

## 13.2: Corporate Social Responsibility

### Learning Outcomes

- Explain the concept of corporate social responsibility.
- Explain the relationship between CSR and a company's various stakeholders.
- Describe the relationship between CSR and economic performance.

### Expectations of Corporate Social Responsibility

Consumers today expect a lot out of companies. According to a study by Cone Communications, 9 out of 10 consumers expect companies to operate responsibly and address social and environmental issues rather than simply make a profit. In addition, 84 percent of consumers seek out responsible products.<sup>[1]</sup>

To please consumers, many companies now practice corporate social responsibility. **Corporate social responsibility (CSR)**, also known as corporate citizenship, is a business concept in which social and environmental concerns are integrated into a company's operations. Whole Foods Market CEO John Mackey refers to CSR as **conscious capitalism**, in which businesses “serve the interests of all major stakeholders—customers, employees, investors, communities, suppliers, and the environment.”<sup>[2]</sup> Mackey witnessed the benefits of conscious capitalism when a Whole Foods Market store was terribly affected by a flood. Unexpectedly, customers and neighbors helped, employees worked for free, suppliers resupplied products on credit, and its bank loaned it money to restock. The Whole Foods store was able to reopen 28 days after the flood.

Although there are multiple versions of CSR, the general main categories of CSR include environmental efforts, philanthropy, ethical labor practices, and volunteerism. Let's take a closer look at each of these.

#### Environmental Efforts

The primary focus of many companies in their commitment to CSR is through environmental efforts. For example, companies can have a large carbon footprint on the environment, which is the amount of greenhouse gases, especially carbon dioxide, emitted by an individual, organization, process, event, structure, or product. The majority of scientists believe that greenhouse gases are causing changes in the global climate, sea level, ecosystems, and thus, agricultural patterns. The carbon footprints of companies vary greatly depending on business operations, their size, and their location.

Any action taken to reduce a carbon footprint is considered beneficial for the environment. These efforts have included minimizing the amount of land occupied or used, constructing/occupying energy-efficient buildings, planting trees in the rainforest, and using locally sourced products. For example, the Bingham Hotel outside of London sources as much food as possible from suppliers within a 10-mile radius and the rest of its food from the British Isles.<sup>[3]</sup> Purchasing locally sourced products supports local employment and reduces pollution by limiting the distances products must be transported.

#### Philanthropy

Many companies practice CSR by donating to various charities, starting charitable programs, and offering scholarships to underprivileged students wanting to attend college. Nu Skin, a personal-care company, developed a charity called Nourish the Children, which allows leaders, employees, and customers to donate nutrient-rich meals to children around the world. From 2002, when the program began, to 2017, people had donated more than 500 million meals through the program.<sup>[4]</sup>

#### Ethical Labor Practices

Labor practices are often controversial from an ethical perspective. For example, Apple's iPhones contain parts from companies in other countries. Specifically, the tin, which is used for a part, comes from mines in Indonesia. With labor laws that vary from one country to another, the company exercised due diligence in ensuring that its sourcing companies follow all applicable labor laws in their country of operation. But it was revealed to consumers in the United States that the tin was mined from companies in Indonesia that use child labor. Moreover, during the mining process, laborers as young as 12 years old were subject to the hazards of unstable soil. US consumers were appalled.

To address the issue, Apple instituted more robust labor practices, which were communicated to consumers. In a statement, Apple said, “the simplest course of action would be for Apple to unilaterally refuse any tin from Indonesian mines. That would be easy for us to do and would certainly shield us from criticism. But that would also be the lazy and cowardly path, since it would do nothing

to improve the situation. We have chosen to stay engaged and attempt to drive changes on the ground.”<sup>[5]</sup> For improved transparency, Apple has released annual reports that include details of its work with suppliers and their labor practices. Recent investigations have shown some improvements to the working conditions of the employees of Apple’s suppliers. However, the company still faces some criticism.

### Volunteerism

Many companies are encouraging volunteerism by incorporating it into their policies and establishing employee volunteer programs. For example, some companies make a donation to the charities their employees volunteer at, in the amount equivalent to the employees’ regular pay for the same number of hours volunteered. Other companies offer gift cards to employees who volunteer. Companies are finding creative ways to encourage and reward the volunteerism of employees not only to help society and the environment but also so that consumers and stakeholders will perceive them as socially responsible.

Watch the following video to learn more about CSR and see examples of how companies practice it.

A link to an interactive elements can be found at the bottom of this page.

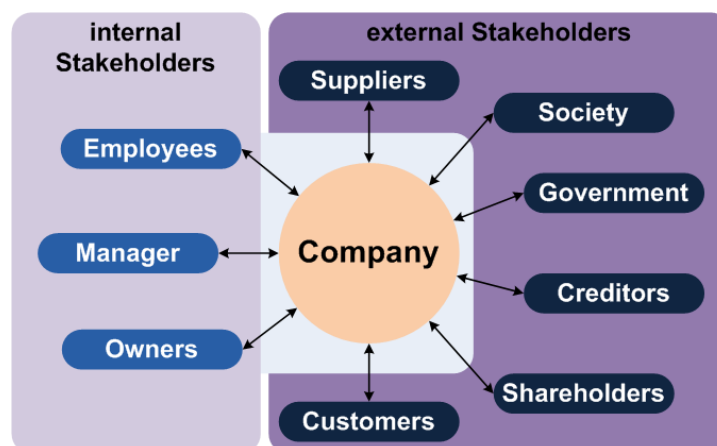
You can [view the transcript for “Business Ethics: Corporate Social Responsibility” here \(opens in new window\)](#).

### ? Practice Question

<https://assessments.lumenlearning.co...essments/12306>

## The Stakeholder-CSR Relationship

The stakeholders of any company are interested in the well-being of that company and can include employees, board members, stockholders, suppliers, distributors, customers, and the community.



Companies have both internal and external stakeholders.

When a company is in a good state, the stakeholders are affected positively. Communities benefit when their citizens are employed and when local companies are good stewards of the environment. Suppliers benefit from having a steady, profitable outlet for their products. Consumers benefit from consistent sellers and more competition in the market. For example, an employee stakeholder may receive annual bonuses based on company profits. Stockholders may receive dividends or sell high when the price of the stock they hold rises. Managers who wish to create shared value for stakeholders, and thus make their companies thrive, embed CSR into their business operations.

While CSR is positive for companies, there’s no guarantee that a company will see an increase in profits due to CSR. More important than profitability, consumers and stakeholders expect the triple bottom line—profit, people, planet—of companies to improve and be set high. Companies that meet these expectations can reap the benefits of a positive reputation. Their positive reputation cycles back to improve their triple bottom line. Engaging in socially responsible activities is a win-win-win situation for stakeholders, the environment, and companies.

Consulting companies offer ethical compliance systems for client organizations. The systems they create integrate governance, risk, and compliance (GRC). For example, OCEG, the nonprofit think tank that supports GRC, promotes **principled performance**, which is the “reliable achievement of objectives while addressing uncertainty and acting with integrity.”<sup>[6]</sup>

### ? Practice Question

<https://assessments.lumenlearning.co...essments/12307>

## CSR and Economic Performance

Research on the relationship between firm value and CSR presents strong evidence that CSR activities enhance a firm's value. Various studies have found benefits in operating efficiency, product market gains, attracting highly qualified personnel, employee productivity, capital market execution, risk management, and earnings quality. In aggregate, the studies recommend strategic CSR, not just doing good. **Strategic CSR** means activities that support company goals or enhance the company's reputation.<sup>[7][8]</sup>

### ? Practice Question

<https://assessments.lumenlearning.co...essments/12308>

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6. O. (2017, September 13). About OCEG - How we invented GRC with standards and certification. Retrieved September 19, 2017, from <http://www.oceg.org/about/what-is-oceg/>↵
7. Malik, Mahfuja. "Value-Enhancing Capabilities of CSR: A Brief Review of Contemporary Literature." Journal of Business Ethics (Jan. 2014) 127: 419-438 ↵
8. Hernández-Murillo, Rubén & J. Martinek, Christopher. "Corporate Social Responsibility Can Be Profitable." The Regional Economist (2009) 4-5. Retrieved August 28, 2017, from <https://www.stlouisfed.org/publications/regional-economist/april-2009/corporate-social-responsibility-can-be-profitable>↵

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