

## PART I

# Corporate Social Responsibility and Related Terms

Corporate Social Responsibility

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Strategic Corporate Social Responsibility

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Sustainability

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Corporate Accountability

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Corporate Moral Agency

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# CORPORATE SOCIAL RESPONSIBILITY (CSR)

The concept of corporate social responsibility (CSR) refers to the general belief held by many that modern businesses have a responsibility to society that extends beyond the stockholders or investors in the firm. That responsibility, of course, is to make money or profits for the owners. These other societal stakeholders typically include consumers, employees, the community at large, government, and the natural environment. The CSR concept applies to organizations of all sizes, but discussions tend to focus on large organizations because they tend to be more visible and have more power. And, as many have observed, with power comes responsibility.

## DEVELOPMENT OF THE CSR CONCEPT

The concept of CSR has a long and varied history. It is possible to trace evidences of the business community's concern for society for centuries. Formal writings on CSR, or social responsibility (SR), however, are largely a product of the 20th century, especially the past 50 years. In addition, though it is possible to see footprints of CSR thought and practice throughout the world, mostly in developed countries, formal writings have been most evident in the United States, where a sizable body of literature has accumulated. In recent years, the continent of Europe has been captivated with CSR and has been strongly supporting the idea.

A significant challenge is to decide how far back in time we should go to begin discussing the concept of CSR. A good case could be made for about 50 years because so much has occurred during that time that has shaped theory, research, and practice. Using this as a general guideline, it should be noted that references to a concern for SR appeared earlier than this, and especially during the 1930s and 1940s. References from this earlier period worth noting included Chester Barnard's 1938 publication, *The Functions of the Executive*, J. M. Clark's *Social Control of Business* from 1939, and Theodore Kreps's

*Measurement of the Social Performance of Business* from 1940, just to mention a few. From a more practical point of view, it should be noted that as far back as 1946 business executives (the literature called them businessmen in those days) were polled by *Fortune* magazine asking them about their social responsibilities.

In the early writings on CSR, the concept was referred to more often as just SR rather than CSR. This may have been because the age of the modern corporation's prominence and dominance in the business sector had not yet occurred or been noted. The 1953 publication by Howard R. Bowen of his landmark book *Social Responsibilities of the Businessman* is argued by many to mark the beginnings of the modern period of CSR. As the title of Bowen's book suggests, there apparently were no *businesswomen* during this period, or at least they were not acknowledged in formal writings.

Bowen's work proceeded from the belief that the several hundred largest businesses at that time were vital centers of power and decision making and that the actions of these firms touched the lives of citizens at many points. Among the many questions raised by Bowen, one is of special note here. Bowen asked, what responsibilities to society may businessmen reasonably be expected to assume? This question drove much subsequent thought and is still relevant today. Bowen's answer to the question was that businesspeople should assume the responsibility that is desirable in terms of the objectives and values of society. In other words, he was arguing that it is society's expectations that drive the idea of SR.

Bowen went on to argue that CSR or the "social consciousness" of managers implied that businesspeople were responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-and-loss statements. It is fascinating to note that when Bowen referenced the *Fortune* article cited earlier, it reported that 93.5% of the businessmen agreed with this idea of a wider SR. Because of his early and seminal work, Bowen might be called the "father of corporate social responsibility."

If there was scant evidence of CSR definitions in the literature in the 1950s and before, the decade of the 1960s marked a significant growth in attempts to formalize or more accurately state what CSR means. One of the first and most prominent writers in this period to define CSR was Keith Davis, then a professor at Arizona State University, who later extensively wrote about the topic in his business and society textbook, later revisions, and articles. Davis argued that SR refers to the decisions and actions that businesspeople

take for reasons that are at least partially beyond the direct economic or technical interest of the firm.

Davis argued that SR is a nebulous idea that needs to be seen in a managerial context. Furthermore, he asserted that some socially responsible business decisions can be justified by a long, complicated process of reasoning as having a good chance of bringing long-run economic gain to the firm, thus paying it back for its socially responsible outlook. This has often been referred to as the enlightened self-interest justification for CSR. This view became commonly accepted in the late 1970s and 1980s.

Davis became well known for his views on the relationship between SR and business power. He set forth his now-famous *Iron Law of Responsibility*, which held that the social responsibilities of businesspeople needed to be commensurate with their social power. Davis's contributions to early definitions of CSR were so significant that he could well be argued to be the runner-up to Bowen for the "father of CSR" designation.

The CSR concept became a favorite topic in management discussions during the 1970s. One reason for this is because the respected economist Milton Friedman came out against the concept. In a 1970 article for the *New York Times Magazine*, Friedman summarized his position well with its title—"The Social Responsibility of Business Is to Increase Its Profits." For many years since and continuing today, Friedman has maintained his position. In spite of Friedman's classic opposition, the CSR concept has continued to be accepted and has continued to grow.

A landmark contribution to the concept of CSR came from the Committee for Economic Development (CED) in its 1971 publication *Social Responsibilities of Business Corporations*. The CED got into this topic by observing that business functions by public consent, and its basic purpose is to serve constructively the needs of society to the satisfaction of society. The CED noted that the social contract between business and society was changing in substantial and important ways. It noted that business is being asked to assume broader responsibilities to society than ever before. Furthermore, the CED noted that business assumes a role in contributing to the quality of life and that this role is more than just providing goods and services. Noting that business, as an institution, exists to serve society, the future of business will be a direct result of how effectively managements of businesses respond to the expectations of the public, which are always changing. Public opinion polls taken during this early period by Opinion Research Corporation found that

about two thirds of the respondents thought business had a moral obligation with respect to achieving social progress in society, even at the possible expense of profitability.

The CED went on to articulate a three-concentric-circles definition of SR that included an inner, an intermediate, and an outer circle. The *inner circle* focused on the basic responsibility business had for its economic function—that is, providing products, services, jobs, and economic growth. The *intermediate circle* focused on responsibilities business had to exercise its economic activities in a sensitive way by always being alert to society's changing social values and priorities. Some early arenas in which this sensitivity were to be expressed included environmental conservation; relationships with employees; and meeting the expectations of consumers for information, fair treatment, and protection from harm. The CED's *outer circle* referred to newly emerging and still ambiguous responsibilities that business should be involved in to help address problems in society, such as urban blight and poverty.

What made the CED's views on CSR especially noteworthy was that the CED was composed of businesspeople and educators and, thus, reflected an important practitioner view of the changing social contract between business and society and businesses' newly emerging social responsibilities. It is helpful to note that the CED may have been responding to the times in that the late 1960s and early 1970s was a period during which social movements with respect to the environment, worker safety, consumers, and employees were poised to transition from special interest status to government regulation. In the early 1970s, we saw the creation of the Environmental Protection Agency, the Consumer Product Safety Commission, and the Equal Employment Opportunity Commission. Thus, it can be seen that the major initiatives of government social regulation grew out of the changing climate with respect to CSR.

Another significant contributor to the development of CSR in the 1970s was George Steiner, then a professor at UCLA. In 1971, in the first edition of his textbook, *Business and Society*, Steiner wrote extensively on the subject. Steiner continued to emphasize that business is fundamentally an economic institution in society but that it does have responsibilities to help society achieve its basic goals. Thus, SR goes beyond just profit making. Steiner also noted that as companies became larger their social responsibilities grew as well. Steiner thought the assumption of social responsibilities was more of an attitude, of the way a manager approaches his or her decision-making task, than a great shift in the economics of decision making. He held that CSR was

a philosophy that looks at the social interest and the enlightened self-interest of business over the long-run rather than just the old narrow, unrestrained short-run self-interest of the past.

Though Richard Eells and Clarence Walton addressed the CSR concept in the first edition of their book *Conceptual Foundations of Business* (1961), they elaborated on the concept at length in their third edition, which was published in 1974. In this book they dedicated a whole chapter to recent trends in corporate social responsibilities. Like Steiner, they did not focus on definitions, per se, but rather took a broader perspective on what CSR meant and how it evolved. Eells and Walton continued to argue that CSR is more concerned with the needs and goals of society and that these extend beyond the economic interest of the business firm. They believed that CSR was a concept that permits business to survive and function effectively in a free society and that the CSR movement is concerned with business's role in supporting and improving the social order.

In the 1970s, we initially found mention increasingly being made to CSP as well as CSR. One major writer to make this distinction was S. Prakash Sethi. In a classic 1975 article, Sethi identified what he called dimensions of CSP and, in the process, distinguished between corporate behavior that might be called social obligation, SR, or social responsiveness. In Sethi's schema, social obligation was corporate behavior in response to market forces or legal constraints. The criteria here were economic and legal only. SR, in contrast, went beyond social obligation. He argued that SR implied bringing corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations of society. Sethi went on to say that while social obligation is proscriptive in nature, SR is prescriptive in nature. The third stage in Sethi's model was social responsiveness. He regarded this as the *adaptation* of corporate behavior to social needs. Thus, anticipatory and preventive action is implied.

Some of the earliest empirical research on CSR was published in the mid-1970s. First, in 1975, Bowman and Haire conducted a survey striving to understand CSR and to ascertain the extent to which companies were engaging in CSR. Though they never really defined CSR in the sense we have been discussing, the researchers chose to measure CSR by counting the proportion of lines devoted to SR in the annual reports of the companies they studied. While not providing a formal definition of CSR, they illustrated the kinds of topics that represented CSR as opposed to those that were strictly business in nature. The topics they used were usually subheads to sections in the annual

report. Some of these subheads were as follows: corporate responsibility, SR, social action, public service, corporate citizenship, public responsibility, and social responsiveness. A review of their topical approach indicates that they had a good idea of what CSR generally meant, given the kinds of definitions we saw developing in the 1970s.

Another research study in the mid-1970s was conducted by Sandra Holmes in which she sought to determine executive perceptions of CSR. Like Bowman and Haire, Holmes had no clear definition of CSR. Rather, she chose to present executives with a set of statements about CSR, seeking to find out how many of them agreed or disagreed with the statements. Like the Bowman and Haire list of “topics,” Holmes’s statements addressed the issues that were generally believed to be what CSR was all about during this time period. For example, she sought executive opinions on businesses’ responsibilities for making a profit, abiding by regulations, helping to solve social problems, and the short-run and long-run impacts on profits of such activities. Holmes further added to the body of knowledge about CSR by identifying the outcomes that executives expected from their firms’ social involvement and the factors executives used in selecting areas of social involvement.

In 1979, Archie B. Carroll proposed a four-part definition of CSR, which was embedded in a conceptual model of CSP. Like Sethi’s earlier article, Carroll sought to differentiate between CSR and CSP. His basic argument was that for managers or firms to engage in CSP they needed to have (1) a basic *definition* of CSR, (2) an understanding/enumeration of the *issues* for which a SR existed (or, in modern terms, stakeholders to whom the firm had a responsibility, relationship, or dependency), and (3) a specification of the *philosophy or pattern of responsiveness* to the issues.

At that time, Carroll noted that previous definitions had alluded to businesses’ responsibility to make a profit, obey the law, and to go beyond these activities. Also, he observed that, to be complete, the concept of CSR had to embrace a full range of responsibilities of business to society. In addition, some clarification was needed regarding that component of CSR that extended beyond making a profit and obeying the law. Therefore, Carroll proposed that the SR of business encompassed the economic, legal, ethical, and discretionary expectations that society had of organizations at a given point in time.

A brief elaboration of this definition is useful. First, and foremost, Carroll argued that business has a responsibility that is *economic* in nature or kind. Before anything else, the business institution is the basic economic unit in society. As such it has a responsibility to produce goods and services that society

wants and to sell them at a profit. All other business roles are predicated on this fundamental assumption. The economic component of the definition suggests that society *expects* business to produce goods and services and sell them at a profit. This is how the capitalistic economic system is designed and functions.

He also noted that just as society expects business to make a profit (as an incentive and reward) for its efficiency and effectiveness, society expects business to obey the law. The law, in its most rudimentary form, represents the basic rules of the game by which business is expected to function. Society expects business to fulfill its economic mission within the framework of legal requirements set forth by the society's legal system. Thus, the *legal* responsibility is the second part of Carroll's definition.

The next two responsibilities represented Carroll's attempt to specify the nature or character of the responsibilities that extended beyond obedience to the law. The *ethical* responsibility was claimed to represent the kinds of behaviors and ethical norms that society expected business to follow. These ethical responsibilities extended to actions, decisions, and practices that are beyond what is required by the law. Though they seem to be always expanding, they nevertheless exist as expectations over and beyond legal requirements.

Finally, he argued there are *discretionary* responsibilities. These represent voluntary roles and practices that business assumes but for which society does not provide as clear cut an expectation as in the ethical responsibility. These are left to individual managers' and corporations' judgment and choice; therefore, they were referred to as discretionary. Regardless of their voluntary nature, the expectation that business perform these was still held by society. This expectation was driven by social norms. The specific activities were guided by businesses' desire to engage in social roles not mandated, not required by law, and not expected of businesses in an ethical sense, but which were becoming increasingly strategic. Examples of these voluntary activities, during the time in which it was written, included making philanthropic contributions, conducting in-house programs for drug abusers, training the hard-core unemployed, or providing day care centers for working mothers. These discretionary activities were analogous to the CED's third circle (helping society). Later, Carroll began calling this fourth category *philanthropic*, because the best examples of it were charitable, humanistic activities business undertook to help society along with its own interests.

Though Carroll's 1979 definition included an economic responsibility, many today still think of the economic component as what the business

firm *does for itself* and the legal, ethical, and discretionary (or philanthropic) components as what business *does for others*. While this distinction represents the more commonly held view of CSR, Carroll continued to argue that economic performance is something business does for society as well, though society seldom looks at it in this way.

## EXAMPLES OF CSR IN PRACTICE

There are many ways in which companies may manifest their CSR in their communities and abroad. Most of these initiatives would fall in the category of discretionary, or philanthropic, activities, but some border on improving some ethical situation for the stakeholders with whom they come into contact. Common types of CSR initiatives include corporate contributions (or philanthropy), employee volunteerism, community relations, becoming an outstanding employer for specific employee groups (such as women, older workers, or minorities), making environmental improvements that exceed what is required by law, and so on.

Among the 100 Best Corporate Citizens identified in 2005 by *Business Ethics* magazine, a number of illuminating examples of CSR in practice are provided. Cummins, Inc., of Columbus, Indiana, has reduced diesel engine emissions by 90% and expects that within 10 years the company will be at zero or close to zero emissions. In addition, the engine maker underwrites the development of schools in China, is purchasing biodiverse forest land in Mexico, and funds great architecture in its local community. Cummins also publishes a sustainability report that is available to the public.

Xerox Corporation, Stamford, Connecticut, is a multinational corporation that places high value on its communities. One of its most well-known community development traditions has been its Social Service Leave Program. Employees selected for the program may take a year off with full pay and work for a community nonprofit organization of their choice. The program was begun in 1971, and by 2005, more than 460 employees had been granted leave, translating into about half a million volunteer service hours for the program.

Green Mountain Coffee Roasters, Waterbury, Vermont, was a pioneer in an innovative program designed to help struggling coffee growers by paying them “fair trade” prices, which exceed regular market prices. The company has also been recognized for offering microloans to coffee-growing families and underwriting business ventures that diversify agricultural economies.

Another example of CSR in practice is the Chick-fil-A restaurant chain based in Atlanta, Georgia. Founder and CEO Truett Cathy has earned an outstanding reputation as a businessman deeply concerned with his employees and communities. Through the WinShape Centre Foundation, funded by Chick-fil-A, the company operates foster homes for more than 120 children, sponsors a summer camp, and has hosted more than 21,000 children since 1985. Chick-fil-A has also sponsored major charity golf tournaments.

In the immediate aftermath of Hurricane Katrina in 2005, judged to be the worst and most expensive ever in terms of destruction, hundreds of companies made significant contributions to the victims and to the cities of New Orleans, Biloxi, Gulfport, and the entire Gulf Coast. These CSR efforts have been noted as one of the important ways by which business can help people and communities in need.

As seen in the examples presented, there are a multitude of ways that companies have manifested their corporate social responsibilities with respect to communities, employees, consumers, competitors, and the natural environment.

## **CSR IN THE NEW MILLENNIUM**

As we think about the importance of CSR/CSP in the new millennium, it is useful to review the results of the millennium poll on CSR that was sponsored by Environics, International, the Prince of Wales Business Leaders Forum, and the Conference Board. This poll included 1,000 persons in 23 countries on six continents. The results of the poll revealed how important citizens of the world now thought CSR really was. The poll found that in the 21st century, companies would be expected to do all the following: demonstrate their commitment to society's values on social, environmental, and economic goals through their actions; fully insulate society from the negative impacts of company actions; share the benefits of company activities with key stakeholders, as well as shareholders, and demonstrate that the company can be more profitable by doing the right thing. This "doing well by doing good" approach will reassure stakeholders that new behaviors will outlast good intentions. Finally, it was made clear that CSR/CSP is now a global expectation that requires a comprehensive, strategic response.

—Archie B. Carroll

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## STRATEGIC CORPORATE SOCIAL RESPONSIBILITY

Strategic corporate social responsibility is the attempt by companies to link those largely discretionary activities explicitly intended to improve some aspect of society or the natural environment with their strategies and core business activities. While corporate social responsibility has historically referred to a firm's economic, legal, ethical, and discretionary responsibilities to society, strategic corporate social responsibility, in general, represents discretionary activities that form a company's community relations function or foundation, including corporate philanthropy, volunteerism, and multisector collaborations. Corporate social responsibility can be compared with the mere general concept of corporate responsibility, which is a company's complete set of responsibilities to its stakeholders, societies where it operates, and the natural environment, as manifested through its operating practices.

Corporate social responsibility represents the direct efforts by a company to improve aspects of society by the firm as compared with the integral responsibilities that every firm has with respect to primary stakeholders such as employees, customers, investors, and suppliers. The use of the term *strategic* implies that the discretionary socially oriented activities of the firm are intended to have direct or indirect benefits for the firm—that is, to somehow help the firm achieve its strategic and economic objectives. There is a wide range of ways in which companies can use corporate social responsibility activities strategically. These ways range from helping local schools improve so that, long term, the workforce will be better educated, to improving local conditions in the community so that it will be easier to recruit and retain employees, to improving the firm's reputation among customers so that they will continue to use the company's products and services, as well as numerous other examples.

Sometimes termed *enlightened self-interest*, strategic corporate social responsibility initiatives are closely linked to strategic philanthropy and cause marketing. They attempt to help achieve a company's core mission and strategies by providing a socially beneficial foundation for enhanced economic

value added. This benefit to the firm happens through improved reputation from the social desirability that key stakeholders, such as customers and employees, feel for being affiliated in some way with a company perceived to be more socially responsible or, more directly, through increased use of the company's products and services that are tied to donations to specific charitable organizations.

Some observers object to strategic corporate social responsibility on the grounds that the company cannot or should not both be doing moral or social good while also profiting financially. Other observers see no necessary conflict in what is called doing well and doing good, because for companies that are under increasing pressure for good short-term results, strategic corporate social responsibility represents a way for them to attempt to meet the needs of multiple stakeholders, particularly investors and societal stakeholders, including customers, employees, and investors concerned with corporate responsibility, simultaneously.

There is significant and growing evidence from a large number of research studies that companies that are more socially responsible, or more responsible in general to all their stakeholders, perform at the same level or somewhat better than less responsible companies. This empirical evidence suggests that there are no necessary trade-offs between profitability in terms of financial performance and responsibility, even explicitly socially beneficial activities. Companies with good corporate social responsibility records, according to employee and consumer surveys, may find it easier to recruit and retain employees, attract and keep new customers, and even attract investors concerned about issues of corporate responsibility, also called socially responsible or ethical investors.

—Sandra Waddock

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# STRATEGIC PHILANTHROPY

**S**trategic philanthropy is an approach by which corporate or business giving and other philanthropic endeavors of a firm are designed in such a way that it best fits with the firm's overall mission, goals, and values. This implies that the business has a carefully articulated strategy and that it understands how to integrate its philanthropic initiatives with this strategy in actual practice. A major characteristic of strategic philanthropy is that the motivation is not solely altruistic. To understand how strategic philanthropy has become an everyday practice, it is useful to trace this concept as it has unfolded in business history.

## BEGINNINGS OF CORPORATE PHILANTHROPY

The concept of philanthropy evolved through business history even before the broader corporate social responsibility movement had taken shape. The concept of business responsibility that prevailed in the United States during most of its history was fashioned after the traditional, or classical, *economic model* of the firm. Dominant in the late 1800s and early 1900s, the economic model of the firm thought of the marketplace as the primary determinant of what business firms did in their communities and in society. The pattern of corporate philanthropy in Europe and other parts of the Western world paralleled its development in the United States. Unfortunately, though the marketplace did a reasonably good job in deciding what goods and services should be produced, it did not fare as well in ensuring that business always acted generously, fairly, and ethically. In addition, business created many social problems and the view was developing that business had some responsibility for these social problems that extended beyond just producing goods and services.

Years later, when laws began to be passed constraining business practices, it might be said that a *legal model* emerged. Society's expectations of business changed from being strictly economic in nature to encompassing issues that previously had been at business's discretion. Over time, a *social model* of the firm emerged. What this social model did, in effect, is embrace both the

economic and legal emphases and add yet another layer of expectations by society that business would assume some role in addressing social problems and issues that had arisen.

In the late 1800s and early 1900s, initial indications of business's willingness to contribute to the community were localized efforts toward meeting community needs through philanthropy, or business giving, and paternalistic practices. It is evident that businesspeople did engage in philanthropy—contributions to charity and other worthy causes—even during the periods that were dominated by the traditional economic view. Voluntary activities to improve, beautify, and uplift the community were evident. One very early example of this was the cooperative efforts between the railroads and the Young Men's Christian Association immediately after the Civil War to provide community services in areas affected by the railroads. These initiatives, in hindsight, can now be seen as early examples of strategic philanthropy, because they benefited both the communities and the railroads.

The emergence of large corporations during the late 1800s played a major role in hastening the movement away from the strict classical economic model of the firm in society. As the economy transitioned away from one dominated by small, powerless companies to large corporations with more concentrated power, questions of business responsibility began to be raised. By the 1920s, community service had become much more important for business. The most visible example of this was the Community Chest movement, which received its impetus from business.

One example of early progressive business ideology was reflected in Andrew Carnegie's 1889 essay "The Gospel of Wealth." Carnegie asserted that business must pursue profits but that business wealth should also be used for the benefit of the community. Philanthropy turned out to be one of the best ways in which firms could benefit the community. A prime example of this was Carnegie's funding and building of more than 2,500 libraries for communities.

Corporate philanthropy continued to grow into the 20th century and by the late 20th century had become one of the institutionalized ways by which businesses could aid communities, the growing number of nonprofit organizations, and other national and international groups. Today, corporate philanthropy is considered to be one of the foremost means by which companies fulfill their social responsibilities and come to be regarded as good corporate citizens.

## PHILANTHROPY DEFINED

Before developing the concept of strategic philanthropy further, it is useful first to examine the concept of philanthropy itself. The word *philanthropy* has generally been defined as a concern for or love of humankind. Philanthropy has been linked to efforts to demonstrate this fondness or concern for humankind through charitable gifts, aid, or donations. Though most people would not philosophically disagree with the concept of philanthropy, throughout history some have. Friedrich Nietzsche, for example, objected to it as a concept of universal good because he thought it represented the weak parasitically living off the strong. Ayn Rand is another major philosopher who held a similar view. Political views on philanthropy have also been present. Most governments have been supportive of philanthropic efforts on the part of companies and individuals and have supported these efforts through tax incentives and tax breaks. Though the term *philanthropy* seems to imply some altruistic expression, as in “love of humankind,” today the concept more nearly refers to the giving of resources for the benefit of others.

Conceptually, today, philanthropy may be seen as a part of companies’ corporate social responsibility or corporate citizenship initiatives. Archie Carroll has argued that philanthropy fulfills businesses’ discretionary responsibilities to be good corporate citizens. These philanthropic activities are voluntary, guided only by businesses’ desire to engage in social activities that are not mandated, not required by law, and not generally expected in an ethical sense. Philanthropy is “desired/expected” in most societies. The public has an expectation that business will engage in philanthropy, in part because it has become so much a part of business tradition and in part because many believe it is part of the social contract between business and society, especially between business and the local community. Others believe business should engage in philanthropy to partially offset some of the social harm or social problems business has engendered.

By the first decade of the 2000s, philanthropic initiatives include corporate giving, matching programs in which companies match contributions given by their employees, product and service donations, employee volunteerism, partnerships with local governments and other organizations, and any other kind of community involvement on the part of the organization and its employees. These philanthropic initiatives are in response to ongoing needs in the community in areas such as education, culture and the arts, health/human

services, and civic and community activities. In addition, special needs arise due to emergencies such as the tsunami in Southeast Asia in 2004 and Hurricanes Katrina and Rita in the United States in 2005.

## **STRATEGIC PHILANTHROPY TAKES SHAPE AND EVOLVES**

The concept of strategic philanthropy has evolved out of traditional forms of business giving. Early on, corporate giving was more focused on the needs that had arisen in the community and so philanthropy was more altruistic in nature—more focused on an exclusive consideration of the needs of others. With the passage of time and the heightened competition and cost pressures that have characterized the business community in the past several decades, corporate executives have begun looking more carefully at the kinds of impacts philanthropic efforts might have. It has become evident that business can not only help others but help itself at the same time, and this germ of thought is what has produced the modern strategic philanthropy emphasis. At the same time, corporate giving has become institutionalized and professionalized, and as it has been turned over to professional managers, top management has come to view the giving function as one that should deliver more specific, direct benefits to the company, and thus, the idea of strategic philanthropy has been born and cultivated in a business climate that has been more driven by profitability and accountability toward the bottom line.

Strategic philanthropy is an approach to business giving that seeks to achieve goals for the community or recipient of the giving and for the business itself as well. Strategic philanthropy is more focused. It does not just address any legitimate need in the community but rather focuses on those needs or issues that are consistent with or aligned with the firm's overall mission, objectives, programs, or products/services. A classic example of strategic philanthropy is the Ronald McDonald Houses sponsored by McDonald's hamburger chain. The Ronald McDonald Houses are facilities usually built near children's hospitals to help families who want to be close to their children who may be receiving longer-term treatment at the hospital. The Ronald McDonald House Charities maintains more than 200 houses in 44 countries around the world where families can stay together for free when traveling for a sick child's treatment and 48 rooms within hospitals for the same purpose. McDonald's, which has long viewed children as one of its target markets, thus is able to generously contribute to children and their families, thus enhancing its own interest or strategy at the same time. The children and their families

win and McDonald's as a corporation wins. It should be clarified that McDonald's, as a company, initiated and sponsors the Ronald McDonald House Charities, but many other companies also contribute to the charity. In addition, each chapter also relies on individual contributions. In a sense, then, this is an ideal example of strategic philanthropy in that McDonald's gets high name recognition and publicity for the charity, even though the company is just one of the many supporters of the charity.

In using strategic philanthropy, companies strive to align their corporate giving or community relations initiatives with their own goals, objectives, or markets. The idea is to have a double impact—a positive impact on the recipients of the philanthropy and some kind of positive impact on the businesses' bottom lines or strategies. Two other examples are worthy of mention. The first is Novartis' creation of its nonprofit, Novartis Research Institute for Tropical Diseases. The nonprofit Institute allows it to focus on the discovery of new drugs for treating neglected diseases. The company benefits and the victims of neglected diseases benefit. Second is IBM's On Demand Community Program. This program permits IBM employees around the world to share the company's technology and other resources with the agencies where they sign up for volunteer service. Both parties benefit.

Strategic management expert Michael Porter has argued that the term *strategic philanthropy* has begun to be used to explain virtually any type of charitable giving that has some definable theme, focus, or approach that builds bridges between the businesses that are giving and needs in the community. Porter has been critical of strategic philanthropy, arguing that the link between the companies and the charities are often weak, tenuous, or semantic. He suspects that most of these initiatives really do not have anything at all to do with corporate strategy but are aimed at achieving positive publicity or goodwill for the companies and for improving employees' morale. His belief is that for strategic philanthropy to be viewed as genuine or valid, it needs to effectively integrate social and economic goals in such a way so as to produce legitimate social impact in the community. Of course, his criticisms may be broadened to include any corporate citizenship initiatives on the part of business, not just philanthropy.

## CAUSE-RELATED MARKETING

One of the shapes or variations that strategic philanthropy has taken on is that of cause-related marketing, or cause marketing. Many critics claim that this is more marketing than philanthropy, but others have held that it is an extreme

form of strategic philanthropy in that the link between the businesses' interest and some social or public cause is tightly tied together. In cause marketing, each time a consumer uses a service or buys a product, a donation is given by the company to the charity. Thus, cause marketing has sometimes been referred to as "quid pro quo philanthropy."

One of the earliest examples of cause-related marketing was in the early 1980s when American Express Company introduced a program whereby it would contribute 1 cent to the restoration of the Statue of Liberty each time one of its credit cards was used to make a purchase. This initiative generated \$1.7 million for the restoration of the historical monument and a substantial increase in the use of the company's cards. Today, American Express coordinates its philanthropic and marketing efforts with its community business program and cause-related-marketing campaign to help small business owners acquire access to the credit and resources they need to start or grow their businesses. So the company now gives a portion of credit card charges to three national nonprofit organizations specializing in community economic development when American Express Community Business Card customers use their cards. Today, many different companies have linked using their products or services to the amount they would then donate to some worthy charitable cause.

Just as Porter has been critical of strategic philanthropy, he has especially been critical of cause-related marketing. He thinks these efforts are more targeted toward improving the companies' reputations than doing good in the community and, thus, fail as authentic efforts toward strategic philanthropy. In his view, the best way to maximize philanthropy's value is to follow a path that effectively combines pure philanthropy with pure business in such a way that genuine social and economic values are created.

## **THE BUSINESS CASE FOR STRATEGIC PHILANTHROPY**

The impetus behind the movement toward strategic philanthropy has been the expectation by CEOs and top echelon executives that for corporate giving to continue, the "business case" for it has to be established. The business case is the argument or rationale as to how the business is specifically benefiting from the philanthropic endeavors. It is the explication of reasons why business is believed to be benefited by the philanthropy. One of the leading business

groups supporting the idea of strategic philanthropy is Business for Social Responsibility (BSR), a nonprofit association of firms and executives who support the idea of integrating business's social role with its economic objectives. BSR has assembled research that indicates that companies, through their philanthropic giving, may

- increase customer loyalty and enhance brand image,
- strengthen employee loyalty and productivity,
- enhance corporate reputation, and
- expand into emerging markets.

In short, specific business advantages that strengthen the companies' bottom lines are achievable through carefully designed philanthropic initiatives.

An interesting aspect of strategic philanthropy is that two firms in the same industry may decide to pursue divergent philanthropic projects and initiatives while both are focusing on the bottom-line benefits to the company as well as helping the community. In the home improvement/products industry, for example, The Home Depot supports sustainable forestry, community impact grants, and volunteerism, while Lowe's, its major competitor, supports Habitat for Humanity, sponsorship of American Red Cross disaster relief, and community college scholarships. Executives in these two firms made strategic choices to engage different philanthropies but with doubtless similar objectives in terms of strategic impact on the company's profitability and reputation.

Since strategic philanthropy is a part of corporate social responsibility initiatives, it follows that these same benefits accrue due to these efforts. Also, it can readily be seen that most of these reasons are business related, not philanthropy related. Thus, the business case is strengthened. Finally, it is worth noting that Paul Godfrey has developed and presented an analysis of literature and research that supports the idea that (a) corporate philanthropy can generate positive moral capital among stakeholders and communities, (b) this moral capital can provide business owners with insurance-like protection for a firm's relationship-based intangible assets, and (c) this protection contributes to shareholder wealth. Thus, through logic and research, he has added to the business case for corporate philanthropy, especially strategic philanthropy.

—Archie B. Carroll

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## CORPORATE CITIZENSHIP

**C**orporate citizenship, sometimes called corporate responsibility, can be defined as the ways in which a company's strategies and operating practices affect its stakeholders, the natural environment, and the societies where the business operates. In this definition, corporate citizenship encompasses the concept of corporate social responsibility (CSR), which involves companies' explicit and mainly discretionary efforts to improve society in some way, but is also directly linked to the company's business model in that it requires companies to pay attention to all their impacts on stakeholders, nature, and society. Corporate citizenship is, in this definition, integrally linked to the social, ecological, political, and economic impacts that derive from the company's business model; how the company actually does business in the societies where it operates; and how it handles its responsibilities to stakeholders and the natural environment. Corporate citizenship is also associated with the rights and responsibilities granted to a company or organization by governments where the enterprise operates; just as individual citizenship carries rights and responsibilities, however, companies have considerably more resources and power than do most individuals and do not have the right to vote.

While CSR has historically referred to a company's economic, legal, ethical, and discretionary responsibilities, corporate citizenship emphasizes the integral responsibilities attendant to a company's strategies and practices. There are other definitions of corporate citizenship, but they are generally consistent with the theme of integrating social, ecological, and stakeholder responsibilities into the companies' business strategies and practices. For example, the United Nations' definition states that corporate citizenship is the integration of social and environmental concerns into business policies and operations. The U.S. association Business for Social Responsibility defines it as operating a business in a manner that meets or exceeds the legal, ethical, commercial, and public expectations that society has of business. The definition of the Center for Corporate Citizenship at Boston College requires that a good corporate citizen integrate basic social values with everyday business practices, operations, and policies so that these values influence daily decision

making across all aspects of the business and takes into account its impact on all stakeholders, including employees, customers, communities, suppliers, and the natural environment.

The definition of the Corporate Citizenship Unit at Great Britain's University of Warwick Business School indicates that corporate citizenship involves the study of a broad range of issues, including community investment, human rights, corporate governance, environmental policy and practice, social and environmental reporting, social auditing, stakeholder consultation, and responsible supply chain management. Australia's Deakin University's Corporate Citizenship Research claims that corporate citizenship recognizes business's social, cultural, and environmental responsibilities to the community in which the business seeks a license to operate and recognizes economic and financial obligations to shareholders and stakeholders.

## BACKGROUND

The term *corporate citizenship* as applied to companies' core business practices, strategies, and impacts became popular particularly in the European Union in the mid-1990s but has been in use at least since the 1950s. The terminology evolved from earlier conceptions of business in society, particularly from the concept of CSR, which connotes doing explicit good for society mainly through philanthropy and is considered voluntary on the part of companies. Although some scholars and practicing managers do define corporate citizenship more narrowly than the definitions above, believing that discretionary activities on the part of companies to deliberately improve societies constitute corporate citizenship initiatives, most of the business associations and centers in academic environments have developed the more broad-based conception accepted here.

Typical manifestations of CSR occur through philanthropic programs, volunteer activities, in-kind giving, and community relations. In contrast, the dominant conception of corporate citizenship applies to the ways a company operates; that is, its fundamental business model, and the stakeholder, societal, and nature-related impacts that derive from the way the company does business. Although some definitions of corporate citizenship do focus more narrowly on social good activities of companies, the more business-model-based definition related to overall corporate responsibilities is widely accepted, as the definitions given above indicate.

In the 1960s, U.S. legal scholar Dow Votaw noted that companies needed to be understood not just as economic actors in society but also as political actors. Votaw focused on specific issues related to a company's corporate citizenship that remain currency today, particularly in light of the vast size and economic clout of many large multinational corporations. The issues that concerned Votaw included companies' influence and power, which are derived from a company's size and control of economic and other resources; questions about the legitimacy of firms in society and how they are to be made accountable to broader societal interests; and how companies could be sanctioned when wrongdoing occurs. Thus, deeply embedded in the notion of corporate citizenship is the idea that companies gain legitimacy through a form of social contract granted by societies typically in the form of incorporation papers. With legitimacy comes a set of rights and also responsibilities. Corporate citizenship highlights the specific arenas in which those responsibilities apply, encompassing relationships with stakeholders and impacts on the natural environment and societies.

The reach, scope, and size of many large companies have created significant pressures from different groups in society for better corporate citizenship and greater attention to the ethical values that underpin it. These pressures are highlighted by the fact that, by 2002, 51 of the world's largest economies were said not to be countries but companies. In part, it is this spectacular size and attendant power that have created much of the attention to corporate citizenship, fueled further by concerns about globalization's impacts; management practices of outsourcing key functions to developing nations to reduce costs; ethical and accounting scandals; and corporate influence on governments, communities, and whole societies.

Corporate leaders began paying significant attention to issues of corporate citizenship during the late 1990s and early 2000s, following waves of antiglobalization protests; critiques of corporate outsourcing practices; fears about climate change and other serious environmental problems said to be at least partially created by businesses; and the rise of anticorporate activism sometimes directed at specific companies and sometimes at policies of powerful global institutions such as the World Trade Organization, the World Bank, and the International Monetary Fund. Advanced communication technologies fueled the ability of activists and other critics to question corporate activities and create increasing demands for responsibility, transparency, and accountability by companies.

On the business side, numerous new activities and organizations designed to highlight good corporate citizenship emerged during the 1990s and early 2000s. At least partially in response to vocal activism about supply chain practices, many multinational corporations developed and implemented internal codes of conduct during the 1990s. Some of these companies also asked their supply chain partners to implement the codes in their operations as well. In addition to internal codes, a number of codes and sets of principles, frequently generated by multisector coalitions that included companies, governmental representatives, activists, and nongovernmental organizations (NGOs), also emerged. These codes represent what their developers consider to be a baseline or floor of ethical conduct that serves as the foundation of corporate citizenship. Prominent business ethicists Thomas Donaldson and Thomas Dunfee have labeled such foundational values hypernorms. Although still somewhat controversial as to whether they exist, hypernorms identified by Donaldson and Dunfee include basics such as respect for human dignity, basic rights, good citizenship, and, similarly, fundamental values. Such hypernorms serve as a foundation for all human values and also as a basis for good corporate citizenship. They are built on three principles, including the respect for core human values that determine a floor of practice and behavior below which it is ethically problematic, respect for local traditions, and respect for the context in which decisions are made.

During the 1990s and into the 2000s, there was a great deal of activism against certain corporate practices such as outsourcing, which frequently involved contracting with manufacturers in developing nations whose workers were subjected to abusive conditions, ecological deterioration, and poor labor standards, as well as the impact of globalization. This activism generated a flurry of development of codes of conduct that attempted to codify how such basic principles could be put into practice in companies. As the codes developed, many companies, particularly large multinational firms with brand names to protect, began demanding that their suppliers live up to the standards articulated in the codes.

Many companies developed their own codes of conduct; in addition, a number of codes emerged that were developed by multisector coalitions working from internationally agreed documents or core ethical standards. Among the most prominent, although not without its critics, was the United Nations' Global Compact's set of 10 (originally nine) principles, which were drawn from internationally agreed declarations and treaties. The Global Compact,

which had nearly 2,000 members by 2005, was established in 1999 by UN Secretary-General Kofi Annan to “initiate a global compact of shared values and principles, which will give a human face to the global market.” In signing onto the Global Compact, companies agree to uphold 10 fundamental principles on human rights, labor rights, environment, and anticorruption.

The Global Compact’s 10 principles focus on core or foundational principles and are drawn from major UN declarations and documents that have been signed by most of the countries of the world. Documents from which the principles are drawn include the Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. The two human rights principles require companies to support and respect the protection of internationally proclaimed human rights and make sure that they are not complicit in any human rights abuses. The four labor standards require companies to uphold the freedom of association and the effective recognition of the right to collective bargaining, eliminate all forms of forced and compulsory labor, effectively abolish child labor, and eliminate discrimination in employment. The three environmental principles require companies to support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility, and encourage the development and diffusion of environmentally friendly technologies. The corruption principle, added in 2004, requires companies to work against all forms of corruption, including bribery and extortion.

There are other important codes and principles aimed at putting corporate citizenship efforts into operating practices and strategies. These codes include the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development, the Global Sullivan Principles of Corporate Social Responsibility, the Marine Stewardship Council’s Principles and Guidelines for Sustainable Fishing, the Natural Step’s Sustainability Principles, the UN’s Norms on the Responsibilities of Transnational Corporations and Other Enterprises with regard to Human Rights, the Equator Principles (for the financial services industry), the Sustainable Forestry Principles, the Caux Principles, the Business Principles for Countering Bribery, the CERES (Coalition for Environmentally Responsible Economies) Principles, the Clean Clothes Campaign model code, the Workplace Code of Conduct of the Fair Labor Association, the Keidanren Charter for Good Corporate Behavior and

the Keidanren Environment Charter, the Canadian Business for Social Responsibility Guidelines, the World Federation of the Sporting Goods Industry Model Code, and numerous others. One observer at the International Labour Organization, a division of the United Nations, counted more than 400 such principles and codes including individual company codes. Many, although certainly not all, of the core issues embedded in these codes are similar, despite differences in wording and specific focus.

These codes and principles evolved, in part, because of societal concerns about corporate practices and impacts. For example, the practice of outsourcing operations including manufacturing and production of many goods and services to low-wage developing nations became very popular among large companies starting in the 1990s and continuing to the present. This practice drew attention to the companies' corporate citizenship because many of the facilities in the developing nations were exposed in media reports as having sweatshop working conditions, abusing the human rights of workers, having poor safety standards, or employing weak environmental management. The practice of outsourcing continued into the 2000s and expanded to call and support centers, programming, and other technologically sophisticated services, which shifted from the developed nations to the developing nations. Concerns about domestic job loss for communities where the outsourcing company had facilities combined with low wages and poor conditions in some developing nations created a public focus on the implications of this type of practice for different groups of stakeholders.

Other factors fueling attention to corporate citizenship include the array of ethical scandals, accounting misrepresentations, and frauds that were uncovered in the United States in the early 2000s, as well as in Europe and elsewhere. Accompanied by accusations of corruption and undue influence in the political affairs of nations, and participation by companies in abusive regimes in certain countries, these scandals drew attention to corporate citizenship or what some believed to be lack thereof. Chief executive compensation, estimated to be on the order of 450 times that of the average worker in the early 2000s, and a wave of consolidations through mergers and acquisitions that created huge oligopolies and even near monopolies in many industries, further fanned the desire for better corporate citizenship and also fanned the flames of attention to corporate citizenship.

Pressures for ever-increasing short-term financial performance from financial markets beginning in the 1980s and continuing to the present have

focused many corporate leaders' attention on short-term share prices. The attention to share price caused some observers and critics to believe that companies were failing to pay sufficient attention to other stakeholders, that is, those affected by and able to affect the company's activities. Corporate citizenship thus evolved during the 1990s and 2000s in part as a voluntary effort by many large, and therefore highly visible, transnational corporations as well as numerous smaller ones, to demonstrate their goodwill in the face of concerns about their size, short-term decision-making orientation, their power accrued through control of financial and other resources, and not always positive impacts on stakeholders, societies, and the natural environment.

## CRITICISMS OF CORPORATE CITIZENSHIP AND RESPONSES

Criticism of a company's corporate citizenship can come from many sources, including activists, the media, local communities affected by company activities, customers, and sometimes nations. Some activists set up websites that attempt to foster action against a company, such as a boycott. Wal-Mart, for example, has faced significant problems in some communities because of the company's impact on local shopping districts, low wages, and discrimination against women. Some investors are also concerned about corporate responsibility or citizenship and choose their investments at least in part on the basis of how they perceive the company's corporate citizenship through what is called socially responsible investing. The Social Investment Forum in the United States estimated in 2003 that some \$2.16 trillion or more than one of every nine equity investment dollars in the United States was invested in assets that employed at least one of the three main responsible investment strategies—screening investments, shareholder advocacy, and community investment. Screening investments means paying attention to particular negative practices, including poor supply chain management practices such as child labor or abusive working conditions, poor environmental practices, or harmful products such as cigarettes, which some investors wish to avoid. Some investors look for positive practices that they wish to encourage. Returns for investments in screened funds as compared with traditional funds are roughly comparable.

Shareholder advocates focus on changing corporate practices by submitting shareholder resolutions. Shareholder resolutions are aimed at changing

matters of concern to activist investors and are directed to the board of directors through the annual meeting process. Shareholder resolutions can focus on a wide range of issues of concern, including environmental policies and practices, labor standards, wages, harmful products, and excessive executive compensation, to name a few areas of criticism. Some chief executives engage in dialogue with the shareholder activists and promise changes, resulting in the resolutions being withdrawn, while others come to a vote during the annual meeting process. Community investors sometimes put their money into projects that are aimed specifically at helping to improve communities, such as housing developments, retail establishments, and similar projects. They may carry a somewhat lower rate of return than traditional investments, but social investors are willing to make that trade-off when necessary.

Defining corporate citizenship as the contributions of businesses to society through the combination of core business activities, social investment and philanthropy, and participation in the public policy process, the World Economic Forum created a framework for action signed by 40 multinational companies' CEOs in 2002. This framework for action focuses on three key elements that help flesh out what corporate citizenship means in practice: the companies' commitment to being global corporate citizens as part of the way that they operate their businesses; the relationships that companies have with key stakeholders, which are fundamental to the company's success internally and externally; and the need for leadership on issues of corporate citizenship by the CEOs and boards of directors of those companies. This statement also points out the array of terminology used to signify corporate citizenship activities: triple bottom line or sustainable development, ethics, corporate responsibility, and corporate social responsibility. The statement also emphasizes key elements of managing responsibility: leadership that defines what corporate citizenship means to a company, integration into corporate strategies and practices, implementation, and transparency.

Evidence of growing interest on the part of companies in corporate citizenship can be found not only in their joining organizations such as the UN Global Compact, the World Business Council for Sustainable Development (WBCSD), and similar organizations but also in a growing acceptance of the need to manage their responsibilities explicitly. The WBCSD focuses on three pillars of corporate citizenship that have come to be called the triple bottom line—economic growth, ecological balance, and social progress through the lens of sustainable development. For example, many transnational firms with

long supply chains have been exposed to criticisms by activists that practices in supply chain companies, which may not actually belong to the multinational company, are problematic, with poor labor standards, working conditions, and environmental standards.

Some companies have actively begun to manage their supply chain relationships by asking suppliers to live up to the multinational's own code of conduct and standards of practice, as well as ensuring that conditions in their own operations are managed responsibly. Such responsibility management approaches are aimed at helping companies protect their reputations for good citizenship by establishing global standards throughout their supply chain. They are supplemented by an emerging institutional framework aimed at assuring that stated and implicit corporate responsibilities are actually met.

## **STAKEHOLDERS AND CORPORATE CITIZENSHIP**

The definition of corporate citizenship as having to do with the impacts of corporate practices and strategies on stakeholders, nature, and the natural environment links corporate citizenship integrally to the relationships that companies develop with their stakeholders. In the classic definition offered by R. Edward Freeman, stakeholders are said to be those who are affected by or who can affect a company. Stakeholders can be classified into two categories—primary and secondary. Primary stakeholders are those groups and individuals without whom the company cannot exist and typically are said to include owners or shareholders, employees, customers, and suppliers, particularly in companies with extended supply chain. Secondary stakeholders are those affected by or can affect the company's practices and strategies, but who are not essential to its existence. Secondary stakeholders typically include governments, communities where the company has facilities and operations, and activists interested in the company's activities, among numerous others. Sometimes governments or communities can be considered primary stakeholders, as when a company is in a regulated industry or when its business directly serves a given community. The environment is not a person but because all companies and indeed all of human civilization depend on its resources, it is frequently treated as if it were a stakeholder; hence, environmental management and related issues of ecological sustainability are tightly linked to concepts of corporate citizenship.

Each stakeholder group either takes some sort of risk with respect to the company, makes an investment of some sort in it, or is tied through some sort of emotional, reputational, or other means into the company's performance. Shareholders or owners, for example, invest their money in the company's shares and rightfully expect a fair return on that investment. Employees invest their knowledge, physical strength and abilities, skills, intellectual resources, and frequently also some of their emotions in the firm, and the firm invests in training and developing employees. Employees are repaid through their salaries and wages. A significant body of research exists that suggests that when employees are treated well by a company through progressive employee practices that are representative of good corporate citizenship, their productivity will be better and the company will benefit financially and in other ways. Customers trust that the products or services that they purchase will serve the purposes for which they are designed and add appropriate value. Good corporate citizenship with respect to customers, therefore, involves the creation of value-adding products and services. Problems with suppliers can result in numerous issues for companies relating to product quality, delivery, and customer service, not to mention the fact that if the supplier itself uses problematic practices, such as sweatshops or poor labor standards, the company purchasing its products will suffer from a degraded reputation. Hence, it is important for companies to manage their relationships with suppliers and distributors well, particularly because many external observers fail to differentiate between the corporate citizenship of the main company and its supply and distribution chain.

Communities are important to companies because they create local infrastructure, such as sewers, communications connections, roadways, building permits, and the like that companies need. Many companies that view themselves as good corporate citizens have extensive corporate community relations programs, including philanthropic programs, volunteer initiatives, and community-based events intended to enhance their local reputation as a neighbor of choice and sustain what is called their license to operate. Governments are important stakeholders, too, and most large companies have developed significant public affairs functions to deal with governmental relations. They also participate in the political processes of countries where they are located to the extent permissible locally, including contributing to campaigns and working through lobbyists to influence legislation.

Environmental management and sustainability have become important elements of good corporate citizenship as worries about the long-term sustainability of human civilization in nature have become more common. Many large

companies have implemented environmental management programs in which they attempt to monitor and control the ways in which environmental resources are used so that they are not wasted through programs that encompass resource reduction, reuse, and recycling. A few progressive firms have begun to focus on issues of long-term ecological sustainability as well.

## **RESPONSIBILITY MANAGEMENT AND ASSURANCE**

Most large corporations today have developed specific functions to deal with these different stakeholder groups in what are called boundary-spanning functions. Because the quality of the relationship between a company and its stakeholders is an important manifestation of the company's corporate citizenship, these boundary-spanning functions, which include position titles such as employee relations, community relations, public affairs, shareholder relations, supplier relations, and customer relations, are increasingly important.

In most large companies today there is still no one particular job title or function in which all the corporate citizenship activities reside, though some corporate community relations officers have assumed a great many of these responsibilities. A few companies have appointed individuals to positions with titles such as corporate social responsibility officer, vice president of corporate responsibility, or director of corporate citizenship. These jobs, however, are still far from common as of 2005.

In response to criticisms about their negative impacts on society, stakeholders, and nature, and questions about the credibility of their corporate citizenship, many large companies have developed corporate citizenship statements and strategies; some have even appointed managers to positions with titles such as corporate citizenship, corporate social responsibility, or corporate responsibility officer. By the early 2000s, many large corporations voluntarily began to issue social, ecological, or so-called triple-bottom-line reports, which encompass all three elements of corporate citizenship, aimed at economic, social, and ecological impacts.

### **Responsibility Management**

Responsibility management and reporting in the early 2000s consisted of voluntary efforts on the part of companies to be more transparent about some of their practices and impacts. Because companies were able to report how, when, and what they wanted to, however, many critics still found problems

with their corporate citizenship. In response, what can be called a responsibility assurance system, consisting of principles and codes of conduct, credible monitoring, verification, and certification systems to ensure that those principles were being met, and consistent reporting mechanisms began to evolve in the early 2000s.

A given company's corporate citizenship is guided by the company's vision and underpinned by its values. Responsibility management approaches begin with vision and values and are reinforced by stakeholder engagement, which helps companies to determine the concerns and interests of both internal and external stakeholders and make appropriate changes. Unlike CSR, which focuses on discretionary activities, corporate citizenship in its broadest sense represents a more integrated approach to the broad responsibilities of companies that is increasingly being accepted by leaders of global enterprises. When a company adopts a responsibility management approach as part of its corporate citizenship agenda, it also focuses on integrating the vision and values into the operating practices and strategies of the firm, typically by focusing on human resource practices and the array of management systems, corporate culture, and strategic decisions that constitute the firm. Another important aspect of responsibility management, which can be compared in its major elements to quality management, is developing an appropriate measurement and feedback system so that improvements can be made as necessary. A final element is that of transparency, as many companies managing corporate citizenship explicitly publish some sort of report that focuses on their social, ecological, and economic performance. Such reports have come to be called triple-bottom-line reports.

### **Responsibility Assurance**

Skeptical stakeholders need reassurance that companies actually manage their stakeholder, societal, and ecological responsibilities well and were unsatisfied with voluntary internal responsibility management approaches, particularly since such approaches were still mostly in use by large branded companies concerned about their reputation, leaving most business-to-business companies and small and medium-sized enterprises to their own devices. Such critics need reassurance that stated standards are actually being met and that statements about corporate citizenship made by companies are accurate. As a result, in addition to internal and voluntary responsibility management approaches, during the early 2000s some large multinational companies began

participating in an emerging and still voluntary responsibility assurance system. Responsibility assurance attempted to provide some external credibility to what companies were doing internally to manage their corporate citizenship. Responsibility assurance involves three major elements: principles and foundational values; credible monitoring, verification, and certification systems that help ensure that a company is living up to its stated values; and globally accepted standards for transparently reporting on corporate citizenship and responsibility activities.

### **Principles and Foundation Values**

Principles and foundation values can be found in documents such as the UN Global Compact, OECD Guidelines for Multinational Corporations, and similar codes of conduct as discussed above. They provide guidance to companies about a floor of practice below which it is morally problematic to go and typically rest on core ethical principles or, as noted above, internationally agreed documents and treaties.

### **Credible Monitoring, Certification, and Verification Approaches**

The second aspect of responsibility assurance encompasses credible monitoring, certification, and verification approaches. Because there is a great deal of skepticism about companies' actual corporate citizenship practice, many critics are unwilling to believe companies when they state that they are ensuring that their codes of conduct are actually being implemented. This skepticism increases in long global supply chains, where companies outsource manufacturing, assembly, and related low-skill work to facilities in developing nations; the outsourced work is granted to suppliers who are not actually owned by the customer or sourcing company. Although the supplier facilities are not actually part of the sourcing company, some multinationals' reputations have nonetheless been tainted when activists have uncovered problems in the suppliers' operations related to human and labor rights, environment, safety, working conditions, abuses that involve poor pay even by local standards or failure to pay overtime, and related problems. Child labor is another serious concern for some activists. It turned out that the media, activists, and ultimately the general public did not make a distinction between the supplying company manufacturing in developing nations and the customer company that was purchasing those goods—both were blamed for the use of child labor, but the multinationals were the nearer and more familiar target, so they bore the brunt of the

blame. Even when the multinationals implemented their codes of conduct and asked their suppliers to live up to those codes, problems persisted.

As a result, some footwear, clothing, toy, and sports equipment multinationals and some large retailers, who were among the first companies targeted by activists for poor sourcing practices, not only asked their suppliers to implement a code of conduct but began hiring external verifiers to go into those companies and ensure that standards were actually being met. These verifiers are mostly independent agents; they include both NGOs and sometimes accounting firms attempting to develop an expertise in social, labor, and ecological monitoring. The verifiers perform three main functions in supplying companies, wherever they are found: verification that the standards of the sourcing firm are being met; monitoring of working conditions, pay, labor standards, and health, safety, and environmental standards; and certification to the external world that conditions are what the company says they are. Major companies such as Nike, Reebok, Levi Strauss, The Gap, Disney, and Mattel, and numerous others who have been spotlighted in the past, now employ external verifiers in addition to having their own codes of conduct and internal management systems.

Among the many organizations involved in the verification or social audit process are the Fair Labor Association; SAI International, which offers a set of standards called SA 8000; and the British firm AccountAbility, which offers a set of standards called AA 1000. Others include the Clean Clothes Campaign, the Worldwide Responsible Apparel Production program, the Ethical Trading Initiative, Verité, the Fairwear Foundation of the Netherlands, and the Worker Rights Consortium. Many of these independent monitoring and verification organizations are NGOs, while some social auditors are for-profit enterprises. In addition, some represent women's rights groups, some are focused on labor and human rights, and others are backed by religious groups. Some are local in scope and use local parties to actually conduct the monitoring, while the larger ones are international in scope. Concerns about this type of monitoring or responsibility audit, according to the U.S. association Business for Social Responsibility (BSR), range from issues about the effectiveness of monitors in actually uncovering abuses; lack of resolution of issues uncovered in reports by corporate headquarters; and opinions that other means of reducing poverty, corruption, and related systemic problems will be more effective than verification processes. BSR also suggests several positive reasons why companies wish to employ social auditors and verifiers, including cost reduction by using

local monitors rather than in-house monitors especially when facilities are globally distributed, benefits to corporate reputation, better compliance both with the code and legal requirements, enhanced productivity and quality brought about by better working conditions, and greater transparency and related credibility with the public.

### **Globally Accepted Reporting Standards**

The third important element of responsibility assurance is having globally accepted reporting standards that ensure that real transparency exists about corporate practices and impacts. Here, the analogy needs to be made to financial auditing and reporting. The auditing and accounting industry, at least within each nation, has long established standard practices, formats, and criteria for reporting corporate financial performance. Such standardization is important so that investors can compare one company's performance against others in the same industry or across different industries. Currently, the same cannot be said for corporate reporting about social and ecological matters, yet there are increasing demands on companies for greater transparency about their practices and impacts.

Although many companies issue triple- or multiple-bottom-line reports that focus not only on economic and financial matters but also on social and environmental ones, there is still no fully accepted reporting procedure that details what, how, and when different aspects of performance are to be reported. As a result, comparing the social or ecological performance of one company with that of others even within the same industry can be problematic. Restoring public trust in corporate citizenship ultimately will require standardization of social reports and even potentially some legal requirements that all companies issue such reports.

There are a number of initiatives aimed at developing globally accepted reporting standards that ensure social and ecological transparency, including a major initiative by the European Union to standardize CSR reporting. Indeed, the ISO organization, which sets quality and environmental standards, began to develop a set of corporate responsibility standards in 2004, which will be voluntary for companies once completed. A company called One Report helps multinationals and other companies gather and report on issues related to sustainability, which include both social and ecological elements, in a standardized format. Perhaps the most prominent of the initiatives around standardized triple-bottom-line reporting, sometimes called sustainability, reporting is that of the Global Reporting Initiative or GRI.

The GRI began in 1997 as an initiative of the CERES and became independent in 2002. Its mission is to develop globally standardized guidelines for sustainability reporting. Formed by a multistakeholder coalition, the GRI regularly gets input from businesses, accounting firms, and investment, environmental, research, human rights, and labor organizations to ensure that its standards are comprehensive, correct, and appropriate to the situation of different businesses. Linked cooperatively with the UN Global Compact, the GRI has developed specific reporting guidelines, principles for determining what to report and how, and content indicators that guide organizations in developing their own reports. In addition, because industries differ dramatically in the characteristics of what needs to be reported, the GRI also has begun developing industry-specific standards.

The GRI attempts to help companies integrate a number of complex attributes related to their corporate citizenship. These include their code of conduct, international conventions and performance standards, management systems standards, accounting for intangibles, assurance standards, and specific standards related to the company's industry. Sometimes criticized for its complexity, the GRI represents the most recognized approach to date of standardized triple-bottom-line or sustainability reporting.

## **CRITICISMS OF CORPORATE CITIZENSHIP**

Some observers believe that corporate citizenship merely represents an effort on the part of companies to create a positive public image rather than substantive change within the corporation. Particularly when corporate citizenship is treated as discretionary or voluntary activities designed to improve aspects of society, critics believe that it does not go deep enough. Others point out that while the United Nations estimates that there are approximately 70,000 multinational corporations in the world with hundreds of thousands of subsidiaries, only a few highly visible, mostly brand-name companies are actively engaged in explicitly forwarding themselves as good corporate citizens. For example, as of 2005, about 2,000 companies had joined the UN Global Compact, while about 350, many of which had joined the Global Compact, had completed triple-bottom-line audits following the procedures of the GRI.

Another criticism of the concept of corporate citizenship focuses on the fact that citizenship is an individual responsibility involving a corresponding set of rights that relate to membership in a political entity, typically a nation-state, that

involve civil, social, and political rights and responsibilities, while companies are not people. Companies, however, do bear responsibilities for their societal and ecological impacts, because they command significantly more resources than do most individuals, because they can influence the public policy process in many nations, and because when they participate in civil society or the political process, they carry more weight than do most individual citizens.

—Sandra Waddock

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## SUSTAINABILITY

**S***ustainability* is an evolving concept that expresses holistic thinking integrating society, economy, and ecology. This concept has been advanced to guide actions within present society to ensure continued existence and prosperity into the foreseeable future. Therefore, *sustainability* can be defined as an integrated understanding of the interconnectedness of human activity with all related man-made and naturally occurring systems. The goal of sustainability is often conflated with the approach needed to attain the goal—*sustainable development*. Understanding these two terms is an essential first step for addressing a set of global challenges embodied by sustainability. To that end, the Brundtland Commission, created through the United Nations, published a report in 1987 in which *sustainable development* is defined as seeking to meet the needs and aspirations of present society without compromising the ability to meet those of future generations.

Because of profound changes to our shared ecological systems, the question of sustainability is being considered around the world. From advancing ozone depletion, which leads to progressively higher levels of life-damaging radiation, to accelerating greenhouse gas emissions, which contribute to complex climate change, to habitat destruction, which results in decreased biodiversity, shared ecosystem resources are being depleted or damaged. Among the consequence of ecosystem damage and loss are that it can threaten and create social unrest in the future, while at the same time drive numerous species toward extinction. Abject poverty that attends the growing gaps between the rich and the poor is a proven driver of environmental degradation and fuels resource, trade, and policy disputes. This type of economic unrest has provided a source of motivation to address sustainability issues not only in organizations such as the United Nations but also at the World Bank and the World Trade Organization.

As our society wrestles with the meaning and actions implied by sustainability, it is helpful to consider that more than 400 years ago the Haudenosaunee (also known as the Iroquois) had their “Great Law,” which, in part, requires that leaders consider the impact of their decisions on the seventh generation

following that decision. There are other such examples of statements regarding sustainability from the past that very clearly define our collective responsibility to protect and plan for the future. Understanding the recurrence of this theme in human society helps us to understand the centrality of sustainability. It is also instructive to note that thinking about sustainability is not the same as achieving a sustainable outcome. Many civilizations have risen only to prove unsustainable, the Haudenosaunee being among them. What is very different today is the accumulating metrics and resulting data that confirm the impact of human activity on global ecosystem services, such as water cycles, carbon cycles, and resource renewal cycles to name a few. Climate scientists are in general agreement that global warming is real, and it is the product of human activity. The main questions now are as follows: How bad will the consequences be? How fast will they manifest? What can be done to mitigate some of the damage already done?

Sustainability explores how we collectively and individually move into the future while learning to understand how global ecosystem services underpin the social and economic activity on the planet. Business organizations are human society's most efficient resource concentrators, transformers, and distributors; thus, they create what might be called a "corporate ecology" and, therefore, business-oriented solutions central to any working and attainable definition of sustainability.

A few business organizations have viewed increased emphasis on sustainability as an opportunity. If environmental and social costs are included as additional performance metrics, then those firms that comply early and set new standards may be able to create a basis for competitive advantage. For instance, when the California Environmental Protection Agency found that two-stroke engines (the type often used in lawn mowers and gas-powered gardening equipment) were causing a large amount of air pollution, it began to demand more stringent emissions standards for these machines. At first, these new standards were opposed by industry, but a few innovators not only were able to meet the new standards but exceeded them and used 33% less fuel with their more efficient motors. In this case, a sustainability effort, once embraced by these companies, provided the compliant companies with a competitive advantage and achieved a social and environmental objective simultaneously. Sustainability, when pursued by businesses with creativity and purpose, can achieve financial, social, and environmental objectives in an integrated and positively reinforcing manner.

The concept of sustainability is not without its detractors. Some notable scholars, such as Julian Simon, feel that the combined mental power of more people will solve whatever environmental or social problems further human activity produces. The Cato Institute in 2002 concluded that sustainable development is a dubious solution in search of a problem or that it is simply a restatement of a commonsense position of taking care of one's own productive resources that is already well addressed by the current free market policy. It has also been argued that the cost of taking action to comply with sustainability initiatives such as the Kyoto Treaty on Climate Change would cost the U.S. economy a disproportionate amount. These arguments were central to the Bush administration's refusal to become a signatory nation to that agreement on "greenhouse gas" reduction. Some climate scientists and ecologists argue that greenhouse gas damage to ecosystems services may be irreversible and this damage has real costs now that will grow in the future. A concept as complex and far-reaching as sustainability will always present business and society with very conflicted and ambiguous trade-offs.

Because business organizations are uniquely transformative institutions in modern society, how business approaches the concept of sustainability is of primary importance. This central role of business in modern society is also discussed in such topics as corporate social responsibility, corporate citizenship, and corporate ecology. A number of management efficiency approaches have been suggested for business organizations that could make important contributions to our societal goal of sustainability. Some of these include ISO14000, triple-bottom-line accounting, the balanced scorecard approach to strategic management, natural capitalism, the natural step, industrial ecology, Zero Emissions Research Initiative (ZERI), ecological footprinting, and eco-effectiveness (cradle-to-cradle model). In the following sections, these approaches will be discussed briefly.

## **ISO14000**

ISO stands for the International Standards Organization. It is a nongovernmental organization that has grown out of the General Agreement on Tariffs and Trade. As the World Trade Organization pursues agreements on global trade, quality standards have become increasingly important. One of the outcomes of the 1992 Rio Summit on the Environment was the creation of ISO14000 to create a comprehensive set of standards designed to address the most pressing

environmental issues for organizations in a global market. As it currently stands, these standards are voluntary for organizations to abide by. However, the ISO14000 is building on up-to-date environmental health and safety standards. These are important standards and make significant contributions to our understanding of sustainability. However, the ISO does not make specific mention of sustainability and states as its primary focus the application of best practices that are geared toward helping organizations come into compliance with globally accepted standards on environmental health and safety. Depending on the application, the ISO approach to standardized reporting and efficiency measures can lead a company to improvements or to follow an industry to the lowest common denominator of acceptable practice.

### **TRIPLE-BOTTOM-LINE ACCOUNTING**

This term and approach originated with the publication of John Elkington's 1998 book *Cannibals with Forks: Triple Bottom Line of 21st Century Business*. In it, Elkington argues that accounting practice should be expanded to include environmental and social costs as well as financial costs. Some scholars argue that corporate social responsibility, or corporate social performance, must measure the social, environmental, and economic performance of the corporation for a firm to be consistent in its approach to these commitments to good practice. There are obvious problems associated with assessing the costs to society for various corporate actions. According to Elkington, the price of a product should include the cost of the ecological services consumed in the production of the product and embodied in the use and disposal of the product. Great strides in ecological economics and research in social capital have helped create metrics to fill in these gaps. The triple-bottom-line approach would have a substantial impact on how organizations operate and may advance our understanding of sustainability. But there are many scholars and practitioners who oppose this type of approach, arguing that it confuses the division of labor and would make firms inefficient and uncompetitive.

### **BALANCED SCORECARD**

This systematic approach to enterprise management was developed in the early 1990s, by Robert Kaplan and David Norton, as a way to remove some of

the vagueness out of strategic management. This approach was not developed specifically as a tool to achieve sustainability, but it has promise as such. Like the triple bottom line, the balanced scorecard approach requires that management look beyond financial measurement; it incorporates a more holistic systems perspective into organizational management. This system uses what has been referred to as a double-loop feedback: One loop is business process focused, and one loop is strategic outcome focused. Both loops are intended to use measurements to provide managers with data on which decision making is based. The application for sustainability comes from the reliance on internal and external data collection and an inherent acceptance of a systems approach.

## **NATURAL CAPITALISM**

In 1999, Paul Hawkins, Amory Lovins, and L. Hunter Lovins published a book proposing the redesign of industry based on biological models. They argue that the living systems of the earth are in decline and that the next industrial revolution will be driven by corporations. Natural capitalism is built around the idea that business opportunities become more abundant as entrepreneurs recognize environmental resource limitations. Those that can do more with less will prosper. The advocates of natural capitalism propose four interlinked principles to unlock and ultimately restore natural capital: (1) radically increase resource productivity; (2) adopt closed-loop systems and zero waste in industry; (3) sell services in place of selling products; and (4) recognize that natural capital is the source of future prosperity, thus that businesses will be incentivized to invest in its maintenance. This approach is not only an explicit plan for the concept of sustainability but also a vision of what sustainable business practice might look like.

## **THE NATURAL STEP**

This approach is the outcome of a series of studies initiated by Karl-Henrik Rob, who established principles for sustainable society based on thermodynamics and natural cycles. Since 1989, the Natural Step Foundation has been refining and promoting its four-phase program. These phases are (1) aligning key decision makers and stakeholders around a common understanding of what it takes to be a sustainable society, (2) creating baseline data that detail

the resources necessary for an organization to be sustainable, (3) creating a vision-driven strategic plan based on the data gathered through the study of the organizational system, and (4) recognizing that success depends on step-by-step implementation and continued support. While this approach is comprehensive and holistic, an organization's implementation of this approach seems dependent on the Natural Step Foundation and may be self-limiting because of restrictive access. Here again, as in natural capitalism, the emphasis and essence of the approach to sustainability is on systems thinking, confronting natural resource and cycles dependence, and creating strategies to support the health and continuation of these processes.

## **INDUSTRIAL ECOLOGY**

The idea of industrial ecology, which has grown rapidly over the past decade, originated in a 1989 publication by Robert Frosch, and a book by this title was published by Graedel and Allenby in 1994. Very simply, industrial ecology is the idea that an industrial system should function like an ecosystem. There is no waste product in nature; the end of one process is the beginning of another. Some scholars have defined industrial ecology as the science of sustainability. Yet others would argue that this overreliance on science is the weakness of industrial ecology. It has been said that the answer to the question of sustainability will not be engineered; society must come to an understanding of the interdependence of natural systems and their limitations. These writers advocate caution regarding industrial ecology and suggest that technological fixes help human populations extend their overconsumption of resources, whether they are renewable or fixed in quantity. However, all would agree that industrial ecology will be at least part of the solution, because it provides the engineering solutions that can teach us to do much more with less consumption and helps eliminate waste and pollution.

## **ZERO EMISSIONS RESEARCH INITIATIVE (ZERI)**

ZERI is a concept and a network started by Pauli and deSouza at the United Nations University in Japan. The ZERI network has more than 50 projects worldwide that are applying the ZERI sustainability ideas regarding biodiversity, waste elimination, creativity, and efficient design. ZERI is similar to the

Natural Step in that it employs systems thinking to address business, production, and consumption problems. ZERI seeks to create a global network of participants to create alternative organizations that produce goods and services in ways that alleviate poverty and reduce environmental degradation. ZERI is another holistic, systems-based approach to sustainability—one that seeks to model human organizations based on our understanding of naturally occurring systems.

## **ECOLOGICAL FOOTPRINT**

Ecological Footprint is a tool created in 1993 by Mathis Wackernagel and William Rees to help quantify human demand on natural systems relative to the planet's ability to meet those demands. By showing that these demands are consistently in excess of the planet's ability to sustainably provide for these demands, the Global Footprint Network seeks to get business, government, and communities to adopt more sustainable behaviors. Unlike most of the other approaches presented here, the footprint concept is a tool that helps individuals and organizations get a sense of what their actions cost in terms of ecological services. This is an important place to start when considering the meaning and application of sustainability. Our current global ecological footprint overshoots ecosystem capacity by almost 20%, which can be absorbed for a time but not without damage and not indefinitely. Tools such as ecological footprinting are important for people to map our current trajectory and to be able to measure change when action is taken.

## **ECO-EFFECTIVENESS (CRADLE-TO-CRADLE MODEL)**

This is a management consulting and sustainability model that is similar to the approach of natural capitalism. It was developed by Michael Braungart and William McDonough in 1995. The idea of eco-effectiveness is not simply doing more with less but designing products and services in ways that are systemically appropriate. Such products and services are designed to produce no waste and to support rather than disrupt natural systems. By studying the industry as a natural system, this concept seeks to design business processes that mimic metabolic systems both biological and mechanical. Like natural capitalism, this approach envisions the next industrial revolution as one where the end of a product use cycle is the beginning of the next nutrient

cycle—where waste equals food and ecological intelligence drives profitability and competitive advantage.

As this brief survey of approaches for addressing sustainability illustrates, many scholars and practitioners have expressed urgency and insight about the global need for sustainability. A successful approach to sustainability will not be engineered. Simply building better, more efficient products will not on its own yield a sustainable future. Along with the efficient use of resources, sustainability requires some fundamental changes in how organizations work on all levels, from the individual action to international coordination. These are not insignificant changes. This fact alone captures the profound difficulty in even defining sustainability—sustainability will have different meanings depending on the level of analysis; ultimately they must all contain the understanding that a sustainable world cannot support irresponsible and inequitable resource use.

—David H. Saiia

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## CORPORATE ACCOUNTABILITY

**C**orporate accountability is a foundation of corporate social responsibility. Corporate social responsibilities, at the most general level, include economic duties, legal and regulatory compliance, responsiveness to ethical norms, and discretionary social welfare contributions. In addition, one of the most basic of all corporate social responsibilities is corporate accountability. It is defined as the continuous, systematic, and public communication of information and reasons designed to justify an organization's decisions, actions, and outputs to various stakeholders. According to this definition, corporate accountability is primarily a form of ethical communication directed toward those parties who are affected by corporate activities and effects.

Corporate accountability represents a corporation's social responsibility to explain its actions (past, present, and future) in an accessible, reasonable, and meaningful way to the society in which it operates. In a democratic society dependent on informed political discourse and deliberations, corporate accountability is a necessary foundation for the system of free enterprise. The appropriate level of corporate accountability underpins the legitimacy of corporate autonomy and decision making in a system of democratic capitalism. In such a system, business enterprises enjoy a high degree of economic freedom of choice and are expected to engage in activities that promote the interests of the business. This economic freedom, however, is contingent on the existence of strong accountability mechanisms.

There are various traditional institutional mechanisms, both external and internal to the corporation, designed to enhance and strengthen accountability to stakeholders. These well-known mechanisms include the annual report to shareholders, corporate governance, government regulations, corporate codes and credos, and various forms of corporate communications.

### THE ANNUAL REPORT TO SHAREHOLDERS

The single most important component of corporate accountability is the annual report to shareholders. It includes three important financial statements: the balance sheet, the income statement, and the statement of cash flows.

The balance sheet provides a detailed list of corporate resources (assets) and claims to those resources (liabilities and equity). It can be compared with a photograph that summarizes the financial condition of a business entity at a *fixed point in time*. The income statement provides detailed information about revenues, expenses, gains, and losses. It is like a movie in that it explains what happened *over a period of time*. The statement of cash flows provides information about the sources and uses of cash. It consists of three categories: operating, investing, and financing. The financial statements gain credibility because they are audited by certified public accountants. According to the Financial Accounting Standards Board, the three main objectives of financial accounting are to provide information that is useful to those making investment and credit decisions; helpful to present and potential investors and creditors in assessing the amounts, timing, and uncertainty of future cash flows; and about economic resources, the claims to those resources, and the changes in them.

## CORPORATE GOVERNANCE

Corporate governance is essential to corporate accountability and without which no corporation can exist. State laws demand that corporations are to be managed and directed by a board of directors. This board acts as a surrogate for the shareholders of the corporation and its primary role is to oversee management's performance in terms of increasing profits and meeting social responsibilities. As such, corporate governance is a fundamental component to corporate accountability as defined above because it provides a strong institutional forum for communication between managers and shareholders' representatives.

## CORPORATE REGULATIONS

In 2002, the U.S. Congress overwhelmingly passed one of the most significant pieces of securities legislation in U.S. history, the Sarbanes-Oxley Act. One of the main purposes of passing the Sarbanes-Oxley legislation was to reestablish the credibility of the financial markets by strengthening corporate accountability. This purpose is in line with the goals of previous federal and state legislation in the United States and across the world.

Sarbanes-Oxley contains several important features relevant to corporate accountability. It established the Public Company Accounting Oversight

Board to oversee the accounting profession, thus radically limiting the profession's traditional autonomy. It requires chief executive officers and chief financial officers to certify all financial statements and assigns criminal responsibility to those executives who knowingly make a false certification while demanding enhanced corporate disclosures concerning off-balance-sheet financing. Sarbanes-Oxley contains several provisions to enhance auditor independence. It also requires corporate boards to establish independent audit boards.

## CORPORATE CREDOS AND CODES OF CONDUCT

Credos and codes can potentially serve an important role in strengthening corporate accountability. By carefully defining its own ethical aspirations, a corporation can helpfully communicate the criteria by which it wants to be held and judged. While critics are quick to note the self-serving nature of many corporate credos and ethical codes, these kinds of documents often provide both outsiders and insiders specific and clear statements to use in evaluating the credibility of corporate management. Johnson & Johnson's corporate credo, for example, establishes customers as the primary stakeholder of the corporation. This credo is often cited as an exemplar.

## INCREASING DEMAND FOR CORPORATE ACCOUNTABILITY

In recent years, the demand for corporate accountability has increased dramatically. This demand has been spurred by the sheer growth of corporate power and by corporate environmental disasters such as the *Exxon Valdez* oil spill of 1989 and the Union Carbide and the Bhopal, India, tragedy. Corporate ethics and audit failures such as those at Enron, WorldCom, and many other U.S. and global corporations have also contributed to the increased demand for more and better accountability. Globalization, the Internet, the greenhouse effect, the increased interconnection of the world economy, and the rising power of institutional investors have also contributed to this change. Finally, changes in ethical values, especially an expanded conception of corporate social responsibility, have altered expectations surrounding the need for a broadened conception of corporate accountability.

## LIMITATIONS OF THE FINANCIAL STATEMENTS AS AN ACCOUNTABILITY MECHANISM

At the same time that the demand for accountability has increased, the usefulness of traditional financial statements is being questioned. While financial statements remain as an important source of reliable and relevant information about corporate activities, they have come under intense scrutiny in recent years. There are several limitations associated with the traditional financial statements.

First, many items are omitted from the balance sheet. These include intangible assets, the value of human resources, and many liabilities such as pension and health care obligations. Second, investors and other interested parties question the use of historical cost as the predominant method of valuing assets. Third, there is a lack of forward-looking information in the annual report such as management's forecast of earnings per share. Fourth, the traditional annual report focuses exclusively on the financial performance of corporations and excludes information about environmental and social performance. Finally, annual reports, especially income statements, are subject to questionable accounting manipulations such as earnings management, a process whereby managers alter the timing of revenues and expenses to change investors' perceptions.

There is now convincing statistical evidence that earnings management is a frequent management technique used to make a company look better than it otherwise would have. These manipulations occur despite the requirement that all financial statements are audited by certified public accountants. Each of these limitations diminishes the usefulness of the financial statements as an accountability mechanism.

Corporate governance has also come under intense scrutiny in recent years. This criticism of corporate governance reached a climax in the wake of ethics failures, including earnings management, at Enron and Andersen.

## THE BROADENING SCOPE OF CORPORATE ACCOUNTABILITY

In response to the increasing demand for corporate accountability and the limited ability of traditional solutions to meet this need, the scope of corporate accountability has broadened considerably in at least four distinct ways.

## Backward-Looking Information Versus Forward-Looking Information

At the heart of the traditional accounting model was the historical cost principle, which states that the original cost of an asset is the most reliable valuation basis. It has long been argued that the best way to measure assets, liabilities, equities, revenues, and expenses is through the use of historical cost. The primary justification for this has been reliability. Simply put, historical cost can be documented and verified by auditors with a high degree of confidence and certainty.

Although historical cost accounting scores high in terms of reliability, it scores much lower in terms of relevance. Investors and creditors trying to predict future performance are more interested in forward-looking information such as managers' forecast of future earnings per share than backward-looking information (such as last year's earning per share).

In the United States, the Securities and Exchange Commission has taken a major step forward in this area by requiring publicly traded companies to publish a management discussion and analysis section in their annual reports. These reports, as has been documented, contain valuable information not only about past decisions but also about future events and trends. In short, corporations are being asked by regulators and other stakeholders not only to reasonably justify *past* actions, but they must now also disclose and explain anticipated *future* actions.

## Hard Versus Soft Data

The second change in broadening the scope of corporate accountability is related to the first. There is an ever-increasing flow of financial data carefully audited by outside accountants. This is the hard data. But, at the same time, there is an increasing demand for soft data; that is, information that cannot necessarily be quantified in a precise and exact way but nonetheless is important for decision making. Soft data include descriptions of new products, emerging markets, anticipated layoffs, planned capital expenditures, joint ventures, research and development projects, advertising campaigns, and many other items.

Consider the recent controversy over the disclosure of stock options as just one important example. Many companies argued with some justification that there is simply no known and noncontroversial way to value these options in a reasonable manner. These companies argued that assigning a dollar value

to stock options would provide misleading and unreliable information to shareholders and creditors. Despite these arguments, however, the demand for additional disclosure concerning stock options is unabated.

Although at one time it was possible for companies to legitimately meet the obligation of corporate accountability by publishing a set of numbers with almost no description accompanying the financial statements, today this is no longer the case. Justification now requires accurate verbal disclosures and descriptions as well.

### **The Bottom Line Versus Multiple Bottom Lines**

Third, can corporate performance be measured with a single number? Is it conceivable that all of a corporation's thousands of decisions, actions, and outcomes can be summarized and evaluated through net income? Although some companies and many short-term investors continue to act as if the answer to both these questions is yes, other companies have now learned through experience that even if it was once true, it is certainly no longer the case.

Perhaps the most important of the changes that we have documented so far is the increasing recognition that corporate accountability now requires managers to justify not only purely financial outcomes but also environmental and social outcomes. Connected to this change, the list of legitimate stakeholders has also expanded to include employees, customers, local and global communities, and others. This means there is no longer such a thing as the bottom line. Today, there are multiple bottom lines. In a sense, there are as many bottom lines as there are stakeholders.

While just a few years ago the phrase multiple bottom line was more metaphor than reality, today it is more reality than metaphor. The Global Reporting Initiative (GRI) was established in 1997 as a joint venture between the Coalition for Environmentally Responsible Economies and the United Nations Environment Program. In June 2000, GRI published a set of guidelines to help companies improve on their environmental and social reporting. These guidelines were revised in 2002. One thousand global companies now use some form of triple-bottom-line accounting in line with GRI guidelines—reporting on economic, environmental, and social behaviors and outcomes. Among these companies are 3M, AT&T, General Motors, Ford, Shell, McDonald's, Dupont, Dow Chemical, Nike, Canon, Electrolux, Ericsson, France Telecom, and some other smaller companies as well.

## Monologue Versus Dialogue

Finally, careful examination of a set of recently issued sustainability reports demonstrates the most radical change of all. To legitimately justify an organization's decisions and actions, corporate accountability is now viewed and described by many as a dialogue between the corporation and its stakeholders and not as a monologue on the part of management. For example, see especially AccountAbility 1000's AA1000—Principles and Measurement Standards and a U.K. company law reform proposal that would require the dialogue between corporations and their shareholders to be published online. This means that corporate accountability requires listening to a company's diverse stakeholders as well as responding to them. It also means that many companies now openly recognize that corporate accountability is an evolving and contested concept.

There is a growing awareness of dialogue as a formal component of corporate accountability. Dialogue is emerging as one of its central and most innovative aspects. Dialogue does not imply that organizations are abdicating their responsibility for decision making. But it does imply a recognition that organizations are embedded in society and rely on it for legitimacy.

## CONCLUSION

Those managers committed to the capitalistic system realize that it is in their own self-interest to enhance corporate accountability. In a world of instant communication, those corporations that can justify their actions in a clear and sensible way may possess a strong competitive advantage over rivals who maintain a policy of secrecy. It makes good business sense to enhance corporate transparency.

Corporate accountability, however, should not be conceived of as a kind of game. Rather, it is a form of ethical communication among human beings on which the future growth and legitimacy of business depends. As globalization spreads, corporate accountability is becoming the linchpin of the worldwide economic system. As the notion of corporate social responsibility gains credence across the globe, corporate accountability is increasingly viewed as a crucial task for boards of directors, corporate management, business consultants, and accountants. Corporate accountability has always played an important role in the financial markets, but as the concept of corporate accountability broadens, its role in society will gain in importance.

—Moses L. Pava

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## CORPORATE MORAL AGENCY

Insofar as they are capable of exhibiting intentional action, corporations may be regarded as moral agents. Agents reflectively endorse specific ends and shape the world by imposing those ends on the world. Because agents have this sort of intentional capacity, they are properly characterized as responsible for the actions they impose on the world. Persons are prototypical examples of agents and the class of persons is properly understood as subset of the class of moral agents. In U.S. law, the class “persons” includes entities other than human beings such as corporations. The courts attribute personhood to corporations on pragmatic grounds, finding this a useful convention for the purposes of corporate law. The question of whether or not there are grounds for thinking that, from a metaphysical standpoint, corporations are properly understood as moral agents is a separate matter.

### FRENCH’S VIEW

A quarter-century ago, Peter French published an influential essay on the metaphysical status of the corporation. He has subsequently defended the core of that view in a series of books and essays. Despite its many critics, French’s theory of corporate personhood remains the single most influential account of the metaphysical status of corporations. Corporations, as French noted, are of particular interest in comparison to other sorts of collectives or organizations because of their distinct rules of governance and hierarchical structure. In his early work on the metaphysical status of corporations, French reached three main conclusions. First, corporations exhibit intentionality. Second, corporations are capable of exhibiting rationality regarding their intentions. Third, corporations are capable of altering their intentions and patterns of behavior. As a result, he concluded that corporations are full-fledged moral persons and have the privileges, rights, and duties that are, in the normal course of affairs, accorded to moral persons. This claim received sustained criticism over the years. In particular, critics have argued that French’s position is illegitimately

anthropomorphic. For example, Richard De George has argued that, unlike human beings, corporations are not ends in themselves. Other critics have argued that it is absurd to suggest that corporate persons have the same emotional status as human persons. Still others have argued that corporations cannot be persons, since all persons have a soul and no corporation has a soul.

## INTENTIONALITY

In his early defense of corporate personhood, French grounded his arguments in the belief-desire theory of intentionality. He argued that when the corporate act is consistent with an instantiation of established corporate policy, then it is proper to describe it as having been done by a corporate desire coupled with a corporate belief and so as a corporate intention. Critics seized on French's use of the belief-desire theory, arguing that, since he wrongly attributed distinctly human intentionality to corporations, his defense of corporate intentionality failed. For example, Manuel Velasquez argues that all attributions of intentions to corporations must be understood as metaphorical since they are not literal mental states. He denies the possibility of such an argument because he stipulates that intentions must be understood as mental states identical to those present in individual human minds. However, this is not the only way of understanding intentionality. One alternative way of understanding intentions is as commitments to future action. Such a characterization of intentions leaves open the possibility that entities other than conscious biological beings may be properly understood as intentional.

Central to the claim that corporations are moral agents is the claim that corporations have intentions. Prosecutors and judges routinely attribute intentionality to corporations. Nonetheless, the attribution of intentions to corporations has been rejected by many theorists as an untenable hypothesis. Partly in response to such criticism, French has modified his view of the metaphysical status of the corporation in two significant ways. First, French has abandoned the idea of corporate "persons" in favor of a defense of corporate "actors" or agents. This move allows French to avoid the criticism that his view is illegitimately anthropomorphic. Second, French now rejects the belief-desire theory of intentionality that he had previously embraced in favor of Michael Bratman's planning theory of intentionality. This allows him to avoid criticisms associated with the belief-desire theory of intentions.

## CORPORATE INTENTIONS

Bratman's account of intentions emphasizes their future-directed nature. On his account, intentions are typically elements of plans. Bratman argues that as rational agents with complex goals most of our intentional actions will stem from deliberation and reflection prior to the time of action, that is, from planning. The plans characteristic of human agents have two essential features. First, plans are typically partial or incomplete. They need to be filled in over time. Second, plans typically have a hierarchical structure. Bratman has extended his analysis of the intentions of individuals to shared intentions of a certain type—namely, the intentions shared by two individuals who plan to engage in a joint activity. Consider two individuals who plan to take a trip together. What roles do their shared intention to take a trip together play? First, their shared intention allows for the coordination of planning. Second, their shared intentions structure relevant bargaining. Third, their shared intentions allow for the coordination of activities. On this account, shared intention is a state of affairs that consists of a web of attitudes of the individual participants. Shared intentions are not, then, mere mental states.

French has suggested that Bratman's account of intentionality will provide an adequate basis for a theory of corporate intentionality, yet French has not developed a sustained argument for that conclusion. However, Bratman's analysis of shared intentions has recently been extended to corporations by Denis Arnold. He argues that the state of affairs characteristic of shared intentions is also characteristic of corporations. Typically, corporate decisions are made in accordance with the structure previously characterized by French as a corporate internal decision (CID) structure. This well-known and essential feature of French's account of corporate moral agency includes hierarchical lines of organizational responsibility, rules of procedure, and corporate policies. A CID structure performs a normative function, that is, it tells members of the corporation how they ought to behave. When employees act in a manner consistent with the CID structure they instantiate corporate intentions. Corporate intentions are states of affairs consisting of both the intersecting attitudes of the class of agents comprising the corporation and the internal decision structure of the organization. The CID structure serves as the frame on which the attitudes of board members, executives, managers, and employees are interwoven to form corporate intentions.

Praiseworthy corporate intentions include value creation, the development of innovative technology, and respectful regard for stakeholders.

Blameworthy corporate intentions include deceptive marketing, systematic dumping of toxic chemicals into pristine natural environments, and theft from shareholders.

Arnold argues that since corporations are properly understood to have intentions, there is a basis for thinking that corporations are properly understood as agents. However, he points out that for corporations to be properly regarded as moral agents, a further condition must also be satisfied. Corporations must be capable of reflectively endorsing corporate intentions. Corporations that are capable of evaluating past decisions and existing plans, of determining whether those intentions ought to remain in place, or whether they should be modified or eliminated in favor of alternative intentions are capable of the requisite reflective endorsement and are properly understood as moral agents.

## CONCLUSION

The idea that corporations are properly understood as moral agents remains unpersuasive to many theorists. First, some critics maintain that all agents must be understood as having souls. Since it is implausible to attribute a soul to a corporation, some theorists conclude that corporations cannot be understood as agents. Second, the idea that corporations are capable of reflectively endorsing intentions strikes some theorists as implausible. They argue that reflective endorsement is a quality of human persons and one that cannot reasonably be attributed to organizations.

Defenders of the view that corporations are properly understood as moral agents point out that this view has important implications regarding moral responsibility. For example, if a corporation is properly understood as a moral agent, then it is possible to praise or blame corporations and not just the directors, executives, managers, and workers of a corporation at a particular time. Punishment of the corporation, and not just corporate personnel, is thereby justified when corporate intentions are morally objectionable. In cases where corporation actions are especially pernicious as a result of corporate intentions, corporate capital punishment in the form of the dissolution of the corporation may be justified. So too, corporations that exhibit consistently praiseworthy behavior as a result of corporate intentions are justifiably rewarded independently of corporate personnel.

—Denis G. Arnold

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## SOCIAL ENTREPRENEURSHIP

**S**ocial entrepreneurs create social value through the use of the entrepreneurship model. Social entrepreneurship relates to many business forms but fundamentally exists as a model that organizations are able to use in pursuit of goals directed toward building value for the society within which they are embedded. Organizations built on this model follow closely with the traditional path of entrepreneurship, pursuing perceived opportunities to achieve their goals. The key to understanding social entrepreneurship lies in acknowledging that it transcends traditional business model boundaries and can occur in any sector of business, such as in the private for-profit or not-for-profit sector or in the public sector.

To engage in social entrepreneurship, the organization is typically driven by a social entrepreneur. The social entrepreneur shares many similar skills with the traditional entrepreneur. These shared skills are identified as designing a mission with the core purpose to create and sustain value; pursuing new opportunities to serve the mission; engaging in continuous innovation, adaptation, and learning; acting boldly without being limited by the resources currently available; and exhibiting a level of heightened accountability to the stakeholders affected and for the outcomes as a result of the mission. The distinguishing factor for social entrepreneurs is that they create *social* value through the use of this model to create economic value.

While the entrepreneurial skill set is very similar between the traditional entrepreneur and the social entrepreneur, there is a large difference regarding their individual value orientation. Social entrepreneurs are more likely to have experienced some sort of transformative experience during their life, which pushes social improvement to the front of their core values. Most social entrepreneurs are also very active in the social sector throughout their lives, beginning at an early age. This social activism is then combined with their entrepreneurial skill set to enable them to pursue their social missions through social entrepreneurship.

Social entrepreneurship can often be confused with other business models or practices that are designed to create accountability to society within the

business sector. Two other terms that are sometimes misused are *social ventures* and *social enterprises*. Both social ventures and social enterprises are the legal entities that are created as an end result of social entrepreneurship.

It is also useful to distinguish between a social venture and a social enterprise. Most frequently, the term *venture* is used to describe organizations that are the result of a venture capital investment, but with social ventures this is the result of social venture capital. The term *enterprise*, on the other hand, is typically associated not with an organization built on venture capital but with one that secured its financing through other means. Regardless of the methods of financing, both social ventures and social enterprises are two possible outcomes of social entrepreneurship. Social entrepreneurship must also be differentiated from terms such as *sustainable enterprises*, *corporate social responsibility*, and *business ethics*. While it is possible for a social venture, or a social enterprise, to practice social responsibility or sustainability, they are different concepts within the same theoretical sphere of social awareness.

## A BRIEF HISTORY

Although social entrepreneurship has only recently received significant academic and professional attention, the fundamental concept has been in practice by individuals throughout the history of business enterprises. Some examples from the past include David Brower (the United States), Vinoba Bhave (India), Florence Nightingale (the United Kingdom), and Jean Monnet (France). David Brower was the Sierra Club's first executive director and built it into a global network designed to serve environmental issues. Vinoba Bhave founded the Land Gift movement in India, allowing the redistribution of more than 7,000,000 acres of land to the landless untouchables, individuals who were low-caste Hindus and viewed as "polluted" and separated from the rest of society. Florence Nightingale revolutionized health care through the foundation of the first school for nurses. Jean Monnet led the reconstruction of France after World War II and established methods to integrate Europe economically.

These individuals pursued their missions and extensively influenced the societies around them through creativity, leadership, and a vision of social improvement. These acts are distinguished from those of other socially conscious individuals by the entrepreneurial methods used to pursue their social goals. These social entrepreneurs paved new paths to pursue these ideas. Individuals such as these, along with countless social advocacy groups and

community initiatives, have all set the foundation from which the current identity of social entrepreneurship has been derived.

Social entrepreneurship began to gain visibility and definition through the work of Bill Drayton and his founding of Ashoka in 1980. Ashoka became the first to pioneer into the concept of “social venture capital,” providing funding for entrepreneurial individuals in pursuit of social change through innovation. The founding of Ashoka marked the beginning of social entrepreneurship as a functional and practical business theory. As social entrepreneurship continues to gain prominence and validity, it is becoming an increasing popular topic of academic discussion.

With the increase in practical applications of social entrepreneurship, it has become clear that it is a viable model within any of the business sectors. Social entrepreneurship is often categorized as a cross-sector model, in which the organizations applying the model often lie somewhere in the middle of the continuum that runs between the private for-profit and not-for-profit sector and the public business sector, blurring the boundaries of these traditional business sectors. However, as blurred as these boundaries may become, the legal distinctions between organizations in each of these sectors still exists, making it useful to examine the distinctions between each.

## THE FOR-PROFIT SECTOR

Social entrepreneurship within the for-profit sector references organizations that are legally defined as existing to generate profit, while the organization defines its primary mission as one grounded in social improvement or development. When considering these for-profit organizations, it is important not to confuse the act of social entrepreneurship with the act of stewardship. The stewardship model describes organizations that acknowledge their responsibility to society and act on those responsibilities but still identify their primary objective as that of generating profit. For the for-profit social entrepreneur, the ultimate objective is to design a process that allows the organization to generate profit as a by-product of its improvements to society, as opposed to generating social value as a by-product of profit.

By maintaining the for-profit business model, it is easier for these organizations to achieve long-term financial sustainability. This occurs because the organization is often more successful at obtaining sustainable revenue streams. These revenue streams are more stable because the organization understands

that its products must not only be socially beneficial but also just as attractive as a competitor's product, even if the competitor isn't driven by the same social standards. This is the result of consumers who may not know, or care, about the social mission behind the company.

Another variation of social entrepreneurship also occurs frequently within the for-profit sector—social intrapreneurship. Similar to social entrepreneurship, social intrapreneurship has become increasingly popular over the last decade. The distinguishing characteristic of entrepreneurship and intrapreneurship is that intrapreneurship occurs within preexisting organizations, often creating extensions of the same business or expanding into new businesses. One of the attractive features of intrapreneurship is the ability to fund these efforts through the preexisting organization. Thus, often the efforts of intrapreneurship are more successful because the risk of financial failure is smaller when the organization is backed by a secure revenue stream.

Excellent examples of for-profit social entrepreneurship can be found in organizations such as Newman's Own or Ben & Jerry's. Founded in 1978 by Ben Cohen and Jerry Greenfield, Ben & Jerry's began with a single ice cream shop. Explosive growth netted Ben & Jerry's sales of more than \$155 million by the year 2000, amid rumors of Ben & Jerry's becoming the target of take-over interest. The rumors were confirmed as Ben & Jerry's was acquired by Unilever, an Anglo-Dutch corporation, in early 2000.

Nothing in the foregoing overview captures the spirit of social entrepreneurship undergirding Ben & Jerry's. In 1985, company founders Ben and Jerry institutionalized their long-standing commitment to social and environmental issues by establishing the Ben & Jerry's Foundation, funded through donation of 7.5% of the company's annual pretax profits. The company has not relegated its social and environmental action to its funding of the Foundation. At every decision point, the leadership of Ben & Jerry's has sought to provide social benefits from the ongoing operation of their primary business. Among many other initiatives, in a successful effort to divert its ice-cream waste from the local wastewater treatment facility, Ben & Jerry's began feeding a pig farm with its ice-cream waste; the company helped establish a nonprofit initiative known as "1% for Peace"; they came out against bovine growth hormone, based on concern about its adverse economic impact on family farming; introduced Rainforest Crunch ice cream through its scoop shops, with sales of the ice cream indirectly benefiting rainforest preservation efforts; and to help combat Vermont dairy farmers' losses during a period of volatile prices in the

dairy industry, Ben & Jerry's paid a dairy premium totaling half a million dollars to the family farmers who supply the milk for Ben & Jerry's ice cream.

## THE NOT-FOR-PROFIT SECTOR

Not-for-profit social entrepreneurship is represented by organizations that have legally defined themselves as existing for some other purpose than to generate profit, a direct inverse to for-profit organizations. However, within this model, many of these organizations are engaging in what would typically be classified as for-profit business practices to attain sustainability within their business model.

Within the not-for-profit sector, three primary types of organizations exist—public benefit, mutual benefit, and religious. The most common use of social entrepreneurship within this sector is within those designated for public benefit. This is because of the nature of the models; a public benefit not-for-profit exists to benefit the public. Both mutual benefit and religious not-for-profits are less focused on widespread social improvement and are more focused on providing services for a very specific audience. However, it is still possible for social entrepreneurship to exist in each of these types.

The social entrepreneurship model is often mistakenly associated with social activism within the not-for-profit sector; however, the two concepts are fundamentally different. Social activists pursue a social goal as their main mission but are distinguished from social entrepreneurs because they pursue these changes external to the business environment. The distinguishing factor in social entrepreneurship is that these organizations pursue their social goals while simultaneously engaging in market-driven activities. Organizations acting in this sector are typically less financially independent than those in the for-profit sector. With not-for-profit organizations, the fiscal gains through entrepreneurship act less as a method of profit generation and sustainability and more as a method of offsetting their costs or expanding their programs. While they are not as financially independent as their for-profit counterparts, the offset expenses do allow these organizations to engage in more creative opportunities that may not be possible through grants and donations alone.

However, with the expansion of revenue streams for these organizations, an issue arises with the allocation of these subsidizing revenues. Within the United States, any income a not-for-profit generates that is not substantially related to the social purpose of the organization becomes taxable. This is the

result of the competition for the consumer's purchasing power. Many for-profit organizations feel that without the tax an arena is created for unfair competition. For many not-for-profit organizations, this means that becoming entrepreneurial and seeking new revenue streams may not be as effective as hoped.

Ben & Jerry's is again instructive on this point. Perhaps the company's most notable foray into social entrepreneurship has been the establishment of the PartnerShop program, a series of scoop shops that are independently owned and operated by community-based nonprofit organizations. Ben & Jerry's waives the standard franchise fees and provides additional support to help nonprofits operate strong businesses among youth and low-income folks by providing economic development and employment opportunities. It should be noted that social entrepreneurship has been around for centuries in the form of enterprises such as gift shops and thrift shops associated with churches and museums.

## THE PUBLIC SECTOR

Outside of entrepreneurship in the private sector, it becomes more difficult to engage in social entrepreneurship, often because of inherent political and administrative constraints. Whereas the not-for-profit organization can be burdened with donors and grants who have predefined goals for the organization, the public organization is also held to often more stringent preestablished rules, regulations, and legislation. However, where the public sector has succeeded in engaging in social entrepreneurship, such efforts have enabled the institutions to expand beyond their previous constraints, thereby increasing the effect and reach of their mission. The driving force for entrepreneurship in the public sector has been a combination of a need for increased resources to fund specific programs and for a way to counteract the perceived inefficiencies of government programs.

Given that entrepreneurial activities such as risk taking are often looked down on by the public and government officials, social entrepreneurship often occurs much more frequently than intrapreneurship. Typically, entrepreneurship occurs when tasks are outsourced from local governments to organizations created specifically to coordinate specific tasks for the government outside of the public sector where it is able to function beyond the typical regulatory constraints. These organizations are then able to not only support the programs or entities they were designed to support through their services or products but are also able to generate extra revenue by expanding their programs to other organizations that can derive benefit from them.

There exist numerous examples of social entrepreneurship within the public sector. Following years of developing customized information technology applications for in-house use, the City of San Diego outsourced its information technology function to a stand-alone not-for-profit entity, the San Diego Data Processing Corporation. One principal goal of this initiative has been to successfully market government-specific technology applications to other California municipalities, all the while continuing to meet the technology needs of the elected officials and staff of San Diego. Product endorsements and “city stores,” which sell items such as customized street signs, are becoming increasingly common; at the state and national levels, adopt-a-highway programs represent efforts by governmental agencies to engage in social entrepreneurship that serves to offset the high cost of road maintenance through revenue-generating alliances with private business enterprises.

## SECURING FUNDING FOR SOCIAL ENTREPRENEURS

Similar to profit-oriented entrepreneurship, social entrepreneurship is often a process undertaken by individuals who have a vision and are pursuing that vision. Funding for these ventures can come from grants, donations, or what has been called social venture capital. Social venture capital, first defined by Ashoka, is the process of securing funding to advance the interests of the organization through investors who wish to have a stake in the organization. As such, social venture capital is often focused within the for-profit sector of social venturing; however, it is possible for social venture capital to be invested in not-for-profit sector ventures as well.

An important issue in building social venture capital has been designing a way for investors to receive feedback from the organizations they have invested in to know whether their investment has been successful or if the organization is not doing as well as it should be. In the typical venture, this can be done through simple financial analysis and benchmarking as the organization develops and evolves. With a social venture investment, this is much more difficult because of the difficulty of measuring social impact. The success with developing these social feedback tools is evident through the rising number of organizations that have been created to provide social venture capital such as Ashoka, Social Venture Partners, the Social Venture Capital Foundation, the Schwab Foundation, and others.

## MEASUREMENT TOOLS FOR SOCIAL ENTREPRENEURSHIP

Regardless of the sector social entrepreneurship occurs in, it has become increasingly important to design methods to measure the impact social entrepreneurship has on its stakeholders. Much of the measurement throughout its history has relied on qualitative, case-based research. While this type of research has been able to define the areas that social entrepreneurship affects, it is less effective at measuring the actual level of impact that it has on society. The need for measurement has led to the development of tools that allow organizations to measure both financial and social impact. This is frequently called double-bottom-line (DBL) or triple-bottom-line (TBL) analysis. TBL divides the goals of an organization into three sectors—social, environmental, and financial. DBL divides the goals into two sectors—social and financial. DBL is the more often cited tool within social entrepreneurship, but both attempt to achieve the same goal of dividing the organization's impact into defined areas and measuring the effectiveness of that impact in each area.

To measure the goals of an organization using DBL, they are often redesigned in a way that allows the impact on society to be quantitatively measured. This enables the organization to track the success or failure of its social initiatives similarly to that of a financial initiative. Columbia University's Research Initiative for Social Enterprise (RISE) is one group that has contributed to this research. They have identified and analyzed several methods for identifying and measuring social impact. Their efforts have identified social impact measurement in three key areas of analysis—processes, impact, and monetization. Process analysis allows organizations to measure the correlation of their outputs with their social goals. Impact analysis allows organizations to analyze the effect these outputs have on society and compare them with the next best alternative for their resources, a method that is equivalent to measuring the opportunity costs of the organizations' operational processes. Monetization analysis allows the firm to place dollar values to its social impact and is the most effective in demonstrating a direct correlation between money invested and the social return.

One example of monetization analysis is social return on investment. This method, designed by REDF (formerly the Roberts Enterprise Development Fund), is used to develop a cost-benefit analysis of a social project. Rubicon Landscape Services used this method to analyze the impact their organization made by employing people with disabilities and economically challenged individuals. By calculating the amount of money they were saving the government

in social service costs and the amount of additional tax revenue generated through their employment, they were able to measure the impact this program had on society with a precise dollar amount.

All three measurement methods enable the social entrepreneur to gauge his or her success at using the organization's resources in the most effective manner to support the social mission. In addition to the RISE project, many other organizations have also begun developing their own private and publicly available measurement tools, which provide a way for social venture capitalists to measure the impact of their investment, as well as a way for organizations to gauge their own success and make adjustments as they grow.

## **CRITICISM OF SOCIAL ENTREPRENEURSHIP**

Critics of social entrepreneurship, and corporate social responsibility, believe the purpose of business activity is to serve the interests of stockholders, leaving social action to entities existing beyond the private for-profit sector. These critics argue that business leaders are ill equipped to make informed social decisions and that business leaders are solely responsible for acting in a manner that benefits the individuals who have employed them. This stance is grounded in the theory that economic returns and social returns are inherently at odds with one another, causing the pursuit of one return to reduce or eliminate the other.

Social entrepreneurs have found that this stance is inadequate for serving the needs of the community. Entities beyond the private for-profit sector have been unable to provide for many of the needs of the community. Social entrepreneurs have identified this gap in service as a viable business opportunity. The businesses built on these opportunities have a positive link between economic returns and social returns, both within the organization, and in its influence on its stakeholders. Thus, although many critics believe that social responsibility is counter to economic responsibility, social entrepreneurs have found a method that allows the two to act in parallel.

## **EDUCATION**

Along with the growing number of social investment and analysis organizations, social entrepreneurship has also become increasingly popular with universities and other educational institutions. Many business schools have not

only introduced social entrepreneurship into their MBA curriculum but some have also begun to build centers focused specifically on social entrepreneurship. Examples include Duke University's Center for the Advancement of Social Entrepreneurship, Columbia University's Research Initiative for Social Enterprise, and Oxford University's Skoll Centre for Social Entrepreneurship. In addition, competitions have come up to promote social entrepreneurship within these universities, such as the Global Social Venture Competition held at the University of California, Berkeley. Universities have also begun to reward competitors within traditional business plan competitions for being socially cognizant of their impact on society.

## CONCLUSION

Social entrepreneurship has become an increasingly influential business model. It allows for organizations in all sectors of business to ground themselves on socially conscious missions and goals while still retaining the beneficial traits that have been previously available only to the for-profit sector. Social entrepreneurs are able to do this through recognizing and pursuing feasible business models that provide innovative products and services, allowing it to generate revenue while still serving its primary social goal. Social entrepreneurship has been given the opportunity to grow in impact and popularity due to its increased presence in the business and academic realms and will continue to expand as a viable business model as the global society continues to call for more socially conscious and accountable organizations.

—Lance Schaeffer and Craig P. Dunn

## Further Readings

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