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International Corporate Social Responsibility
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Corporate Social Responsibility (CSR) is when organizations take actions that are perceived to further the good of society that go beyond just company self-interest and legal requirements. CSR involves companies engaging in behaviors that benefit humanity in the more general sense. CSR is often organizations looking to accomplish a triple bottom line that includes the economic interests of the firm, social good, and environmental well-being. Such actions can vary widely but include charity donations, supporting local communities, using eco-friendly materials, volunteering organizational time and resources to social causes, and even safeguarding human rights in areas with unstable governments. Corporate Social Responsibility can be focused on the needs of local communities but for multinational organizations spread across many different countries CSR is inherently international in nature. Organizations can be doing CSR actions in countries spread across the globe. Leaders can play a crucial role in how and even whether an organization engages in CSR, with leadership CSR behaviors effected by a leader's personality and individual characteristics. CSR can also be controversial in nature as people with different perspectives or values may not agree on what corporate behaviors are indeed responsible and there are prominent examples of organizations that have engaged in what has been termed "greenwashing," doing corporate actions that look environmentally responsible to the public but in fact have little positive impact, being little more than public relations stunts. CSR is a major concept in international business and an area almost all organizational leaders need to engage with.

Historical Background of CSR

In an essay titled "The Assault on Integrity" written for Ayn Rand's *Objectivist Newsletter*, Alan Greenspan, in 1963, argued that it was a myth that those in business would sell unsafe food and drugs or engage in fraudulent activities. However, 35 years later in 2008 during the economic crisis, while testifying before the House Committee on Oversight and Government Reform, Greenspan expressed shock and concern that lending institution had acted in ways that did not protect shareholder's equity.

The truth of the matter is that businesses do not always act in the best interest of society and the communities the businesses exist in. Recent history is filled with numerous corporate scandals that have resulted in losses of billions of dollars for the public and government, and even precipitated a worldwide economic crisis. However, businesses engaging in self-serving fraudulent activities is not a recent phenomenon. Ancient Chinese, Indian, Egyptian, and Sumerian writings delineating rules of commerce to protect the public from unscrupulous businessmen shows that businesses engaged in deceitful activities even during ancient times. Subhabrata Bobby Banerjee, in his 2008 critical essay on Corporate Social Responsibility, writes that corporate skullduggery was common during the 19th century when corporations wielded a lot of power and corporate laws were weak to non-existent in Western societies. He in fact argues that some of the fraudulent strategies employed by corporations during this period would even be seen as shameful by those who ran Enron.

With the recognition that corporations could cause major harm to the society, several corporate laws were formulated in the 19th century that allowed government to revoke the license of a corporation to do business or impose other punishments if it failed to act in public good. Over time a whole set of legal, cultural, and institutional arrangements (such as laws, customs, budgets, and policy manuals) were instituted to ensure that business leaders acted in a socially responsible ways in all areas of their business activity. This system of checks and balances, which may both be internal and external to companies, is broadly defined as corporate governance.

While regulatory arrangements are important and essential to minimize the harm caused by businesses to the society and environment, it is also true that a lot of what we consider good in our modern society have been created by businesses. In other words, while businesses have exploited societal and environmental resources, they have also touched our lives in ways that have enhanced our quality of life. Recognizing this fact, Howard R. Bowen, in 1953, laid out certain responsibilities for businesses to assume for society in his landmark book *Social Responsibilities of the Businessman*. Bowen acknowledged that these responsibilities were no panacea but could be a guide for businesses to meet the expectations of the society. This formed the foundation for the area of study that we have come to know today as Corporate Social Responsibility (CSR).

What is CSR?

CSR is complex topic. Not surprisingly, researchers have proposed numerous definitions of it. Some of these definitions vary because of the different philosophical orientations of the researchers or where they want to put the focus of attention (i.e. individual companies, societies, stakeholders, individual people, social justice, or environmental issues, to name just a few). Definitions also vary because CSR is a dynamic concept, and so its meaning varies by time, context and culture. What may be seen as good and responsible in one country or era in time may seem reprehensible to another. Despite the plethora of definitions of CSR, there is general agreement about the core aspects of CSR. Drawing on the work of Abigail McWilliams and Donald Siegel from 2001 and many other studies we can define Corporate Social Responsibility as organizations taking action that is perceived to further the good of society that go beyond just company self-interest and legal requirements.

In other words, CSR refers to firms' actions that are not bound by legal obligations and are performed for the larger social good. These actions may be directed inside the firm (e.g., making the production process more environment friendly), across the firm's value chain (e.g., procuring goods only from certified fair trade suppliers), and outside the firm (e.g., creating infrastructure for local communities). What avenue of social good can vary as well such as environmental (e. g., only using sustainable materials in production), worker welfare (e. g., paying a living way), or charity work (e.g., donations into a community).

For just one example, the company Oliberté is a shoe company where all shoes are made in Ethiopia in factories that are built to support worker's rights and empowerment. Their business model is focused on creating excellent shoes while still safeguarding worker rights and human dignity. Much of the profits from the company are used to create jobs and more factories in Ethiopia with the same high labor standards. Oliberté is also dedicated to sustainability and sources its products locally and as eco-friendly as possible. Oliberté also donates 1% of its proceeds to non-profits related to sustainability and the environment. So Oliberté covers multiple of the categories above in its Corporate Social Responsibility efforts.

It is important to note that the same actions taken by organizations discussed above will not qualify as CSR if they are performed out of legal obligations. For example, a company may engage in laudable non-discriminatory hiring practices or dispose of its sewage in an environmentally friendly manner, but if it performs these actions only to meet certain legal requirements, then it is simply following the law and not engaging in CSR based on traditional conceptualizations. This aspect of going beyond the legal requirements is what distinguishes CSR from Corporate Governance, as CSR goes beyond mere legal requirements. While corporate governance focuses on the regulatory practices that prompt firms to act in socially and environmentally responsible ways, CSR refers to discretionary steps taken by firms towards the betterment of society and preservation of the environment.

International CSR

Although CSR as an academic concept originated in the 1950s, its practice has been in existence well before that, not just within USA but across the world. For example, Jamsetji Tata who founded the Tata group of industries in India in 1868 said that for the Tata group the community was not just another stakeholder but was in fact the company's reason and purpose for existence. Tata felt it was essential for the organization to give back to people of the community what was earned by the company from them. Thus, the Tata group has been part of many major social developments and environmental protection activities in India for well over a century.

Over the last couple of decades, with increased globalization, Corporate Social Responsibility is not just an expectation in Western economies but worldwide. In 1999, a public opinion research company called Environics (now called GlobeScan) conducted a large poll of over 25,000 people from 23 countries. In this poll, participants were asked to describe in their own words how they formed impressions about companies. One-third of the respondents said they considered attributes related to business fundamentals (e.g., market share, company size, etc.). However, half of the participants said that they considered the broader social and environmental responsibilities taken by companies. More than 20 percent of the participants said that they had even punished companies (for example, by either avoiding their products or speaking negatively about them) for not being socially responsible. Most remarkably, this pattern of results was consistent across all the regions of the world, suggesting that people all over the world are increasingly holding companies responsible for their social and environmental impact. With such global agreement on the importance of the social and environmental responsibilities of organizations Corporate Social Responsibility can be seen as essential for all organizations.

While there is no denial about the importance of CSR in the international context, there is considerable disagreement over how to operationalize CSR into international settings. The primary issue is that the international environment is much more complex than national environments. Thus, models of International CSR must account for political and cultural differences. One of the most comprehensive models of International CSR has been proposed by Marne Arthaud-Day. In a 2005 article published in the *Business Ethics Quarterly*, she presented a three-dimensional model of International CSR that takes into account the dimensions of strategic orientation of firms (multinational, global, international and transnational), content domains of CSR (focus on human rights, labor, and environment), and philosophical perspective (ideological, operational, and societal).

Arthaud-Day draws on the work of Bartlett and Ghoshal in describing the strategic orientation of firms related to CSR. These represent how organizations differentially engage in CSR. The first approach is the Multinational approach, where companies seek to take up social

responsibilities that conform to local culture, custom and religion. For example, a Western multinational company operating in a developing country may decide to be more accommodative to child-labor realizing that children may engage in labor to be supportive towards their poor families. The second approach is the Global approach to CSR, which focuses on “hypernorms” or universal principles that are valued in all cultures. An example of this approach may be providing health care services to employees and communities in all the countries where the organization is operating. The third approach is the International approach which involves exporting domestic CSR philosophies and practices from where the organization is headquartered to other countries without making any effort to adapt them to the circumstances in the foreign countries. This is not often a recommended approach because it tends to be moral imperialism, where the morals of one country are imposed on other countries. It can also be ineffective as citizens of other countries might resent or even resist the actions. The final approach is the Transnational approach where organizations recognize that global and local approaches to CSR need not be mutually exclusive, and that local perspectives should be taken into consideration even while implementing global universals.

Although the spectrum of CSR activities engaged by companies is very broad Arthaud-Day defines the content domains of CSR as three major categories: human rights, labor, and environment. The human rights category involves initiatives that focus on nurturing and protecting the human rights of all people coming in contact with the organization. For example, a company may take steps to provide clean drinking water to all people in the community. The labor category is CSR initiatives that focus on issues related to the fair treatment of workers. For example, companies may pay wages higher than minimum wages mandated by the government (such as living wages) and provide health care facilities not required by the government. The environment category is initiatives related to environmentally sustainable practices and preserving the health of the nature environment. For example this might include the company using sustainable materials for products, recycling production materials, or sponsoring initiatives that clean rivers.

The last dimension of Arthaud-Day’s model takes into account the role of stakeholders in the implementation of CSR and the different philosophical perspectives they can bring. The first is the Ideological (I) perspective, which refers to the view of the company’s leaders about what CSR activities the organization should be engaging in. The second perspective is the Societal (S) perspective, which refers to the CSR expectations that different external stakeholders may have from the firm. So for example, it could be the expectations of the local community for what the organization should do for CSR. The third perspective is the Operational (O) perspective, which focuses on what and how much CSR the firm is actually practicing. Regardless of what the company wants to do or says it is doing for CSR this perspective is about how much it is actually practicing. The comparison of the ideological, societal and operational perspectives (viz., I – O, S – O, and I – S) can help the firm identify the gaps that may exist in their CSR practices. For example, BP’s effort to clean up the oil spill in the Gulf of Mexico (O) was much less compared to the public outcry (S) generated by the event.

Given the complexity of the several dimensions involved in International CSR, one theory that can be very helpful to leaders while navigating through the complex demands of international CSR is the Theory of Sensemaking proposed by Karl Weick. This theory recognizes that the best models of International CSR are still inadequate to deal with the complex and dynamic demands of international CSR. So, leaders use different sensemaking

strategies of thinking, talking and acting to process the conflicting internal and external demands related to CSR in the international context. How leaders talk about these demands then influences their CSR behavior and the meaning they derive from the experience.

The Role of Leaders in International CSR

Leaders play a fundamental role in the practice of CSR. Broadly, the role of leaders in context of CSR can be studied from three different perspectives: individual differences, leader behaviors, and other leadership theories. These perspectives help us to understand how leaders can impact how organizations engage in CSR.

The individual differences perspective examines how the individual difference characteristics of CEOs and the top management team influence the strategic choices of companies. This effect is especially strong in the case of the founder leaders of companies. When the founder leaders are socially conscious, companies tend to engage in more CSR. This happens because the personality and values of the founder leaders get imprinted into the culture of the companies. The imprint effect is often so strong that the leaders' personality and values continue to influence the strategic choices of the company even decades after their departure from leadership roles.

Personality traits can have impact as well. Research on the effects of Big-five personality traits is inconclusive, because broad traits such conscientiousness can have both positive (e.g., by promoting leadership integrity) and negative (e.g., by making leaders conscious of financial parameters) impacts on engaging in CSR. Research on dark personality traits such as narcissism, hubris, and Machiavellianism shows that these traits have a negative effect on CSR, leading to less CSR engaged in. These traits tend to generally result in companies engaging in socially irresponsible behaviors, also called Corporate Social Irresponsible (CSiR) behaviors. Similarly, research on the characteristics of top management team shows that higher levels of formal training in the field of management and economics increases the probability of companies engaging in CSiR behaviors.

The leader behaviors perspective focuses on the behaviors that leaders actually do. Research shows that when leaders engage in behaviors that shows their commitment to CSR, firms tend to develop organizational structures and policies that support CSR. From the perspective of transformational leadership, the leadership behaviors of idealized influence, inspirational motivation, intellectual stimulation and idealized consideration can all enhance followers' commitment to CSR as they urge followers to think beyond their immediate needs and aspire to work from their core set of values and ethical convictions. Leader behaviors can help set the tone and expectation of other workers' CSR related behaviors. Leaders are also crucial in communicating information on company CSR initiatives to the public and some have even taken to online means, such as social media, to announce and promote initiatives.

The last perspective on leaders and CSR is applying other leadership theories to the CSR context. Many leadership theories apart from the trait and transformational leadership theories provide insights into how leaders may influence CSR. For example, LMX theory and distributed leadership theory examine leader-group interactions and collaborative work. They can be used to provide insights into how these interactions may promote shared and active engagement in CSR related activities.

Ethical Leadership theory may provide insights into when leaders promote CSR because ethical leadership is focused on doing the morally right thing versus just doing what makes the

most business sense or most company profit. This type of motivation may influence how much of the CSR activities are real fully developed and realized CSR activities and how much are just shallow efforts for the sake of public relations. Similarly, servant leadership theory predicts that servant leaders are more likely to practice CSR, because of their approach of leading by serving. Corporate Social Responsibility has a significant component of serving others which can fit with the servant leadership perspective.

In summary, it's not a question of whether leaders influence CSR. From the theories and empirical research on leadership we know that leader characteristics and behaviors do have an impact on CSR. Although research in the area is still in the nascent stage, these theories also provide insights into the different mechanisms through which leaders influence organizational Corporate Social Responsibility efforts.

Should Business Leaders Promote CSR?

Not everyone believes that business leaders should be promoting CSR. Some major proponents of the free market paradigm hold the view that social responsibility is not the responsibility of business organizations. According to them, the business of business is only business and making profit. The Nobel Prize-winning economist Milton Friedman argues in his 1962 book, *Capitalism and Freedom*, that social responsibility undermines the foundations of capitalist society, with the need for organizations to focus only on making as much money for company stockholders as possible. Similarly, Peter Drucker, who has been described as the founder of modern management, argues that CSR is dangerous for organizations and works against business principles.

However, despite such opposition from scholars and economic analysts CSR has now become a prominent phenomenon across the world. There are two main categories of reasons why business leaders should embrace and promote CSR:

Moral reasons. From a moral perspective, leaders should engage in CSR because it is the right thing to do. In contrast to the free market paradigm that views the business of business to be only business, the moral paradigm views business only as a means to satisfying moral ends. So free market paradigm scholars criticize CSR because they think it takes the organization's focus and resources away from creating profits for its stockholders. It is certainly true that profits are necessary for any business to survive. However organization often exist to fulfill some needed function of society and success can mean fulfilling that function better. In other words, leaders should pursue CSR because businesses don't exist in vacuum. They use societal and environmental resources for their sustenance. Thus, they are morally obligated to repay the society and environment through behaviors that benefit society, like CSR.

Instrumental reasons. There are three main instrumental reasons why leaders of business organizations should push for Corporate Social Responsibility: personal satisfaction, social legitimacy, and economic benefits.

Engaging in CSR can be worthwhile to leaders due to a feeling of personal satisfaction. The bottom-line mentality is often very stressful to managers and employees. An exclusive focus on profits can also be dispiriting for leaders in top management. However, leaders and their followers can develop a deep sense of satisfaction when they promote CSR by becoming stewards of social justice and environment protection.

Engaging in CSR can be beneficial because it results in increased social legitimacy. When business leaders practice CSR they build a positive image of their companies in the minds of stakeholders, including employees, customers, suppliers and governments. CSR gives social

legitimacy to companies. Social and environmental activism today is stronger than ever. Non-governmental organizations and citizen groups now actively boycott and lobby against businesses that are not being socially and environmentally responsible. Thus, when leaders avoid making CSR a priority they risk facing active resistance and sanctions from consumers, concerned groups, and even governments.

The last instrumental reason for leaders to engage in CSR is it can result in economic benefits. Leaders are advised to embrace CSR because it is the right thing to do, but even if leaders do not care about the moral reasons, they should do it because it can often be good for business and profits. CSR helps build positive branding for companies which is good for business. Not just that, today there is an increasing demand from consumers for green and ethical products. It is because of this reason that even staunch practitioners of the free market paradigm such as Jack Welch, the former CEO of GE, have said that businesses must adopt environmentally friendly practices because the world wants green products.

From the numerous empirical studies and meta-analyses that have been done on CSR, we now know that CSR practices positively contribute to financial performance. Although this effect has not been very strong, it has been partly attributed to methodological limitations of the studies. Recent analysis of socially responsible investments (SRI) show that they have more than doubled over the last decade. Not just that, on certain measures, the returns on such funds have surpassed that of the American stock market index of S&P 500.

Problems/Controversies of International CSR

A significant concern in the area of Corporate Social Responsibility is whether the actions of some companies are actually responsible or beneficial to the environment and communities. Companies like BP and Enron have won awards for their CSR but still engaged in other unethical behaviors and actions that hurt the community (in the case of Enron) or the environment (in the case of BP). In such cases CSR is merely for public relations purposes and little thought or resources is put into implementing practices that truly have a positive impact for the environment or society. This has led to the development of the term “greenwashing” that means organization that try to look “green” or “responsible” but are in fact not really having much positive impact with their behaviors. So greenwashing companies “look good” but aren’t really “doing good.” Banerjee discusses that companies can act in government like roles in developing countries, such as protecting individual rights and creating infrastructure, but often such companies look out for corporate interest over societal good.

There can also be significant disagreement on what CSR behaviors should be done and the correct balance between the triple bottom line of firm, social good, and environmental well-being. Eabrasu notes that people often agree on the good of helping all three but in reality organizations need to make trade-offs of where and how they use their resources. Different stakeholders will have different opinions on what trade-offs should be made.

See Also: History and Emergence of Global Leadership; Competencies (Primary): intercultural communication; International Business Ethics (Overview); Responsible Global Leadership; International Business Ethics Models

Further Readings

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