Business Horizons (2007) **50**, 29—38

Available online at www.sciencedirect.com

ScienceDirect

KELLEY SCHOOL OF BUSINESS
INDIANA UNIVERSITY

www.elsevier.com/locate/bushor

Rethinking the new corporate philanthropy

Craig M. Sasse [a,*], Ryan T. Trahan [b,1]

[a] *Rockhurst University, 1100 Rockhurst Road, Kansas City, MO 64110, USA*
[b] *Kaplan, Inc., 5800 Foxridge Drive, Suite 103, Mission, KS 66202, USA*

KEYWORDS
Corporate social responsibility;
Corporate citizenship;
Stakeholder theory;
Social responsibility;
Corporate strategy

Abstract More than ever, corporations are expected to practice "citizenship" by engaging in various community or social philanthropy programs. These corporate social responsibility (CSR) programs have broad appeal among business scholars, business executives, and the public. After first setting some theoretical boundaries for CSR as it relates to the legal and strategic management fields, the authors examine how CSR (both its implementation and expectations) can lead to unintended results, compromising the distinct roles business and government play in market-driven, democratic systems.

1. The expanding corporate social responsibility bundle

In speaking to an audience at Stanford University's business school, Timberland CEO Jeffrey Schwartz prefaced his talk by asserting that selling boots and other merchandise to meet Wall Street profit expectations was absolutely necessary. He went on to say that, based on any number of quantitative measurements, Timberland was the number one public company in the industry. Nonetheless, Schwartz pointed out, while profits are necessary to sustain a business, they are not sufficient comprehensive corporate goals. In the talk, entitled "Doing Well and Doing Good" (Kantola Productions, 2004), Schwartz explained his notion of engaged citizenship, including the social good of voting (97% of Timberland employees vote) and the evils of urban poverty (in San Francisco alone, there are 150,000 hungry people). In his role as CEO of Timberland and as a private citizen, Jeffrey Schwartz is sincere in his affirmation of social responsibility as vital for the enlightened corporation. Though not all with the same passion as Schwartz, other corporate executives have adopted the new Zeitgeist of corporate social responsibility.

The corporate social responsibility (CSR) bandwagon has more than just corporate executives on board. Consider the number of books and articles devoted to this topic over the last several years. A subject search on Amazon.com yields nearly 400

* Corresponding author.
[1] Present address: University of Texas Law School, 727 E. Dean Keaton St., Austin, TX 78705, USA.
E-mail addresses: craig.sasse@rockhurst.edu (C.M. Sasse), r_trahan@yahoo.com (R.T. Trahan).

0007-6813/$ - see front matter © 2006 Kelley School of Business, Indiana University. All rights reserved.
doi:10.1016/j.bushor.2006.05.002

results! Most of the books paint a positive picture of CSR, with titles such as *Beyond the Bottom Line: Putting Social Responsibility to Work for Your Business and the World*, and *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. Academic scholars have been even more prolific. Beginning in the late 1970s, business schools, with the help of accrediting bodies, successfully established the field of business ethics. While the original business ethics discipline devolved from philosophy, over the years it has grown to encompass the whole CSR bundle to the extent that "virtually nothing that society at large would like to achieve is beyond the scope of business ethics" (Wilcke, 2004, p. 197). In fact, some current academic business journals are devoted to corporate ethics, business ethics, or corporate responsibility; dozens of other business journals, including this one, now invite articles on this topic.

The public and media seem to accept, if not embrace, the concept of corporate social responsibility as a welcome antidote for the things that ail corporations themselves (fraud and greed) and the society at large (pollution, poverty, illiteracy). Who could argue with such goals? On the surface, CSR programs that invest private resources in the local community have no downside, whether funding stems from wealthy benefactors, government agencies, or corporations.

Since the 1970s, CSR has continued to evolve and expand ("Finding Strategic Corporate Citizenship," 2004; McClenahen, 2005), growing to encompass the "triple bottom line," whereby company performance is measured according to social and environmental criteria, as well as financial criteria. Issues of corporate governance and ethics as it relates to employees and customers have also come under the widening CSR construct. "Corporate citizenship," having roots in political science, has been adopted as the term of choice in corporate reporting to specify a company's social contribution (Matten & Crane, 2005). A primary part of corporate citizenship is philanthropy. Craig Smith (1994), a corporate philanthropy advocate, coined these citizenship responsibilities as the "new corporate philanthropy." By whatever term, corporations are becoming more and more inclined to engage in the social sector, whether it is stated as fulfilling their social responsibility, promoting philanthropy, or acting as a responsible "citizen."

This broad CSR application calls for a convergence of business and government that some have warned against. In an oft-quoted *New York Times Magazine* article, Nobel Laureate economist Milton Friedman (1970) bluntly spoke out against social activism by corporations, stating:

> "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." (p. 122)

More recently, some have questioned the blissful façade of CSR, asserting that corporations are prone to use CSR as a front for a pathological search for profits, or are simply not suited for social roles. The corporate scandals and growing social problems that result from an ever-expanding global economy do not mitigate the contradictions and potential pitfalls of corporate giving.

Because of the evolving (and often overlapping) construct, CSR deserves deeper examination. In this article, we focus on social responsibility, usually manifested in philanthropy directed at social problems. We examine this significant CSR component by first exploring pertinent legal and strategic management concepts, and then identifying the unintended results from the current expectations of CSR as it relates specifically to corporate philanthropy.

2. Legal obligations of the corporation

The corporation is a legal entity, managed by people who act as agents for the firm's owners, the shareholders. Therefore, a legislative and case history of the corporation exists that is relevant when considering its responsibilities. Many scholars have studied the corporation from this legal perspective, seeking to answer questions such as the one Friedman addressed in 1970; that is, what is the purpose and obligation(s) of the corporation? What boundaries does the law set in seeking these purposes? In this section, we look at how the law shapes CSR and what restraints or accommodations it makes for such activities.

2.1. Early history of corporations

Modern conceptions of the share-holding corporation have been around, at least, since the 16th century, when the London-based Muscovy Company was granted its charter as the first joint-stock company (Micklethwait & Wooldridge, 2003). This charter allowed the subscribing members, including Sebastian Cabot, temporary monopoly in trade with Russia. Many imitators seeking similar government favors and monopolies followed suit. Although the structure and form of the corporation evolved over