example and more generally, and we consider whether these pressures are firm specific and other possible counterarguments. We conclude that for some firms there may be a compelling business case for making a substantial commitment to CSR. For these firms, greater attention to CSR may even be inescapable and the challenge is developing CSR initiatives consistent with a strategic purpose, deciding on their form and scope, and overcoming major potential obstacles to their implementation. For other firms, the business case may be less

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<sup>21</sup> Klein, *op. cit.*, p. 434.

evident and reliance must be placed on a normative case if there is to be justification provided for greater attention to CSR.

### **DEVELOPING COUNTRY ACCESS TO ESSENTIAL MEDICINES**

Pharmaceutical companies are well known for their philanthropic activities. These activities extend beyond support for charities and include giving away large quantities of their products. Often cited is the example of Merck's development of a treatment for onchocerciasis ("river blindness"), a tropical disease that afflicts people in some of the world's poorest regions. In 1978, the World Health Organization (WHO) estimated that 340,000 people were blind as a result of the disease, a further one million had some visual impairment and around 18 million were infected. Merck discovered a treatment and although there was no commercial market for the drug, invested tens of millions of dollars in its development. In 1987, Merck set up the Mectizan Donation Program to organize the free distribution of the drug in collaboration with WHO, the World Bank, and other partners. Around 25 million people a year are treated under the program and avoid the risk of premature blindness.<sup>22</sup> Other pharmaceutical companies have since developed similar initiatives. GlaxoSmithKline (and Merck) donate large quantities of medicines as part of a program in conjunction with WHO to eliminate Lymphatic Filariasis ("elephantiasis"), Novartis donates drugs as part of a program to eliminate leprosy and Pfizer makes azithromycin available for the treatment of trachoma.<sup>23</sup> Although large numbers of people have been treated under such programs and undoubtedly have an improved quality of life as a result, this did not prevent the industry's vilification over its response to the HIV/AIDS crisis, particularly in the context of South Africa.<sup>24</sup>

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<sup>22</sup> [www.merck.com/about/philanthropy/9.htm](http://www.merck.com/about/philanthropy/9.htm)

<sup>23</sup> Sophia Tickel, "Why Philanthropy is Not Enough: Lessons from the Pharmaceutical Industry," in Roger Cowe, ed., *No Scruples: Managing to be Responsible in a Turbulent World* (London: Spiro Press, 2002).

<sup>24</sup> Much of the following discussion of this example is based on N. Craig Smith and Anne Duncan, "GlaxoSmithKline and Access to Essential Medicines." London Business School case study, January 2003.

South Africa has 4 million people (20% of its population) HIV infected, more than any other country. In 1997, the South African government announced plans to permit the distribution of generic versions of patented HIV/AIDS drugs that were estimated to be 1/50<sup>th</sup> of the cost of the patented versions (that were averaging \$12,500/patient/year). However, this plan was said to violate the government's obligations under the TRIPS (Trade-Related Aspects of Property Rights) agreement, to which it was a party as a member of the World Trade Organization. The following year, a consortium of drug companies brought suit against the South African government and named individuals, including Nelson Mandela. Accused of putting profits before people, the industry stated that "the case is nothing to do with blocking access to medicines, or price fixing. It's about patents. Patents do not block medicines. They stimulate research and development."<sup>25</sup> Nonetheless, in a humiliating climbdown in April 2001, the pharmaceutical companies dropped the case. As the Boston Globe commented, "With their boardrooms raided and their executives being hounded in the streets, 39 of the world's largest drug makers caved to public pressure... It was hailed as a stunning triumph for the developing world: A \$360 billion industry was brought down by a country that represents just half of one percent of the pharmaceutical market."<sup>26</sup>

GlaxoSmithKline (GSK) was a major target of protesters. It is the second-largest pharmaceutical company with sales of \$27.5 billion in financial year 2000 and 108 manufacturing sites in 41 countries. It serves 140 global markets and has an annual R&D budget in excess of \$4 billion. It is the market (and R&D) leader in the HIV/AIDS category and the company that (as Burroughs Wellcome) had first introduced drugs for the treatment of HIV/AIDS. According to WHO, AIDS is the second biggest killer of all infectious diseases

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<sup>25</sup> "Drug Price Wars: Helping the Poor will Help the Industry," The Guardian, 18 April, 2001 (leading article).

<sup>26</sup> Kurt Shillinger, "AIDS Drug Victory Sours in South Africa: Government Still Refusing to Supply AZT," The Boston Globe, 23 April, 2001, p. A8.

worldwide and 95% of HIV/AIDS sufferers live in the least developed countries that represent only 10% of the world's population. It was estimated that more than 53 million men, women and children had been infected worldwide as of 2001 and in that year alone five million people became infected with HIV, three million died of AIDS, and forty million were living with the AIDS virus on a daily basis. Two-thirds of those infected live in Sub-Saharan Africa.

Following the South African court case, GSK and other pharmaceutical companies heavily discounted their HIV/AIDS medicines to developing countries. The industry fear, however, was that this move threatened the central tenets of its business model. Investments in R&D and profits—consistently among the highest of any industry—depended upon the elevated monopolistic pricing of patent protected drugs. Moreover, discounting in developing country markets raised the possibility of downward pressure on prices in the lucrative developed country markets, particularly as HIV/AIDS was not restricted to developing countries (unlike most tropical diseases) and information on price differentials and drug profit margins would become widespread. There was also the prospect of parallel imports—discounted drugs distributed in developing country markets finding their way back to developed country markets. Some industry leaders spoke of firms focusing their efforts on lifestyle drugs such as Prozac or Viagra rather than killer diseases such as HIV/AIDS and they could see little incentive for continued R&D on tropical diseases.

The South African court case and the access problem reveal an industry in crisis over an issue of social responsibility. Sophia Tickel, Senior Policy Advisor at the NGO, Oxfam observed that the industry's critics were able to argue convincingly that “a business model is unacceptable if it makes the defence of industrialized country markets a greater priority than the health of poor people in developing countries.”<sup>27</sup> The access issue is now a strategic consideration for every

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<sup>27</sup> Tickell, *op. cit.*, pp. 65-66.

major pharmaceutical company. In the last two years, the industry has moved, albeit reluctantly, from having well-regarded programs of philanthropy, such as donating medicines for tropical diseases, to having to rethink its business model to incorporate CSR at the core.

In the specific case of GSK, CEO Jean-Pierre Garnier said that intellectual property was not an obstacle to access to drugs. In June, 2001 GSK rolled out a detailed access strategy. It made commitments in three areas: 1) To continue investment in R&D on diseases that affect the developing world; 2) To offer sustainable preferential (not-for-profit) pricing arrangements in least developed countries (LDCs) and Sub-Saharan Africa for currently available medicines that are needed most (for HIV/AIDS and other diseases, such as malaria); and, 3) To take a leading role in community activities that promote effective healthcare.<sup>28</sup> Several NGOs welcomed the new policy. Tickell commented: “This is really positive. It is better than all the other initiatives the industry suggested.” Nonetheless, others remained concerned and even some investors have questioned whether GSK has done enough.<sup>29</sup>

## **PRESSURES FOR GREATER ATTENTION TO CSR**

### ***Normative or Business Case?***

Business leaders can be expected to say that CSR is important, especially in today’s social and political climate.<sup>30</sup> Garnier, however, appears to have done much more than this. At GSK’s annual meeting in May, 2001 campaigners from Oxfam, dressed in lab coats, had called for GSK

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<sup>28</sup> “Facing the Challenge: Our contribution to improving healthcare in the developing world.” Brentford: GlaxoSmithKline, 2001.

<sup>29</sup> Calpers, America’s largest pension fund, has asked GSK to evaluate its “humanitarian efforts” and report whether it is offering the “lowest possible prices for its (HIV/AIDS) drugs (in developing countries), including licensing generics, without hurting its long-term business.” See Chris Gaither, “Investing With An Agenda: Calpers Social, Corporate Activism Drawing Attention in Bear Market as Some Fear Its Aggressive Tactics May Cost Governments, Firms Money,” *Boston Globe*, April 20<sup>th</sup>, 2003, p. E1.

<sup>30</sup> One noteworthy exception is Lee Raymond, CEO of Exxon, who has taken a markedly different and public position on the environmental impacts of the oil industry than Exxon’s “greener” competitors, Shell and BP. *The Economist* writes: “Judged by his financial record alone, Mr Raymond could claim to be the most successful oil boss since Rockefeller of Standard Oil... what happens to Mr Raymond’s reputation in the years to come will be a barometer of the relative strengths of red-blooded capitalism and of the kinder, gentler, greener, more socially responsible—and perhaps less profitable—version.” See: “The Unrepentant Oilman,” *The Economist*, March 13<sup>th</sup>, 2003.

to do more for LDCs by donating a percentage of drug revenues to a global health fund established by Kofi Annan, the United Nations Secretary General. Garnier's response was unprecedented. He defended GSK's actions on the access issue and then suggested that the company's priority was public health, not simply shareholder value:

Some months ago, when the newly merged GlaxoSmithKline was formed, I said that I did not want to be head of a company that caters only to the rich. I made access to medicines in poorer countries a priority and I take this opportunity to renew that pledge. We have 110,000 people who go to work every morning because they are pro-public health. We have to make a profit for our shareholders but the primary objective of any policy put forward in the industry is public health.<sup>31</sup>

The quote suggests a normative basis for GSK's response to the access issue. Simply put, "it is the right thing to do." In this respect it is consistent with the motives earlier attributed to Salt and long-standing ideas about business as a good citizen. More formally, a normative basis for CSR may be found in theories of moral philosophy. Thomas Donaldson, for example, draws on social contract theory. His social contract for business is founded on consent—that corporations exist only through the cooperation and commitment of society. This suggests an implicit agreement between the corporation and society. He asks: "If General Motors holds society responsible for providing the condition of its existence, then for what does society hold General Motors responsible? What are the terms of the social contract?"<sup>32</sup> The simplest form of the contract is to specify what business needs from society and what, in turn, are its obligations to society. This approach can be used to ground the "license to operate" argument that the WEF and others advance in support of CSR.<sup>33</sup> With the access issue, it might be used to develop a normative basis for justifying actions by the pharmaceutical industry to assist HIV/AIDS victims in LDCs.

However, as with Salt and other examples of paternalistic capitalism, there are quite possibly mixed motives underlying GSK's response to the access issue. Garnier acknowledged a requirement

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<sup>31</sup> Smith and Duncan, *op. cit.*

<sup>32</sup> Thomas Donaldson, Corporations and Morality. Englewood Cliffs, NJ: Prentice Hall, 1982, p. 42.

<sup>33</sup> WEF (2003), *op. cit.*

to make a profit for shareholders. Conceivably, this requirement might be met through its actions on access or, perhaps more likely, these actions reduce the risk of eroding shareholder value. Clearly, for example, shareholders' economic interests would be served if GSK's access policy motivates employees and the effects more than outweigh the costs associated with increasing access (including the possibility of reduced profit margins on HIV/AIDS drugs in developed country markets). More important, perhaps, is avoiding the potential scenario where the business model for the industry is fundamentally changed and government regulation dictates its every action.

It might be suggested that the pharmaceutical industry example is a special situation. GSK does, after all, produce life-saving products. Further, HIV/AIDS is a pandemic that, if infection continues on its current trajectory, is projected to affect more than half the world's population. This view bolsters the normative case for action on access, but it also helps explain why external forces such as NGOs have pressured the industry and, thereby, strengthened the business case.<sup>34</sup> Some might even argue that action on access was unavoidable. However, while this example might be considered extreme in certain respects, it does illustrate the increased pressures that many firms face today as well as the traditional arguments for attention to CSR.

### ***Traditional Arguments for CSR***

Arguments advanced in support of CSR have long recognized enlightened self-interest as well as beliefs about corporate good citizenship and a beneficial social role of business.<sup>35</sup> CSR can be in the enlightened self-interest of business in many ways (though not necessarily in the same way for any given firm). Paternalistic capitalism benefited from the improved living conditions employees found in its factory towns. The modern corporation has benefited from

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<sup>34</sup> For an alternative viewpoint, see: Ian Maitland, "Priceless Goods: How Should Life-Saving Drugs Be Priced?" *Business Ethics Quarterly* 12 (October) 2002, pp. 451-480. Maitland argues against restraints on drug pricing and profits, suggesting it is precisely because life-saving drugs are priceless that firms should be free to charge market prices for them.

<sup>35</sup> See, for example, Robert D. Hay, Edmund R. Gray and James E. Gates, *Business and Society*. Cincinnati: South-Western Publishing, 1976.

CSR as a result of avoiding or pre-empting legal or regulatory sanctions, such as Du Pont's profitable exploitation of more environmentally-friendly chlorofluorocarbon (CFC) alternatives.<sup>36</sup>

CSR also has benefited firms through direct or indirect economic efficiencies. For example, Starbuck's employee turnover is said to be less than a third that of the average for the retail food industry. This is attributed to Starbuck's socially responsible practices (including a full benefits package for part-time employees) and provides economic efficiencies due to lower costs of staff recruitment and training.<sup>37</sup>

### ***Added Pressures***

Along with heightened societal expectations and demands of business, the globalization of large corporations has led to firms increasingly operating in countries with very different and generally much lower standards of living than found in their domestic base. More extensive media reach coupled with advances in information technology (e.g., NGO use of websites) has allowed rapid and widespread exposure of alleged corporate abuses in even the most remote corners of the world, as both Shell (oil spills in Nigeria exposed on television documentaries) and Nike (exposure of sweatshop labor conditions in its subcontractor operations in Asian LDCs) have learnt to their cost.

Democracy is now more widespread. In part, and more obviously, this came with the collapse of communism. But there is also a sense that people now "matter" in places where—to those in power—they didn't matter before. Hitherto, their rights were few, politically and in actuality. While there are still many countries where democracy is largely absent in the formal sense, some elements of democracy are possible when NGO and media attention is given to

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<sup>36</sup> Thomas Hoffman, "Say Goodbye to Ozone-Wrecking Chemicals," *Computerworld*, June 5, 1995, p. 105.

<sup>37</sup> John Leming, "Workers Benefit from Tight Market; Service Industries Offer Employees Health Cover to Lure Them on Board," *Journal of Commerce* June 15, 1998, p. 5A; [www.starbucks.com/aboutus/CSR\\_FY01\\_AR.pdf](http://www.starbucks.com/aboutus/CSR_FY01_AR.pdf). This is not intended to suggest that caring for employees always pays, there are many examples to the contrary (see Aaron Feuerstein and Malden Mills example in Martin, op. cit.).

corporate complicity in human rights abuses. For example, the U.S. firm Unocal has been judged legally liable for the abuse of Myanmar villagers by military security guards when they were forced to build an oil pipeline.<sup>38</sup>

Thus, while the traditional arguments for CSR remain important, there are additional pressures for attention to CSR today. A critical consideration for many firms is reputational risk, heightened by the greater visibility and criticism of corporate practices, particularly by NGOs.<sup>39</sup>

As a result, the business case for CSR is much stronger. Consider the approach of Starbucks.

While acknowledging a normative case, Starbucks emphasizes a business case for CSR as follows:

Consumers are demanding more than ‘product’ from their favorite brands. Employees are choosing to work for companies with strong values. Shareholders are more inclined to invest in businesses with outstanding corporate reputations. Quite simply, being socially responsible is not only the right thing to do; it can distinguish a company from its industry peers.<sup>40</sup>

Safeguarding the corporate reputation and brand image have become ever more important as markets have become more competitive and reputations and image have become more vulnerable. Simply put, firms may be penalized by consumers—and others—for actions that are not considered socially responsible.

### ***Reputational Risk in Consumer Markets***

Boycotts are one manifestation of this pressure. In the 1990s, the business press appeared to agree both that consumer boycotts work and that they were increasing in number. The Economist, for example, observed: “Pressure groups are besieging American companies, politicizing business and often presenting executives with impossible choices. Consumer boycotts are becoming an epidemic for one simple reason: they work.”<sup>41</sup> Research has found that product boycott

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<sup>38</sup> Pui-Wing Tam, “Myanmar Human Rights Suit is Reinstated,” The Wall Street Journal, 19<sup>th</sup> September 2002.

<sup>39</sup> John Elkington, Cannibals with Forks. Oxford: Capstone Publishing, 1999.

<sup>40</sup> [www.starbucks.com/aboutus/CSR\\_FY01\\_AR.pdf](http://www.starbucks.com/aboutus/CSR_FY01_AR.pdf)

<sup>41</sup> The Economist (1990), “Boycotting Corporate America,” The Economist, May 26, p. 69.

announcements are associated with significant negative stock market reactions.<sup>42</sup> Stock market reactions reflect investor beliefs about boycotts having an effect on sales both directly and indirectly, through harm to the firm and brand's reputation.

Recent prominent consumer boycotts include the European boycott of Royal Dutch/Shell in 1995 over its plan to dump the Brent Spar oil platform at sea. As a result of the boycott, Shell suffered widespread adverse publicity, as well as up to a 50% decline in sales in some markets.<sup>43</sup> It agreed to the demand by Greenpeace that it abandon sea disposal. However, Shell's decision to dismantle the oil platform on land was almost certainly *less* socially responsible than the planned disposal at sea, and Greenpeace later admitted that it had overestimated the pollution risk of the platform.<sup>44</sup> Shell's problems were compounded by public reactions to reports of environmental harm as a result of its operations in Ogoniland, Nigeria and the company's apparent failure to use its influence to prevent the execution by Nigerian authorities of Ken Saro-Wiwa and eight other Ogonis, who had been protesting Shell's presence in Ogoniland as well as on a broader array of social and political issues. Criticism of Shell by environmentalists and human rights activists and the associated boycotts were said to be key contributors to a fundamental transformation in how the company strives to live up to its social and ethical responsibilities.<sup>45</sup>

Another example is the ongoing multi-country boycott of Nike over alleged sweatshop conditions at Asian suppliers. Nike is a market leader in the footwear and apparel industry with sales of \$9 billion. Ten years ago, Nike asserted that because it did not own its overseas contractors, workplace standards inside their factories were not its responsibility. However, a

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<sup>42</sup> Davidson, Wallace N., III, Abuzar El-Jelly, and Dan L. Worrell (1995), "Influencing Managers to Change Unpopular Corporate Behavior Through Boycotts and Divestitures: A Stock Market Test," *Business and Society* 34 (2), 171-196.

<sup>43</sup> Lynn Sharp Paine and Mihnea Moldoveanu, "Royal Dutch/Shell in Nigeria." Case study 9-399-126. Boston, MA: Harvard Business School, 1999.

<sup>44</sup> Schoon, Nicholas (1995), "Greenpeace's Brent Spar Apology," *The Independent*, September 6, 3.

<sup>45</sup> Cowe, Roger (1999), "Boardrooms discover corporate ethics," *Guardian Weekly* March 28, p. 27; Shell (1998), *Profits and Principles—does there have to be a choice?* London: Shell International.

campaign by NGOs led to the admission by Phil Knight, Nike's CEO, that "Nike has become synonymous with slave wages, forced overtime and arbitrary abuse." In 1997, in a remarkable reversal, Knight announced that three Indonesian suppliers were to be terminated over workplace conditions and stated: "Good shoes come from good factories and good factories have good labor relations." Today, while the extent to which Nike sales have suffered is unclear, it continues to fight attacks on its image. It has over 90 people employed in CSR positions and invests heavily in independent third party audits of its suppliers, the results of which it agrees to publish even though they might be unfavourable.<sup>46</sup>

Boycotts may be only the most manifest example of a broader phenomenon of consumer behavior influenced by perceived CSR lapses.<sup>47</sup> Surveys of consumers report that many claim to be influenced in their purchasing decisions by the CSR reputation of firms. For example, a 1999 survey of 25,000 consumers in 23 countries found that 40% had at least thought about punishing a specific company over the past year they viewed as not behaving responsibly.<sup>48</sup> Academic research by Brown and Dacin found that "negative CSR associations ultimately can have a detrimental effect on overall product evaluations, whereas positive CSR associations can enhance the product evaluations."<sup>49</sup> Sen and Bhattacharya extended this general finding by attempting to identify when, how, and for whom specific CSR initiatives work.<sup>50</sup> They found that key moderators of consumer responses to CSR are individual consumer-specific factors, such as consumers' personal support for CSR issues and their general beliefs about CSR, and company-

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<sup>46</sup> Tom McCawley, "Racing to Improve its Reputation: Nike has Fought to Shed its Image as an Exploiter of Third-World Labor Yet it is Still a Target of Activists," *Financial Times*, December 21<sup>st</sup>, 2000, p. 14; Philip Rosenzweig, "How Should Multinationals Set Global Workplace Standards?" *Financial Times*, March 27<sup>th</sup>, 1998, p. 11 (surveys); [www.nikebiz.com/labor](http://www.nikebiz.com/labor). See Klein, op. cit. for a more sceptical view of Nike's response to the sweatshop issue.

<sup>47</sup> Smith, N. Craig (1990), *Morality and the Market: Consumer Pressure for Corporate Accountability*. London: Routledge.

<sup>48</sup> [www.mori.com/polls/1999/millpoll](http://www.mori.com/polls/1999/millpoll)

<sup>49</sup> Tom J. Brown and Peter A. Dacin, "The Company and the Product: Corporate Associations and Consumer Product Responses," *Journal of Marketing* 61 (January), 1997, p. 69.

<sup>50</sup> Sen, Sankar and C.B. Bhattacharya, "Does Doing Good Always Lead to Doing Better? Consumer Reactions to Corporate Social Responsibility," *Journal of Marketing Research*, 38 (May), 2001, pp. 225-243.

specific factors, such as the CSR issues a company chooses to focus on and the quality of its products. Their findings highlight the likelihood of differences across consumers in their response to CSR and differences in the type of CSR practices that might serve to generate favourable consumer sentiment. This heterogeneity in responses to CSR points to the likelihood that firms differ in their exposure to reputational risk in consumer markets, as well as some of the challenges of CSR strategy formulation and execution later discussed.

On a more positive note, firms may be rewarded by increased patronage if they have a reputation for being socially responsible. No longer is this the preserve of a handful of companies serving a small segment of consumers, such as Ben and Jerry's, Stonyfield Farms and the Body Shop. There is also evidence to suggest that some consumers will pay a premium for CSR. One of the more noteworthy successes of the ethical shopping movement is the growth in sales of free-range eggs, now accounting for 35% of sales in the U.K. although they are 25% more expensive than eggs laid by battery hens. However, at least some of the preference for free-range eggs is attributed to salmonella fears, with free-range eggs seen as safer. Fair trade coffee is another example, accounting for retail sales of \$64 million in the U.S. and Canada in 2002, with imports up 50% on 2001. In the U.K., fair trade coffee is 12% of the roast and ground coffee market. Cafedirect, the leading U.K. supplier, attributes its success to product quality and offering a premium product as well as adherence to fair trade principles.<sup>51</sup>

Overall, however, evidence to suggest that a significant proportion of consumers will pay more for CSR is scant. According to the Co-operative Bank's Ethical Purchasing Index, the combined UK market share of "ethical products" (e.g., fair trade products) over seven food and non-food segments is approximately 1.5%, equating to £7 billion in sales in 2001. Research by the Bank suggests that while around 30% of consumers might claim to be ethical consumers, few

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<sup>51</sup> Michael Skapinker, "The Problem with Ethical Shoppers," *Financial Times*, November 30<sup>th</sup>, 2002, p. 10; Simon Caulkin, "Once a Minority Cause, Fairtrade is Now Becoming Mainstream," *The Observer*, February 2, 2003, p. 6.

products that make ethical claims (e.g., to protect the environment or animals) have a market share greater than 3%.<sup>52</sup>

It is possible that the potential for CSR to provide competitive advantage may be more diffuse and more widespread than these figures suggest. CSR might make a big difference at the margin for many firms given the increased competitiveness of consumer markets. Frank Walker of Walker Information has observed: “As more and more organizations meet the quality requirements of the marketplace... The consumer will want to know what the company behind the product or service stands for in today’s society, and to make certain that they are not contributing to any corporation that is harming society, its resources or its people.”<sup>53</sup> In highly competitive markets, CSR might provide a valuable basis for differentiation. Hence, a broad array of firms now include environmental claims within their advertising (e.g., automobile manufacturers).

Reputational risk would appear to be largely but not solely a concern for consumer goods companies. Many B2B firms face similar pressures indirectly because of the reputational concerns of their customers, be they retailers or further removed from the consumer in the supply chain. Retailers such as Home Depot in the U.S. and B&Q in the U.K. have pressured suppliers on environmental impacts. For example, 22% of B&Q’s sales are of timber and timber-related products, over 99% of which are independently certified as coming from well managed (sustainable) forests.<sup>54</sup> There is also some evidence of social criteria in B2B purchasing independent of supply chain considerations and public sector procurement is also increasingly subject to social criteria.<sup>55</sup>

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<sup>52</sup> Ibid.

<sup>53</sup> Quoted in Robert L. Gildea, “Consumer Survey Confirms Corporate Social Action Affects Buying Decisions,” *Public Relations Quarterly* 39 (Winter), 1994-95, p. 21.

<sup>54</sup> See [www.homedepot.com](http://www.homedepot.com) and [www.diy.com/aboutbandq/sustainability/history/Timber](http://www.diy.com/aboutbandq/sustainability/history/Timber).

<sup>55</sup> Minette E. Drumwright, “Socially Responsible Organizational Buying: Environmental Concern as a Noneconomic Buying Criterion,” *Journal of Marketing*, 58 (July), 1-19.

## ***Reputational Risk in Labor and Equity Markets***

Product markets are not the only source of pressure, employees and investors have concerns about company CSR practices as well as consumers. In the labor market, employees express a preference for working for socially responsible companies.<sup>56</sup> It has long been known that tobacco companies have difficulties recruiting the best talent. This effect has become more widespread, particularly in tight labor markets, as potential and current employees consider the corporate social performance of their employer. For example, employees at Edward Jones, the number one company in Fortune magazine's 2002 list of best U.S. companies to work for, praise its ethics, 97% cited its management's honesty. Moreover, employees who are aware of a firm's CSR activities have been found to be more likely to speak highly of it.<sup>57</sup> Belief in the potential value placed by employees on CSR is clearly evident in the GSK example.

Reputation is also important in equity markets. According to the Social Investment Forum, in 2001 close to \$2,000 billion was invested in managed funds subject to social and environmental screening, up 40% on 1999.<sup>58</sup> The Dow Jones Sustainability Index (introduced in 1999) and FTSE4Good (2001), list companies that meet socially responsible investing criteria. However, critics have questioned their inclusiveness: 76% of the FTSE 100 stocks qualify for the UK FTSE4Good index.<sup>59</sup> Nonetheless, a widespread reaction to the growth in investing and the listing of companies according to social responsibility criteria has been a substantial increase in social and environmental reporting by firms. Around 80% of FTSE-100 companies now provide information on their social or environmental policies. In France, legislation introduced in 2002 makes such reporting mandatory. Increasingly, companies are setting up elaborate reporting

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<sup>56</sup> WEF (2003), op. cit.

<sup>57</sup> U.K. DTI, op. cit.

<sup>58</sup> Alison Beard, "Portfolios are Tailored to the Socially Responsible: Investors Spark Boom in Customized Accounts," Financial Times, June 5<sup>th</sup>, 2002, p. 25 (Global Investing section).

<sup>59</sup> Steve Johnson, "The FTSE4Good Index: 'Lite' Index is Accused over Quality Standards," Financial Times, May 11<sup>th</sup>, 2002, p. 9 (Money section).

mechanisms to measure their social and environmental performance and advising business on its ethical and social responsibilities is a multi-million pound business in the UK alone, with most of the consulting operations associated with leading accounting practices offering services in the area as well as more specialist consultancies.

As well as CSR effects on corporate reputation—positively or to its detriment—there are additional arguments for attention to CSR stemming from indirect effects of criticism for poor corporate social performance. They include reduced employee morale and management time spent responding to NGOs.

### **RESPONDING TO THE PRESSURES**

Thus, a powerful set of external forces and changes have contributed to the recent rise in prominence of CSR: increased societal expectations of business voiced, in part, by powerful NGOs; a diminution of the power and scope of government; globalization; heightened media reach, assisted by advances in information technology; and the greater spread of democracy. Prior peaks of interest in CSR have generally coincided with economic prosperity and interest has diminished at times of recession.<sup>60</sup> However, the depth of current societal concern about corporate practices seems unprecedented and some important developments, such as globalization, are likely to be long lasting and thus it is tempting to conclude that their influence on CSR will be sustained. Management is called upon to respond to these external forces and changes, especially in light of their apparent importance within ever more competitive product, employment and equity markets and the potential for reputational risk. How should managers respond?

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<sup>60</sup> There is some survey evidence to suggest a reduction in expenditure on CSR in 2002, see Jericho Communications, *op. cit.* John Elkington also has observed some belt-tightening, including closures of CSR departments, but he sees this as a potentially useful removal of “camouflage” rather than a diminution of substantive CSR activity (source: private communication).

Many companies appear to be doing more in response to the pressures for increased attention to CSR. In some instances, CSR appears to have assumed strategic importance, as illustrated by the GSK example. However, there are doubts expressed about the apparent growth in CSR activity—and even about the pharmaceutical industry’s response to the access issue.

### *Critics of CSR*

In spite of the arguments that have been advanced, there are those who question greater corporate attention to CSR. Consider Garnier’s statement of aspirations for GSK: “The pharmaceutical industry today sells 80% of its products to 20% of the world’s population. I don’t want to be a CEO of a company that caters only to the rich... I want those medicines in the hands of many more people who need them.”<sup>61</sup> The forthright expression of such a vision was uncharacteristic for a pharmaceutical industry executive. It is also the sort of statement that deeply troubles CSR critics such as David Henderson and Ethan Kapstein.<sup>62</sup> At the heart of their critiques of CSR is concern about ‘do-gooding’ executives pursuing personal visions of a better world using shareholders’ money and often with insufficient regard for the likely effectiveness or possible ill-consequences of their initiatives. Kapstein has commented directly on the issue of access to essential medicines. He acknowledges that it is hard to argue against making drugs available to patients who desperately need them, but is concerned about what this means for the industry: “the possible adverse consequences of this decision need to be considered. If the giveaway means lower profits for manufacturers—and thus less incentive for innovation—this victory will prove a hollow one for future patients with deadly and debilitating diseases.”<sup>63</sup>

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<sup>61</sup> In a speech to GSK employees shortly after the merger of Glaxo Wellcome and SmithKline Beecham. Smith and Duncan, *op. cit.*, p. 1.

<sup>62</sup> David Henderson, *Misguided Virtue: False Notions of Corporate Social Responsibility*. Wellington, New Zealand: New Zealand Business Roundtable, 2001; Ethan B. Kapstein, “The Corporate Ethics Crusade,” *Foreign Affairs* 80 (5), 2001, pp. 105-119.

<sup>63</sup> Kapstein, *op. cit.*

Henderson and Epstein are in most respects reiterating the ideas of the neo-classical economist Milton Friedman. Forty years ago in Capitalism and Freedom, Friedman claimed that “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.”<sup>64</sup> Friedman’s famous dictum on corporate social responsibility was part of an attack on much broader conceptions of the social role of business, which Friedman viewed as fundamentally subversive.

There is more to commend Friedman’s arguments than his critics generally allow.<sup>65</sup> First, he was not opposed to the idea that firms have societal obligations that must be fulfilled. He was opposed to activities that went beyond a narrowly defined role for the corporation. In this way, the uncertainty about the societal obligations of the firm, discussed at the outset of this article, is substantially diminished. Friedman believed that business satisfied its social responsibilities through conventional business activities, primarily producing needed goods and services at prices that people could afford. In this respect, his argument can be traced back to Adam Smith, who recognized that in the pursuit of self-interest the businessperson is “led by an invisible hand to promote an end which was no part of his intention.”<sup>66</sup>

Second, Friedman reasoned that a more expansive role for the corporation was a worrisome departure from the competitive model of capitalism. More specifically, he argued that CSR amounted to spending someone else’s money (notably shareholders’ or customers’) and muddied decision making by diluting the focus on profit and placing the firm at a competitive disadvantage as a result. He also questioned whether managers were competent to engage in social issues, whether the imposition of their values in the social arena was desirable and whether

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<sup>64</sup> Milton Friedman, Capitalism and Freedom. Chicago: University of Chicago Press, 1962, pp. 60-61.

<sup>65</sup> Smith, op. cit., pp. 69-75.

<sup>66</sup> Adam Smith, The Wealth of Nations. London: Everyman, 1971 (1776), Vol. 1, p. 400.

they were potentially usurping the role of government. However, it is now widely accepted that Friedman's position was founded on an inaccurate economic model and was unrealistic in its attempt to isolate business from society when the two are so interdependent. Accordingly, Mintzberg wrote: "the strategic decisions of large organizations inevitably involve social as well as economic consequences, inextricably intertwined... there is no such thing as a purely economic strategic decision."<sup>67</sup>

Nonetheless, there are legitimate grounds for concern about some CSR initiatives. On the one hand, there is so often little real substance to what some firms claim to do.<sup>68</sup> In some instances, the amount spent touting a firm's CSR achievements is more than the amount spent on the CSR activity itself.<sup>69</sup> On the other hand, there is the issue of the legitimacy of corporate involvement in social issues—perhaps today the most potentially valid of Friedman's original criticisms of CSR. Put another way, 'Do we want corporations playing God?' Although she is not speaking about CSR specifically, Klein makes a similar point when expressing concern about the increased power of corporations and what she refers to as "privatization" and the decline of democracy.<sup>70</sup> However, it would seem plausible to argue that corporate power may well be held increasingly in check by NGOs. Their legitimacy, in turn, relies on public support. It is only because they have credibility that they can, often via the media, command public attention and influence corporate practice.

### ***CSR in the Shareholders' Interest***

Friedman's most powerful argument against CSR was always that it was not in the shareholders' interest and many managers still find this idea appealing. However, the business

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<sup>67</sup> Henry Mintzberg, "The Case for Corporate Social Responsibility," The Journal of Business Strategy (Fall) 1983, p. 12.

<sup>68</sup> SustainAbility, op. cit.

<sup>69</sup> Philip Morris spent \$100 million touting its \$75 million in charitable donations in 1999. It spent \$250 million in 2000. See Ronald Alsop, "Perils of Corporate Philanthropy," Wall Street Journal, January 16<sup>th</sup>, 2002, p. B1.

<sup>70</sup> Klein, op. cit.

case for CSR—if supported—makes this argument largely moot. Roger Martin has observed that firms often engage in CSR “precisely because it enhances shareholder value” and, more specifically, that some CSR activities “create goodwill among consumers in excess of their price tag.”<sup>71</sup> Margolis and Walsh found that nearly 100 studies have examined the relationship between corporate social performance (CSP) and corporate financial performance (CFP) over the last 30 years.<sup>72</sup> Most studies point to a positive relationship between CSP and CFP. Of the 80 studies that examined whether CSP predicts CFP, 42 found a positive relationship, 19 found no relationship, 15 studies reported mixed results, and only 4 studies found a negative relationship. Not surprisingly, it is generally inferred that CSR does produce financial dividends for firms, but this conclusion needs to be treated with caution because there are major methodological problems associated with such studies.

### FORMULATING A RESPONSE

It was earlier suggested that how any individual firm formulates a CSR strategy should reflect an understanding of whether (and why) greater attention to CSR is warranted by that particular organization. The WBCSD advises that a “one-size-fits-all” approach to CSR strategy (e.g., universal codes) may not provide the right answer.<sup>73</sup> Equally, however, it may be argued that the generally asserted reasons for greater attention to CSR also may not have universal application. Consider the following examples:

- Du Pont’s leadership in the development of CFC alternatives might *not* have been enlightened self-interest were it not also the market (and R&D) leader in the category; similarly, GSK’s leadership on the access issue might make less (business) sense if it were not also the leading provider of drugs for the treatment of HIV/AIDS, tuberculosis, and malaria (three of the top five killer diseases overall and especially prevalent in LDCs);

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<sup>71</sup> Martin, *op. cit.*, p. 70.

<sup>72</sup> Joshua D. Margolis and James P. Walsh, *People and Profits*. Mahwah, N.J.: Lawrence Erlbaum, 2001.

<sup>73</sup> WBCSD (2000), “Corporate Social Responsibility: Making Good Business Sense.” Report from World Business Council for Sustainable Development, January 2000, p. 22. [www.wbcsd.ch](http://www.wbcsd.ch).

- While reputational risk is particularly relevant to global brands in consumer markets, firms with smaller, local brands might be less vulnerable, especially if the corporate name differs from the brand name familiar to consumers; equally, firms in B2B markets far removed from consumers as end users have much less reputational risk, especially if their products are marketed as commodities;
- Employees typically do prefer to work for socially responsible firms, but tobacco companies have been able to attract people by paying more, despite the pariah status of the industry; similarly, many investors stick with tobacco stocks because of their generally high levels of return;
- A mining company such as Rio Tinto has every reason to be concerned about environmental impacts threatening its “license to operate”, but this is far less of a concern for a financial services company.

The purpose here is not to identify the many criteria by which we might assess a firm’s vulnerability to criticism for CSR failings (there are consultancy organizations dedicated to providing this service). However, it should now be apparent that, if a business case is to be advanced for CSR initiatives, the organizational fit with any given rationale requires close scrutiny. This applies equally to elements of a CSR strategy intended to enhance the firm’s reputation and exploit an upside potential of CSR.<sup>74</sup> Consider some of the questions that should be asked by a firm planning to develop a more socially responsible version of an existing product:

- How likely is it that these improvements would be in advance of a regulatory requirement to be instituted in this industry? (there might be advantages from developing and launching the product ahead of a change in regulations);
- How responsive is the firm’s customer base to CSR? Research would be required to ascertain whether a more socially responsible version of an existing product would appeal to the intended market segment—there is likely to be considerable variation in the extent to which a firm’s served market responds to various possible CSR initiatives (e.g., not tested on animals, more environmentally benign, manufactured with materials from fair trade sources, etc.);
- Would customers be willing to pay more for the new product? (generally, few consumers will pay a premium for CSR);

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<sup>74</sup> See Hess et al., *op. cit.*, for some excellent examples of corporate community involvement.

- If the firm's customer base is CSR-responsive, but unwilling to pay more, would the improvement provide a sustainable advantage relative to competitors? Could it be easily copied?

Similar questions would need to be formulated with CSR initiatives intended to satisfy investors, employees, or other stakeholders. The decision on increased attention to CSR is thus likely to be highly idiosyncratic, a function of both the characteristics of the individual firm and its fit with the elements of potential CSR initiatives.

### ***Developing the Right CSR Strategy***

Clearly, a firm's social responsibility strategy, if genuinely and carefully conceived, should be unique, despite the sameness of the growing number of corporate reports on CSR.<sup>75</sup> As well as a fit with industry characteristics, it should reflect the individual company's mission and values—what it stands for—and thus be different from the CSR strategy of even its closest competitors.<sup>76</sup> Many company CSR statements do not seem to be reflective of a deep commitment to CSR or, at least, they suffer from a failure to identify the issues that matter most for measurement, management and reporting.<sup>77</sup> Phil Watts, Group Managing Director of Royal Dutch/Shell Group, has observed that “CSR is not a cosmetic; it must be rooted in our values. It must make a difference to the way we do our business.”<sup>78</sup> Shell's CSR report, published annually since 1998, is a good example of a company that provides quantified evidence of its social and environmental performance.<sup>79</sup>

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<sup>75</sup> SustainAbility, op. cit.

<sup>76</sup> This is consistent with the approach recommended by Hess et al. (op. cit.) in the more specific case of CSR in the form “corporate social initiatives”.

<sup>77</sup> Described as “materiality” by SustainAbility. Ibid., p. 2.

<sup>78</sup> WBCSD (2000), op. cit., p. 7.

<sup>79</sup> [www.shell.com](http://www.shell.com). It is one of the “Magnificent Seven” top reports in “Trust Us” (SustainAbility, op. cit.). In 2000, for example, Shell reported that 60 people (55 contractors and 5 Shell employees) died in work activity, up from 47 in 1999, and described this as “unacceptable”. Most of the deaths were in road accidents in developing countries and Shell said it was responding to the problem with road safety awareness and training programs.

While there is not a generic CSR strategy, common elements are to be expected. There will be substantial overlap among the stakeholders identified by any firm—all will at minimum identify obligations to customers, employees, suppliers, and the community. However, the characteristics of these stakeholders and the form of the obligations of any specific firm to that stakeholder group are likely to vary considerably. For example, at the core of British Telecom’s CSR strategy is a belief in a “better world” where everyone has access to the benefits of information and communications technology (ICT), a belief that is said to shape BT’s obligations to its stakeholders. This is reflected in a commitment to improved levels of customer satisfaction for all its customers but also services for elderly, disabled and low income customers that increase their access to ICT and in excess of regulatory requirements.<sup>80</sup> The first CSR report from Westpac, an Australian bank, also identifies obligations to customers but is markedly different.<sup>81</sup> It includes a newly introduced Personal Customer Charter, with commitments to transparency of fees and services and to privacy, for example, and reports on the bank’s performance in areas such as accessibility and availability of banking services (e.g., banking services in rural areas, new ATM technology for vision impaired consumers), complaint resolution rates and responsible lending (e.g., data on accounts overdue).

Developing the right CSR strategy clearly requires an understanding of what differentiates an organization—its mission, values and core business activities—but also its social and environmental impacts. At British Telecom, a “hot topic” is the digital divide and CSR initiatives address digital inclusion, with attention to capability (people having the skills to use digital technology) as well as connectivity (physical access).<sup>82</sup> Contribution to the community finds a different guise at Starbucks. All proceeds (and a minimum of \$75,000) from the Georgetown

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<sup>80</sup> [www.btplc.com/Betterworld](http://www.btplc.com/Betterworld). BT is also in SustainAbility’s “Magnificent Seven”.

<sup>81</sup> Westpac, *A Fresh Perspective: Our First Social Impact Report*. Sydney: Westpac Banking Corporation, 2002.

<sup>82</sup> [www.btplc.com/Betterworld](http://www.btplc.com/Betterworld)

Starbucks in Washington, D.C. are donated to The Starbucks Memorial Fund. Established following an armed robbery of the store in 1997 that left three employees dead and shocked Starbucks employees and the wider community, the Fund contributes to violence prevention and victim assistance programs in the D.C. area. More recently, attention has been focused on coffee sourcing and particularly the plight of poorer small farmers, who are now being supported through a commitment to buying fair trade coffee (one million pounds in 2002-03).<sup>83</sup> Not surprisingly, the CSR initiatives of Shell and other firms in resource extraction industries (e.g., BP, Rio Tinto) reflect the profound impact these firms can have upon the natural environment coupled with the human rights issues often directly or indirectly associated with their activities.<sup>84</sup>

*Stakeholder Engagement.* When it comes to figuring out a CSR strategy, it is widely agreed that stakeholder engagement must be at the core.<sup>85</sup> There can be considerable uncertainty about a firm's obligations to its stakeholders, as earlier discussed. However, if CSR is fundamentally about obligations to stakeholders, their engagement is more likely to lead to informed management thinking and decision making on its obligations and appropriate actions with respect to these groups. The form this engagement should take can be subject to much debate. Some might view stakeholders as having a substantial input on decision-making—perhaps even a say—others see stakeholders as more of an information resource, with it being “management's job to manage”. Either way, engagement is critical. As WBCSD put it:

The essence of corporate social responsibility is to recognize the value of external stakeholder dialogue. Because of this, we place stakeholder engagement at the center of CSR activity. CSR means more than promulgating a company's own values and principles. It also depends on understanding the values and principles of those who have a stake in its operations.<sup>86</sup>

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<sup>83</sup> [www.starbucks.com/aboutus/CSR\\_FY01\\_AR.pdf](http://www.starbucks.com/aboutus/CSR_FY01_AR.pdf)

<sup>84</sup> [www.shell.com](http://www.shell.com); [www.bp.com](http://www.bp.com); [www.riotinto.com](http://www.riotinto.com).

<sup>85</sup> WEF (2003), op. cit.; WBCSD (2000), op.cit.

<sup>86</sup> WBCSD (2000), op. cit., p. 15.

However, this assumes a skill set and openness on the part of management that may not exist. The values of NGO members, for example, are often dramatically different from those of corporate executives. Their objectives as well as perspectives on issues are also likely to differ. In many cases, at least with hot issues, management and representatives of stakeholder groups talk past each other. There is also the assumption of a willingness on the part of the stakeholder groups to participate in such a dialogue. It is not unusual for some groups to refuse to engage with management. There is little prospect of many animal rights activists, for example, getting involved with firms they describe as “evil”, such as drug testing laboratories.

One response to this problem has been for firms to recruit talent from the non-profit sector, though this is still unlikely to work in the case of extreme issues. Shell provides a good example of a firm promoting openness. Shell explains that it is committed to open and transparent debate with its stakeholders. “Tell Shell” provides a global discussion forum with e-mail postings on topics and issues related to Shell. Postings are both critical and supportive of Shell, with occasional postings by Shell in response or to raise issues.<sup>87</sup>

Given the right people, the firm must still identify which representatives of stakeholder groups it should engage with. Here the problem is in part one of the “squeaky wheel gets the grease”. WBCSD suggests that firms need to consider the legitimacy, the contribution and influence of the group and the likely outcome, including whether engagement is likely to result in a productive relationship.<sup>88</sup> Appropriate mechanisms for engagement also need to be determined.

*Measurement of Social Performance.* Formulating CSR strategy also requires an understanding of the firm’s current CSP. This includes developing appropriate metrics for measuring social and environmental performance and goal setting. Shell refers to “key performance indicators” (KPI’s), which are “benchmarks used to drive improvements whilst

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<sup>87</sup> www.shell.com

<sup>88</sup> WBCSD (2000), op. cit.

independently measuring progress against clearly defined goals.”<sup>89</sup> As well as providing metrics, the use of KPI’s gives substance to Shell claims of a commitment to CSR. As these KPI’s are often developed in collaboration with stakeholders, such as NGO’s, reports of how the firm is delivering on that commitment have credibility. However, there are major challenges to be overcome. Clearly firms can report on readily quantified performance measures, such as greenhouse gas emissions or hours worked by employees. It is more difficult to develop KPI’s where more qualitative data is all that is available as, for example, with many aspects of support for human rights or company impacts on other species (e.g., biodiversity, treatment of animals).

### ***Implementation of CSR Programs***

Having formulated CSR strategy, CSR programs need to be decided upon. This is where potentially abstract visions of CSR must become concrete. Many challenges are likely in the execution of those programs. To return to the pharmaceutical industry example, after having determined that GSK would do something on access, management had to develop appropriate programs to make medicines available to those without. Yet even with this decision made, its societal obligations are uncertain. Where to begin? Many tricky decisions must be made, for example, with respect to beneficiaries (assessments of needs, treatment/disease categories), scope of the program (where? scale?), form of distribution (which channels? free or at cost?).

GSK has made its drugs more widely available in LDCs. However, in the HIV/AIDS category, take up is pitifully low: only 30,000 of the estimated 28.5 million people with the disease in sub-Saharan Africa receive the anti-retroviral drugs that have made it treatable in developed countries. It is unlikely that take-up would be much higher if they were given away. A far bigger obstacle to access is the limited healthcare infrastructure in LDCs and, for HIV/AIDS medications, their strict monitoring and compliance regimen. Further, GSK is already

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<sup>89</sup> [www.shell.com](http://www.shell.com)

facing a problem of parallel imports. Drugs destined for Africa at prices close to marginal cost have been illegally re-exported and resold in the Netherlands and Germany.<sup>90</sup> While there are remedies, such as stricter enforcement of laws on illegal re-importing and dual branding strategies, this problem represents a substantial challenge to GSK's implementation of a two-tiered pricing structure.

*How much is enough?* Consider the example of Nike and its commitment to monitoring workplace conditions of its suppliers. The scale of this monitoring task is huge; Nike has over 800 contract suppliers, employing over 600,000 people in 50 countries. For companies making a substantial commitment to CSR, a key strategic and implementation question is: how much is enough? What level of resources should Nike devote to monitoring? How frequently should sites be audited? How should it respond to the dilemmas that often arise in this context, such as the use of child labor? If children above a set age are to employed by its suppliers, should it provide funding for their schooling?

Similarly, how far should GSK assist in drug distribution and administration, given infrastructure shortcomings in these markets? Should GSK be involved in healthcare problems that are unrelated to drug therapy, such as the availability of clean water? How much should be invested in R&D to develop medicines for tropical diseases, when only losses are foreseeable for these potential products?

*No Good Deed Goes Unpunished.* Despite careful attention to whether a CSR strategy fits a given organization and situation, there is still the potential for it to backfire. Sometimes, this is attributed to the firm having drawn attention to itself as a result of taking a stand on CSR, such as the recent protests at Starbucks. At other times, it might be due to poor implementation. Consider companies that identify an opportunity to contribute to education. On the face of it, this

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<sup>90</sup> Geoff Dyer, "Netherlands Acts Against Re-Sold AIDS Drugs," Financial Times, 3<sup>rd</sup> October, 2002, p. 8.

would be a welcome or at least innocuous activity and highly appropriate for some firms in light of their core business activities. Yet CSR initiatives in this area have been viewed as highly controversial. For example, both Coca-Cola and Pepsi bottlers have signed contracts with public school districts in the U.S. that provide millions of dollars of much-needed support for educational purposes in exchange for exclusive distribution rights. Following protests from parents concerned about children's sugar-laden diets and the commercialism of schools, Coca-Cola announced plans to discourage its bottlers from such deals.<sup>91</sup> CSR initiatives can make worthwhile contributions to social problems. However, as this example indicates and consistent with the concerns expressed by Friedman, the indirect cost of such initiatives may be an imposition of corporate values. Critics of the factory towns of paternalistic capitalism had similar concerns (as discussed at the outset of this article). Failings of the public school system notwithstanding, many might argue that it is the role of government to provide adequate funding for schools and to provide a commercial-free learning environment.

Another example is Microsoft, a company that has various CSR initiatives addressing the "digital divide". It has offered to give away its software to schools in developing countries. In South Africa, for example, the offer to give its software to all 32,000 public schools would entail the loss of most of the R20m (\$2m) of annual revenues from this sector. However, such programs have been criticised as an attempt to foster and retain captive markets for its products.<sup>92</sup> Microsoft's motives have been impugned; as one critic observed: "Businesses are opportunistic and driven by shareholder interests... There is a fine line between charity and exploitation." If this reaction is typical, then there is a problem for advocates of the business case for CSR. If a business case exists for a CSR initiative, then there is always the prospect of it being attacked as

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<sup>91</sup> "U.S. Schools Reject Coke's Plan to Teach the World," Australian Financial Review, 6<sup>th</sup> July, 2001, p. 27.

<sup>92</sup> Duncan McLeod, "Suspicion over Microsoft Gift to Poor Schools," Financial Times, 8<sup>th</sup> October, 2002, p. 12.

cynically self-serving (and, if there is not a business case, shareholders might question why the firm is engaged in it).

Perhaps, in these cases, there are solutions that would permit corporate involvement in funding public schools and to help bridge the digital divide. Greater social acceptance might be forthcoming through more appropriate implementation. So, for example, one measure proposed by Coca-Cola was to reduce the amount of advertising on vending machines.

### **CONCLUSIONS**

Many firms have found the business case for greater attention to CSR to be compelling, particularly given reputational risk and other pressures of the contemporary business environment. For some corporations (e.g., in the mining and pharmaceutical industries) CSR may be unavoidable and it appears to have assumed strategic significance. However, it is unclear whether this is peculiar to these industries or an early warning of pressures likely to be faced more broadly. This article has argued that the widely touted general case for making a more substantial commitment to CSR must be assessed relative to the specific vulnerabilities and opportunities of a particular organization. This assessment, in turn, should help clarify societal obligations and thereby (if the business case is persuasive) inform the formulation of a CSR strategy and decisions about specific CSR programs. Nonetheless, there remain major challenges in developing and implementing CSR strategy, especially the measurement of corporate social performance and engaging with stakeholders. There are also possible questions about the legitimacy of CSR initiatives. Concerns might be voiced about the appropriateness of management action on social issues and there may be a backlash against a well-intentioned CSR initiative; concerns that become all the more important if CSR assumes a more central role in corporate strategy. These challenges might well undercut an otherwise convincing business case.

While a business case might be identified for many CSR initiatives, what of those that do not appear to offer any return to shareholders? Martin has proposed that, absent an economic incentive, collective action is required that would involve other firms as well as governments and NGO's.<sup>93</sup> For GSK and the access issue, this suggests a requirement for involvement of other parties because of the limited economic incentives for action by the pharmaceutical industry alone (the problem also demands the collaboration of multiple participants, such as healthcare organizations and governments, because of the specialised skills or resources they can bring). However, it is unclear as yet whether these other parties will come to the table; the response from governments to requests for contributions to Kofi Annan's global fund is modest, to date.

Another approach is to acknowledge the normative case and assert a moral basis for obligations beyond those to stockholders. Thus it has been claimed by U.K. business leaders, for example, that a company should "balance and trade off the competing claims of customers, suppliers, employees, investors and the communities in which it operates."<sup>94</sup> The implication of this view of the firm balancing stakeholder interests—a fiduciary duty to shareholders notwithstanding—is that the interests of shareholders might in some instances be considered secondary to those of other claimants, not an argument that sits easily with many managers of public corporations. However, managers might well choose to exercise their discretion consistent with their beliefs about management action on social issues. Ultimately, if such action is grounded in an accurate assessment of society's best interests, then the normative case may well also be consistent with the long-term interests of the firm. Unfortunately, however, there is no guarantee that this would always be the case.

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<sup>93</sup> Martin, op. cit. He refers to these projects as "structural CSR" and cites the promulgation of regulations requiring air bags in automobiles as one example.

<sup>94</sup> Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA), Tomorrow's Company: The Role of Business in a Changing World. London: RSA, 1995.