Consumer Social Responsibility – The True Corporate Social Responsibility

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EXECUTIVE SUMMARY

Corporate Social Responsibility (CSR) has attracted global attention in an increasingly integrated world economy. Proponents of CSR believe that the corporation is obligated to promote social progress due to its dependence on society. CSR opponents argue that these demands are unwarranted and that the corporation's sole obligation is to maximize shareholder wealth within legal and social norms. This paper argues that consumers via marketplace decisions in a competitive global economy are the ultimate determinant of CSR success and that Consumer Social Responsibility is a more accurate description of the realities of Corporate Social Responsibility.

Keywords: Corporate Social Responsibility, Milton Friedman, Globalization, Apple Inc

INTRODUCTION

Corporate Social Responsibility (CSR) is a term that has garnered renewed attention in an increasingly global economy although it is a concept that has been around for at least fifty years (Carroll, 1999). CSR can be described as a belief that corporations have a social responsibility beyond pure profit. As such, corporations should employ a decision-making process to achieve more than financial success on the assumption that CSR is integral to an optimum long-term strategy.

Alternatively, there are those who believe that CSR is a faulty concept altogether. These antagonists argue that CSR is an unrealistic expectation for corporations and that CSR activities should be outside the definition of business. The Nobel Prize winning economist Milton Friedman (1970) is a famous opponent of CSR. He, along with his followers, believes that the sole purpose of the corporation is to maximize the financial return to its owners. The shareholders as individuals can then use these profits for the betterment of society if they choose to do so. Friedman argues it is arbitrary for executives of a corporation to go beyond the legal and social norms which shape the business environment. The executives are merely agents selected to run the corporation according to the will of the owners. Additionally, it is the responsibility of democratically elected governments to make decisions to promote the greater social good. The major contribution to society from a corporation is continual innovation in goods and services provided to the public and the widespread benefits of improved productivities from focused economic decision-making. Pursuing CSR can dilute the focus on competitiveness and potentially cause bankruptcy.

THE EVOLUTION OF CONTEMPORARY SOCIAL RESPONSIBILITY THEORY

While University of Georgia Professor of Management Emeritus Archie B. Carroll (1999) notes that one can find centuries-old evidence of the CSR concept, he says the modern era began in the 1950s with the introduction of formalized and critical literature on the topic. Carroll calls Howard R. Bowen the "Father of Corporate Social Responsibility" for his "landmark" 1953 book, *Social Responsibilities of the Businessman* (Carroll, 1999). Carroll points out that Bowen's work and most discussions of CSR stems from "…the belief that the several hundred largest businesses were vital centers of power and decision making and that the actions of these firms touched the lives of citizens at many points" (Carroll, 1999; p. 269).

Carroll finds it fascinating that business executives felt that they were "responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-and-loss statements". This is evidenced by a 1946 poll by Fortune magazine whereby an overwhelming 93.5% of respondents agreed their responsibilities extended beyond pure profit (as cited in Carroll, 1999; p. 270).

CSR continued to evolve in the following decades. Most definitions of the theory treat the corporation as an artificial entity that should act as any other living entity would as a member of society. In 1973, Henry Eilbert and I. Robert Parket drew parallels between CSR and being a good neighbor. Not only does a good neighbor refrain from actions that detract from the quality of life in the neighborhood, but a good neighbor also volunteers to address issues that affect the neighborhood at large (Carroll, 1999).

Another leading contributor to the burgeoning field of CSR study was Keith Davis. So significant were the early contributions of Davis that Carroll describes him as "the runner-up to Bowen for the Father of CSR designation" (Carroll, 1999; p. 271). Davis' "Iron Law of Responsibility" has a fair share component, prefacing the modern "fair share principles" for CSR laid out by Michael Santoro in his book *China 2020* (Santoro, 2009; p. 16), where the "social responsibilities of businessmen need to be commensurate with their social power" (Carroll, 1999; p. 271). Put another way, the companies that have the greatest capability to make an impact have the utmost responsibility to do so. Another very important contribution of Davis was his rationalization of CSR as a corporate strategy for long-term financial success and not just a public relations ploy. Carroll sums up Davis' stance as such:

> "…he asserted that some socially responsible business decisions can be justified by a long, complicated process of reasoning as having a good chance of bringing long-run economic gain to the firm, thus paying it back for its socially responsible outlook." (Carroll, 1999; p. 271)

As previously mentioned, Davis believed that there is a long-term economic return for socially responsible decisions whereas Clarence C. Walton argued corporations must accept "that costs are involved for which it may not be possible to gauge any direct measurable economic returns" (Carroll, 1999; p. 273). Taking this one step further, in 1972, Henry G. Manne argued, "To qualify as a socially responsible corporate action, a business expenditure or activity must be one for which the marginal returns to the corporation are less than the returns available from some alternative expenditure" (Carroll, 1999; p. 276).

This brings up an important point regarding CSR discussions; how exactly does one classify a corporate action as being socially responsible? Davis would argue that in the long-run, a socially responsible action by a corporation does not have to be at odds with the main goal of profits. On the other hand, Manne demands that the corporation must forego some profits to be able to classify a decision as socially responsible. Manne did clarify his statement in noting the difficulty of determining a single motive for any corporate expenditure and modern writers agree that corporations often have multiple motives for any one decision. In the end, most theories today reconcile that economic prosperity and CSR do not have to be antagonistic goals (Carroll, 1999; p. 286).

Many parties are affected by the decisions of large corporations including customers, employees, business partners, and local, regional, national and global communities. The common recognition of corporate responsibility to these groups is "stakeholders," which can be viewed as a socially egalitarian play on the word, shareholder. The beginnings of current stakeholder models may have been discussed as early as 1971, potentially originating in Harold Johnson's, *Business in Contemporary Society: Framework and Issues.* Carroll describes Johnson's treatment of CSR as, "hinting at the possibility of a stakeholder approach" (Carroll, 1999; p. 273). R. Edward Freeman aptly characterized the stakeholder approach as putting "'names and faces' on the societal members or groups who are most important to business and to whom it must be responsive" (as cited in Carroll, 1999; p. 290).

Modern theories of CSR include the aforementioned concepts but have been reworked into various models and frameworks in an effort to find the best way to study, measure, and implement corporate responsibility. In 1980, Thomas M. Jones added that CSR may not be measured solely by outcomes, but rather as a process of ethical decision making (as cited in Carroll, 1999; p. 285). In 1975, S. Prakesh Sethi made an important contribution to the field with his discussion of "dimensions". Sethi described the base "social obligation" as how a corporation satisfies economic and legal constraints. The next dimension was "social responsibility" where a corporation acts in accordance with social norms. The ultimate dimension was "social responsiveness" which encompasses a proactive attitude for anticipating and meeting changing social needs. These dimensions are also included in many modern definitions and have been manipulated in a variety of ways. In 1979, Carroll put forth four dimensions: economic, legal, ethical, and discretionary (as cited in Carroll, 1999; p. 279).

Ultimately, decisions of large corporations can have far-reaching implications. Corporate Social Responsibility theories dictate that as a nexus of wealth and power, the corporation should use its resources to address the issues of society at large. In fact, the more resources that a corporation amasses, the more it should embody CSR. In addition to satisfying its economic and legal obligations in an ethical manner, the corporation should go beyond these basic responsibilities to be a "good neighbor" to society. Since these seem to be widespread beliefs in society today, perhaps the tagline of an insurance company, "Like a good neighbor, State Farm is there" achieves the ultimate in psychological marketing by tapping into an underlying belief of society. If so, it would be useful to explore the societal context under which CSR developed.

CSR THEORY IN THE CONTEXT OF OVERALL SOCIAL REFORMS

In its 1971 publication, *Social Responsibilities of Business Corporations*, the Committee for Economic Development (CED) noted how the perception of the social contract by society was becoming more liberal and that companies that responded favorably to this would fare well. This was typical of CSR views of the time as Carroll noted that the CED, "…is composed of business people and educators and thus reflects an important practitioner view of the changing social contract between business and society and businesses' newly emerging social responsibilities" (Carroll, 1999; p. 275). Carroll correctly places these venerable ideals of corporate behavior in the context of overall social reform for the time period by stating:

> "It is useful to note that the CED may have been responding to the times in that the late 1960s and early 1970s was a period during which social movements with respect to the environment, worker safety, consumers, and employees were poised to transition from special interest status to government regulation." (Carroll, 1999; p. 275)

The first half of the twentieth century included significant legislation to increase worker protection. In 1908, the federal government passed the Federal Employers Liability Act, and from 1911 to 1921 forty-four states followed suit passing compensation laws to benefit workers. Prior to this period there was little concern for worker safety because legislation around the subject was practically nonexistent and worker injuries were inexpensive for corporations (Aldrich, 2010). The 1940s also marked the very beginning of the civil rights movement. Stainback, Robinson, and Tomaskovic-Devey (2005) write:

> "Federal legislation and regulatory changes are responsible for increasing African American employment opportunities in the United States since the 1940s. Civil rights protests from the 1940s through the 1960s were largely responsible for the federal government's development and implementation of antidiscrimination legislation and enforcement as an attempt to mollify dissent." (Stainback et al, 2005; p. 1205)

Society was at a point where it was expanding the definition of what could be described as a reasonable corporate employee environment. Government legislation increased the cost of labor injuries. Protests, largely about discrimination against African Americans, also led to government legislation of labor practices which forced companies to reconsider employment conditions. Most revisions in corporate practices related to workplace safety, compensation, discrimination, and management policies can be attributed to simply complying with the legal and standard ethical guidelines of the time. Therefore, it could be argued that such changes reflect corporations acting in their own best interest as they sought to reduce the risk of fines from regulatory agencies or costly settlements resulting from employee lawsuits.

CONTENTIONS AND COUNTERARGUMENTS

Milton Friedman disagrees with the proponents of CSR, believing that corporate expenditures not directly related to business activities are tantamount to taxing the shareholders without representation. He argues that the distribution of these "taxes" without a political process to determine the recipient of the distribution is equivalent to socialism. Moreover, the sole purpose of the corporation should be to maximize profit. This profit is distributed to the owners who can then undertake whatever socially forward endeavors they wish as individuals. Of course, Friedman would agree that the corporation should operate ethically within the guidelines of legal and social norms (Friedman, 1970).

It is understandable why the corporation is a seemingly obvious answer when deciding who should participate in fixing what ails society. The logic is equivalent to explaining why people form unions, join together in protest, or form non-governmental organizations (NGOs). The desires and resources of an individual are magnified many times when coordinated in a group. The corporation already has the benefits of a large group; it has vast resources of capital and the inherent ability to organize and successfully discharge those resources to achieve a defined goal.

Internationally, most economic trade theories are based on the principle of comparative advantage. It is most efficient for entities to specialize in producing specific goods in which they have the greatest comparative advantage over other entities and to trade for whatever else they need. This belief in maximum global output through division of labor as the most efficient way to utilize scarce resources is a core principle of the free market economic system. It is argued that this results in maximum output for the economic system as a whole. It is generally accepted then that governments and society should create a legal and socially acceptable framework for a corporation to operate within, and companies should focus on producing their products or services. Yet there is a demand being placed on corporations which challenges this very core principle. The demand is that each corporation, which has developed a specialized corporate structure to become efficient at providing a product or service, should also undertake an equally complicated endeavor in which it has little expertise or experience, such as promoting social reform. This is similar to expecting a landlocked country to start manufacturing boats to satisfy a global need only because the country has an abundance of wood and iron resources and a strong capacity for manufacturing in general. Perhaps Friedman formed part of his argument along similar lines when he used the example that even if it was OK for executives to use the owners' resources to fight inflation, what makes them experts on fighting inflation? (Friedman, 1970; p. 33).

GLOBALIZATION

Globalization is re-energizing the CSR discussion. The reduction of trade barriers has allowed companies to source products and services from countries where labor is significantly lower in cost than the United States. The availability of low cost labor is possible because of the tremendous gap in living standards between the developed and developing nations of the world and the use of low cost labor from developing economies often highlights legal, ethical, or social standards that are not in line with Western ideals. Accordingly, CSR proponents consider doing business in developing nations without striving to improve working and social conditions in that nation as exploitative. However, a developing country which receives foreign direct investment from a multi-national corporation may receive many benefits including capital, technology and jobs as well as managerial knowledge (Hill, 2010; p.249).

American society has, for the most part, graduated from the times of discrimination and dangerous working conditions, so it is easy to argue that the modern corporation should assume the stance of mentor to try and help our developing neighbors avoid our past mistakes. Unfortunately, these past "mistakes" may just be a part of growing up. If the cost of doing business in the United States at the beginning of the twentieth century had been prematurely inflated due to the safety, environmental, and anti-discriminatory regulations in place today, it is difficult to say that the twentieth century would have been as prosperous as it was. Indeed, this may be the case in China today. Estimates suggest that the cost of doing business in China would increase thirty percent if minimal labor regulations were implemented to protect the rights of workers as CSR supporters advocate (Santoro, 2009; p. 38). If such an increase in the cost of labor did occur, it is likely that corporations would move their manufacturing activities elsewhere in Asia in a new effort to leverage low-cost foreign labor.

As Friedman would contend, the parties ultimately responsible for improving working conditions in a nation are the citizens and the government, which ideally represents the aspirations of its people. In this regard, CSR proponents may be considered imperialist if they attempt to shape the social development of foreign nations. In the example of China, the government has clearly made the decision that at this time, economic growth is a higher national priority compared to pursuing rapid progress in the realm of labor reform.

DO AS I SAY, NOT AS I DO

Currently, there is a disconnect between the importance of CSR in discourse and the weight applied to CSR in business practice. Every year, Fortune magazine, publishes a list of the "World's Most Admired Companies" by asking "executives, directors, and analysts to rate companies in their own industry on nine criteria, from investment value to social responsibility". The top company for 2011 is Apple, Inc. Interestingly, Apple does not make Corporate Responsibility Magazine's 100 Best Corporate Citizens of 2010.

In 2010, Apple reported that over 100 employees at one of its suppliers in China were seriously injured by a toxic chemical (Barboza, 2011). Apple of all companies has the resources to try everything to prevent this type of failure. Apple is one of the most successful companies of the past decade and has one of the largest cash reserves of any corporation in the world (Yeebo, 2011). Last year, Apple was linked to poor working conditions, excessive overtime, and even suicides at one of its suppliers, Foxconn (Elmer-Dewitt, 2010). The response from Steve Jobs regarding suicides at his supplier is indicative of Apple's reactive stance to operate within legal and social norms, but not be pro-active in terms of CSR. Mr. Jobs commented that, "Foxconn's suicide rate is well below the China average." Additionally, Apple has been criticized for its lack of transparency on environmental friendliness and lagging behind competitors in environmental sustainability efforts (Sullivan, 2010). In fact, even with Al Gore on the board of directors, Apple lags behind its competitors in sustainability efforts (Ogg, 2010).

Certainly, Apple is not alone in minimizing expenditures toward CSR, but it does make a great example because of its enormous product and financial success. As of August 9, 2011, Apple had the highest stock market capitalization in the world (Satariano, 2011) and therefore became the most successful company in the world at creating shareholder value. But from the perspective of CSR theory, Apple has endured numerous complaints regarding its record on social responsibility. In terms of Milton Friedman's free market philosophy, Apple apparently fulfills the minimal legal and social norms of its business environment. It employs reasonable measures to ensure it does so, and when it finds a violation, it takes corrective action.

In fact, it would be easy to argue that in terms of its American stakeholders in CSR Theory, Apple should produce and source their products primarily in developed nations, especially the United States. One only has to walk by an Apple store on a product release date to understand the extremely inelastic demand for their products as proven by a very large cash surplus (Yeebo, 2011) which indicates a healthy markup on their products. Seemingly then, Apple would still be a successful company, as opposed to its current status of extremely successful company, were it to produce its goods in countries with higher labor and environmental standards. Even though Apple does take steps to remedy any human rights violations, it is operating in China with the knowledge that circumvention of decent employment standards is a regular occurrence. Thus, the only way to "go beyond" and ensure human rights violations do not occur is to implement self-imposed Western style regulation and oversight or to avoid doing business in China altogether. Of course, this would increase costs of production which would likely be passed onto consumers at the end of the day.

If it is socially responsible to virtually eliminate all risk of CSR violations, why doesn't Apple, or any other corporation, take actions to ensure that their products are made in facilities with high standards for human rights? The better question is, "Why would they?" Continuing with the Apple example, even though they have endured some negative public relations, their bottom line has not been affected and their stock price is at an all-time high. Activists criticize their questionable activities through the media; but from a consumer perspective, society, as it is manifested through customer purchasing patterns, appears to be disinterested in forcing the hand of corporations to actually fulfill its CSR dreams.

It is arguable that corporations today know more about consumers than at any point in history. The level of information companies have about consumers is tremendous. Via modern computer technology, companies know what, when, where, and why consumers are thinking, drinking, eating, buying, and spending the way they do. Armed with this information, if consumers were to send a signal by a change in their purchasing behavior because of CSR beliefs, corporations would know. Clearly this signal is not being sent by consumers. Americans continue to drive gas guzzling SUVs and live in ever larger residences that contribute to greenhouse gas pollution yet preach to corporations to reduce emissions. Bottled water is just one example of the disposable product glut that Americans contribute to every day. Dollar stores and discount retailers continue to rack up sales of items that were made by labor from China or from another developing nation with a high risk of being exploited. While it is easy to say that many consumers may not be fully aware of the working conditions in developing nations, ignorance is no excuse and CSR proponents could be directing their efforts toward consumer education and changing purchasing patterns. Additionally, individuals and institutions continue to invest money in companies that have the greatest financial returns, both domestic and foreign, with minimal regard for environmental and social responsibility records. On a society-wide basis, there is at best ignorance and at worst total disregard for the details of how these corporations truly conduct themselves, so long as the return to the investor is maximized. Ironically, this confirms how Friedman suggests the corporation should operate; consumers want the best combination of quality and price and they pay minimal attention to corporate social responsibility. Corporate Social Responsibility, in the case of Apple, is of minimal concern despite the recommendations of many business school professors.

CONCLUSION

Consumer realities are in direct conflict with the concept of CSR as preached by academe. Today's consumer pursues convenience and individual self-interest by seeking price efficient products; economically, the only reason for a corporation to invest in socially progressive behaviors is positive public relations. While the concept of CSR has continued to develop over the past sixty years, very few companies have gone beyond legal obligations and social norms in their actions. Social change has mostly been driven through legislative reform. This will continue until a majority of consumers send the signal that they are willing to pay more for products that come from corporations that truly engage in socially responsible behavior. The customer is the most powerful determinant of corporate behavior, and this is why the CSR focus should be on the consumer. Consumer Social Responsibility is the true Corporate Social Responsibility.

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