

Is Sustainability Sustainable? Issues of Corporate Social Responsibility and Human Rights Sustainability in Modern Business.

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ABSTRACT

The idea of corporate social responsibility is relatively new to the business world, and because of this the study of the concept is not fully developed and the understanding of the motivations behind corporate social responsibility is limited. This paper explains the prevailing theories behind corporate social responsibility, the steps companies take in developing social programs, the costs of not having these programs, and the implications that the idea of corporate social responsibility has had on human rights sustainability. The research of corporate social responsibility has been limited because of the difficulty of creating a study that accurately reflects consumer reactions given a set of complex circumstances. An original survey showed that local consumers have widely varied opinions on the concepts related to corporate social responsibility. Brief case studies within the paper illustrate the real life examples of The Gap and Nike.

INTRODUCTION

Beginning in the early 1990's global companies began to make a push towards social justice within their supply chains (Potter and Sine 183). Since then there has been increasing recognition that corporate social responsibility and human rights are of major importance to corporations (Raman 104). Whether for altruistic reasons or economic motives, these topics are gaining attention in the business world. But the question must be asked: Is sustainability sustainable? There is an ongoing debate over whether or not corporate culture should be responsible for human rights. Even amongst those who believe there is a place for human rights in business there is disagreement over whether corporate motives are the result of a desire for profits or a need to be moral. One thing is certain, even during the recession, there has been increasing attention paid to social justice programs (Skapinker 12).

The purpose of this paper is to explore corporate motives for human rights considerations. It will describe the arguments for and against corporate social responsibility. There will be an exploration of the studies that have been conducted on consumer attitudes. Within the text there are also charts that are taken from an original survey conducted on UW-L students in April of 2011. The survey findings are used throughout to give support to the topics, and full information about the survey can be found in the appendix. The intention of the survey was to draw general conclusions about consumer opinions. It is a starting point for research in the area of corporate social responsibility, which is still in its infancy and lacks a well defined framework.

There are also brief case studies which illustrate real life examples that relate to the paper's themes. The paper will begin by explaining the two prevailing theories in regards to corporate motives as they relate to social responsibility.

The topic of corporate social responsibility is so new to the business world that defining it and determining what impacts it will have on business requires the amalgamation of many sources. This paper seeks to describe the major themes of corporate social responsibility today so that there will be a better understanding of this school of thought, which will certainly evolve and remain an important concept in the years to come. By outlining the current knowledge in the area this paper is intended to build a foundation, which will be expanded as the study of corporate social responsibility increases and its importance to business is more thoroughly realized.

CORPORATE MOTIVATIONS

There are two popular theories that are commonly used to describe the motivations that have driven an increasing push for social programs (Freeman and Harrison 479-80). The stakeholder commitment argument holds that social programs are motivated by moral norms. The shareholder management argument says the motivations are

derived from the desire to profit. Understanding these frames of reference is critical to the understanding of corporate social responsibility.

Stakeholder Commitment Theory

The stakeholder commitment theory relies on the idea that corporations have a moral commitment to their stakeholders (Freeman and Harrison 480). Stakeholder, in this context, refers to any person or entity that will be affected by the actions of the corporation. Those that view corporate social responsibility through the lens of the stakeholder commitment model believe that these programs are the result of voluntary actions. They feel that corporations are not motivated entirely by the desire to profit (Wettstein 131).

These voluntary actions can be clarified as actions that are proactive and go beyond the requirements of laws and the responsibility to the shareholders (Wettstein 130). The consideration given to a group of stakeholders is often dependent on three factors: their power, their legitimacy, and their urgency (Freeman and Harrison 480).

The stakeholder commitment theory implies that a corporation can be moral without the consideration of profit. Under this theory, a corporation might implement a social program that would not result in a significant return on the investment for that program. Critics argue that because corporations are not human, they cannot possess morals. Critics of the stakeholder commitment theory do, however, often concede that private companies who do not have a responsibility to the shareholder have more freedom to be moral (Karnani 3). The stakeholder commitment theory exists in contrast to the other popular theory regarding corporate motivations: the shareholder management theory.

Shareholder Management Theory

The shareholder management theory holds that the one and only purpose of a business is to generate a profit (Freeman and Harrison 480). Supporters of the shareholder management theory believe that the maximization of a profit is not only the foremost concern, but the only concern. This seems to ignore entirely the consideration for human rights, but the theory does not ignore human rights. Failure to do business in an ethical way often comes with great costs, and so shareholder driven firms will implement corporate social responsibility programs when it would be more profitable to do so. They are also likely to engage in activities that improve human rights sustainability, but only because they realize that without consumers to make purchases they will be unable to generate future profits.

Under this theory any activities that do not enhance the bottom line should not and will not be undertaken. There is no room for moral objectivity. The shareholder management theory provides that companies are interested in benefitting society only in the case that it will also benefit them (Karnani 2-3). Proponents of this viewpoint would say that companies that seem to be highly concerned with social welfare are not. This is not to say that they are not contributing positively to social performance, only that contributing to social performance was not their primary motive.

Shareholder management advocates would say that appealing to a corporation's morals will always be ineffective because a business does not have morals. The only effective appeals are appeals to profits (Karnani 3).

Proponents of the shareholder management theory often advocate highly for government regulation of social issues (Karnani 5). If the government increases the costs of irresponsible social policies enough then corporations will have no choice to be more responsible, lest they break their obligation to their shareholders.

TAKING STEPS TOWARDS SOCIAL JUSTICE

Many corporations initially claim that the responsibility to protect human rights is not within their scope of business, while others simply reject the idea that there are human rights problems. The denial of responsibilities and claims of ignorance have lessened as civil society has taken notice of social justice issues (Micheletti and Stolle 161). Some business experts have attempted to define the process that corporations take to become responsible.

In the Harvard Business Review article "The Path to Corporate Responsibility" author Simon Zadek describes five stages that he claims are characteristic of an organization's development of corporate social responsibility (126-7). The stages are defensive, compliance, managerial, strategic, and civil. In the defensive stage the organization denies that human rights issues pertain to them. In the second stage, called compliance, they begin to change policies to reduce the economic risks that are characteristic of poor social programs. In the managerial stage the organization takes steps to embed moral ideals into their culture so that they can achieve a long term solution to social issues. In the fourth stage, known as the strategic stage, the organization utilizes social issues to gain a competitive advantage over their competition. The last stage, civil, marks a move beyond the walls of the organization to work towards implementing social programs industry wide.

Gap Inc. Capitalizes on Corporate Social Responsibility

In 2010 Gap was once again recognized as one of the most ethical corporations (CSR Wire). The group Ethisphere, which considers countless businesses in many countries, gave accolades to Gap for its wide range of corporate social responsibility programs. Gap has made social responsibility part of their culture and has used it to gain a distinct competitive advantage. Gap has created programs that are intended to make morals part of the corporate culture. One such program awards grants and paid time off to select employees that have showed exemplary devotion to community service. Another program that has helped Gap to position itself as one of the best corporate citizens is its “red” campaign. Gap donates 50% of profits from clothes designated by the “red” label to a global fund for AIDs. These programs illustrate the movement through Zadek’s stage three (managerial) and four (strategic) of organizational learning (127).

Figure 1. Cases in Corporate Social Responsibility

The stages identified by Zadek closely mirror the stages of responsibility identified within the United Nations Global Compact¹ by Tavis and Tavis in their book *Values Based Global Management* (159-60). The three levels of corporate responsibility acceptance that they develop include the duties to avoid depriving, the duties to protect from depriving, and the duties to aid the deprived. The duty to avoid depriving means that a corporation should not profit at the expense of a person. The duty to protect from depriving includes the responsibility of developing social institutions and the responsibility of removing incentives to deprive. The duty to aid the deprived includes correcting for past abuses by assisting those that have been affected.

Understanding the steps that need to be taken to implement effective social justice programs is crucial for executives that would like to see change within their corporation. Failure to change can have large, negative, implications for a corporation.

EXPENSES OF POOR CORPORATE SOCIAL RESPONSIBILITY

Being complicit in human rights violations is often extremely expensive for corporations (Potter and Sine 183). The cost of social injustices can result from numerous factors, both direct and indirect. These costs can arise because of poor consumer perceptions, consumer boycotts, lawsuits, or fines. Increasing mobilization of consumers and consumer groups has amplified the costs of poor ethics, even if specific laws are not broken.

Consumers are more likely now than in the past to see sweatshops and other social injustices as morally wrong (Micheletti and Stolle 165-8). More consumers are also associating these injustices with “greedy” corporations and viewing positive social programs as a responsibility of doing business. There is also increasing awareness that there are gaps in laws and that legislation alone is not enough to ensure social justice.

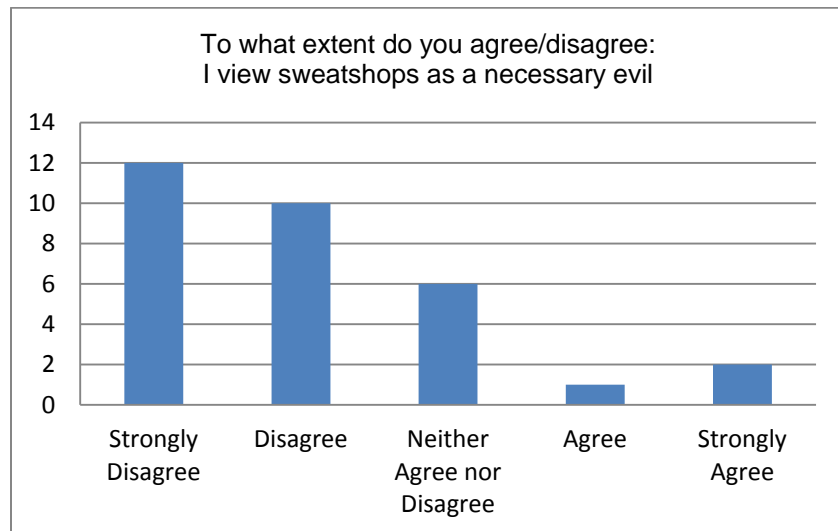


Figure 2. Sweatshops may not violate local laws, but consumers are becoming more aware of human rights issues such as poor working conditions.

Consumers are more willing to punish companies that are not ethical than they are to reward companies that are ethical (Cotte and Trudel 62). A study published by the MIT Sloan Management Review showed that consumers would be willing to pay a slight premium for products that were ethically produced. More importantly, the study showed that consumers would be unwilling to purchase products that they saw as unethical unless the price was severely discounted.

This study shows that there are incentives for businesses to create a positive ethical reputation (Cotte and Trudel 62-7). For corporations, the biggest lesson is that consumers' willingness to pay for a product is not highly dependent on the "ethicalness" of a product, as long as it was not perceived as unethical. For instance, a consumer would probably not be willing to pay much more for a coffee product that was 100% fair trade than one that was just 50% fair trade. However, there would likely be a large disparity between the price they would pay for a coffee product that was 50% fair trade and one that they thought utilized unfair working conditions.

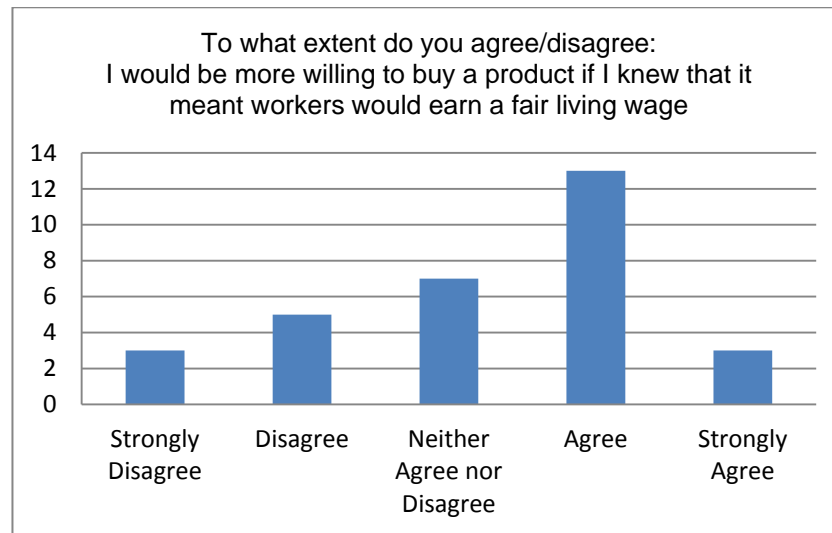


Figure 3. Studies have shown that consumers will alter their spending habits when they perceive that there is an ethical element to their choice.

Decreased willingness to purchase is not the only result of perceived ethical violations. Campaigns have proven an effective way for consumers to create change within corporations (Micheletti and Stolle 168-70). There are two types of campaigns that are typically used by consumers. The episodic campaign focuses on one issue that has moved consumers to take action. Episodic campaigns often call for consumers to immediately take a particular action. For example, consumers might be called on to boycott a product that was made with child labor. Though episodic campaigns are often effective, critics argue that the change is not sustainable. The second type of campaign is the thematic campaign. Thematic campaigns are created with the purpose of exposing a broad problem in a larger context. For example, a thematic campaign might seek to educate consumers about child labor and to motivate consumers to demand industry-wide standards.

Nike’s Utilization of Sweatshop Labor Causes Public Uproar

In the 1990’s Nike was seized by an intensive campaign launched by activists who exposed the corporation’s use of sweatshop labor in their supply chain (Just Stop It). The athletic company was publicly slammed for utilizing non-union labor in Indonesia, Vietnam, and China. The workers in factories that manufactured Nike products allegedly worked long hours, for little pay, under harsh conditions. Nike was zeroed in on largely because it was seen as a high profile target, though working conditions at Nike factories were likely no worse than in its competitors’ factories (Zadek 128). Nike first took a position of denial, but soon realized that it would quickly need to address the problems. Today their social plans and commitment to self-regulation are among the best of any corporation. This is an example where an episodic campaign against social injustice resulted in momentous changes, not only to Nike, but to the industry. Nike’s work programs are now an asset instead of a liability. Nike’s lesson should serve as an example to other corporations who are going through the process of implementing social responsibility plans.

Figure 4. Cases in Corporate Social Responsibility

The process of describing consumers’ spending habits in relation to the perceived ethicalness of a company is further complicated because the economic situation of any particular consumer tends to have a large impact on those spending habits (Freeman and Harrison 480). Consumers tend to be more sensitive to social performance when they have better economic security. This behavior is legitimized by Maslow’s Hierarchal Model. Consumers that are struggling economically are more likely concerned with lower level needs such as satisfying their need for food and shelter. Consumers that can fulfill those needs can begin to focus on the altruistic principles that characterize the higher levels of Maslow’s model. One of these altruistic characteristics is concern for fellow human beings.

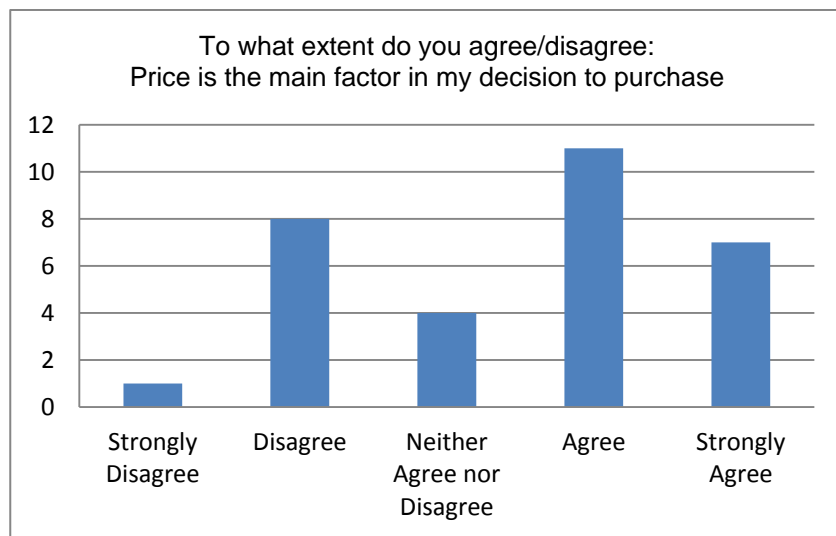


Figure 5. Those who responded that price was the main factor in the decision to purchase may be less concerned with social performance.

STUDYING CORPORATE SOCIAL RESPONSIBILITY

Though corporate social responsibility is not a new concept, it is only recently that there have been wide attempts to study it (Freeman and Harrison 479). Many researchers have tried to describe the relationship between corporate economics and social issues with mixed results. This area of study is so new that there is little framework on which to build. The problems with the research include, but are not limited to, the uncertainty of what information to study, the lack of easily accessible information about social performance, and the many variables that exist. For corporations attempting to develop their own social justice programs, overcoming these obstacles so they can better research consumers is critical.

Case studies are one of the primary methods of studying social issues relating to business (Freeman and Harrison 482). Case studies, in which one firm is studied over time, have proved somewhat successful because they

are often based on reliable sources of information. Because there are less variables studied it is easier to prove causal relationships. Case studies have gained importance as a method of developing a framework for future, non case study, research. The area in which many case studies fail is that the trends seen are not always generalizable to the larger population. The motives behind social programs in the company studied, for instance, might not truly represent the motives of other companies not included in the study.

Another type of study that is typically used to attempt to describe social issues is the event study (Freeman and Harrison 482-3). An event study often looks at a widely reported event (one that consumers are likely to be aware of) and then studies the aftereffects on stock prices. The purpose of event studies is to show how consumer attitudes are shaped by social issues in the media. For instance, an apparel manufacturer might be accused publicly of utilizing sweatshop labor, and the changes in stock prices are used to describe the consumer reaction. The fundamental flaw with this type of study is that stock prices are not necessarily an accurate predictor of consumer attitudes. Investors, who control stock prices, are not consumer behavior experts and so the stock prices may not reflect actual attitudes. The other problem is that stock prices represent a short-term “gut reaction” that do not take into account the long-term impact (on consumer attitudes) of a particular event.

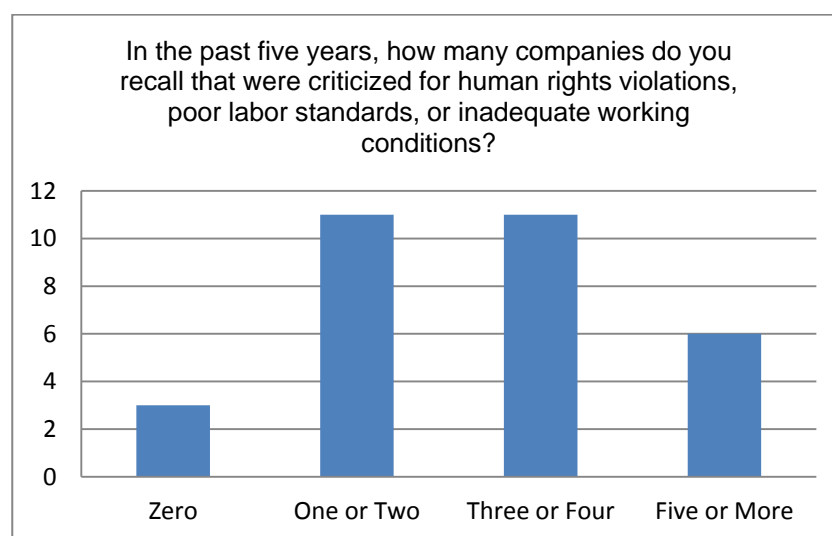


Figure 6. Event studies attempt to describe consumer reactions to media coverage of specific events. Consumer attitudes are highly shaped by exposure to news about social injustices.

CONCLUSION

Social performance is increasingly entering the minds of consumers during the decision to purchase (Freeman and Harrison 479). The anti-sweatshop movement in the 1990’s marked the beginning of an era of increased concern for social causes (Micheletti and Stolle 162). This was sparked by a multitude of factors, including the raids of sweatshop factories in California. The movement has gained momentum as transparency continues to increase. With growing access to information on the internet and mobile devices corporations are being watched at all times. This is just one example of the ways that technology has had the effect of increasing consumer awareness. It is no longer a possibility to sweep human rights violations under the rug.

Consumer attitudes have changed so much that corporations are now essentially required to adopt corporate social responsibility programs of some kind to remain viable. The corporations that lead in this era of social sustainability will be the one who don’t just do the minimum, but use corporate social responsibility to create a competitive advantage.

NOTES

1. The United Nations Global Compact is a document drafted by the United Nations and signed into effect on July 26, 2000 (Tavis and Tavis 157). It is a non-binding set of principles that was created with the goal of increasing social sustainability within business. Topics it addresses include corruption, labor, the environment, and human rights. It is meant to facilitate a discussion between businesses and to standardize corporate practices.

APPENDIX

In April of 2011 a survey was implemented on the University of Wisconsin-La Crosse campus. The purpose of the survey was to gauge consumer attitudes about corporate social responsibility and social justice. The survey was e-mailed to 400 randomly designated student e-mail accounts and was run using Qualtrics survey software. The survey was meant to reflect consumer attitudes, and the campus environment closely replicates consumer demographics, therefore there was no selection process used.

The contents of the survey included one demographic question (gender), two multiple choice questions, and a section with several statements for participants to agree/ disagree on a five point Likert scale. Thirty-one responses to the survey were received.

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