

10.6: Reading- Demands for Corporate Social Responsibility

Stakeholder Pressure

Most of the pressure on businesses/corporations in the last twenty-five years has come from shareholders. More recently, however, a different source of pressure—the demand for corporate social responsibility (CSR)—has emerged, which is forcing directors into new governance territory occupied by stakeholders other than shareholders. While pressure on corporate executives to pay greater attention to stakeholder concerns and make CSR an integral part of corporate strategy has been mounting since the early 1990s, such pressure is only now beginning to filter through to the board of directors who are responsible for making decisions for the corporation.

The emergence of CSR as a more prominent item on a board's agenda reflects a shift in popular opinion about the role of business in society and the convergence of environmental forces, such as the following:

Globalization

There are now more than 60,000 multinational corporations estimated to be in the world (World Investment Report, 2004). Perceptions about the growing reach and influence of global companies have drawn attention to the impact of business on society. This has led to heightened demands for corporations to take responsibility for the social, environmental, and economic effects of their actions. It has also spawned more aggressive demands for corporations to set their sights on limiting harm and actively seeking to improve social, economic, and environmental circumstances.

Loss of Trust

High-profile cases of corporate financial misdeeds (Enron, WorldCom, and others) and of social and environmental irresponsibility (e.g., Shell's alleged complicity in political repression in Nigeria; Exxon's oil spill in Prince William Sound in Alaska; Nike's and other apparel makers' links with "sweatshop" labor in developing countries; questions about Nestlé's practices in marketing baby formula in the developing world) have contributed to a broad-based decline in trust in corporations and corporate leaders. The public's growing reluctance to give corporations the benefit of the doubt has led to intensified scrutiny of corporate impact on society, the economy, and the environment, and a greater readiness to assume—rightly or wrongly—immoral corporate intent.

Civil Society Activism

The growing activity and sophistication of "civil society" organizations, many of which are oriented to social and environmental causes, have generated pressure on corporations to take CSR seriously. The International Chamber of Commerce, a global advocacy group for the private sector, observed in 2000 that "non-governmental organizations have gained an enormous influence" over corporate decision making, as quoted in Barrington.^[1] Well-known international nongovernmental organizations (NGOs), such as Oxfam, Amnesty International, Greenpeace, the Rainforest Action Network, and the Fair Labor Association, have influenced corporate decision making in areas such as access to essential medicines, labor standards, environmental protection, and human rights. The advent of the Internet has increased the capacity of these organizations—as well as a plethora of national and local civic associations—to monitor corporate behavior and mobilize public opinion. "Civil society" is sometimes described as the part of society that exists between the state and the market. A more formal definition is "the voluntary association of citizens, promoting their values and interests in the public domain," according to Saxby and Schacter.^[2] Kaldor, Anheier, and Glasius^[3] estimate that there are approximately 48,000 international nongovernmental organizations (NGOs) and that total membership in international NGOs grew by about 70% between 1990 and 2000.

Institutional Investor Interest in CSR

The growth in "socially responsible investing" has created institutional demand for equity in corporations that demonstrate a commitment to CSR. Recent growth in assets involved in socially responsible investing has outpaced growth in all professionally managed investment assets in the United States, even though the mainstream financial community has been slow to incorporate nonfinancial factors into its analyses of corporate value. "Big investors want SRI research: European institutions to allocate part of brokers' fees to 'nontraditional' information."^[4]

These trends indicate that there is both a growing perception that corporations must be more accountable to society for their actions and a growing willingness and capacity within society to make corporations accountable. These developments have profound implications for the future of corporate governance, suggesting that boards will have to deal with many of the following:

- a growing pressure to give stakeholders a role in corporate governance;

- a growing pressure on corporations to disclose more and better information about their management of social, environmental, and economic issues;
- an increasing level of regulatory compulsion related to elements of corporate activity that are currently regarded as voluntary forms of social responsibility;
- a growing interest by the mainstream financial community in the link between shareholder value and nonfinancial corporate performance.

The discussion about corporate accountability to stakeholders, therefore, while often couched in the vocabulary of CSR, is really a discussion about the changing definition of corporate governance, which is why it should receive a greater priority on the board's agenda.

Interestingly, whereas board agendas mostly focus on competition, cooperation may well become the *preferred business strategy* for addressing social and environmental issues. Increasingly, companies are joining forces not only with business competitors but also with human rights and environmental activists (formerly considered enemies), as well as socially responsible investors, academics, and governmental organizations. At the World Economic Forum (WEF) gathering, for example, two such coalitions were announced to address the issue of global online freedom of expression, particularly in repressive regimes. One, facilitated by Business for Social Responsibility (BSR), consists of companies facing intense criticism over complicity with suppressing online free speech in China. This coalition includes big names, such as Google, Microsoft, and Yahoo. The others gathered together socially responsible investing firms and human rights advocates, such as Amnesty International, Human Rights Watch, and Reporters Without Borders.

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1. 2000, January–June. ↩
 2. 2003, p. 4. ↩
 3. 2003, p. 2. ↩
 4. *Financial Times*, UK, October 18, 2004. ↩

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