

# Corporate Social Responsibility: A Socio-Economic Theory, Framework, And Model

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## EXECUTIVE SUMMARY

*Corporate social responsibility is a growing trend amongst national and transnational corporations. The approach of corporate social responsibility is independent, with self-guiding methodology, and reporting. Those who operate ethical companies reap economic benefits (Fifka, 2011). This paper proposes a new theory and model that fosters corporate societal and environmental responsibility, transparent business practices, and accountability that leads to gaining the competitive advantage.*

Keywords: Corporate Social Responsibility, CSR, Ethical Business Practices, Transparent Communication, CSR Theories

## PURPOSE

The purpose of this paper is to analyze the competitive advancement opportunities corporate social responsibility offers. The study examined current prevalent theories, the meaning of corporate social responsibility, and the framework corporations incorporate in their business model. I will attempt to refine the meaning of corporate social responsibility for communities, corporations, and consumers by identifying an alternative theory, framework, and model that improves social good and increases corporate revenue. I propose a variety of insights that assist consumers, professionals, policy makers, and educators with understanding the challenges and successes related to corporate social responsibility.

## INTRODUCTION

Global communities value corporate social responsibility. Corporate social responsibility (CSR) is defined as a company's sense of responsibility towards the community and environment (both ecological and social) in which it operates (Business Dictionary, 2016). CSR is greatly impacted by the ethics and values of the corporate culture and its relative community. Corporations that rollout CSR initiatives which are built using human ethics as a foundation, provide sustainable solutions to sound business practices which may result in higher revenue and risk management loss reduction. Successful companies governed by professionals with ethically rooted principles raise the standard of CSR and business policies (Kolk & van Tudler, 2010).

While corporations have personhood status, members of the senior management team, shareholders, or board of directors govern the firm. Identifying who is best equipped, corporate personhoods or corporate members, to uphold ethical business decision-making, CSR, and accountability could align the corporate environment with its value statements. Competitiveness is key to success and CSR is proving to be a valuable component in the overall strategic plan.

## CORPORATE SOCIAL RESPONSIBILITY

### Consumer Access to Corporate Reports

Many senior management professionals are creating integrated reports consisting of an annual and sustainability, another term used for social responsibility, report. Sustainability reporting is relatively new but is becoming a mainstream practice (Junior, Best, & Cotter, 2013). Historically, businesses distributed annual reports to shareholders or board of directors. What occurs within corporate boardrooms has been a long-standing concern for consumers and corporations are now responding. More businesses are providing consumer access to their annual and sustainability reports (Earnest and Young Global Limited, 2014). While this appears to be bridging communication gaps, it also appears to be cultivating companies to participate in corporate socially responsible practices.

A sustainability report attempts to increase transparency and accountability to stakeholders while bridging the information gap in traditional annual reports (Ball, Simoes, & Machas, 2004). Consumer accessibility of corporations' annual and sustainability reports is increasing. Businesses with thoroughly integrated transparent ethical principles and standards could persuade consumer decisions.

### Advantages of Corporate Ethical Principles and Consumer Transparency

Consumer focused companies have the potential to push competitors out of the market (Treacy & Wiersema, 1993). Companies with value-based decision-making behavior and consumer transparency commonly sustain high levels of customer loyalty, consumer trust, and long term success (Ball, Simoes, & Machas, 2004). Corporate agents taking an active role in creating, implementing, and upholding CSR are setting best standards for global businesses (Ball, Simoes, & Machas, 2004).

### Risks Associated with Unethical Corporate Behavior

Corporations which actively employ members that engage and support unethical decisions put themselves and the corporation at legal risk. They also underestimate the power of consumers. Ethical consumerism campaigns could result in serious financial losses, harm consumer trust and loyalty, and permanently tarnish a corporation's image. Lack of consumer confidence can have a negative impact on net gains for years to come and can potentially remove a company from the market.

Nike is one example of how influential ethical consumerism campaigns can be. Nike denied responsibility for malpractice occurring in multiple international sub-contractors' factories. The student initiated campaign grabbed the attention of the world, and the United States Department of Labor. The campaign publicly held Nike accountable. When consumer's learned of Nike's unethical practices, Nike's sales dramatically dropped. Nike was sued for labor malpractice and lost. The downfall of Nike's corporate image, legal fees, and loss of consumer sales significantly hit their bottom line (Birch, 2012) (Girion, 2013). Nike now practices ethical decision-making and publishes factory inspection reports which are accessible on the Fair Labor Association's website (Birch, 2012).

## CONSUMER SOCIAL RESPONSIBILITY THEORIES

### Prevalent CSR Theories

CSR has several definitions, varying initiatives, and self-governing policies. Incorporating CSR into a business model while self-regulating, does not necessary cultivate social good, transparency, or foster accountability. It appears at times CSR is being used as a marketing tool linked to profit increase (Perella, 2015). CSR has proved challenging to define because there is no accepted definition. The four most prevalent theories are built on corporate ethics, not human ethics, with a goal to increase financial gain. According to a recently published article in the *Journal of Business and Ethics*, the four theories and related approaches most commonly used are:

- 1) instrumental theories, in which the corporation is seen as only an instrument for wealth creation, and its social activities are only a means to achieve economic results;
- (2) political theories, which concern

themselves with the power of corporations in society and a responsible use of this power in the political arena; (3) integrative theories, in which the corporation is focused on the satisfaction of social demands; and (4) ethical theories, based on ethical responsibilities of corporations to society in an effort to increase wealth (Garriga & Mele, 2004).

### **Alternative CSR Theory, Framework and Model**

Based on my research, the results indicate an alternative CSR theory could provide clarity, global adaptation, uniformity, and regulation while doing social good and a direct link to profit increases. My proposed theory, *The Theory of Four*, suggests corporations implement and abide by a standard CSR foundation by which all other initiatives derive from. The proposed foundation utilizes four fundamental ethical human principles: 1) respect for autonomy, 2) beneficence, 3) nonmaleficence (one who does not intend harm), and 4) justice (Gracyk, 2012). Once the foundation is in place, corporations could successfully develop employee, consumer, and community specific initiatives in which all benefit, including the corporation. *A Theory of Four's* framework model can be found in Table 1. Corporations could successfully integrate *The Theory of Four* into consumer and supplier marketing campaigns, reaching untapped markets, strengthening consumer loyalty, and identifying prospective suppliers with shared values.

To improve transparency and accountability, corporations would invite a select number of volunteer consumers and community members to attend quarterly board meetings. All employees of the company are accountable, as each employee is an agent of the corporation. Members of the corporation would vet board and volunteers' feedback, and if applicable, strategically implement it into practice. International Standard Organization, or an equivalent agency, could foster and cultivate standardization by requiring *The Theory of Four's* foundational model be implemented and upheld by approved ISO organizations.

**Table 1**

<u>CSR Foundation</u>	<u>Objective</u>	<u>Assessment</u>	<u>Goals and Deliverables</u>
Respect for autonomy	Honesty. Fulfill promises.	Transparent and open financial and CSR reporting to board members, community, consumers, and regulatory organizations and agencies.	Goals Results
Beneficence	Bring good in all decisions and actions, even when not mandated by social/cultural norms or laws.	Practice ethical decision-making. Train and coach employees to uphold CSR foundation. Apply the higher standard of law or ethics.	Goals Results
Nonmaleficence	An obligation to avoid all forms of harm.  If avoidance is impossible, minimize harm.  Do not increase the risk to harm others.  Avoid wasting resources.	Intentions align with stated goals. Apply highest level of safety standards.  Incorporate whistleblower policies.  Assist employees and community members with professional growth.  Participate in community events.  Promote and assist with keeping communities safe, healthy, and thriving.	Goals Results
Justice	Work to assist those who are unfairly treated.  All people are treated fair, equal, and impartial.	Hire and train a diverse staff.  Listen and respond to consumer, agency, and/or community feedback.  Abide by and enforce all labor laws.  Create a bully free workplace.  Create anti-discrimination and anti-sexual harassment policies.  Hold employees accountable.  Donate to charities and consumers.  Provide equal access to products and/or services.	Goals Results

## CONCLUSION

Corporate Social Responsibility is not an altruistic act that results with a negative impact on a corporation's profit. Findings indicate CSR increases revenue through consumer-base expansion and consumer loyalty (Perella, 2015). Ethical, transparent practices, and open communication results in consumer trust, loyalty, and patronage (The Kelley Group, ND). Implementing *The Theory of Four* fosters a CSR universal standard foundation by which all other initiatives derive from. *The Theory of Four* model improves transparency and accountability by inviting volunteer consumers and community members to attend quarterly board meetings and provide feedback. Providing a clear CSR foundation fosters employee knowledge and cultivates commitment. Corporations rely on its agents to act on its behalf. Hiring talent with ethical decision-making history will streamline the accountability method and reduce risk and loss. Companies reap economic benefits when ethical decision-making is enforced. Participating in the well-being of society could give the competitive advantage every corporation desires.

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