# CORPORATE Social Responsibility

## A RESEARCH HANDBOOK

Edited by Kathryn Haynes, Alan Murray and Jesse Dillard

# CORPORATE SOCIAL RESPONSIBILITY

Concepts of corporate social responsibility (CSR) are widely used by businesses, professional bodies and academics, but are also widely contested. CSR is usually described as comprising of three elements: environmental, economic and social, though there is no serious consensus on how to go about translating ideas into practice. This research handbook addresses some key areas of contention, theory and practice within CSR in order to address, challenge and inform debate in academia and practice.

The collaborative text extends understanding of CSR through articulating current thinking on each facet of a vital subject. Each theme is represented by inter-disciplinary discussion of key questions on CSR by researchers and practitioners in the field. In doing so, the book:

- Explores and critiques CSR goals, and national, organizational and managerial strategies
- Reviews the distinctive role and importance of CSR to academics, professionals and practitioners and identifies appropriate bridging strategies
- Evaluates the nature, direction and applicability of selected theoretical dimensions which inform the understanding of CSR
- Assesses the opportunities for theory building, to support further understanding of the complexities of CSR and the sustainability and long-term value of CSR practice to corporations and civil society.

This timely and significant contribution to the theory and practice of CSR will prove to be vital reading for students, researchers and practitioners involved with the field. It will also become a key reference for anyone with an interest in business and society.

**Kathryn Haynes** holds the Northern Society Chair in Accounting and Finance at Newcastle University, UK.

**Alan Murray** is Associate Professor in Corporate Social Responsibility at the University of Leeds Business School, UK.

**Jesse Dillard** is Retzlaff Chair in Accounting at Portland State University, USA. He co-edited *Understanding the Social Dimension of Sustainability*, also published by Routledge.

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# CONTRIBUTORS

**Kathryn Haynes** holds the Northern Society Chair in Accounting and Finance at Newcastle University. She is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) and also a Fellow of the Advanced Institute of Management Research (AIM), where she was Lead Fellow of the services research cohort. Her primary research interests are in gender and organizations; and sustainability and accountability. She has published in leading journals such as *Accounting, Organizations and Society*.

**Alan Murray** is Associate Professor in CSR and Head of the Management Division at Leeds University Business School. Dr Murray is co-author (with Michael Blowfield) of the best-selling textbook, *Corporate Responsibility* (2$^{nd}$ ed.), winner of the Chartered Management Institute (CMI) Management Book of the Year in 2012.

**Jesse Dillard** currently holds the Retzlaff Chair in Accounting, and is Director of the Center for Professional Integrity and Accountability in the School of Business at Portland State University, USA. He is also a Visiting Professor at Queen's University, Belfast. Dr. Dillard's research, which includes more than 100 published articles, books and reviews, focuses on the ethical and public interest implications of administrative and information technologies as they affect social and environmental sustainability and accountability.

**Steven Toms** is Professor of Accounting and Finance at the University of York, United Kingdom. His current research interests include social and environmental accounting, and accounting and business history. Previous research has examined the relationship between corporate environmental policies, financial performance and reputation. His research has been published in *Accounting, Organizations and Society*, *Accounting, Auditing and Accountability* and the *British Accounting Review*. He is editor of the journal *Business History*.

**Lucian J. Hudson** is Director of Communications, the Open University. He is a former Director of Communications, Foreign and Commonwealth Office. His career spans government, business, civil society and media, and his research interests focus on leadership and collaboration. He is the author of *The Enabling State: Collaborating for Success*, published by the FCO in 2009.

**Matthew Harris** is Senior Associate at Cornerstone Global Associates and has gained experience of collaborative approaches to CSR at a number of different organizations, most notably Thames Water, at which he was responsible for a range of community sponsorship initiatives.

**Prem Sikka** is Professor of Accounting at the University of Essex and a founder member of the Association for Accountancy and Business Affairs (AABA). Prem's research interests are in auditor regulation and governance of the UK accountancy profession as well as globalization, taxation and social responsibility. Widely published in academic journals, Prem also regularly contributes articles on regulation, taxation, governance and accountability on *The Guardian* website.

**Gregory Morris** is a Lecturer at the University of Exeter. He has also taught courses at the universities of Nottingham, Birmingham and Warwick. His interests lie in the areas of taxation and the relationship between business organizations and society. Before entering academia Gregory worked in industry and in the professions for over two decades and used to be the head of the UK tax practice and chair of the European tax practice of one of the largest multinational law firms in the world.

**Lutz Preuss** is Reader in Corporate Social Responsibility at the School of Management of Royal Holloway, University of London. His current research examines how the national context in which a company and its stakeholders operate influences their approaches to corporate social responsibility. Dr Preuss' research findings have been published in a range of journals, including *Journal of Business Ethics*, *Entrepreneurship and Regional Development*, *Public Administration: An International Quarterly* and *International Journal of Human Resource Management*.

**Matthias Beck** is Professor of Public Sector Management at Queen's University Management School, Queen's University, Belfast. His main research interests are risk management and risk regulation with a particular focus on the public sector; infrastructure procurement; public private partnerships; and state–business relationships in transitional and developed economies. He is the author of *Risk: Origins, Evolution and History* (World Scientific 2012).

**Rob Gray** is Professor of Social and Environmental Accounting and Director of the Centre for Social and Environmental Accounting Research (CSEAR), at the University of St Andrews. He is the author/co-author of over 250 books, monographs, chapters and articles. His books include *Accounting for the Environment; Financial Accounting: Practice and Principles* and *Accounting and Accountability: Changes and Challenges in Corporate Social and Environmental Reporting.*

**Jan Bebbington** is Professor of Accounting and Sustainable Development and Director of the St Andrews Sustainability Institute, at the University of St Andrews. She has held a number of policy roles, most recently as vice chair (Scotland) of the Sustainable Development Commission. She has published extensively on the issues which the sustainable development agenda brings to bear on organizations, and how systems of governance affect the achievement of sustainable development.

**Helen Borland** is Senior Lecturer in Business Sustainability at Aston Business School, Aston University, UK. Her teaching and research interests are focused on understanding how firms can adopt a more ecologically sustainable approach to their strategic and tactical business activities, and also in understanding how philosophical and psychological shifts at individual and collective levels may be necessary in a move towards ecological sustainability. Her research has been published in a number of outlets including the International Marketing Review and the European Journal of Marketing.

**Peter Frankental** is Economic Relations Programme Director at Amnesty International UK, the campaign group for human rights and also currently chair of the Corporate Responsibility Coalition of NGOs (CORE).

**Jenny Harrow** is Professor of Voluntary Sector Management at Cass Business School, City University London, and Co-Director of the ESRC Centre for Charitable Giving and Philanthropy. Her research interests include philanthropy institutions, government-voluntary sector relations, and voluntary action history; with research published in *Public Management Review, Nonprofit Management and Leadership Voluntas* and ARNOVA and ISTR conference proceedings.

**Gemma Donnelly-Cox**, BA, MPhil, DPhil is Assistant Professor in Business (Organization Theory) and Academic Director of the Centre for Nonprofit Management in the School of Business, Trinity College Dublin. Her primary research and teaching interests are in the areas of organizational responses to altered conditions of support.

**Andrew O'Regan**, PhD, is a Research Associate at the Centre for Nonprofit Management and an Adjunct Lecturer with the School of Business, Trinity College Dublin. His research and teaching interests are in the areas of nonprofit organizing and the business–society relationship. His published work includes *Imaging the Voluntary Actor: Interpreting Narratives of Intent and Meaning* (Nomos 2009).

**Gerard McHugh** qualified as a Chartered Certified Accountant with the Dublin office of Deloitte. He earned his MA in Accounting and Financial Management from the University of Sheffield, and his PhD from Loughborough University. Dr. McHugh teaches at the School of Business, Trinity College Dublin, in the areas of accounting, financial analysis, organization and management. Dr. McHugh's research interests are the areas of financial analysis, financial reporting regulation and auditing.

**May Seitanidi** is Senior Lecturer in Corporate Social Responsibility and Director of the Centre for Organizational Ethics at Hull University Business School, University of Hull. Her research interests are in the area of social partnerships: between business and nonprofit organizations with an emphasis on their role as facilitating agents of organizational and social change. A recent book is *The Politics of Partnership. A Critical Examination of Nonprofit-Business Partnerships* (Springer 2010)

**Paul Palmer** is Professor of Voluntary Sector Management and Associate Dean for Ethics, Sustainability and Engagement at the Cass Business School, City University, London. He has served on the Expert Panel of the Ethical Investment Research Services (EIRIS) Charity Project and in 2010/11 project managed the Lord Mayor of London Integrity and Values Initiative.

**Peter Grant** is Senior Fellow in Grantmaking, Philanthropy and Social Investment at Cass Business School, City University. After working in the Arts and as director of an inner-city sport and youth charity Peter was respectively Deputy Director of Operations and then Head of Public Affairs and Development at Sport England. From 1999 to 2005 he was Director of Operations of the largest grantmaker in Europe, the New Opportunities Fund (now the Big Lottery Fund). His latest book *The Business of Giving* was published by Palgrave Macmillan in 2012. He is the current Chair of the Voluntary Action History Society and a trustee of the DHL Foundation.

**Stephen Lloyd** is Senior Partner of Bates Wells & Braithwaite London LLP, a commercial law firm servicing a wide range of commercial, statutory, charity and social enterprises (and their owners and managers). Stephen is ranked by the Chambers UK Legal Directory and the Legal 500 as a leader in the field of charity law.

**Veronica Broomes** is a UK-based sustainability consultant and researcher. Her current research interests include agricultural value chains in developing countries and enhancing social and environmental impacts of inward investment. Previous research explored leveraging CSR strategies of global businesses to increase impact of investment. Her contributions have been published in the 2010 and 2011 Reference Reports of Commonwealth Finance Ministers.

**Stuart Cooper** is Senior Lecturer in Finance and Accounting at Aston Business School, Birmingham. His research interests are in the social and environmental aspects of performance and reporting. Recent publications have appeared in: *Accounting, Auditing and Accountability Journal*, *Accounting, Organizations and Society*, *Critical Perspectives on Accounting* and *Local Government Studies*.

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# 1

# INTRODUCTION

## Corporate social responsibility – a research agenda

*Kathryn Haynes, Alan Murray and Jesse Dillard*

Concepts of corporate social responsibility (CSR) are widely used by businesses, professional bodies and academics, but are also widely contested. While it is often said that CSR comprises three elements – environmental, economic and social – little consensus exists even among experts on how to go about translating CSR concepts into practice. This book sets the agenda for a developing field of research in CSR from a variety of theoretical and practice perspectives.

As a research handbook, its aim is to address some key areas of contention, theory and practice within CSR, in order to address, challenge and inform academic debates. The book takes a decidedly interdisciplinary social science focus as it:

- extends understanding of CSR by posing a series of challenging questions within the field.
- explores and critiques CSR goals, and national, organizational and managerial strategies, from selected theoretical and empirical perspectives.
- reviews the distinctive role and importance of CSR to academics, professionals and practitioners and identifies appropriate bridging strategies.
- compares and contrasts selected aspects of CSR practice with international developments.
- reviews the nature, direction and applicability of selected theoretical dimensions which inform the understanding of CSR.
- assesses the opportunities for theory building, to support further understanding of the complexities of CSR and the sustainability and long term value of CSR practice to corporations and civil society.

In doing so it makes a timely and significant contribution to the theory and practice of CSR related activities.

The book is structured in six parts to address key themes within CSR:

Part 1 Defining CSR – addresses the definitions and constructs of CSR, particularly the nature of accountability which underpins its theoretical construct.

Part 2 Taxation and social justice – considers significant issues regarding corporate engagement with social responsibility in relation to tax regimes across continents and corporate taxation practice.

Part 3 The environment and sustainability – considers important societal questions on the relationship between business and the environment, and whether it is possible for business to be environmentally sustainable, that sit at the heart of the CSR debate.

Part 4 Human rights and CSR – addresses the role of human rights in the CSR debate, an area which has not been so widely taken up by either academics or business, but which articulates the need to consider the equity, rights and responsibilities of human beings towards each other.

Part 5 Corporate philanthropy and CSR – addresses the question of to what extent corporate philanthropy has informed CSR, or is indeed a form of CSR, with some particular reference to the relationship between non-profit organizations, governments and business.

Part 6 CSR, sustainability, governance and civil society – where next? – is the final part of the book. This looks to the future, drawing together a number of themes arising from earlier parts on governance, the impact of CSR on developing countries, sustainability and social justice.

Chapters in the book are based on papers presented at a series of six seminars funded by the Economic and Social Research Council (ESRC) and the Institute of Chartered Accountants in England and Wales (ICAEW) during the period 2008–2010. The aim of this seminar series was to cut through the rhetoric of CSR, by engaging academics, professions and practitioners to deliver positions of clarity from which future debates can emanate. The series provided a forum for engagement between academics, policy makers, professional bodies and practitioners to develop increased insights into the theory and practice of CSR.

The series grew from concerns over the nature of corporate engagement with responsible management, and proved to be highly prescient and topical, as the first seminar took place two weeks after the collapse of Lehman Brothers at the beginning of what has emerged as a serious and deep economic recession, in which the actions of business has been called into question. The seminar series addressed some serious questions about the behaviour of corporations and their responsibilities: (1) How do we decipher the domain of CSR? (2) Is corporate taxation practice a CSR issue? (3) How, in a world of depleting resources, can we ensure sustainability and equity between business and society? (4) Can CSR make poverty history and promote human rights? (5) Can Corporate Philanthropy contribute to social justice? (6) Where do the responsibilities of corporations, government and civil society begin and end?

Many of these questions, while pressing at the time, have become increasingly relevant to the national and international context, as citizens, especially at times of economic crisis and austerity, question the role and behaviour of business in society. The debate on the payment of taxes by large corporates remains topical, as does the role of business in promoting sustainability or unsustainability.

As noted at the outset, corporate responsibility is a contested concept. We cannot even agree upon a common definition of the term much less the practical application of the ideas. One of the issues that we address is whether this is the result of a muddled theory informing practice or whether it is a muddled practice in search of a theory. Or, whether we must move toward a different metaphor as we attempt to makes sense of and guide the emergence of a different place for corporations in society. Our purpose in this book is to create a context from which a facilitating and ennobling new, though indeterminate, order emerges.

The book outlines what we consider to be the domain of corporate responsibility. It then extends and refines this outline through the consideration of associated issues such as: corporate tax practices; equitable resource allocations; poverty; social justice and corporate philanthropy; and the delineation of responsibilities among corporations, government, and civil society.

As we move into the future, it might be useful to keep in mind the current criticisms of CSR and the basis from which they arise. We should be careful not to let these constrain our thinking. Blowfield and Murray (2011) discuss four main areas of criticism and the grounds upon which each is based. First, CSR can be seen as an anti-business agenda, imposed on business by civil society, in that corporate responsibility restricts the corporation's ability to generate societal wealth. A second alternative position purports that the dominance of corporations in setting the corporate responsibility agenda ensures that it predominately serves narrow corporate interests and hence is too pro-business. An extension of this position holds that even if corporate influence does not dominate, the current concerns of corporate responsibility do not include key issues and are too narrow. Fourth, some argue that corporate responsibility to date has failed to meet its goals and needs to be more rigorous and innovative. Obviously, the manifestation of failure follows the position upon which one defines the goals.

One's initial perspective is informed by the position taken as to the purpose of business in society and the nature of the social issues perceived as capable of being addressed within the context of corporate self-interest, self-regulation, and public pressure. Ultimately, the question is how society's best interests can be attained? Is it through market-based self-regulation? Is it through government involvement and regulation? Or some combination of the two? And if the latter, what are the appropriate and necessary processes for the evolution and revision of the requisite infrastructure?

If, following neoclassical economic theory, one thinks business's primary purpose is to make a profit through the prevision of goods and services to society within a free and open market, then corporate responsibility will be criticized if it does not support that end. Relatedly, those who see legislation as a barrier to competitiveness within a market context will look at corporate responsibility in terms of its capacity to remove the regulatory burden. On the other hand, those suspicious of market-based self-regulation see corporate responsibility encompassing effective government intervention.

Hopefully, in this book, the authors of the chapters have provided a vehicle for thought and discussion wherein the following objectives can be articulated and constructively pursued:

- the factors explaining the gap between academic research and corporate responsibility activity in the UK and abroad;
- existing and new policy-oriented research paths addressing climate change and sustainable development;
- development of a more comprehensive and intelligible theoretical understanding of the field by drawing from work engaging a wider range of constituents, NGOs, governments, non-profit organizations, business, as well as academia;
- development of a conceptual framework providing the basis for establishing corporate responsibility as a distinct research area with a coherent research agenda within business, management, and accounting.

We hope that this book will be of use to academics and practitioners alike, whether experienced in CSR or newly embarking on a CSR project or agenda. It can be read as a whole or dipped into thematically, with each of the chapters providing many references to enhance further study.

## References

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# PART I

# Defining CSR

# INTRODUCTION

Although in recent decades the practice of Corporate Social Responsibility (CSR) has become mainstream, with virtually every FTSE 100 company including it on their agenda in some form, the conceptualisation of CSR remains contested and even confused. CSR lacks a definitive definition and is readily redefined by its constituent actors, most notably companies, to suit their own viewpoints and purposes. Some would suggest that the CSR agenda seems increasingly to be directed and dictated by corporate interest.

Moreover, the term CSR is often conflated with other notions, such as sustainability, business ethics or company values. Faced with global economic crises, climate change and constrained resources, there is a mounting imperative to engage industry, the professions, policymakers, and academia in a sustained debate surrounding the role of corporations in society, and the true representation of social responsibility, and sustainable development.

Presently, such evidence as there is suggests that research is failing to lead practice. Notions of what passes for CSR vary from company to company. UK Government policy seems inconsistent between departments and fails to connect seamlessly with UN and EU initiatives. In essence, there seems to be an absence of any coherent conceptual framework underpinning the plethora of initiatives that fall under the CSR banner.

The aim of this first part of the book is to set the intellectual context for the remaining chapters by posing the fundamental questions: How do we define CSR? and How do we decipher the domain of CSR? In addressing these issues, this part will establish the key contextual factors and supporting issues to be examined in later parts, and will also assess the conceptual frameworks of the emerging comparative literature on CSR (also see suggested further reading on this topic). It will address the following questions: How have we arrived at the present position and is this where we want to be? How does research in CSR relate to practice? Is there an "expectations gap" between public expectation and corporate strategy? Is there a case for CSR that goes beyond the "business case"?

The chapters in this part are from three key presentations originally held during the first seminar of the ESRC series on which this book is based. The seminar was deliberately designed to provide a point and a counterpoint, with the addition of reflections from a policy/practice perspective.

Hence the book begins with Jesse Dillard and Alan Murray's chapter on deciphering the domain of CSR. Their primary focus is to provide background and a general framework for initiating a dialogue concerning the domain of corporate responsibility. First, they address how one might define corporate responsibility, consider its myriad dimensions and attempt to differentiate it from sustainability. They propose a general theory of accountability wherein alternative corporate responsibility perspectives can be considered. The theory recognizes the corporation as a member of an ongoing community within the context of an ethic of accountability. They argue that a reciprocal relationship arises as society grants corporate management the right to use its economic assets (natural, human, financial, and technical) in providing goods, services, and employment and investment opportunities for the citizens of the society. In return, the corporation accepts a fiduciary responsibility with respect to these assets, which includes an obligation to provide an account of, and to be held accountable for, its actions. Dillard and Murray relate this concept to corporate social responsibility, giving a brief history of CSR and its evolution. They consider the current theoretical bases for the predominant schools of thought and briefly review the primary models, discussing the current state of corporate responsibility and providing suggestions as to future developments.

Steven Toms' chapter provides a counterpoint to Dillard and Murray, thus extending the debate on conceptualisation of CSR. He argues that the reform of the corporation to promote greater social responsibility is an unlikely solution to the crisis of climate change, suggesting that the managers of business organisations are relatively powerless in the face of the powerful market forces that drive increasing consumption of the world's resources. In particular, he notes the strong association between the development of oil resources, the world's markets and productive capacity as the key determinants of climate change. Toms suggests that responses to the challenges of climate change are best formulated through predictive analysis of its key determinants, along the lines of the 2007 Stern Report and the debate it has subsequently engendered. In view of the correlation between oil consumption, world and sustainable population, he suggests peak oil poses as strong a challenge to economic growth as does significant climate change.

Lucian Hudson's chapter, with input from Matthew Harris, provides a personal reflection on CSR from the perspective of the policy-maker. Hudson formerly worked for the Foreign and Commonwealth Office, and the Ministry of Justice. The chapter is based on a report for the Foreign and Commonwealth Office into Collaboration and Partnership entitled *The Enabling State: Collaborating for Success*, written by Hudson based on his extensive experience of collaboration within governments and government departments, businesses, and NGOs (Hudson, 2009). Aspects of the original report have also been developed further elsewhere to relate to the challenge of sustainability (Murray, Haynes and Hudson, 2010).

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## Further reading

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See also the special issue on corporate social responsibility in the *International Journal of Management Reviews*, 2010, *12*(1).

# 2

# DECIPHERING THE DOMAIN OF CORPORATE SOCIAL RESPONSIBILITY

*Jesse Dillard and Alan Murray*

## Introduction

Over the last decade, and especially in the last five years, engagement with programs of corporate responsibility[1] (CR or CSR) has become part of mainstream corporate activity, with every FTSE 100 company now operating a (or similarly named) department. Crucially, however, corporate responsibility means different things to different constituents. The term has many definitions and is often and readily re-defined for convenience. The concept is currently confused and conflated with notions of sustainability, and the agenda seems increasingly directed and dictated by corporate interest. As the world acknowledges a growing crisis in the face of climate change and resource depletion, as well as increasing inequities in wealth distribution, corruption, cultural hegemony, and human rights violations, there is a mounting imperative to engage industry, the professions, policymakers, and academia in a sustained debate concerning the role of corporations in society.

Corporations have acquired a dominating position within current society. They allegedly create wealth, provide employment, consume natural resources, and require investment at unprecedented levels. Multinational corporations play a significant role in all social institutions from government to education. As a result of this increased power and presence, companies find themselves coming under greater pressure to act in socially responsible ways. In the face of past and ongoing debacles, capital markets are demanding greater transparency and more diligent corporate governance. The public is calling for attention to be given to a range of issues including environmental pollution, consumer rights, child labor, corruption, and support for military regimes.

What might we expect from a corporate responsibility agenda? Or, stated another way, by what criteria might we measure success and how are we to balance the different dimensions? Ideally, the results of a successful corporate responsibility agenda would be reflected along the following dimensions. The earth would be more inhabitable for all creatures. Material production processes would be sustainably designed to reduce the amount of nonrenewable resources and energy consumed as well as the amount of waste generated. Corporations would enhance the level of trust society has in them to act in the public interest. Poverty would be reduced. International human rights would be expanded and sustained. Corporate malfeasance would be reduced. There would be less corruption, illegal activities, and a recognition and implementation of enhanced public oversight. Serious efforts would be undertaken to develop measurement and reporting mechanisms that provide a transparent and understandable representation of corporate activities adequate for holding corporations accountable along social, environmental, and economic dimensions.

Our primary focus in this chapter is to provide background and a general framework for initiating a dialogue concerning the domain of corporate responsibility. First, we address how one might define corporate responsibility, consider its myriad dimensions, and attempt to differentiate it from sustainability. We propose a general theory of accountability wherein alternative corporate responsibility perspectives can be considered. The theory recognizes the corporation as a member of an ongoing community within the context of an ethic of accountability. Next, we provide a brief history of corporate responsibility and its evolution to its current manifestation. We consider the current theoretical bases for the predominant schools of thought and briefly review the primary models. We discuss the current state of corporate responsibility and provide suggestions as to future developments.

## Corporate responsibility

Corporate responsibility is a contested term. We do not propose to resolve this conundrum, but we suggest some parameters within which this conversation can be undertaken. Corporate responsibility refers to the responsibilities (duties, obligations) of corporations as social institutions. Corporations are legal entities socially constructed within the legal frameworks of a society. Generally, responsibilities accrue from, or are associated with, certain rights granted or acquired. Given its current pervasive presence and extensive resources over which it has control, corporate influence is ubiquitous.

Prominent areas that tend to be the current focus of the corporate responsibility conversation include:[2] sustainability, sustainable development, environmental management, business ethics, philanthropy and community investment, worker rights and welfare, human rights, corruption, corporate governance, legal compliance, and animal rights. Each of these represents a separate domain that includes issues other than corporate responsibility. We conceptualize the field of corporate responsibility to be represented by the intersection of the corporations' sphere of influence and the domains mentioned above. We do not contend that these are exclusive or that they should represent a complete set, only that they seem to represent a way the field is currently being actualized.

In discussions of the place of corporations in society, sustainability and sustainable development, also contested terms, are at times used synonymously with corporate responsibility. It might be informative to differentiate among these constructs. As with corporate responsibility, any attempt to survey the various formulations of sustainability and sustainable development is bewildering. The definition most often used is that provided by the Brundtland Commission (World Commission on Economic Development) report and states that sustainability must be attained through development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. However, it seems that each governmental agency, nongovernmental organization (NGO), and corporation has their own way of interpreting what the terms mean within their own context. As such, each corporation operationally interprets these terms somewhat uniquely. As the concept of sustainability has gained more purchase, some are coming to define it as the core issue of corporate responsibility. Three separate but interrelated dimensions of sustainability represent the current focus: environmental, social, and economic.[3] In pursuing sustainability, corporations must operate so as to maintain long-term environmental viability, to facilitate social well-being both now and into the future, and to maintain long-term living standards.

Many might argue that economic life ought properly to be thought of as an element of the social system, since the economy is clearly a social construction rather than a natural phenomenon such as the weather. Indeed, the perhaps exaggerated place of economic concerns – reflected in its customary distinction from other social issues in conceptions of sustainability – may be part of the challenge faced by advocates of greater sustainability. Further, the overemphasis on the economic leads to a too-exclusive focus in sustainability efforts on production and consumption of marketed goods and services without addressing the fundamental problem of commodification and addictive consumption.

Aside from the traditional fixation on economic performance, of late, environmental sustainability has received the most attention. Probably rightly so in that if the biosphere collapses, there is little chance that social and economic systems would be of much value. Also, environmental affects are more directly related to the physical world, lending themselves more readily to measurement and modeling. Social sustainability is beginning to attract more attention, but it seems much more difficult to develop comparable measures in this area. The economic systems reside within the social systems as a critical subsystem wherein the material means of social reproduction reside. As noted above, the economic subsystem seems to have dominated measurement and evaluation regimes to the obvious detriment of the ecological and social systems. The success of the economic sphere increases the difficulty of responding to the primary questions that we face: to what extent must economic well-being, as defined by the current western standard of living, be compromised in order to adequately sustain the social and environmental systems?

While each citizen as well as all social institutions have a responsibility to function in a responsible and sustainable way, corporations must deal with the current and future liabilities that have arisen due to their previous externalization of operating costs to the environment and members of society. Further, corporations must meet the increasing expectations of citizens, workers, and consumers for responsible corporate citizenship. In addressing these expectations, corporations must take a long-term perspective that considers the rights and interests of future generations. To respond to these demands in a meaningful way, the corporation must act as a responsible member of an ongoing community. This implies a history whereby the long-term implications of anticipated actions on the community can be projected, and actions are chosen based on the effect of their anticipated outcomes on the long-term viability of the community and its citizens. In other words, corporate responsibility means acting in the public interest.

## Acting in the public interest

We consider three primary groups: private sector (business and accounting practitioners), public sector (government and nongovernment practitioners), and the academy (knowledge practitioners). The private sector operates in the economic domain. The public sector operates in the political domain. The academy, especially the business school, bridges both the public and the private sector. Society grants government professionals or elected officials the right to govern, and it, in turn, holds them responsible for doing so in the best interest of society. Society grants members of the business professions the right to a monopoly in the application of their expertise, and in turn, they are responsible for acting in the public interest. As members of the academy, society grants academics the right to explore ideas and the implications and implementation thereof. In turn, we accept the responsibility to act as conscience, critic, and counselor of society in a conscientious, constructive, and informed manner. The means by which we exercise these rights and fulfill these responsibilities are enlightened reflection and scholarship, and from these our other tasks follow. Each person has to envision how he or she can effectively fulfill this responsibility. Next, we consider a general theory of an ethic of accountability that provides a context within which all might contemplate their roles.

The subject of corporate responsibility must be studied systemically. The socio-political level provides the overarching context within which corporations are created and sustained. Likewise, corporations, as actors, influence the socio-political context. In the following discussion and in the way we generally address this topic, we focus on elements at one level, generally the corporation, and take the systemic context for granted. We need to keep in mind that this is an emergent, complex system where changes in the parts have implications thoughout the system. These are not linear, deterministic relationships that accurately predict outcomes. They are emergent realities that may be explained, but not predicted.

We consider rights and responsibilities and attempt to convey the idea that such contemplations can lead to understanding the world differently. By understanding the world differently, we can choose to live our lives differently, to practice our chosen professions differently, and to teach and research differently. As a result, we can have an enlightening, enabling, and transforming effect on our world. Our challenge, and that of any member of society, is to act, based on a value set that increases the societal welfare rather than the interests of only a subset thereof.

The function of a social organization, be it a government or a work organization, is ultimately social integration, that is, to specify, coordinate, and integrate the efforts of its members in goal directed behavior. Rights and responsibilities specify the relationships among members and groups within a social organization as well as the relationships between members, groups, and organizations. Within a society, rights represent the privileges accruing to a societal member or group; whereas responsibilities entail the obligations accruing from the societal privileges. Any legitimate and just system of rights and responsibilities is accompanied by an infrastructure that facilitates accountability of all effected parties. By accountability, we mean the duty to give an account of one's actions.

First, we consider what it means to act responsibly. Central to this discussion is an ethic of accountability, which generally delineates the rights and responsibilities of corporate management, the business and accounting professions, government, and members of society. Next, we specifically consider the rights and responsibilities of the business and government professionals as well as business and accounting academics.

Corporate responsibility begins by situating the corporation as a part of the economic system, which is a subsystem of the social system. Bateson (1979), among others, has pointed out that current privilege hierarchies invert these relationships, so that the economic dominates both the social and natural systems. We propose that to constructively consider corporate responsibility, a normative position would be useful in reorienting our misplaced priorities.

Following from earlier work (Niebuhr 1963; Dillard and Yuthas 2001), acting responsibly requires that the decision to act recognizes and incorporates four primary components: solidarity, interpreted actions, the contemplated action, and accountability. Solidarity refers to the organization's recognition of its situated and interrelated status as a responsible member of an ongoing community. Interpreted actions are the observed outcomes associated with past actions that over time reveal the physical and historical interrelatedness of any actions undertaken within the context of the community. In deciding to act, corporate management is obliged to consider the anticipated act and its propriety in light of the projected effects that include formulating realistic projections with respect to the anticipated implications for community members based on an intentional awareness of the effect of past actions, and a sensitivity to circumstances that supplement these observations. Accountability refers to the operationalization of an ethic of accountability.

Acting in the public interest is acting to enhance the well-being of society within the context of sustainable natural, social, and economic systems. The imperative to act in the public interest provides the moral context wherein an action or activity is contemplated and legitimized. Acting in the public interest represents a central component of an individual or a profession's social and professional responsibility and legitimizes the distinguishing characteristic of the reciprocal relationship by granting rights, privileges, and status (e.g. Donaldson 2000).

A reciprocal relationship, an *ethic of accountability*[4], is created between corporate management and society with respect to society's economic assets. An ethic of accountability characterizes a position whereby both parties are equally responsible for facilitating this accountability relationship. Accountability requires relevant and timely information as well as the specification of the necessary set of relevant evaluation criteria. Within western market capitalism, corporate management exerts significant influence on society's social, political, and cultural institutions. As such, its primary role, as with any other institution, should be ensuring the long-term viability of a democratically governed society grounded in characteristics such as justice, equality, and trust and supported by sustainable natural, social, and economic systems.

An ethic of accountability is grounded in the realization that the organization is a member of an ongoing community and has an obligation to act responsibly, as noted above. The reciprocal relationship arises as society grants corporate management the right to use its economic assets (natural, human, financial, and technical) in providing goods, services, and employment and investment opportunities for the citizens of the society. In return, the corporation accepts a fiduciary responsibility with respect to these assets, which includes an obligation to provide an account of, and to be held accountable for, its actions. Having granted the right to use its assets, society accepts its responsibility for providing the necessary infrastructure whereby business can successfully operate.

An ethic of accountability holds that corporate management is responsible for providing necessary information in order to be held accountable, that is, providing timely and relevant information rendering its actions transparent and understandable. As the grantors of the rights, society is responsible for establishing the evaluation criteria for, and processes used in, holding corporations accountable. The evaluation criteria should reflect the norms and values of the society, not those of powerful special interests. The accounting profession is implicated throughout an ethic of accountability. In fact, the existence of an accounting profession, especially the public component, is predicated on facilitating an ethic of accountability.

Conceptually, an ethic of accountability requires an ongoing conversation among all affected parties. Instantiating an ethic of accountability does not seek "the good" in an utilitarian sense or "the right" in a deontological sense, though both are consistent with the ideal. The good and the right are delineated as part of the process of determining the appropriate action within the context of the ongoing community. Fitting action as well as the act of holding, and being held, accountable depends upon open and trustworthy communication between the actor and the community members as well as among the community members themselves.

Implementing an ethic of accountability requires legitimate communal dialogue[5] whereby the rights and responsibilities of all community members are recognized. Trustworthiness among the actors grows out of the ongoing interactions and is central to establishing a sense of loyalty and responsibility. If the communal discourse is controlled by powerful, self-interested members who exploit the social and physical resources to achieve self-serving objectives, an ethic of accountability becomes impossible, and its pretense becomes a means for manipulation and exploitation.

An ethic of accountability expands the scope of behavior alternatives, providing a framework for setting priorities, establishing more widely understood and accepted evaluation criteria, and enhancing the likelihood of successful applications. The process does not prescribe a set of generally applicable rules but emphasizes the importance of context and accountability, nor does it necessarily presume government regulation and oversight. An intermediary such as a NGO or a not-for-profit organization might fulfill such a role. Alternatively, if left to its own devices the market might naturally develop mechanisms within the private sector to accomplish the necessary monitoring. In any of these situations, society must ensure that the appropriate devices exist to support the specification and maintenance of an ethic of accountability. For example, if the market solution is deemed the appropriate one to pursue, society, through the state or otherwise, must maintain the necessary institutional infrastructure such as the means for writing and enforcing contracts, a compatible system of property rights, and autonomous market mechanisms.

Next, we provide a brief history of corporate responsibility as a useful context for considering the current state of corporate responsibility and developing suggested courses of action.

## A brief history of corporate responsibility[6]

In this section, we provide a brief history of corporate responsibility. We begin with the rise of the industrial revolution and the evolution of the modern corporation.

Throughout much of Europe, a significant change in human demographics and human working life came with the advent of the industrial revolution, as the poor from the countryside headed towards the cities in search of work. This massive increase in urban living facilitated problems of overcrowding and disease, child labor, dangerous working conditions and raw materials produced by slave labor. Industrialization provoked civil unrest and information about human exploitation spurred various reform movements. Around this time, writers like John Carlyle and Mathew Arnold began to put forth appropriate modes of behavior of the emerging heads of industry, marking the start of the era of Victorian philanthropy. The social and environmental consequences of early industrialization in countries like England and the United States remain relevant today, especially in countries such as China and India where once again we are witnessing a massive influx of rural people into urban areas and where economic growth can appear to be at the expense of human and environmental well-being.

One of the most significant aspects in the evolution and development of the modern corporation is the emergence of the legal construct of limited liability: the system by which shareholders in a company are not liable for its debts beyond the nominal value of their shares. Limited liability is central to the corporations' ability to raise capital, create jobs, pay taxes, and generate wealth as well as its ability to downsize, file for bankruptcy, and distribute the entity's assets and earnings.

As corporations' increasingly amassed wealth, power and influence, legitimate concerns began to be raised about their growing strength. The civil philanthropy by Carnegie and others did not ameliorate these growing concerns. The International Labor Organization, founded in 1919 as part of the League of Nations, brought together government, business, and trade unions, and explicitly recognized the dangers of an unjust political or economic order. Business leaders were forced to consider the impact their activities had on wider society, and by the end of the First World War, a number of leading companies were engaged in what became known as "New Capitalism" (McQuaid 1977), founded on the idea that the company should voluntarily take steps to portray itself and its activities as beneficial to society at large. However, during the Great Depression, when corporate greed was blamed as one of the possible causes of the 1929 Wall Street Crash, voluntary constraints on business behavior did not prevent government intervention, and in 1934, US President Franklin D. Roosevelt initiated the New Deal, a series of measures which were in part designed to enhance government oversight and limit the power of corporations.

After the Second World War, the idea that business best served the public good if it was state controlled took hold in much of western Europe, Indonesia, India, and in the Eastern bloc of communist countries where private enterprise was outlawed. In the US, a seemingly spontaneous interplay between business and society emerged, which at the time was seen as a debate over how much of its power business would cede to wider society (Frederick 2006).

This questioning of businesses' role in society represented a significant shift in thinking from the previous era when it was assumed business best benefited others by being left largely to its own devices. The emerging welfare state was primarily concerned with a more equitable distribution of the benefits of economic prosperity. Distribution was the responsibility of government, and the primary role of business was to create jobs, obey the law, and pay taxes.

Moving into the mid and late twentieth century, geographical barriers became less relevant as a result of technological innovation, especially in transportation and communications, inaugurating the contemporary era of globalization. Particularly notable are a number of policy shifts that have allowed international trade to flourish to a degree not seen since the First World War, and that ultimately stimulated new thinking about the business–society relationship.

Trade is a basic human activity, though it has not exclusively been focused on generating profits for the participants. The idea that trade is synonymous with profit seems to be culturally specific. In the highlands of Papua, for instance, the purpose of trade is to extend one's network of social relationships, and wealth is less important than creating alliances (Koch 1974). Contrast this with capitalist society where often what we value most is the accumulation of wealth, and where, unless things go wrong, we feel we have no further obligation to the trading partner (Gregory 1982).[7]

Within modern economies, different types of political systems still affect the form business takes. For example, Gilpin and Gilpin (1987) set out three ideologies of political economy: the liberal model based on notions of individual equality and liberty;

the nationalist/mercantile model where economic activities are subordinated to the goals of the state; and the Marxist model where investment and enterprise is controlled by the state. Generally, positions taken on corporate responsibility can be traced back to one of these ideologies, or at least their general underlying assumptions.

Some have attempted to examine corporate responsibility from a religious perspective (Jones 1995; Hebrew Union College-Jewish Institute of Religion 1980; Kaminsky 1995). Religion was depicted by Weber as playing an important role in the shaping of economic systems, and he argued that the values of Protestantism, in particular, explain why capitalism took hold in some societies rather than others (Weber *et al.* 1992). It is certainly true that many successful Victorian enterprises sprang from the relatively small Quaker and Calvinist communities, which emphasized the connection between work and religious belief.

In modern capitalist societies, it is common to look at society through the lens of economics. While economic well-being might be a major factor in the lives of society's inhabitants, one might question the viability of such a unitary view. Can the societal well-being be viewed as synonymous with economic well-being? Can free and unencumbered markets be trusted to produce a just, sustainable society, or do markets need regulating by other institutions? Can the totality of corporations' responsibilities be discerned through an economic calculus, or is a richer, more inclusive perspective needed?

Addressing such questions requires us to consider the nature of the economy and economic decision making. How we view markets in terms of their contribution to the public good is central to our conceptualization of corporate responsibility. If we believe, as purported by neoclassical economic theory, that the highest possible good of society is created by letting the market function without external intervention, then major areas of corporate responsibility should be rejected as unwarranted interference (e.g. attempts to set a fair and/or minimum wage, limit overtime, or enact environmental legislation). However, if we are uncertain about markets acting as the main arbiter of the public good, corporate responsibility requires the active involvement of government as well as civil society in order to overcome the deficiencies of a unitary economic perspective.

## Theories of corporate responsibility

Much of contemporary corporate responsibility is distinguished from corporate philanthropy in that corporations today are becoming involved in programs which, rather than just giving back to the community, affect core management practices. What is more, these programs are not necessarily legally required. The use of a company's assets for purposes that do not maximize shareholder value makes corporate responsibility a target for some liberal economists and raises questions about the fiduciary duty of managers.

Davis (1973) was one of the first corporate responsibility theorists to argue that social responsibility was more than the acts of individuals and that corporate responsibility should refer to the company as an institution. The shift in focus from the individual to the company led to a new discussion of responsibilities. Corporate responsibility was seen by some as a way of utilizing company resources for broad social ends rather than serving narrow private interests (Frederick 1960, cited in Carroll 1999: 271). In addition to linking responsibility to power, Davis himself held that the social responsibility of business demanded that companies should be open to public input and scrutiny, that social costs and benefits should be factored into their business decisions and also priced into products, and where it has the necessary competencies, the company as a citizen should be involved in social affairs (Birch 2003: 7–8).

The Committee for Economic Development, comprising US corporate leaders, identified three concentric circles of responsibility: creating products, jobs and economic growth; sensitivity to changing social values; and emerging responsibilities such as poverty and urban blight (Carroll 1999: 278). These circles embrace both core business activity and how the company manages its relationship with society more widely, but again the emphasis is on voluntary actions. In no case is the company required to be accountable for failing to carry out these responsibilities.

Viewing corporate responsibility as voluntary does little to articulate that for which business should take responsibility. Carroll's multi-dimensional model of corporate responsibility makes clear important principles and spheres of responsibility (i.e. economic, legal, ethical, and discretionary responsibilities). Its strength is that it draws together different types of responsibility that has tended to be treated as mutually exclusive or otherwise problematic.

The idea that business has responsibility to a variety of stakeholders has been an important element of corporate responsibility theory (Preston and Post 1975). Stakeholder theory suggests a way of explaining why and with whom corporations should engage, based on the notion that many people have a stake in the corporation, and that in order for a corporate to effectively achieve its objectives, all must be considered. Stakeholder theory promises a way for companies to learn what is needed to establish and maintain what Donaldson and Dunfee (1999) term a "license to operate": the idea that business requires the approval of others in society in order to function effectively.

The license to operate is central to legitimacy theory, and posits that an organization can only continue to exist where its core values are aligned with the core values of the society in which it operates. Legitimacy theory offers a method of managing stakeholders in the face of various threats through, for example, educating them about the company's intentions, changing their perceptions of events, diverting their attention, and altering their expectations (Lindblom 1984 cited in Deegan and Unerman 2006).

Early corporate responsibility theory was primarily concerned with the normative behavior of companies, but since the 1970s there has been at least equal emphasis given to corporate responsibility as management practice (Tinker 1985; Sethi 1975; Wartick and Cochran 1985). For example, Ackerman and Bauer's (1976) theory of "corporate social responsiveness" put the emphasis on what companies *can* do to respond to societal expectations (i.e. capacity), in contrast to more theoretical ideas of what they *should* do.

For John Locke, the rights that need to be upheld by government as part of the social contract are those he regarded as the natural rights of life, freedom, and property. These are still amongst the fundamental rights in western democracies, treated as inalienable entitlements to be respected and protected at all times (Crane and Matten 2003: 89). In corporate responsibility not only is it far from clear what rights business should uphold, but if social contract theory is its base, then companies may be under little obligation to engage with society except in respect of upholding the values of life, liberty, and property (Moon *et al.* 2005).

Since the eighteenth century, there have been two main strands of ethical theory in the western world: consequentialism and non-consequentialism. Consequentialism refers to theories of ethics that assess right and wrong in terms of the consequences of actions. Many notions about the business–society relationship reflect utilitarianism, which refers to the capacity of actions to achieve beneficial outcomes. In a utilitarian theory of justice, actions are not good or bad in themselves, but only in terms of what they bring about. A good act is, therefore, one that maximizes net utility and/or minimizes net disutility, not in individual terms but the total sum of societal utility that will result in a surplus of pleasure over pain. Thus, in the context of corporate responsibility, it is the aggregate benefit of a company's actions that matters rather than any detriment to particular individuals or entities.

The apparent claim that the good of the majority can be used to justify considerable harm to others is rejected by non-consequentialist philosophers such as Kant and Rawls. They hold that for an action to be ethical requires a motive beyond self-interest and mutual advantage, and that justice is something contained within an action itself, not in its consequences (Sorell and Hendry 1994: 34).

Utilitarianism was a significant influence in shaping the European welfare state with its focus on social safety nets, and it is evident in areas of corporate responsibility such as labor standards that define outcomes intended to benefit the majority of workers. Rawls argued for a strong role for government as the primary way to ensure fair distribution. Nozick (1974) argued that Rawls was wrong about distributive justice because he looked at outcomes (the patterns of distribution over time), rather than examining if the transactions that led to these outcomes were just. For Nozick, under his "entitlement theory of justice," the distribution of holdings in a society is just if all are entitled to what they have.

Part of the liberal tradition has treated companies as citizens, and thus Nozick (1974) argued for limited government interference. From this perspective, corporate responsibility can be seen either as an unwarranted intrusion into the rights of corporate citizens, or as a way of reducing government interference by offering a voluntary means to prevent companies intruding on the entitlements of others. Equally, building on the Rawlsian tradition, corporate responsibility can be viewed as a way to harness the resources of business to achieve social justice.

## The current state of corporate responsibility[8]

Blowfield and Murray (2008) identify five aspects of corporate responsibility. The first concerns issues that have broad social and environmental implications such as global warming, human rights, economic growth, and poverty reduction. Here, the corporation is part of a requisite coalition of government and civil society as well as education and other social institutions. A second dimension concerns the possible economic benefits related to social and environmental performance. A third area concerns business attitudes, awareness, and practices as they relate to the way corporations contemplate their nonfinancial operations. The fourth aspect considers the implications of corporate actions on nonbusiness stakeholders, and the fifth aspect concerns how the heightened awareness of corporate responsibility as it grows and evolves affects how all segments of society think about and practice corporate responsibility.

From an extensive review of the available literature and published reports, Blowfield and Murray (2008) conclude that though many claims are made about how corporate responsibility can help business have a positive impact through its social, environmental, and economic performance, there is little data that confirms these claims. The extant studies evidence a plethora of outcome measures, levels, and categories with a bias toward the financial dimensions, which has a tendency to divert attention away from addressing the social and environmental implications and to discourage consideration of socially or environmentally beneficial projects with inferior financial outcomes.

Another problem with the current state of corporate responsibility is the inability to access actual outcomes that follow from responsible practices. For example, companies may have in place environmental policies or be committed to international standards on corruption, but the actual outcome of these actions is often not known. As noted earlier, environmental issues tend to be more readily applicable to modeling and measurement. However, there is no clear consensus as to acceptable performance levels or how to appropriately access local, regional, and biospheric implications especially when multi-entities are involved. Critics suggest that because of the problems with acquiring timely, relevant and accurate information, corporate responsibility does not represent a viable means for ameliorating the adverse social and environmental consequences of modern business. As a result, pressure is growing for corporations to develop more rigorous social and environmental management practices and to develop the measurement and evaluation systems to implement and manage these extended practices.

## Where do we want to go?[9]

The questions raised are at the heart of corporate responsibility today. Is capitalism able to cure the ills inherent in capitalism? Are social and environmental goals at odds with financial ones, or is there a strong business case to be made for acting responsibly? Is business able to take responsibility for non-financial objectives, and if so is this desirable? Does business have any choice but to consider its footprint on society given that it has to comply not only with formal regulation, but the non-formal regulation imposed by civil society? Should business be held to account for areas of non-financial performance, and if so how and by whom? These are serious and unresolved issues that relate explicitly to implementing an ethic of accountability. While part of the corporate responsibility field has a vibrant, functionally oriented focus on crafting tools to enable companies to manage issues as diverse as human rights, eco-efficiency, and corruption, there is another part where the purpose and future direction of corporate responsibility are the main concerns.

What are possible future directions for corporate responsibility? Will it contribute or exacerbate society's problems? What parts of the current corporate responsibility agenda should we pursue? What new initiatives deserve attention? What changes, if any, are needed in the conceptualization of corporate responsibility? Should it evolve and transform into a different manifestation? Some see a new confidence that is leading to grander transformations than previously imagined; some feel disillusionment; others again view this moment as a turning point from which corporate responsibility could venture off into a number of quite different directions.[10]

Hopefully, one of our objectives in this undertaking is to consider possible future directions and applications of corporate responsibility. The debates generally are grounded in the underlying philosophical views with respect to the efficacy of markets in containing excesses, valuing resources, and allocating wealth. We must be imaginative as we question these positions, modify them, or conceive of new paradigms for business and society. New thinking will be required as we consider corporations' responsibility in critical global issues such as climate change, increasing world human population and dislocation, and not unrelatedly, global poverty. For what are corporations responsible and how might they contribute to solutions?

We are confronted with the question of whether the increasing corporate power is contrary to the common good. For example, do corporations exert undue and self-serving political influence, and as a result, avoid their social responsibilities? A primary example of such a contested terrain is the area of taxation. On the other hand, the increase in the influence of the capital markets' demand for immediate returns forces corporations into short-term decision horizons focused primarily on financial returns. What is the effect of corporate responsibility on other business entities such as small and medium size (SME) organizations? On one hand, are SMEs in a better position to be more socially and environmentally responsible, or will the increased responsibilities render the SMEs financially unable to compete?

Once we decide what corporate responsibility is and to whom it applies, we must then implement it. Currently, this seems to fall under the general rubric of corporate governance. Rightly or not, we seem to have invested a good deal of time and energy in corporate reporting. The objective should be transparency and understandability through the public reporting of timely and relevant information. Part of the challenge is determining to whom the corporation is responsible and how to include the different constituencies in the governance process.