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Corporate social responsibility: Doing well by doing good

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Abstract Saving the rain forest from yet another palm oil plantation would certainly garner a company favorable attention from environmentalists, but how would its shareholders react? In this article, we show that by strategically practicing corporate social responsibility (CSR), a company can 'do well by doing good'; in other words, it can make a profit and make the world a better place at the same time. CSR is regarded as voluntary corporate commitment to exceed the explicit and implicit obligations imposed on a company by society's expectations of conventional corporate behavior. Hence, CSR is a way of promoting social trends in order to enhance society's basic order, which we define as consisting of obligations that cover both the legal framework and social conventions. Due to globalization, companies are now less constrained by society's basic order than they have been in the past. Because different countries have different laws and standards, there are more ways to get away with less than ideal behavior in the quest for greater and greater profits. Nearly everyone agrees that this is not a good thing, but what can be done? Via this article, we offer an understanding of CSR that could be the answer. Herein, we contend that practicing CSR is not altruistic do-gooding, but rather a way for both companies and society to prosper. This is especially true when CSR is conceived of as a long-range plan of action.

1. CSR as win–win strategy

Can companies enhance society's basic order, and, if so, is this advantageous for them? With this question in mind, it is the goal of this article to take a closer look at the opportunities and frontiers of a strategic, profit-maximizing use of *corporate social responsibility* (CSR). In doing so, CSR is regarded as voluntary corporate commitment to exceed the explicit and implicit obligations imposed on a company by society's expectations of conventional corporate behavior.

Society's basic order consists of both the legal framework and social conventions; it is always a representation of the society's prevailing ideas and opinions. New, emerging social trends cannot pass into society's basic order per se; in fact, they need to be promoted so that they might establish over time. Companies can support this procedure and in doing so, gain profits at the same time. Porter and

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Kramer (2002) call this win–win situation *strategic philanthropy*.

In the United States, the interrelation between a company's social commitment and its profitability has been of scientific concern since at least the 1970s. Among scholars, Margolis and Walsh (2001) and Orlitzky, Schmidt, and Rynes (2003) present a broad review of the existing literature, arriving at the same conclusion that the market rewards enterprises' social activities. CSR can thus be considered an efficient management strategy (Baron, 2003), and can be a crucial factor in the company's success. Short-term actions such as donating money for social purposes or sponsoring popular events, however, are not the most effective means of attaining this goal. Rather, effective CSR is usually a long-term proposition. The practice of CSR is an investment in the company's future; as such, it must be planned specifically, supervised carefully, and evaluated regularly. Used well, it is a way of actively contributing to the society's basic order and, in doing so, enhancing the company's reputation. From a supply-side perspective, a good reputation is necessary to attract, retain, and motivate quality employees. From a demand-side perspective, a good reputation increases the value of the brand, which, in turn, increases the company's goodwill.

The possibilities for CSR actions depend heavily upon a country's prevailing economic policy. Until recently, CSR was primarily a phenomenon found in the United States and the United Kingdom; continental Europe had not yet expressed much interest in the concept. These different attitudes are a reflection of differing economic views: Great Britain under Prime Minister Margaret Thatcher leaned toward the American, liberal economic policy prone to deregulation, whereas most of continental Europe relied on a relatively high density of regulation. If CSR is understood as a voluntary corporate commitment that helps establish social trends and institutional demands, the differences in its level of importance for countries become evident. As long as society's basic order binds companies to comply with social demands, there is no necessity for CSR. Not until society's basic order is unable to represent social trends in an appropriate way will CSR come into play.

Because European interest in CSR is a relatively recent phenomenon, there are not in existence very many continental European studies on the subject. Increasing globalization and the use of global public goods, along with the declining influence of national institutions, however, is making CSR a more vital issue in this part of the world. The national basic order is becoming less important for companies. Multinational enterprises face a plurality of different institutional conditions. In the absence of global governance, which could introduce and establish a supranational institutional framework, companies can force a race to the bottom concerning regulatory regimes. Civil society, however, reacts with hostility to such behavior; scandals such as that involving Nike's sweatshops are illustrative. Therefore, cost savings in the short run need to be balanced against the potential risk to the company's goodwill in the long run. It would be in their own self-interest if companies would consider filling this regulatory gap, rather than exploiting it.

The goal of this article is to assess strategic use of CSR. We begin with a short historical summary of the scientific debate over the term CSR. This background facilitates better understanding of how CSR works and illustrates that the practice does not necessarily conflict with a company's economic well-being. In fact, CSR often turns out to give a company an advantage. If a company realizes early on that a certain social trend is gaining ground, it can act quickly to take advantage of the situation by establishing itself at the forefront of an issue that may become of major public interest. For example, consider a scenario in which the public becomes alarmed at the effects caffeinated beverages have on the behavior of young children. An alert and aware company that produces such beverages could come out with a line of decaffeinated drinks, accompanied by a targeted advertising campaign stressing the healthy aspects of its product, and thus perhaps garner the public's favor and an edge on the competition. The later a company jumps on the bandwagon of a new trend, so to speak, the less chance it has of becoming a leader in the field or having much influence on the direction of future regulation; put another way, the sooner a company acts, the more influence it will have. Accordingly, there is an incentive to act pro-actively so as to gain a first-mover advantage. We will show how social trends can be classified in such a way that it is possible, using our proposed managerial decision-making process, to devise a win–win strategy to take advantage of them. Finally, frontiers for the strategic use of CSR are briefly discussed.

2. CSR in the course of time

Within the scientific literature, the term *CSR* was first formalized by Bowen (1953), who argued in a normative way that "it refers to the obligations of businessmen to pursue those politics, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of society" (p. 6). A decade later, several authors, including Davis (1960), Fredrick (1960),