2017

Corporate Social Responsibility and Millennial's' Stakeholder Approach

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Corporate Social Responsibility has evolved in recent decades in professional practice and law. This was predicted in a seminal work by Howe and Strauss. This paper describes this evolution and illuminates millennials' philosophy and attitudes as more aligned with stakeholder theory than stockholder theory. The predicted millennial upheaval, as posited by Howe and Strauss, is evidenced by "strong belief statements" as interpreted by the raters in this study.

INTRODUCTION

In 1970 Milton Friedman clearly stated that the only social responsibility of a business is to increase its profits; all economic and social benefits will derive from that. This maxim has been the cornerstone of business training, operations, and law essentially since the beginning of capitalism as an economic system. In 2017, many believe a corporation has a social responsibility outside of generating profits. The buzz-phrase "Corporate Social Responsibility" (CSR) is a result of that philosophy. Millennials would even say that a business has an ethical duty to reengineer society and become a change agent for society. Which is it? Does a business have the sole social responsibility to only generate profits or should it engage in specific courses of action that benefits the public and changes social norms at the expense of its owners? This research examines stockholder and stakeholder theory, reports on the current state of CSR, and reveals the views of millennials on this topic.

LITERATURE REVIEW

Stockholder Theory and Stakeholder Theory

Stockholder theory, given a voice by Adam Smith in *Wealth of Nations*, holds that the stockholder of a business has the highest consideration in all business decisions made for that business because the stockholder is a partial owner of the business; they have given up use of their property (money) for a period of time in consideration for a portion of the wealth generated by the business (Smith & Rönnegard, 2016). Therefore the stockholder, as partial owner, is of the highest consideration when managers make business decisions because they are acting as agents of the owners. This theory further contends that the individual stockholder has the right to engage in social responsibility; the business, on the other hand, does not have the right to engage in social responsibility because to do so would divert the profits from the rightful owner to a "cause" the owner may not support (Smith & Rönnegard, 2016).

Both Smith and Friedman acknowledge that a business cannot pursue profits at any cost, but must deal with "externalities" or rules. Friedman said the only social responsibility is to increase wealth "…so long as it stays within the rules of the game"; that corporations must follow rules and laws as applicable to the business (Friedman, 1970). Stockholder theory holds that investment of funds into socially desirable programs, such as reducing a carbon footprint, is perfectly acceptable so long as it is either at the direction of the government or in the company's self-interest to do so. But to reduce the carbon footprint beyond those two criteria would be wrong because then it turns into a social issue and the company is diverting money from its rightful owners. Stockholder theory also holds that pursuing maximization of profits will ultimately lead to greater social good because companies will do whatever is necessary to generate profit. If the market begins to demand the company address a social cause, then the company must do it to maintain market share in order to further wealth maximization.

Seven years before Friedman, the Stanford Research Institute came up with the word "stakeholder" and defined it as thus: the "groups without whose support the organization would cease to exist" (Freeman, 1983). Stakeholder theory has developed over time, championed by Freeman, and a stakeholder came to be defined as "an identifiable group or person who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" (Freeman, 1983). The term stakeholder includes employees, suppliers, vendors, customers, creditors, government entities, resource communities, etc. (Post, Preston, Sachs, 2002). While not all of these stakeholders are equal, they all are or may be affected by the business' operations and the business is obligated to provide value to these various entities to some degree at the expense of stockholder value (Rausch, 2011).

Measuring Success for Stakeholders – Early Measures

The balanced scorecard approach is a method of quantifying the results of business decisions in various identified areas in a semi-holistic approach. The scorecard can be used by a wide range of entities, from business to government to military to nonprofits and is said to be a planning and management tool to align activities with organizational goals and missions (Cokins, 2013). The Balanced Scorecard Institute (BSI) helps organizations with developing the scorecard for their organization; it developed a framework of nine steps organized around four core components: Customers/Stakeholders, Financial/Stewardship, Internal Processes, and Organizational Capacity (9 Steps to Success, 2017). Under the BSI model, the organization develops Performance Indicators and Key Performance Indicators in the areas aligning to the four core components. The scorecard is then used organization-wide to determine if certain goals are being met using the holistic approach of the core areas. It should be emphasized that the organization develops these parameters itself that may, or may not, be based on industry standards. The scorecard is about providing feedback to the executive team to more closely associate actions with goals (Cokins, 2013)

The Triple Bottom Line (TBL), another approach to measuring CSR, was mainstreamed by John Elkington's book (1997) *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*. The concept is simple; along with the <u>Profit</u>-making operational decisions of a company, there are two other operational areas to address: <u>People</u> and <u>Planet</u>, also known as 3P. The key aspect is the sustainability of the business through performance in financial, social, and environmental areas (Slaper & Hall, 2011). The main concern with TBL is how to measure it (Triple Bottom Line, 2009). How do you put a price on impacts to profit, people, and the planet? Slaper and Hall (2011) through the Indiana Business Research Center, suggest that developing an index would be a possible solution. However, other issues would arise as to how to weight the various components of the individual sections for a meaningful index.

TBL offers strength in its ability to be adapted across organizational entities and industry. This strength is also a weakness as there is no universal standard or metric. Establishing a standard would require various stakeholders to work together to determine the correct metrics for a given geographic area, a certain industry, or demographic (Slaper & Hall, 2011).

While there is still not a universal TBL, companies are finding that it is useful in showcasing their Corporate Social Responsibility initiatives; Proctor and Gamble, General Electric, Unilever, 3M, McDonalds, and others have provided TBL reports to the public (Slaper & Hall, 2011). Wilburn & Wilburn (2015) advise that a 2010 study showed that companies that have proof positive CSR programs enjoyed higher sales among global customers that were willing to pay more for their products.

Modern Stakeholder Issues and Measures

A Certified B Corp is a company that has been certified by the independent, non-profit organization B Lab that co-founded in 2006 by three entrepreneurs who had founded – and later sold – the AND1 shoe company. AND1 had been very progressive with employee benefits and foreign supplier regulations (Honeyman, 2015). Their new self-imposed mission was to create a corporate entity that was both about maximizing wealth and positively impacting society and the environment. B Lab established a set of guidelines for businesses to be certified through a 4-step process. The first-step is to describe their public benefit they are pursuing. (B Lab, 2017). It could also be a specific public benefit that addresses such topics as unemployment, nutrition, education, etc. The second step is to assess their overall social and environmental impact using an accepted third-party standard for their industry that meets the criteria listed below (B Lab, 2017). The third step is to identify the company officer(s) who will ensure the company follows its stated goals for the company. B Lab specifically directs that the company's Benefit Director has a duty to consider the impact of business decisions on a variety of interests. B Lab's (2017) list of interests includes:

> (i) the stockholders; (ii) the employees; (iii) customers; (iv) communities; (v) the local and global environment; (vi) the short-term and long-term interests of the benefit corporation, and (vii) the ability of the benefit corporation to accomplish its general public benefit purpose and any specific public benefit purpose.

Finally, in the fourth step the company must name every person who owns more than five percent of the company. The benefits of B Lab certification include greater stockholder rights, reduction in director liability, access to increased private capital investment opportunities, greater and faster investor access while preserving the company's mission, attracting talent, a reputation for leadership, and a promise of what future Fortune 500 companies look like (B Lab, 2017). A study in 2015 of the forty-five original B-Corps companies found that all made progress toward their stated goals, were profitable, and had published annual reports for greater transparency (Wilburn & Wilburn, 2015).

Legal challenges to B-Corps emerged in September, 2009 when EBay won a lawsuit against Craigslist that legally restated that the sole function of a business is to maximize stockholder wealth and that other considerations were always secondary to that maxim (Gilbert, 2010). Thus, one of B-Lab's first projects was to develop a legislative model for states that decide to add the Benefit Corporation as a business entity to their state's laws regarding the formation of business. As of 2015, thirty states and the District of Columbia have enacted Benefit Corporation legislation (El Khatib, 2015). This legally allows the designated company to operate in a manner that does not require the company to pursue maximization of stockholder wealth at the expense of public benefit.

The existence of B-Corps certification begins to create an illusion for consumers that they are automatically more socially responsible than non-benefit corporations. This perspective bias could theoretically create an unfair advantage much to the detriment of a traditional company. 'Greenwashing' is defined as "use of a public-relations-enhancing social purpose to fritter away money without oversight" (Solomon, 2015). Hacker (2016) and El Khatib (2015) both refer to greenwashing as using the labels that convey to the consumer the company is engaged in a public benefit when in actuality it is just a complex marketing ploy and there is no substantive effort by the company or results from efforts to actually pursue the stated public benefit.

A primary issue is the lack of compliance provisions regulating B-Corps. Arkansas, as with most other states with B-Corps, there is no defined consequence for the corporation if they fail any of its stated purpose benefits. Additionally, the company cannot be sued for failure to pursue or archive the intended benefit except by a stockholder, a director, or a person who owns more than five percent of the company – and then only under very specific circumstances (ABC Act, 2013). Unlike traditional for-profit corporations, benefit corporations (which are still in the business to make a profit) cannot be held accountable for business practices by stockholders unless there is a question of the company pursuing its stated benefit goals; traditional non-profit corporations are held accountable for their purpose benefits by that chartering state's attorney general (Hacker, 2016). In an attempt to address this issue, Hacker (2016) recommends supplementing the laws detailing that the states' Attorney General Offices be tasked with ensuring the compliance of Benefit Corporations with striving to meet their public benefit goals.

International CSR Issues

The CSR movement is growing internationally. In 2007, 45 companies became founding B Corps. These companies were all from Canada and the United States (Wilburn & Wilburn, 2015). As of April 2015, there were B Certified businesses in 38 countries. In addition, several hundred companies were going through the verification process to be B Certified (Clifford, 2015). As of April 1, 2017, B Lab has certified over 2,064 companies in fifty countries (B Lab, 2017).

One of the challenges to B Certification may be illustrated by Australian law. In Australia, directors are bound by a strict duty to do what is best for the company. As a result, considering the impact of business decisions on other stakeholders can be considered as a breach of fiduciary duty. Directors considering stakeholder concerns may find themselves subject to personal liability. Although Australian law does not prohibit corporations from considering social benefits, there is little emphasis on this and directors are generally not focused on stakeholder issues. Australia continues to struggle with an appropriate method for addressing the CSR issue (Achermann, Forde, & Ouzas, 2014).

India is completely on the opposite side of the CSR issue. In 2013, India passed the Indian Companies Act 2013, an amendment to India's laws governing corporations. This Act included a specific requirement for Indian companies to spend at least 2% of their average earnings on SCR activities. To be required to comply with this new law, a company in India must meet certain revenue and/or asset thresholds. To comply, a company may spend its earnings on such issues as hunger, poverty, education, child mortality, or maternal health (Hiralal, 2015).

In 2015, Italy became the first foreign nation to make Benefit Corporations legal entities; similar legislation is also being advocated in Australia, Argentina, Chile, Colombia and Canada (Benefit Corporation, 2017).

Millennial Issues

This literature review has described relevant theory and practice with regard to CSR. This research seeks to add to the existing body of knowledge by providing evidence of millennials' philosophy and attitudes on CSR. Millennials are the generation born approximately from 1982–2000. The exact dates are unclear, but the approximate range of early 1980's to about 2000 fits with most published estimates (McGlone, Spain, & McGlone, 2011). This generation will play an important role in CSR because they are very likely to significantly influence society toward a more stakeholder centered approach. Millennials are optimists, cooperative, and civic minded. They "will demand that employers adjust to the needs of workers who wish to build careers and families at the same time….Fair Play on pay and benefits will be at issue" (Howe & Strauss, 2000). Millennials will not only demand changes in the workplace that focus more on their needs instead of their employer's needs, they will also tend to seek out and buy "products that combine their focus on family….and community approval" (Howe & Strauss, 2000). Millennials are activists. They will seek to influence community, political, economic, and environmental issues (Howe & Strauss, 2000).

Millennials are largely misunderstood in the workplace today. They are often viewed as lazy, entitled, and never satisfied (Roker, 2017). Millennials have a different self-perception. They view themselves as ambitious, innovative, connected, and expressive. Millennials are "looking for things to support because we want to feel like we're making a change in the world" (Roker, 2017). For millennials, actions are important. They seek to reward or punish corporations based on CSR involvement (McGlone et al, 2011).

Millennials are likely to change the corporate culture as they move into positions of senior management and run their own companies. They seek more than profit. They want corporations to have a social conscience (Sharp, 2014). By 2025, they will make up well over half of the workforce. They will seek changes in society and they will have to power to effect change. They seek to advance societal welfare over individual success (Winograd & Hais, 2014).

In the Methodology section to follow, the comments of millennial students from Business Finance classes during 2014-2016 were analyzed. The majority of the students' comments strongly identify with stakeholder theory versus stockholder theory. In their own words, shown below, students state how they feel about CSR.

* If the company is able, they should do what they can for their society.
* I want to live in a world where we feel responsible for the bettering of other people.
* The idea that a corporation does not owe anything to the community that it serves is unethical.
* Social Responsibility is here to stay and for good reason.
* The Social Responsibility that a company shows to their customers far outweighs any amount of profit.
* America without social responsibility would not be America.
* I believe it is in the best interest of the corporation to involve themselves in social responsibilities.

METHODOLOGY

Millennial students were selected for this study as appropriate to test the prediction that they would have a greater propensity to seek the common good, be more socially conscious, and take a more active role in society and politics which clearly follows the concepts of Corporate Social Responsibility than previous generations. To determine if Millennials' do have a heightened sense of CSR as reflected in a philosophy of "better for the common good" students attending a business class 2014 through 2016 were sampled. A total of five semester's data was collected and analyzed. The sampling came in the form of a discussion board assignment commonly used in Blackboard to supplement both in-class and on-line education. The assignment was set so that the students' first comment was their philosophy and beliefs about the difference between the public Starbuck's corporate video which has high levels of stakeholder approach to corporate governance and compare that to a required reading from Milton Friedman where he presents the stockholder approach. Figure 1 shown below is an excerpt from the instructions.

FIGURE 1
DISCUSSION BOARD INSTRUCTIONS

To complete this assignment, you must:

- Read the Milton Friedman article, 'The Social Responsibility of Business is to Increase its Profits' – the article is posted below these Discussion Instructions.
- Watch the Video of the 2012 Starbucks Annual Stockholders Meeting – a link to the video is posted below the Friedman article.
- Enter the Discussion 'Corporate Social Responsibility' and post your discussion information based on the following:
  -Your First Post – should describe how you feel about the issue. Should corporations adhere to Friedman's philosophy or follow Starbucks' example regarding corporate social responsibility? Why?
  -Your Subsequent Posts – should respond to other posts from the class.

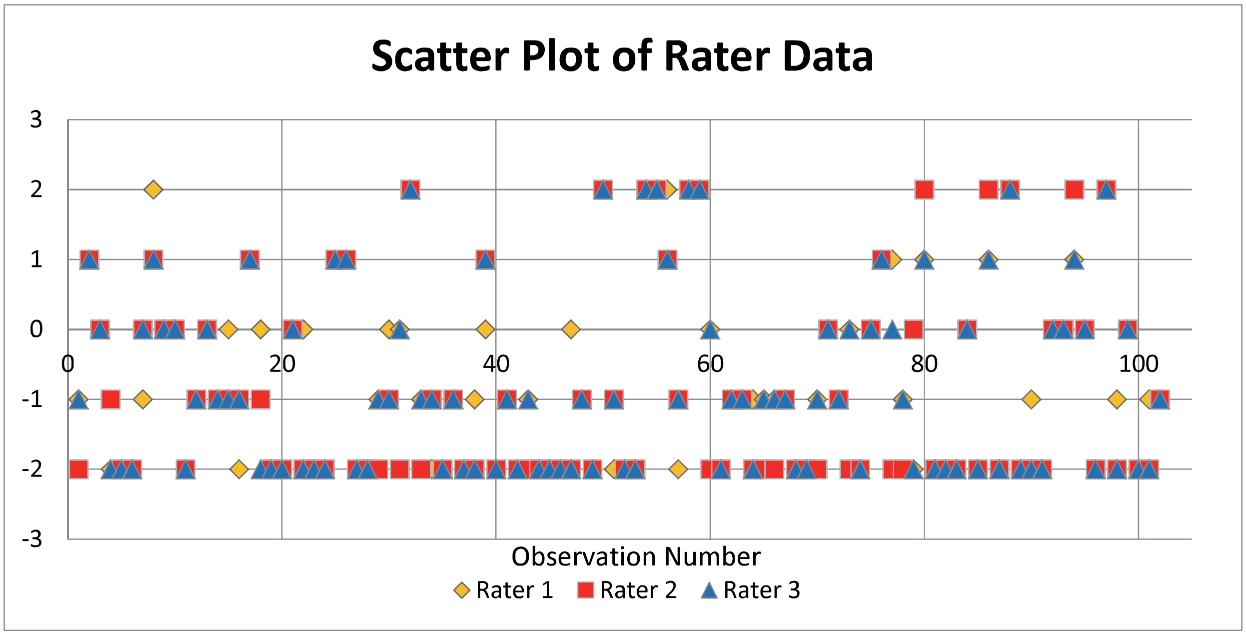
Blackboard was set-up so that the students were not allowed to read other students' posts without first stating their opinion/philosophy about their thoughts and values. Once the initial post was recorded and students were allowed to continue with the discussion, the discussion boards were archived for later evaluation. A review of the literature shows there is still widespread disagreement about what truly constitutes a Millennial. Students that met all the published standards and fell within the commonly accepted core years (2014-2016) were used. Students who were older or younger than that average millennial age were eliminated. From our population, five students were eliminated from a population of 107, leaving n=102. All of the initial comments were aggregated and three copies were made and given to three raters. As always inter-rater reliability is an issue. The ICC3 test (also known as Cronbach's Alpha) was used to test the reliability of raters not only individually, but collectively as a group. The ICC3 score for the three raters used in this study was .9612 which is considered very high in reliability. On the cross sectional scale comparing each of the overall averages of the raters, the averages were -.70, -.88, and -.79 respectively. Table 1 contains the results of both the Cronbach's Alpha test and the Pearson's r calculations for each pair comparison as well as the mean of the Pearson's r as is commonly accepted measure of reliability between rater pairs.

TABLE 1
INTER-RATER RELIABILITY STATISTICS

ICC3 and Pearson's r	**Calculation Results**
ICC3 (Cronbach's Alpha)	.961256
Pearson's 1&2	.845887
Pearson's 1&3	.922059
Pearson's 2&3	.913789
Mean Pearson's *r*	.893911

The researchers found no gender inter-rater bias in the analysis as this might have been a concern using multiple genders in the analysis. After individual ratings had been accumulated and input into a spreadsheet, a scatterplot of the data was evaluated to determine if there were any anomalies and/or associations that could be immediately identified. The following scatterplot Figure 2 is provided below. The amount of data (306 data points across 5 rating lines) highlights the propensity for the students to more closely associate with the stakeholder approach.

FIGURE 2
INTRACLASS CORRELATION DOT PLOT



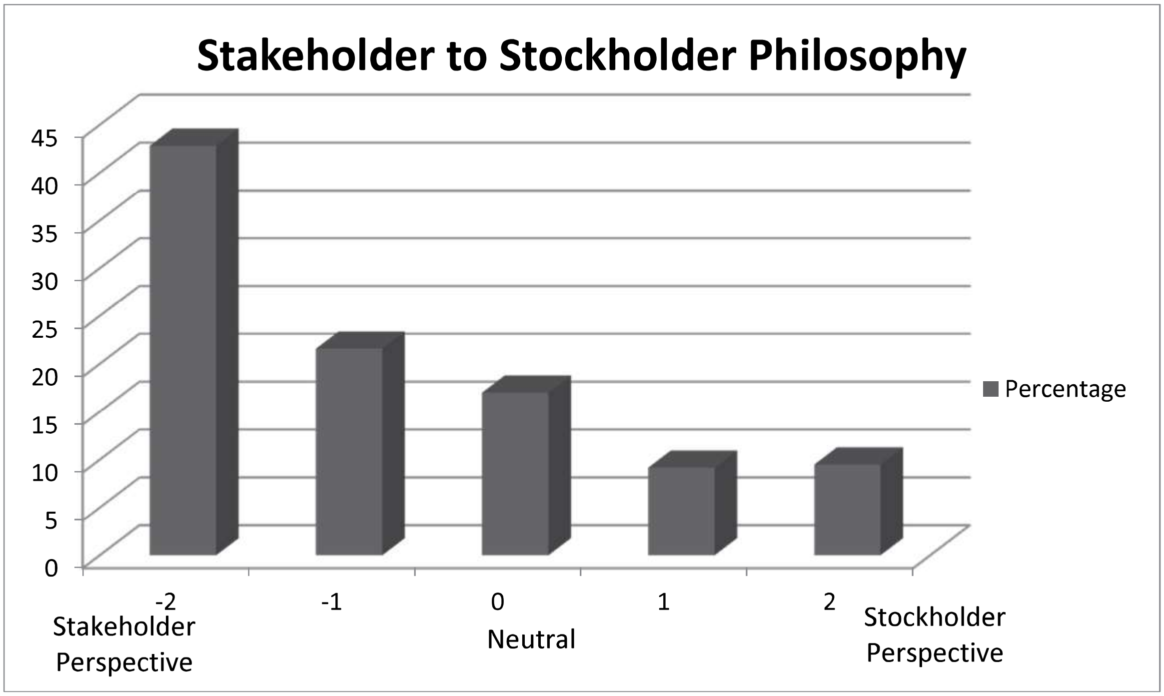
A more poignant way of looking at the data is to look at the five categories graphed by percentages by alignment. The scale used by the raters varied from -2 to +2. The -2 end of the scale represents an alignment of values as espoused during the Starbucks annual meeting of stockholders. On the other end of the scale is the +2 which represents an alignment of values with what Milton Freidman (1970) espoused in his treatise. The -1 and +1 represent points along that continuum representing the support of one or the other approaches to corporate governance. Table 2 was used by the raters to categorize the Millennials' response in their initial Blackboard post.

TABLE 2
CSR DISCUSSION POST RATINGS

Starbucks	Starbucks	Neutral/Balanced	Friedman	Friedman
-2	-1	0	+1	+2
Strongly supports Starbucks' philosophy with no reservations.	Lean toward Starbucks' philosophy, but with some reservations.	Neutral or balanced. No strong preference for one philosophy over the other.	Lean toward Friedman's philosophy, but with some reservations.	Strongly supports Friedman's philosophy with no reservations.

After categorizing the data into each category, Chart 1 illustrates by percentage the strength of the stakeholder philosophy shared by Millennials.

CHART 1
STUDENT PHILOSOPHY BY RATING



A full 42.8% of all millennial students "Strongly Support" the Starbucks stakeholder approach to corporate governance. When added to the moderate support or leans towards Starbucks stakeholder approach, more than 64.4% of Millennials' identify as Stakeholder oriented. In comparison, only 18.6% (total of both strongly support and lean towards) of Millennials' share Friedman's stockholder approach to corporate governance. Those that were neutral, not preferring either the stakeholder or stockholder approach, or preferring both, represented only 17.0% of the sample.

LIMITATIONS

The use of the terms such as CSR, Stakeholder Theory, and Stockholder Theory, as used in this study become commonplace and issues of construct validity may have given rise to error in differences in either interpretation or definition by either researchers or respondents. Another confounding variable may be that the class in Business Ethics required of the students before or during taking the Business Finance class in which the data was collected for this study may influence their view of CSR. Lastly, the limited geographic region from which a majority of the respondents live typically is limited. Further studies of Millennials' in other geographic regions could be tested to minimize this potential limitation. Further study of Millennials as they age, marry, work, and support themselves financially could result in changes to the conclusions of their generational philosophy as a whole.

CONCLUSIONS

Howe & Strauss (2000) postulated that the millennial generation would have higher levels of social consciousness. The CSR ratings of millennials' comments used in this study clearly support the assertion that this generation has a predominant stakeholder philosophy. This is demonstrated by the fact that 64.4% of millennials identify as stakeholder oriented while only 18.6% identify with Friedman's stockholder approach to CSR. This philosophy gives them a different lens from which to view the world than previous generations and leads to different expectations as employees, consumers, and voters. Their generational view strongly supports social accountability by those who interact with them in any environment; whether it be in family, politics, or business. The desire of the millennial generation to support the common good and to effect changes necessary to satisfy their social conscience also lends support to the further predictions by Howe & Strauss (2000) that as they continue to age and rise in organizations; social, political, and business institutions will be challenged.

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