RATIONALIZING RESPONSIBILITY:
WEBER’S THEORY OF RATIONALITY AND THE
CORPORATE SOCIAL RESPONSIBILITY DEBATE

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by
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ABSTRACT

The corporate social responsibility (CSR) debate arose out of the recognition that corporations today hold tremendous power, and that the direct and indirect implications of their actions are far-reaching, affecting a wide array of stakeholders in both positive and negative ways. Corporate decision-makers are confronted daily with a complex set of often conflicting demands, including economic, ethical, legal, personal and professional demands. They are forced to weigh these competing demands in their decision-making processes, ultimately deciding which demands will influence their corporations’ actions. Understanding the rationality employed by corporate decision-makers and business scholars is important in the study of CSR because it allows us to gain insight into how they interpret the constellation of demands placed upon them and how they orient their actions – and their corporations’ actions – accordingly.

I approach this analysis of the CSR discourse with two primary research questions. First, what patterns exist in the arguments put forth in the CSR literature, and can these patterns be classified into theoretical categories of CSR? Second, what rationalities underlie the predominant arguments (theories) in the CSR literature, and how do these rationalities inform the CSR debate? Upon coding the CSR literature according to four points of paradigmatic contention between adherents to different arguments for or against CSR, three endogenous theoretical frameworks began to emerge: corporate libertarian theory, enlightened self-interest theory, and moral theory. While most critics and advocates of CSR in the mainstream discourse point to one or more of the dozens of empirical studies on the CSR-firm financial performance relationship to support their arguments, I suggest that many of the arguments put forth in the CSR discourse are not
predicated on empirical evidence, but rather on an underlying normative orientation and rationality. Through this qualitative analysis of the CSR discourse – both the academic and non-academic discourse – the conflicting rationalities employed by participants in the CSR discourse become apparent.

In the face of economic globalization, characterized by transnational capital flows, highly mobile corporations, and increasing power of corporations in relation to the state, corporations have become some of the most powerful actors in the world today. Despite the fact that their agency is constrained by the demands of the market system, their actions greatly affect our lives, our world, and our future. The need for a moral discourse on the role and responsibilities of business corporations in society today is pressing. In addition to seeking to understand the rationalities underpinning the predominant arguments for and against CSR, this research seeks to contribute to this growing moral discourse.
BIOGRAPHICAL SKETCH

Daniel B. Ahlquist was born and raised in Rochester, Minnesota, where he barely graduated from John Marshall High School in 1997. After a brief stint as an Environmental Studies major at The Evergreen State College in Olympia, Washington, he transferred to the University of Kansas (Lawrence, Kansas), where he graduated with a BS in Journalism. It took only a few months of working and wearing a suit and tie in the “real world” for Daniel to realize that that world was not for him. After several months of international travel, he moved to Helena, Montana, where he served as an Americorps VISTA (Volunteer In Service To America) with Big Brothers Big Sisters of Helena. During that year of fly fishing, camping and hiking in the mountains, hang-gliding, whitewater rafting, and hunting the mighty Sasquatch, the author found his greatest love (up to that point, at least): Montana. With a heavy heart, the author left Montana in the summer of 2004 for Ithaca, where he began his MS/Ph.D. program in Development Sociology at Cornell University. But life in Ithaca, and at Cornell, proved to be good. While trekking through the jungles of northern Lao PDR in the summer of 2006, Daniel and his real greatest love, fellow Development Sociology graduate student Amanda Flaim, got engaged to be married. They will be happily married in June 2007 in Ithaca.
ACKNOWLEDGMENTS

I would like to thank Professor Thomas A. Lyson for his friendship and mentorship as my advisor over the past two years. Sadly, Professor Lyson lost his battle to cancer a few weeks before the completion and defense of this thesis. Despite his illness, Professor Lyson sought to be involved in my work. His hand and his ideas were influential in shaping this thesis and can be seen throughout the final product.

I would like to extend a special thanks to Professor Thomas A. Hirschl, who stepped in as my advisor under difficult circumstances. In addition to his thorough and thoughtful comments, his support, enthusiasm and encouragement have made a world of difference in how I am dealing with this significant transition period and moving forward as a scholar.

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Throughout the process, I have been able to count on the unwavering support of my friends and family. My path to this point wasn’t always an easy or a straight one, but my parents stuck by me through it all. I can’t thank them enough for their love and
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INTRODUCTION

Corporations today hold tremendous power, commanding immense resources and significant political and economic influence. The direct and indirect implications of their actions are far-reaching, affecting a number of stakeholders in both positive and negative ways. The concept of corporate social responsibility (CSR) arose from the recognition that business leaders make decisions that greatly affect not only their direct stakeholders, such as employees and stockholders, but “the lives and fortunes of us all” (Bowen 1953, p. 3). In the face of economic globalization, characterized by transnational capital flows, highly mobile corporations, and increasing power of corporations in relation to the state, this observation is as true today as at any point in history. As Stone (1975, p. xii) argues:

[W]hether or not we feel that corporations are to blame for our present dilemmas, there is at least one terribly practical and appropriate sense in which we do well to consider them increasingly ‘responsible.’ For aside from governments and governmental agencies… corporations have long since become, for better or worse, the most effective ‘private’ forces to do both widespread good and widespread harm. For this reason, to solve society’s problems is, in no small measure, to come to grips with the corporation problem.

The concept of CSR arose from a constellation of historical events and trends, dating back hundreds of years, although the present-day CSR discourse can be traced to the years immediately following World War II. Today, CSR is as relevant and important as ever, and still a hotly debated topic in business circles. However, the term itself has become so widely used in so many contexts that it has become almost cliché. Nevertheless, the continued presence of CSR, and CSR-related theories, in academic,

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1 CSR related theories include Corporate Social Performance (CSP), Stakeholder Theory, Corporate Citizenship, Corporate Societal Accountability, and Stakeholder Management, among others. Today, the most influential CSR-related theory is Corporate Sustainability.
popular and business discourse is important because it signals the existence of a belief that corporations, like all actors in society, have certain responsibilities for which they should be held accountable.

The sociological implications of the corporate social responsibility debate are significant in that corporations exert a tremendous amount of influence in shaping our social, political, economic, and environmental landscapes. As states’ abilities to exert authority over powerful and highly mobile corporations lessen in the global economy, understanding the rationalities and other factors underlying business scholars’ and corporate executives’ arguments for or against CSR will allow us to gain insight into corporate decision-making processes and the factors guiding their decisions. In addition to seeking to understand the rationalities underpinning the predominant arguments for and against CSR, this research seeks to contribute to the growing moral discourse surrounding the role and responsibilities of business corporations in society.

Because so many definitions of CSR have been put forth, adding yet another definition to the literature would contribute little. For the purposes of this analysis, I operationalize CSR as did Davis (1973, p. 312), when he stated that CSR “refers to the firm’s consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm.” To be clear, CSR is a voluntary process, and not the result of formal coercion by the state or economic coercion through large-scale consumer boycotts or other formal means.

Thesis Overview
I approach this analysis of the CSR literature with two primary research questions. First, what patterns exist in the arguments put forth in the CSR literature, and can these patterns be classified into theoretical categories of CSR? Second, what rationalities underlie the predominant arguments (theories) in the CSR literature, and how do these rationalities inform the CSR debate?

While the beginning of the present-day CSR discourse is generally traced back to the immediately post-World War II years (Carroll 1999; Preston 1975), the concept of CSR has been literally centuries in the making. I begin this thesis with an overview of the significant historical events that have shaped the corporation-society relationship, from the birth of the first corporations in the 16th and 17th centuries through the Great Depression and the New Deal. I also discuss some of the historical antecedents of CSR, including corporate welfarism and paternalism, and the granting of concessions to non-socialist labor unions.

In Chapter 2, I cover in greater detail the rise of CSR, beginning with World War II. In tracing the rise of CSR, I reference several historical events and trends that have greatly influenced the business-society relationship and the contemporary CSR discourse. I also discuss current developments in CSR outside the academic sphere, including the rise of socially responsible investing (SRI) and the United Nations Global Compact, the world’s largest corporate citizenship initiative.

In Chapter 3, I present my research methods and theoretical framework. Because I approach this study with two research questions, I attempt a dual-level theoretical analysis, employing both a CSR theoretical framework and Max Weber’s theory of rationality. In developing a theoretical framework of CSR, I employ a qualitative,
inductive approach to analyze the CSR literature. I code the literature by common points of differentiation – what I call points of contention – among the arguments for or against CSR. Upon doing so, three endogenous theories emerge from the literature, which I present as Weberian ideal types in order to capture the essence of the various arguments being put forth and to facilitate a comparative analysis.

In seeking to better understand and critique the predominant theories of CSR within the context of the social and economic challenges facing corporations today, I employ Max Weber’s theory of rationality as an analytical tool. Weber’s theory of rationality proves valuable in analyzing the CSR discourse in that it helps us to understand the way in which various scholars and business executives understand society and business’ place in society, and how they orient their actions and arguments accordingly. Weber’s theory is also valuable in helping us determine how the rationalities of particular value spheres, such as the economy, play out in practice and in the discourse, and how they influence the CSR debate. To augment and enhance the value of Weber’s theory of rationality as an analytical tool, I also employ Weber’s theory of bureaucracy.

In Chapter 4, I present my findings, which take the form of the three general CSR theories. The theories emerge from the CSR literature as a result of my coding scheme, which is based on four recurring points of contention along which the various arguments for or against CSR diverge. I identify three CSR theories that I subsequently title corporate libertarian theory, enlightened self-interest theory, and moral theory. Corporate libertarian theory holds that the only responsibility of business is to maximize profits, and the shareholders are the only group owed responsibility by business managers.
Corporate social responsibility is seen as harmful to profits, and to the free market system, and should therefore not be undertaken (Rodgers 2005; Forbes 2004; Henderson 2004a, 2004b, 2001; Friedman 1970, 1962). Enlightened self-interest theory is predicated on the belief that CSR is good for business and should therefore be undertaken by corporations. Serving society’s needs today will present new business opportunities and will help business remain profitable in the future (Sparks 2003; Birchard 1999; Burke and Logsdon 1996; Drucker 1984; Richardson 1981; Ford II 1970). The moral theory differs from the other two theories in that it sees the corporation as existing to benefit society. This is not to say that corporations should not seek profits; the moral theory simply argues that many stakeholders are owed responsibility, and that their interests must be considered in a corporation’s decision-making processes. Profits are important, but as an end, they do not justify all means (Mackey 2005; Handy 2002; Goodpaster and Matthews 1982; Davis 1973; Houser 1957; Bowen 1953).

In the final chapter, I employ Weber’s theory of rationality, as well as his theories of value spheres and bureaucracy, to analyze the three CSR theories. In doing so, I seek to understand the rationality underlying each theory and how the employment of a given rationality informs arguments made by participants in the CSR debate. In the final discussion, I argue that the mainstream CSR discourse is taking place in a forum that accepts uncritically the “realities” of the current market system. This “intellectual prison” (Woller 1996) greatly constrains the scope of the arguments being put forth. I then present an alternative view of the business-society relationship, arguing that CSR, while important, is unlikely to remedy many of the ills inherent in our system. I conclude this thesis by asking whether or not there is a place for CSR today.
**Background on Modern CSR Discourse**

While my analysis of the CSR discourse is unique from the mainstream literature in its aim and its analytical framework, it is important to make note of the major works in the CSR literature.² Presenting a brief review of some of the most important contributions to the modern CSR literature will help frame and contextualize my analysis.

The roots of the modern CSR discourse are often traced back to the 1950s, particularly Howard Bowen’s (1953) *The Social Responsibilities of the Businessman* (Carroll 1999; Garriga and Melé 2004; Post 1975). However, K. William Kapp’s (1950) *The Social Costs of Private Enterprise* would greatly shape the early academic CSR discourse. Kapp sought to debunk the notion – based in neoclassical economic value theory – that a corporation’s internal cost-price accounting accurately measured the true costs of the production process. He argued that there was an “omitted truth” in this calculus that failed to recognize that the activities of private enterprise have often far-reaching social and environmental costs that must be borne by individuals or the larger public. Kapp argued that, by concealing the true cost of the production process,

> the competitive cost-price calculus is not merely meaningless but nothing more than an institutionalized cover under which it is possible for private enterprise to shift part of the costs to the shoulders of others… (Kapp 1950, p. 233)

Howard Bowen’s (1953) *The Social Responsibilities of the Businessman*, while not the first work addressing CSR,³ is widely considered the seminal work in the CSR discourse, and one that marked the beginning of the “modern, serious discussion of the

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² I would like to acknowledge the work of Archie B. Carroll (1999), whose extremely thorough review of the CSR literature proved exceedingly helpful in my own literature review.
³ Earlier works of note include Berle and Means¹ (1932) *The Modern Corporation and Private Property* and Chester Barnard’s (1938) *The Functions of the Executive*, as well as Kapp’s (1950) *The Social Costs of Private Enterprise*. 
Bowen argued that the social responsibility of the businessman “refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen 1953, p. 6). Bowen’s theory was rooted in his belief that “the several hundred largest businesses were vital centers of power and decision making and that the actions of these firms touched the lives of citizens at many points” (Carroll 1999, p. 269). He saw that “…it is simply inevitable that large-scale business operations will have diverse, and often unexpected, impacts on the larger society; the corporate manager can no more disclaim responsibility for these impacts than for his own reckless driving” (Preston 1975, p. 435). Business leaders, who must necessarily remain interested in profits, must also “accept the social implications of their calling” (Bowen 1953, p. 135) – that is, they must acknowledge, accept, and engage with the social responsibility that comes with their position of power. While Bowen argued that CSR is “far from a panacea” (Bowen 1953, p. 135), he recognized that it “contains important truth” (Bowen 1953, p. 7) that must guide business executives’ thoughts and actions in the future.

Keith Davis, who Carroll (1999, p. 271) called the “runner-up to Bowen for the father of CSR designation,” was a leading voice in the CSR discourse of the 1960s and 1970s. His “Iron Law of Responsibility” stated that the “social responsibilities of businessmen need to be commensurate with their social power” (Davis 1960, p. 71). He believed that when social responsibility and power were relatively equal, “the avoidance of social responsibility [on the part of business] leads to gradual erosion of social power.” (Davis 1960, p. 73) Simply put, if business does not accept the responsibility that comes
with the social power they possess, another institution, the state, will surely step in and assume that responsibility and the power that comes with it.

Clarence C. Walton (1967) argued that “the intimacy of the relationships between the corporation and society” necessitates a moral theory of CSR that argues “that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals” (Walton 1967, p. 18). Walton was one of the first to explicitly emphasize the voluntary element of CSR, as opposed to acting in response to coercion, an observation that has proven central to the modern discussion of CSR.

Milton Friedman’s (1970) *New York Times Magazine* article, appropriately titled “The Social Responsibility of Business is to Increase its Profits,” represented the most significant condemnation of CSR to date, and remains arguably the most famous criticism of CSR ever put forth. In addition to criticizing CSR for its “analytical looseness and lack of rigor,” Friedman argued that

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 (Friedman 1970).

In 1973, Davis operationalized CSR as referring “to the firm’s consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm” (Davis 1973, p. 312). He famously defined CSR as “[beginning] where the law ends” (Davis 1973, p. 313), arguing that it is:

the firm’s obligation to evaluate in its decision-making process the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks (Davis 1973, p. 313).
In 1984, Peter Drucker argued that “doing good” was a necessary component of “doing well” for corporations, meaning that for business to be successful, it must take into account the expectations of the public to address society’s most pressing needs. For Drucker, the responsibility of corporations is to meet society’s needs, and to do so profitably:

…the proper ‘social responsibility’ of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well paid jobs, and into wealth (Drucker 1984, p. 62).

Archie B. Carroll (1983) argued that CSR “involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive” (Carroll 1983, p. 604; see also Carroll 1979). Two years later, in 1985, Aupperle, Carroll, and Hatfield conducted a study in which they showed that executives’ priorities match the four components – [economic, legal, ethical, and discretionary] – of Carroll’s definition of CSR” (Carroll 1999, p. 287).

Carroll (1991) later depicted CSR as a pyramid, with the economic responsibility forming the base. The next three responsibilities, in order, are the legal, ethical and philanthropic. Carroll argues that “business should not fulfill these [responsibilities] in sequential fashion… each is to be fulfilled at all times” (Carroll 1999, p. 289, commenting on Carroll 1991, p. 42).

Donna J. Wood (1991) argued that “the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behavior and

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4 Although corporate philanthropy is widely associated, even equated, with CSR, I do not consider it to be CSR and do not include it in my analysis.
outcomes” (Wood 1991, p. 695). By emphasizing the interconnectedness of business and society, Wood’s model treated the role of manager not as the purely objective role of maximizing of profits for shareholders, but as a more complex and subjective role of balancing the company’s interests with those of the public. Wood (1991, p. 698) considered managers to be “moral actors” who must exercise discretion in meeting the needs of various stakeholders.

Birchard (1999) argued CSR, when successfully integrated into a firm’s competitive strategy, could prove beneficial for firms. In what he called “doing well by doing good,” Birchard (1999, p. 3) argued that a reputation as a good corporate citizen presented a “tantalizing method of differentiation,” which could lead to a competitive advantage for firms by attracting and maintaining customers and investors, and avoiding costly government regulation.

In 1999, Carroll presented arguably the most thorough review of the CSR literature to date. After reviewing the literature, Carroll predicted that, as the new millennium began, CSR would remain an important concept “because at its core, it addresses and captures the most important concerns of the public regarding business and society relationships” (Carroll 1999, p. 292).

David Henderson, former head of the Economics and Statistics Department at the Organization for Economic Cooperation and Development (OECD), has emerged as the heir to Milton Friedman as the most outspoken and widely recognized critic of CSR. Henderson (2001) condemns CSR as a “Salvationist doctrine” that:

despite its general and growing support, is deeply flawed. It embodies a mistaken view of issues, events and economic relationships, and its general adoptions by businesses would reduce welfare and undermine the market economy (Henderson 2001, p. 163).
In the wake of several high profile corporate accounting scandals, Handy (2002) posed the question “What’s a business for?” In his now widely cited *Harvard Business Review* article, he argues that managers must continue to meet shareholders’ needs, but “to turn shareholders’ needs into a purpose is to be guilty of a logical confusion” (Handy 2002, p. 5). He argues that:

> The purpose of business… is not to make a profit, full stop. It is to make a profit so that business can do something more or better. That ‘something’ becomes the real justification for the business (Handy 2002, p. 5).

David Vogel (2005) argues that, when incorporated as one element of a firm’s strategic plan, CSR can be beneficial to some firms in some cases. However, he suggests that the claims by CSR proponents that not engaging in CSR will hurt a firm’s performance are overstated, as markets and consumers have rarely punished firms for not practicing CSR. Even so, Vogel concludes that a niche market does exist for CSR.

Also in 2005, *Reason Magazine* published a debate between John Mackey, Milton Friedman, and T.J. Rodgers. Mackey argues in favor of CSR, arguing that it is the responsibility of business to create value for all its constituencies. Friedman and Rodgers both argue against it, equating CSR with altruism at the expense of shareholder interests and harmful to the free market system. While not taking place in a scholarly journal, this debate has grown to be one of the most notable contributions to the public CSR discourse since Friedman’s 1970 *New York Times Magazine* article.

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5 Mackey is the co-founder and CEO of Whole Foods Markets, the world’s largest natural foods market chain.
6 Rodgers is the founder and CEO of Cypress Semiconductor.
Michael Porter and Mark Kramer (2006) argue that CSR fails on two levels: first, both in discourse and in practice, society and business are depicted as standing at odds with each other, when in reality they are interdependent and should be treated as such. Second, CSR is too generically applied in most instances to be of any strategic value. In contrast to generically applied CSR policies, Porter and Kramer argue that strategic CSR – that is, CSR that benefits a firm’s competitive context – will help firms differentiate themselves and gain competitive advantage in the marketplace.

Brief Literature Review of Empirical CSR Research

To date, dozens of empirical studies have been conducted to determine the relationship between CSR and firm financial performance. However, due to inconsistent methodologies, the inherent difficulties in operationalizing CSR, and the challenges in determining the direction of causality, these studies have produced inconsistent results. Despite these inconsistencies, empirical studies are widely cited by participants in the CSR debate as support for their claims that CSR is either beneficial or harmful to business. The following studies are a representative sample of the empirical studies conducted to date. While my research does not fall into this category, it will help to shed light on some of the factors contributing to the inconsistencies in the empirical CSR literature.

The deregulation of the 1980s changed the legal and regulatory framework in which corporations operated and spurred business scholars to seek more robust measures of the links between CSR and firm financial performance, with both proponents and opponents of CSR searching for empirical evidence to support their claims. Empirical
studies seeking to establish a CSR-firm financial performance relationship continued to proliferate through the 1980s and 1990s, and many such studies continue to be undertaken today. The results of the studies have been mixed, but generally show weak support for CSR. McGuire, Sundgren and Schneeweis (1988, p. 868) found that “firms low in social responsibility… experience lower [return on assets] and stock-market returns than do firms high in social responsibility.” They also found that previous firm financial performance influenced CSR more than CSR influenced concurrently high financial performance. This may suggest, according to the authors, that firms with high financial performance are in a better position to act in a socially responsible way (McGuire, Sundgren and Schneeweis 1988).

Waddock and Graves (1997) concluded that socially responsible business practices are both a result of, and a contributing factor to, firm financial performance. Using the buzzwords of the day, they argued that firms can ‘do good by doing well,’ but they can also ‘do well by doing good.’

Roman et al. (1999), in their meta-analysis of studies relating corporate social performance to corporate financial performance, found a trend suggesting that good CSR was, in fact, good for business. Of the studies they analyzed, 33 suggested a positive relationship, 14 suggested no significant relationship or were inconclusive, and only five suggested a negative relationship between corporate social performance and corporate financial performance.

Not all of the studies conducted on the CSR-firm financial performance relationship suggest a positive relationship. Laffer, Coors and Winegarden (2004, p. 5)
found that “being a CSR-leading company was negatively or not correlated with compound annual net income growth, net profit margin, and stock price appreciation.”

Overall, the majority of studies show very tentative support for a positive CSR-firm financial performance relationship (Orlitzky and Benjamin 2001; Roman et al. 1999). However, the findings of these studies, taken together, are so inconsistent that they are far from providing conclusive evidence that CSR benefits a firm’s bottom line (See Wartick and Cochran 1997; Griffin and Mahon 1997). Inherent problems of inconsistency in defining and operationalizing CSR for empirical analysis (Griffin and Mahon 1997), as well as the often intangible costs and benefits of engaging in CSR (Vogel 2005; Birchard 1999; Griffin and Mahon 1997), have made quantifying the CSR-firm financial performance relationship difficult. What’s more, problems of determining the direction of causality continue to plague empirical CSR studies (Campbell 2007; Birchard 1999). As Griffin and Mahon (1997) suggest, the inconsistent and often contradictory results obtained by those researching the link between a corporation’s social performance and its financial performance “stem from conceptual, operationalization, and methodological differences in the definitions of social and financial performance” (Griffin and Mahon 1997, p. 7). Despite these challenges of quantification, nearly all those who enter the CSR debate, whether they argue for or against CSR, point to empirical studies to support their arguments.

**Potential Contributions**

While my research does not directly attempt to address these challenges of empirically quantifying the CSR-firm financial performance relationship, I intend to

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7 In this study, Laffer, Coors, and Winegarden repeatedly refer to CSR as “‘so called’ corporate social responsibility,” which, when combined with Laffer’s public condemnation of CSR, suggests a bias.
contribute to the literature by addressing some of the root causes of these challenges. I suggest that many of the arguments put forth in the CSR discourse are not predicated on empirical evidence, but rather on an underlying normative orientation and rationality. Through this qualitative analysis of the CSR literature – both academic and non-academic literature – the conflicting rationalities employed by participants in the CSR discourse become apparent. Understanding the rationalities employed by those arguing for or against CSR allows us to see how those rationalities inform their arguments, and helps shed light on the inherent inconsistencies in the literature.

While the CSR literature is expansive, with the top business journals regularly featuring CSR articles and other journals devoted entirely to CSR, most articles either focus on defining CSR, trying to quantify its effects on a corporation’s bottom line, arguing for or against it, or on how to make CSR a part of a firm’s competitive strategy. The theory that has been put forth, while important, is fragmented. Campbell (2007), one of the few sociologists researching CSR, recognizes this theoretical void in the CSR literature. He argues that, while much time and effort has been spent attempting to define CSR and determine its relationship to firm financial performance,

little theoretical attention has been paid to understanding why corporations act in socially responsible ways or not… Indeed, much of the literature on corporate social responsibility has been more descriptive or normative than positivist in tone (Campbell 2007, p. 1).

This research seeks to contribute to the development of a more integrated and more robust theoretical framework with which to view the CSR debate.

Finally, this research seeks to contribute to the growing moral discourse on the role and responsibilities of corporations in today’s society. Under neoliberal globalization, characterized by transnational capital flows, the deification of the market,
and the decreased power of states vis-à-vis transnational corporations, corporations have become, for better or worse, some of the most powerful actors on Earth. As this research will show, however, corporations are not free, unconstrained agents. Rather, they are greatly constrained by the demands of the global market system. Nevertheless, in the face of increasing global inequality, environmental degradation, and other pressing challenges, the need for a robust moral discourse on the role and responsibilities of corporations is urgent. By presenting the major arguments in the CSR discourse and critiquing them through the lens of Weber’s theory of rationality, this research seeks to contribute to this moral discourse by adding clarity to the discourse and beginning to fill the theoretical void in the CSR literature.

As with any social phenomenon, CSR cannot be examined in isolation from the historical factors that helped shape it. While the CSR discourse, as it exists today, can be traced back to the years following World War II (Carroll 1999; Preston 1975), historical factors going back centuries contributed to forming the current business landscape and shaping the present-day CSR debate. Because of the importance of history in contextualizing this analysis of CSR, I turn in the following two chapters to tracing the pertinent historical factors that gave rise to CSR, as well as discussing its contemporary context.
CHAPTER 1
HISTORICAL CONTEXT FROM WHICH CSR AROSE

Corporate social responsibility (CSR) has been a buzzword and a major point of contention in the business arena since it entered the popular vernacular around World War II. However, before analyzing the present-day CSR discourse, it is important to trace the historical factors that informed and gave rise to CSR discourse and practice. In this chapter, I discuss many of the historical factors that gave rise to present-day CSR, from the chartering of the first corporations in the 16th and early 17th centuries to the start of World War II. In doing so, I provide an historical context in which to situate the contemporary CSR discourse. Understanding the context from which CSR arose will help contextualize the subsequent analysis of the CSR literature and contribute depth to the sociological analysis of CSR using Weber’s theories of rationality and bureaucracy.

Early History of the Business Corporation

The history of the business corporation can be traced back to the mid-16th and early 17th centuries and the chartering of three corporations – the Russia Company (1555), the British East India Company (1600), and the Dutch East India Company (1602) – by European crowns. These early companies were chartered to conduct the business of the state – namely trade and exploration. The charter of the Russia Company, an English company chartered to conduct trade with Russia, called for it to serve as the

... Marchants adventurers of England, for the discovery of lands, territories, iles, dominions, and seigniories unknownen, and not before that late adventure or enterprise by sea or navigation, commonly frequented.

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8 Guildhall Library Manuscripts: The Russia Company [http://www.history.ac.uk/gh/russia.htm](http://www.history.ac.uk/gh/russia.htm)
In serving their respective crowns and conducting the business of their respective states, the British East India Company\(^9\) and the Dutch East India Company\(^10\) grew into hugely wealthy, powerful and influential organizations. While initially chartered to conduct trade in the East, the British East India Company eventually became a de facto imperial power, garnering a powerful military and governing India and other ‘colonies’ (Landow). Meanwhile, the Dutch East India Company – chartered to oversee and conduct trade, build forts and engage in both treaties and in wars in the name of the Dutch Crown, from the southern tip of Africa east to the southern tip of South America (Korten 2001; Crump 2006) – became with world’s largest trading company, a title it held for much of its existence (1602-1799). At the height of its power, the Dutch East India Company controlled over half of the world’s sea-going shipping (Crump 2006).

These early corporations are notable for being the first truly multinational corporations, as well as being among the first companies to operate on a joint-stock basis, making them the primogenitors of the present-day publicly held corporation. The emergence of the joint-stock system, where individual shareholders purchase shares in a corporation and are repaid in proportion to their investment, was necessitated by the changing nature of the “adventures” on which these early companies embarked. “Economies of scale in shipping were dictating larger ships, not within the financial capacities of one man, or even, ordinarily, several. The need to provide protection from pirates was dictating synchronized sailings of fleets, with armed escorts” (Stone 1975, p. 14). This development was significant in that it separated ownership of the firm, which rested with the shareholders, from the firm’s management. While these early companies

\(^9\) The official name of the British East India Company was the Governor and Company of Merchants of London Trading into the East Indies.

\(^{10}\) The Dutch East India Company was also called the United East Indies Company or VOC.
were, by nature of their charters, strictly accountable to their respective crowns, this separation of ownership and management of the firm would eventually raise a new set of questions as to responsibility or accountability for the firm’s actions.

As important as the emergence of the shareholder system in the development of the present-day business corporation is the history of the corporate charter. Initially, all corporations received their charters from their respective monarchs. While the corporate charter gave a company its license to operate, it was not without its limitations. Not only did the crown demand a certain share of a company’s profits, but it determined the terms under which a company operated and had the ability to withdraw the charter at any time. “Not surprisingly, the history of corporate-government relations since [the first charters] has been one of continuing pressure by corporate interests to expand beyond corporate rights and to limit corporate obligations” (Korten 2001, p. 61).

While accountability to the monarchy hardly made these early corporations accountable to the public, the early history of the newly independent United States brought surprising changes. The American corporation, “in its original formulation, was a public rather than a private institution – and one that owed accountability to the American people” (Derber 1998, p. 121). American corporations – and their charters, which were given by the state, as opposed to the crown – were treated under the law as “concessions” or grants from the government and the law was “unambiguous about the ‘publicness’ of the corporation” (Derber 1998, 122). Corporate charters were given by individual states, rather than the federal government, so as to keep control close to the people (Korten 2001). Corporate charters contained strict rules as to how a corporation could conduct business, how long its charter would remain effective, how much land it
could own and how many assets it could accumulate (Derber 1998; Korten 2001). The state reserved the right to terminate a corporate charter if it deemed the corporation’s actions to be antithetical to the public interest (Derber 1998).

From the time of American independence until the start of the Civil War, chartered corporations proliferated, but they remained relatively small in size, with even the largest companies employing no more than a few hundred employees (Edwards 1979, p. 23). Because businesses remained small and privately owned, both profits and responsibility for all facets of the business’s operations rested with the owners of the business. Edwards (1979, p. 24) suggests that “the ‘firm’ as an entity separate from the activities of the entrepreneur hardly existed.” Even in instances where shareholders owned the firm, those shareholders remained close to the firm and aware of its operations. Unlike today’s absentee “owners” (shareholders), early shareholders were personally invested in the firm, both from a profit standpoint and, since they lived in the communities in which the firm operated, a community standpoint. Citizens, including shareholders, and government kept corporations under a watchful eye to ensure that they were acting responsibly and serving the public interest. This level of public control of business, while widely accepted at the time, likely “would be considered subversive today” (Derber 1998, p. 121). Derber contends that today’s corporations, ‘owned’ by absentee shareholders and so large that they can shape or evade State regulation, “would have made very little sense to Americans in the early years of our nation” (Derber 1998, p. 121).
The Industrial Revolution and the Rationalization of Production

The early American corporation was surrounded by rhetoric of publicness, but as Derber argues, “[n]o image of the early charters should obscure the reality of the pre-Civil War corporation as a monopoly privilege reserved largely for the wealthy” (Derber 1998, p. 125). This reality was by no means a uniquely American phenomenon, and it would become more pronounced with the Industrial Revolution. In order to facilitate the expansion of production brought on by the Industrial Revolution, factories needed to be re-organized. The Industrial Revolution thus also led to the rationalization of the production process and a fundamental change in the relationship between owners, workers and the means of production. While the workers were becoming proletarianized through the internal division of labor, factory owners grew wealthy as a result of the increased productivity of their factories. It was in the face of the changes of the day that the field of sociology was born.\footnote{Auguste Comte coined the term “sociology” in 1839 (Ritzer and Goodman 2004).}

In February of 1848, Karl Marx and Friedrich Engels published The Manifesto of the Communist Party (hereafter referred to as The Communist Manifesto), in which they criticized the capitalist system, particularly the industrial capitalist system, as a class-based system of exploitation. Marx and Engels observed that the capitalist system, and its bourgeois or capitalist class, has

resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single, unconscionable freedom -- Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation (Marx and Engels 2002, p. 78).
At the time of the publication of *The Communist Manifesto*, communism was already a well-established movement in Europe. But no work, before or after, with the possible exception of Marx’s *Capital* (1867), would have as profound an impact on the Communist Party and the role of communism in world history as this work. As Marx and Engels say in the opening line of *The Communist Manifesto*, “A spectre is haunting Europe -- the spectre of communism” (Marx and Engels 2002, p. 76). This “spectre of communism” would play a significant role in American history, serving as a rallying call for social movements, particularly the labor movement, and opponents of American capitalism, including the Socialist Party. Marx’s work also served to ignite the fears of capitalists, who imposed sometimes oppressive anti-communist laws and policies.

**The Rise of, and Early Challenges to, Corporate Power in the United States**

David C. Korten points to the years of the American Civil War (1861-1865) as a time of unbridled growth of corporate profits and power. Taking advantage of a corrupt and disorganized political system of the Civil War years, private corporations were able to procure, often through bribes or ‘purchased’ legislation, massive military procurement contracts and huge grants, of both money and land, to drive the westward expansion of the railway system. “The greater its profits,” observed Korten, “the greater the emergent industrial class was able to solidify its hold on government to obtain further benefits” (Korten 2001, p. 64). Shortly before his death, President Abraham Lincoln, disturbed by the phenomenon of consolidation of private wealth and power he was witnessing, observed:

Corporations have been enthroned… An era of corruption in high places will follow and the money power will endeavor to prolong its reign by
working on the prejudices of the people… until wealth is aggregated in a few hands… and the Republic is destroyed (as quoted in Korten 2001, p. 64).

According to C. Wright Mills, the formal beginning of “the supremacy of corporate power” came with the immediately post-Civil War congressional elections of 1866 and was “consolidated by the Supreme Court decision of 1886, which declared that the Fourteenth Amendment protected the corporation. That period witnessed the transfer of the center of initiative from government to corporation” (Mills 1957, p. 271). The Supreme Court decision to which Mills was referring was the Court’s astonishing, precedent-setting ruling in Santa Clara County v. Southern Pacific Railroad that, despite never being mentioned in the U.S. Constitution, a private corporation is considered a natural person and deserves equal protection under the Constitution. Subsequent court rulings further protected, and gave explicit rights to, private corporations, which were able to claim the full rights of an individual, but remained exempt from many of the responsibilities or liabilities that accompany citizenship (Korten 2001). In subsequent years, questions of whether corporations might necessarily be held accountable for their actions arose, but were widely disregarded by the courts (Stone 1975). The legal precedent set at this time concerning how corporations were to be treated under the law would have far-reaching consequences that we still feel today.

This era of growing corporate power, according to Mills, “was an age of raids on the government by economic elite, an age of simple corruption, where Senators and judges were simply bought up” (Mills 1957, p. 271). This was never more evident than in the trend of state legislatures, under heavy influence of corporations and their wealthy

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12 This group of economic elites, the owners of the major industries of the day, are often referred to as the robber barons.
beneficiaries, rewriting the laws governing corporate actions and limiting the power of citizens and states to intervene in corporate affairs (Korten 2001). In an effort to attract corporations to their states, state governments began rewriting the laws governing corporate charters, removing much of the language of “publicness” and granting corporations charters of unlimited duration, and with significantly more freedom from government or public intervention. Many states, coveting the jobs and other benefits corporations brought with them, often sweetened the deal by reducing tax rates and loosening regulations. In this environment, very few states could risk punishing, or even regulating, irresponsible corporations, as the corporations could simply move elsewhere.

By the end of the 19th century, firms that were still relatively small only a few decades earlier were expanding rapidly, many now employing thousands of workers. As firms grew in size, they struggled to find the most effective mechanisms for controlling their labor force. The result was the rise of hierarchical, bureaucratic control, characterized by impersonal institutional rules governing action, internal division of labor and hierarchical structure power relations (Edwards 1979).

In terms of large scale production, bureaucratic organizational structures were, at least in theory, unrivaled in their efficiency. Max Weber argued in Economy and Society (1921/1968) that bureaucracy was the most rational means of exercising authority over people. It is superior to other forms of institutional organization, argued Weber, in its precision, stability, reliability, adaptability and calculability, all of which are attributes appealing to business owners and managers. But the cost of efficiency was high. Weber feared “that the rationalization that dominates all aspects of bureaucratic life was a threat to individual liberty” (Ritzer and Goodman 2004, p. 214). Weber believed that the
impersonal, rational calculation inherent in bureaucracies “reduces every worker to a cog in [the bureaucratic] machine and, seeing himself in this light, he will merely ask how to transform himself from a little into a somewhat bigger cog…” (Weber 1921/1968, p. liii). Once established, argued Weber, bureaucracies are among the most difficult institutions to destroy. Despite his fears, Weber concluded that “the future belongs to bureaucratization” (as quoted in Ritzer and Goodman 2004, p. 214).

**Corporate Welfarism: An Early Form of CSR?**

From the mid-19th to early 20th centuries, as industrial production in the United States was becoming increasingly consolidated and (formally) rationalized, manufacturing firms began changing their managerial practices to further increase their efficiency. In order to convince workers to accept the increasing rigor of industrial labor, and to attract and maintain the numbers of workers needed by the growing industrial sector, firms began preaching and promulgating a belief in a paternalistic relationship between firms and their employees. The resulting trend was one of widespread adoption of corporate welfarism,¹³ which refers to “employers’ voluntary provision of non-wage benefits, greater employment security, and employee representation (also known as company unionism) to their blue-collar workers” (Moriguchi 2003, p. 2). Corporate welfarism was not an entirely new phenomenon by the start of the 20th century, but the practice attained its most widespread adoption during first three decades of the 20th century.

These services and activities provided under corporate welfarism were by no means altruistic. Rather, this paternalistic practice was intended to achieve high job

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¹³ Corporate welfarism is also known as private welfare capitalism, or simply welfare capitalism.
satisfaction, loyalty, and positive attitudes toward work among employees. Corporate paternalism also included the provision by the company of housing, education, insurance, pensions, health care and athletic activities (Cheape 1984).

The company town, a town literally and figuratively built around a single company, is an extreme example of corporate paternalism and welfarism. All of the town’s businesses, its government, and its public services were controlled by the company. Company towns grew primarily in geographically isolated places, particularly around extractive industries like mining and timber. Logically, the town’s fortunes were intimately tied to the fortunes of the company. Corporate social responsibility took on a new significance in these towns, as the company was literally responsible for the well-being of the town’s residents. \(^{14}\) While very few, if any, corporations today provide the bolus of services and benefits of these early 20\(^{th}\) century paternalistic corporations, this lasting notion of the paternalistic company, whatever its motivations, has proven influential in today’s CSR debate.

As corporations grew larger, their bureaucratic structures grew more complex. This fact, along with the changing demands of the marketplace, created the need for a new type of manager: the professional manager. This need for professional managers prompted many universities to establish business management programs. By the mid-1920s, 160 colleges and universities had established business programs (Galambos 2000). These business schools, while supplying business with a constant flow of professional managers, also served as social carriers of the ideology of industrial capitalism.

\(^{14}\) While most company towns eventually became incorporated, a few company towns still exist today.
The Interconnectedness of Business and Politics

At this time the interconnectedness between big business and politics was readily apparent. Corporations recognized that, in order to smother potential opposition and create a more favorable business climate, they must increasingly assert themselves into the political sphere. One way they did this was by funding the campaigns of congressional candidates they saw as sympathetic to their cause, a practice that continues today. As Pennsylvania Senator Boies Penrose said to a group of business leaders in 1896:

You send us to Congress; we pass laws under which you make money;… and out of your profits you further contribute to our campaign funds to send us back again to pass more laws to enable you to make more money (as quoted in Nader et al. 1976, p. 20-21).

C. Wright Mills (1957) would later call this interconnected group of elites from business and politics the “power elite.”\textsuperscript{15} This small group of elite men\textsuperscript{16} who occupied the positions of power in the country’s dominant institutions, business and politics, held great influence over the direction of the country and the lives of Americans.

In terms of the economy and the business environment, the public had become a mere footnote in the equation. The power and arrogance of many business leaders of the day can be seen in comments such as railroad tycoon William Vanderbilt’s “Let the public be damned!” (Galambos 2000, p. 944) At the time, the most powerful businessmen could afford such brash disregard for the public without fear of damaging repercussions. But times were changing.

\textsuperscript{15} The “power elite,” for Mills, also included the military elites.
\textsuperscript{16} During this period, those who sat at the top positions of business and politics were men.
The Rise of Labor

At the dawn of the 20th century, as corporate power and political power were becoming increasingly intertwined, organized opposition to corporate power was also growing. Labor unions long predated the rise of large corporations, but had until now remained relatively small. In the years immediately surrounding the turn of the century, labor unions grew rapidly in terms of membership, financial resources, and bargaining power (Galambos 2000). By 1904, union membership had grown to over two million members, up from less than 450,000 just seven years earlier (Korten 2001, p. 66). Even the largest of the corporations were hesitant to incur strikes from such powerful unions, leading many to believe that unions would provide the necessary countervailing force to constrain big business (Galambos 2000) and protect the rights of workers.

The rise of labor unions gave workers across the country hope that their interests would be represented in the workplace and that companies would be held accountable for their actions. However, industrial tragedies like the deadly Triangle Factory Fire of 1911, where factory owners escaped punishment, exposed the poor working conditions in industrial factories and showed that any notion of corporate social responsibility was far from becoming a reality.

In the 1912 presidential election, the Socialist Party captured nearly a million votes, totaling six percent of the popular vote (Edwards 1979). The now thriving Socialist Party and the maturing labor movement were beginning to present the first serious challenge to capitalist rule in the U.S. (Edwards 1979). Industrial capitalists feared the “growing power of socialist and other popular movements, which threatened to bring fundamental change that might eliminate their privileged position” (Korten 2001, p. 67). In response to these movements, rather than accommodating the demands of these
and other groups, the owners of industry began combining their assets and forming
alliances that dominated the economy to an extent that they didn’t have to worry about
citizen opposition or any notion of corporate responsibility.

While the wealthiest of Americans had grown richer in comparison to their
countrymen, the U.S. itself had grown rich. By the eve of World War I, the United States
economy had grown, in terms of economic output, into by far the world’s largest
economy. But the growth of the U.S. economy didn’t benefit all Americans equally.
By this time, a few large corporations had emerged, mostly through mergers and
acquisitions, and were beginning to dominate the central sectors of the economy. The
American public grew fearful that “the great corporate combines of that day would use
their power to crush competition and skim off monopoly profits” (Galambos 2000),
which is precisely what happened. These large firms dominated the market through
powerful oligopolies, or “trusts,” that allowed them to control the market and all but
eliminate price competition (Lamoreax 2000). This oligopoly of the wealthy, whose
political power and ability attain economies of scale that no small firm could compete
with, left the great number of smaller firms to struggle for market share in the more
competitive peripheral sectors of the economy (Lamoreax 2000).

The Russian Revolution of 1917 and the subsequent rise of the communist Soviet
Union would ignite panic in the hearts of American capitalists, who feared the spread of

17 From 1774 to 1909, the U.S. economy increased approximately 175-fold, meaning that it had grown at a
rate of about 3.9 percent per year since 1774 (Gallman 2000, p. 2). By 1913, the U.S. economy was nearly
two-thirds the size of Europe’s 15 biggest economies combined (Gallman 2000, p. 3-6). Great Britain’s
economy, the second largest in the world, was well under half the size of the U.S. economy.
18 J. P. Morgan and John D. Rockefeller put aside their rivalry in order to merge their already enormous
holdings. Their combined assets of $22.2 billion, spread across their 112 corporate directorates, equaled
“twice the total assessed value of all property in thirteen states in the southern United States” (italics mine)
(Korten 2001, p. 67).
communism. This fear would prove influential in American policy throughout much of
the 20th century and would greatly shape the future CSR debate, as private enterprise was
seen as an important anti-communist institution.

For Weber, capitalism was preferable to socialism for two reasons: first, capitalist
bureaucracy, while oppressive to individual liberties, was less oppressive than the
bureaucracy that would be necessitated by socialism, where the state fulfilled so many of
the duties that private entrepreneurs fulfilled in capitalism. Weber’s second argument
as to why capitalism was preferable to socialism was that capitalism’s separation of
ownership from management would ensure that the owners of enterprise, the shareholders,
would keep managers in check. The separation of ownership from management would
prove significant in the future CSR debate, but not as Weber envisioned. Rather than
providing the check on management power that Weber foresaw, this separation led to a
dynamic where management saw its responsibility, often its only responsibility, as being
to serve the interests of the shareholders. And shareholders often demanded this type of
responsibility.

From 1918 to 1920, persisting labor unrest exploded into a series of large-scale
union strikes that subsequently led to violent conflicts between workers and strike
breakers. States quickly acted to end the conflicts, with the end result being greatly
disarmed labor unions. By the early 1920s, the large corporations were, once again,
ensconced in their respective industries, practicing cooperative… price
setting and market-sharing behavior. Competition had been reduced to
‘competition among the few’… The anti-big business protests of farmers,
small businessmen, labor, and consumers had become muted and
meaningless (Edwards 1979, p. 38).

19 Weber believed that socialism, if fully implemented “would lead to a disaster for mankind” (Swedberg
The Great Depression

Edwards (1979, p. 37) sees this period in American history, approximately 1890-1920, as the transition from a competitive marketplace to “monopoly capitalism,” where large corporations cornered the market, allowing them to wield unparalleled power. Beyond individual corporate monopolies within specific industries, this period witnessed the broader triumph of monopoly capitalism (Edwards 1979). “In order to establish their hegemony,” writes Edwards (1979, p. 37-38), monopoly capitalists had to resolve conflicts within the capitalist class, establish new relations between the corporate economy and the state, and smash the growing labor and socialist opposition.

During the 1920s, the U.S. economy soared and public confidence in business as a vehicle for national prosperity was high. However, during the Great Depression, the relationship between business and society became strained, often antagonistic. Big business held immense and increasingly concentrated power, and business executives tended to think and act “in substantial isolation and ignorance of the needs and interests of others” (Heald 1970, p. 308). President Franklin D. Roosevelt, feeling that big business had too much power and that the excesses of big business were largely to blame for the crash of the unstable economy, unveiled the New Deal in an effort to stabilize the flagging economy and meet society’s most pressing needs. The New Deal both strengthened and extended the government’s capacity to regulate business (Galambos 2000). The creation of checks on corporate power, such as the Securities and Exchange Commission (SEC) and the passage of the labor-friendly Wagner Act (1935), “had a dramatic impact on the markets from which all large companies obtained a significant amount of their capital” (Galambos 2000, p. 945-946). Roosevelt also revived and
strengthened the country’s anti-trust laws in order to reign in the powerful trusts and return an element of competition to the market. The State had asserted itself through these New Deal measures, establishing tangible boundaries of acceptable corporate behavior and laying the foundation for the present-day corporate social responsibility debate.

The passage of the Wagner Act in 1935 represented a major victory for the labor movement. Under the Wagner act, workers and unions had State protection from the National Labor Relations Board, which fundamentally changed the terrain of corporate-labor relations (Galambos 2000). After initial resistance to the idea of negotiating with the newly empowered labor unions, corporate executives began to recognize the benefits of working with moderate, non-socialist labor unions. They realized that by granting certain workers’ rights, paying better wages and providing a better work environment, the workforce would be more loyal and more motivated, and the appeal of socialism—still a concern at the time—would be lessened (Korten 2001). In addition to bringing a level of industry-wide uniformity to such matters as wages and labor standards, cooperation with these moderate unions provided “stability and predictability within the system without ultimately challenging the power of the industrialists or the market system” (Korten 2001, p. 67). This tentative tolerance of labor unions and relatively widespread acceptance of some level of social responsibility toward labor were significant in that it represented an important step in legitimizing the notion of corporations having responsibilities beyond profits.

Under the New Deal, the State assumed a greater and more direct responsibility for the welfare of American citizens, providing and extending to underserved populations
most of the services formerly provided under corporate welfarism. These services included welfare, social security, and workers’ compensation, among others. This increased level of state paternalism, when combined with the economic hardships faced by individuals and businesses during the Great Depression, led to the decline of corporate welfarism. With the exception of a few remaining company towns, this high level of corporate paternalism would not be seen again in the United States. Nevertheless, corporate welfarism provided an early precedent in the discussion of corporate responsibility.

Beyond effectively ending the practice of corporate welfarism, the New Deal was instrumental in the conceptual and practical development of CSR because, through the establishment of labor-friendly and anti-trust laws, and regulatory agencies like the SEC, it put a formal framework in place to which business practices could be held to determine if they were “responsible” or not. The immediate effects of these New Deal measures on corporate responsibility were obscured by the country’s entrance into World War II, but their lasting effects cannot be questioned. The CSR debate would now focus more on business operations, and to some extent community involvement, with little expectation of such intimate corporate involvement in workers’ lives.

**Conclusion**

From the first corporate charters to the Great Depression and the New Deal, a constellation of historical factors have contributed to shaping the concept of CSR. Recognizing these historical factors is important in contextualizing both the concept of CSR, itself, and the modern CSR discourse. In the following chapter, I trace the
evolution of CSR, including the recent historical events and trends that have greatly shaped the discussion of CSR.
CHAPTER 2:  
THE RISE OF CORPORATE SOCIAL RESPONSIBILITY

By the start of World War II, the idea of business having certain social responsibilities was nothing new. It had been discussed and practiced in various forms, including corporate welfarism and concessions to labor unions granting workers certain rights. Even so, there was not a consistent and well-developed conceptualization or discourse on CSR. While most acknowledge some discussion of CSR before World War II, business scholars today point to the years following the war as the beginning of the contemporary CSR discourse (Carroll 1999; Preston 1975). Over the past 60 years, CSR has become an entrenched, even if not universally accepted, concept in the business arena. In this chapter, I outline the rise of CSR, some of the historical factors that have shaped it, how expectations of business have changed, and how the concept of CSR has evolved.

The Early Years of CSR

During World War II, the amazing success with which American business met the productive needs of the country and the war effort led to a notably positive shift in the business-society relationship (Heald 1970). Throughout the extended period of post-war prosperity, public attitudes toward business continued to improve and American business regained its confidence. Having learned from their experiences in the 1930s, when self-interested practices led to an unfavorable public perception of business, business leaders began to look more seriously than ever before at the role of business in society and the social effects of business’ actions (Bowen 1953, p. 44). The growing rhetoric of social responsibility on the part of business signaled not only society’s increasing demands on business, but business’ recognition of those demands.
While the formal academic CSR discourse is generally traced back to Bowen’s (1953) *The Social Responsibilities of the Businessman*20 (Carroll 1999; Preston 1975), some business leaders had been publicly advocating for business assuming social responsibilities for years. For example, in 1950, Standard Oil Company (New Jersey) Chairman Frank W. Abrams, an early and outspoken advocate of CSR, argued that “a clear sense of responsibility to and integration with the public welfare is a prerequisite to successful business management in today’s complex world” (Bowen 1953, p. 51).

Abrams emphasized finding a balance between the interests of disparate stakeholders:

> the job of professional management is to conduct affairs of the enterprise in its charge in such a way as to maintain an equitable and workable balance among the claims of the various directly interested groups – stockholders, employees, customers, and the public at large (Stryker 1966, p. 20).

Early advocates of CSR were emerging and becoming more outspoken, but they were not without their critics. Abrams, in particular, drew the attention of Eugene V. Rostow, then dean of the Yale School of Law, who called it “unsettling, to say the least, to have the respected head of the Standard Oil Co. of New Jersey [referring to Abrams] equating the management’s duty to stockholders with its obligations to employees, customers, suppliers, and the public at large” (Rostow 1960, p. 60). Rostow went on to say that “The law books have always said that the board of directors owes a single-minded duty of unswerving loyalty to the stockholders, and only to the stockholders” (Rostow 1960, p. 63). Rostow would not be the last to argue that, as the shareholders are the legal “owners” of the corporation, the primary responsibility of management is to them.

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20 See Introduction chapter for overview of academic CSR literature.
In the early 1950s, the nation’s “preoccupation with the specter of a worldwide communist conspiracy had reached its peak,” (Heald 1970, p. 208) leading to the rise of McCarthyism – the extreme anti-communist feeling that swept across the country during the late 1940s and 1950s. McCarthyism, along with the start of the Cold War, which persisted until the collapse of the Soviet Union in December of 1991, greatly shaped the political and economic landscape of the day. This prevailing anti-communist sentiment and political rhetoric also played a part in shaping the discourse on the role and responsibilities of business in a capitalist society. In many ways, big (private) business stood in direct contrast to the socialist system. Indeed, American business was seen as the country’s greatest weapon in the developing Cold War (Galambos 2000), and both critics and advocates of CSR used this fact and the rhetoric of the day to garner support for their positions.

The CSR debate was heating up by the late 1950s, but not everybody was on board. Corporations held enormous power, and many feared that no mechanisms were in place to ensure the responsible exercise of that power. In 1957, sociologist C. Wright Mills (1957, p. 125) argued that:

…large owners and executives in their self-financing operations hold the keys of economic power. Not the politicians of the visible government, but the chief executives who sit in the political directorate, by fact and by proxy, hold the power and the means of defending the privileges of their corporate world. If they do not reign, they do govern at many of the vital points of everyday life in America, and no powers effectively and consistently countervail against them, nor have they as corporate-made men developed any effectively restraining conscience.
Mills (1957, p. 125) called CSR “an odd view of the conscience of the powerful.” Ever critical of corporate power, Mills argued that advocates of CSR “[mistake] expedient public relations for a ‘corporate soul’” (Mills 1957, p. 126).

**Social Movements Reshape the CSR Landscape**

Fueling the CSR debate in the 1950s and 1960s was the rise of three social movements, all of which had been around for decades, but were at this time just gaining momentum and demanding public attention. The first of these movements was the civil rights movement. While African-Americans and others struggled for equal rights and opportunities, meeting often violent resistance, public policy began to recognize the rights of all Americans, regardless of race. As equal rights laws were enacted, “big business proved to be far more accommodating” than smaller, family-owned businesses (Galambos 2000, p. 954). Large corporations, at least superficially, “moved quickly to implement programs that would show good faith in providing equal employment opportunities to all, regardless of race or ethnic background” (Galambos 2000, p. 955).

This was in large part due to the public scrutiny large corporations faced, which left them more open as targets of social or legal reprimand and necessitated the creation of a socially responsible image.

Not all businesses moved quickly, or even at all, to accommodate the changes brought on by the civil rights movement, but many did. Many leading corporate executives spoke publicly of the “responsibility” of business in furthering equal rights. Henry Ford II, president of Ford Motor Company, argued that business should do its part to encourage equal opportunity for everyone, regardless of race, and that doing so would

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21 Mills (1957) comments on CSR through his unfavorable critique of A.A. Berle’s work.
be profitable for business (Ford II 1970). This argument that providing equal opportunity was good for business, especially coming from one of the country’s top executives, was important in business’ acceptance of equal opportunity policies and would become a well-worn argument for CSR in the decades to come. For many companies, however, the measures taken in response to the civil rights movement were largely cosmetic rhetoric or “official policy,” but were far from transformative. Still, big business, in their effort to show that they were responsible corporate citizens, proved to be one of the first major institutions to adjust to the new landscape created by the civil rights movement.

Corporations faced similar issues and challenges in the face of the women’s movement, as women, who had been entering the workforce in increasing numbers since World War II, began to enter formerly male dominated professions. The transition was far from smooth. However, as was the case with the civil rights movement, big business was more responsive to the women’s movement than smaller, family-owned business enterprises, which faced less public pressure to change their practices (Galambos 2000, p. 955). Again, these changes were often superficial, but the position of big business in the public eye necessitated timely action to accommodate women in the workplace, or at least to make it appear that way. By the end of the 1960s, more women were in the workforce, and with more career options, than ever. Despite the many successes of the women’s and civil rights movements, barriers to professional upward mobility persist to this day for women and African-Americans, as well as other under-represented groups.

Another movement that gained momentum in the 1960s, a movement that would eventually exert a great deal of influence on business, was the environmental movement. Many environmentalists point to Rachel Carson’s 1962 book *Silent Spring* as the
beginning of the environmental movement. In *Silent Spring*, Carson criticized the destructive, unhealthy, and short-sighted market system dominated by big business, where people and other life on Earth come second to profits. She argued that both people and the environment are suffering under the *status quo*, and she called for a change, beginning with accountability on the part of business and government:

> [We live in] an era of industry, in which the right to make a dollar at whatever cost is seldom challenged. When the public protests, confronted with some obvious evidence of damaging results of pesticide applications, it is fed little tranquilizing pills of half truth. We urgently need an end to these false assurances, to the sugar coating of unpalatable facts. It is the public that is being asked to assume the risks that the insect controllers calculate (Carson 1962, p. 13).

With its combination of emotional appeal and scientific reasoning, *Silent Spring* galvanized environmentalists and is widely considered the spark that ignited the American environmental movement. The environmental movement greatly affected the CSR debate, as any “social” responsibilities now also implied environmental responsibilities on the part of business.

**Capitalism, Freedom and an Intensifying CSR Debate**

Amidst the growth of the CSR discourse and the social movements of the 1960s came the most outspoken critics of CSR to date. Among them was economist and future Nobel laureate Milton Friedman, perhaps the most well-known and forceful critic of CSR. In his book *Capitalism and Freedom* (1962), Friedman argued that the only responsibility of business managers is to serve the interests of their shareholders. He played on the prevailing Cold War anti-communist sentiment to lash out not only at the notion of business having social responsibilities, but also at those who advocate for such a notion:

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22 In 1972, in large part due to Carson’s work, the federal government banned DDT.
This view shows a fundamental misconception of the character and nature of a free economy... Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine (Friedman 1962, p. 133).

While critics such as Friedman continued to attack CSR as anti-democratic and damaging to Americans’ freedom, others argued that CSR was necessary to protect our freedom. Former President of the U.S. Chamber of Commerce M. A. Wright saw CSR as a way to meet society’s needs and protect the free enterprise system. Freedom, as both Friedman and Wright use it, refers to market freedom, which stood in contrast to communist, state-controlled economies. Wright (1966, p. 24) argued that:

If American Businessmen want to preserve the principles of individual freedom and private initiative, they must devote an increasingly larger portion of their time to meeting the nation’s social needs.

Meanwhile, critics from the left denounced CSR as insufficient in addressing society’s most pressing needs. They saw corporations as creatures of the market that exist to efficiently maximize profits. To expect corporations to voluntarily address society’s social and environmental problems without fundamentally changing the ‘rules of the game’ in our free market system, they argued, is misguided. In her 1968 Harvard Business Review article “Should Business Tackle Society’s Problems?” Hazel Henderson (1968, p. 81) argued that:

If we all understood the basic ground rules of private enterprise a little better, we would realize that the large corporation is not a rain god, and that no amount of prayer or incantation will unleash its power. The spectacle of otherwise sophisticated people going on bended knee to companies and pleading with them to have the kind of conscience and moral sensibilities only rarely found in individuals in nothing less than laughable.
For Henderson and others sharing her critique of CSR, the fundamental problem rests not with corporations, *per se*, but with the structure of the market in which they operate. The rational market system demands rationally profit-oriented corporations, leaving little room for corporations to engage in CSR. If society expects corporations to engage in CSR, argued Henderson and others, we must revamp the legal framework in which they function, creating a system that rewards responsibility and other outcomes beyond profits. Until that day comes, any discussion of corporate social responsibility is only slightly more than an exercise in futility.

While calls for systemic change increased during the 1960s, they continued to be answered with more conservative arguments by scholars such as Milton Friedman, who returned to the CSR debate in 1970 with his now famous *New York Times Magazine* article appropriately titled “The Social Responsibility of Business is to Increase its Profits.” In addition to his criticism of CSR for its “analytical looseness and lack of rigor,” (Friedman 1970) Friedman continued, as he did in the 1960s, to portray any notion of corporate social responsibility as contrary to the democratic ideals of the nation. Once again playing on the prevailing Cold War-era anti-communist sentiments, Friedman argued that “the doctrine of ‘social responsibility’ involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.” He continued:

> Whether blameworthy or not, the use of the cloak of social responsibility, and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society (Friedman 1970).
Economic Globalization and “The Great U-Turn”

Following World War II, as Japanese and European competitors were rebuilding from the damage caused by the war, American business moved forward confidently, with many American corporations and industries becoming world leaders. However, as the 1960s came to a close, things began to change. For generations, American business had had little reason to fear foreign competition, as foreign imports accounted for only a small portion of consumer goods purchased in the U.S. (Harrison and Bluestone 1988) and American political and business leaders paid little attention to any talk of a threat from foreign businesses. In the late 1960s and 1970s, foreign competitors, particularly Japanese and German companies, began flooding the American consumer market with superior products at lower costs than American companies were providing (Galambos 2000). This was particularly true in industries such as electronics, steel, automobiles, machine tools, and tires (Galambos 2000). Foreign competition, the highly controversial Vietnam War, increasing inflation, the oil shocks of the 1970s, and the Watergate scandal left American government reeling, and the U.S. economy in bad shape (Galambos 2000). Suddenly, the long period of post-World War II prosperity was over.

Harrison and Bluestone (1988) call this sudden change in economic fortunes of Americans “The Great U-Turn.” During this time, the real wages of Americans fell and unemployment rose. As corporations began outsourcing jobs to the lowest bidders, industries such as the steel industry, cost-burdened by the high wages and safety standards demanded by laws and labor unions in the U.S., fell victim to foreign competitors who could provide the same materials at a fraction of the price. In 1969, less than 14 percent of consumer goods purchased in the U.S. were foreign imports. By 1979,
that number had risen to 38 percent (Harrison and Bluestone 1988). By 1986, 45 percent of all consumer and business purchases were of foreign products (Harrison and Bluestone 1988). Economic globalization was under way, changing forever the social, political, and economic landscape in which businesses operate.

As the U.S. economy declined, frustrated and concerned Americans turned to politically and economically conservative leaders at state and national levels of government to stop the slide (Galambos 2000). Conservative politicians began enacting laws that they believed would spur business growth. This entailed the first efforts at economic deregulation – although no attempt at deregulation would approach the sweeping deregulation of the Reagan Administration in the 1980s – and more liberally applied government subsidies to corporations. But critics argued that the pro-business policies of the day, while intended to spark economic growth, often meant sacrificing social and environmental protections to corporate interests. In their book *Taming the Giant Corporation*, Nader, Green, and Seligman (1976, p. 7-8) argued that:

…the nonmarket impacts of giant corporations have become institutionalized. Pollution of the human environment is rationalized as an economic necessity. Subsidies have become an entrenched corporate welfare system inducing inefficiencies and political rewards. Such corporate excesses align big government with big business against public interests. As power begets power, large corporations are able to pursue their activities beyond the law, above the law, or against the law – a state of affairs clearly incompatible with democracy.

Carrying the momentum from the social movements of the 1960s, social activists such as Nader loudly criticized what they saw as unchecked corporate power. As the country’s political leaders enacted increasingly pro-business policies and politically liberal opponents protested, big business found itself at the heart of many of the debates. As corporations outsourced jobs and laid-off workers in hopes of staying competitive
with their more streamlined foreign competitors, the public, still suffering under the 
economic downturn and concerned with the loss of jobs they were seeing, looked for a 
sign that they still mattered in the equation and that their fortunes would improve. As the 
economy became increasingly global, corporations needed not only to show that they 
were responsible American citizens, but responsible global citizens.

**The Sullivan Principles and Three Mile Island: Two CSR Landmarks**

An important milestone in the history of corporate social responsibility came in 
1977, when General Motors’ first African-American board member, Reverend Leon H. 
Sullivan (who was appointed in 1971), developed the Sullivan Principles. The Sullivan 
Principles, which came to represent an international standard for corporate behavior 
regarding race, were formulated as an effort to foster racial equality in South Africa, 
where Apartheid had been in place since 1948. Aimed at American companies operating 
in South Africa, these voluntary principles laid out straightforward guidelines – such as 
equal facilities and pay for all workers, and increased representation and opportunities for 
blacks in leadership positions – for companies to follow in an attempt to bridge the 
gaping racial divide in South Africa. Initially, 12 large American corporations – among 
them General Motors, Ford, 3M, Mobil, and Union Carbide – agreed to abide by the 
Principles.

But the Sullivan Principles were not without their critics. Common criticisms 
were that these companies were simply reaping the public relations benefits in the U.S. 
and that these principles, even if they were effectively implemented (which many critics 
saw as unlikely, or even impossible), were unlikely to make any headway toward 
weakening the long-entrenched system of apartheid. Despite these criticisms, the
Sullivan Principles continued to gain supporters. By 1984, over 100 corporations had signed on. Today, the Global Sullivan Principles of Social Responsibility are “a voluntary code of conduct built on a vision of aspiration and inclusion, that provides a framework by which socially responsible companies and organizations can be aligned” (Sullivan Foundation).

In 1979, the nuclear leak at the Three Mile Island nuclear reactor brought nationwide attention to the environmental impacts of business, particularly nuclear power, and the dangers of deregulation. It also proved a significant event in the evolution of CSR. At the time of the Three Mile Island accident – which was the worst civilian nuclear accident to date – government regulation of the nuclear industry was far from stringent. In a rare example of an industry imposing stricter regulations on itself that required by law, the nuclear power industry, believing that more strict government regulation would likely have prevented this accident, “took matters into their own hands and organized a system of self-regulation designed to set standards, monitor performance, and punish utilities whose behavior failed to meet the new industry standards” (Campbell 2007, p. 18). This system of strict self-regulation was motivated primarily by self interest. The nuclear power industry recognized that it needed to present itself to the public as a safe and highly responsible industry, and that all members of the industry were held to strict environmental standards. In light of the accident, the nuclear industry knew that the American public was wary of nuclear power, and that another accident could bring down the entire industry (Campbell 2007). Corporate social responsibility, in the form of increased safety standards, became vital to the survival of the entire nuclear industry.
Economic Deregulation Changes the CSR Landscape

The United States entered the 1980s still firmly entrenched in the Cold War with the Soviet Union. The ever-present prospect of nuclear annihilation and global communism greatly affected the political and economic rhetoric and policy of the decade. Under Presidents Ronald Reagan and George H. W. Bush, the 1980s saw sweeping waves of federal economic deregulation and decentralization. The logic used by Reagan, Bush, and others who pushed for deregulation was based on neoclassical economic theory and the belief that a free market would bring greater benefits to Americans, and to American business, than one burdened by government regulations. American business, according to this logic, would be better able to compete with its international competitors who faced fewer government regulations on such issues as labor and the environment. While conservative economists, politicians and business leaders cheered deregulation, community, labor and environmental groups protested that corporate interests were being placed above public interests. Deregulation allowed companies “to pass onto society costs that they were previously forced to internalize” (Sparks 2003). ‘Costs,’ such as environmental damage caused by improper waste disposal, were largely allowed to be considered externalities in a corporation’s cost calculus, meaning that, in many cases, corporations were not held fully accountable, financially or otherwise, for the affects their actions had on others.

Deregulation on a national level didn’t mean that all states supported such policies. Several state governments, in the hope of encouraging CSR in the wake of federal deregulation, passed regulations that legally authorized corporate boards of directors to consider the interests of stakeholders beyond simply the shareholders (Campbell 2007). While far from mandating CSR, such regulations opened the door, at least in theory, for
corporations to behave “responsibly” with less fear of legal reprisal from shareholder groups.

Deregulation greatly reshaped the CSR landscape by changing the legal framework within which businesses operate, as well as changing government expectations of business. Perhaps most importantly, economic deregulation handed significant freedom to corporations and eliminated many avenues of recourse by the public and corporate watchdogs.

**The Global Push for CSR, the Race to the Bottom, and the Rise of “Fair Trade”**

The 1980s and 1990s marked the beginning of a period of rapid globalization and the further unleashing of American-style capitalism on the farthest reaches of the globe. There seemed to be no limit to the reach of multinational corporations, which inevitably led to further questioning of the corporation-society relationship.

Existing concerns grew more pronounced that the “rules of the game” in the global market leave little room for corporations to deviate from the highly focused pursuit of profits. Under economic globalization, corporations have grown huge, highly mobile, and immensely powerful. In the face of cutthroat competition, they find themselves enslaved to the bottom line. As transnational capital flows become increasingly difficult for states to regulate, and as corporations become increasingly powerful actors relative to states in the global economy, the debate on corporate social responsibility takes on added significance.

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23 By no means all of the multinational corporations implicated here are or were American.
During the 1980s and 1990s, several international summits – including the World Commission on Environment and Development (1987), better known as the Brundtland Commission, and the Rio Summit (1992), among others – convened to discuss the changing social and environmental landscape in the face of globalization. Business was one of many institutions implicated in subsequent calls for sustainability. These calls for changes in social and environmental business practices served to polarize the business community. Many multinational corporations came out in favor of business working to become more environmentally and socially sustainable, while others vehemently rejected the idea. The demands of global competition place firms in a position of having to constantly streamline their processes, and the idea of changing their practices, especially by imposing higher social and environmental standards, didn’t sit well with many corporate leaders.

The rapid pace of economic globalization during the 1980s and 1990s spurred competition among companies to reduce costs in order to stay competitive. This trend is commonly referred to by critics of global capitalism as the “race to the bottom.” In cutting costs, environmental and human considerations are secondary to cost considerations. In developing countries, low wages and poor working conditions were, and still are, commonplace in factories that produce goods carrying the brand name of multinational corporations. In trying to defend these practices, many business leaders and pro-free trade politicians argue that the pressures of global competition leave them no choice but to reduce costs in any way they can. Further, by locating factories in developing countries, they argue, corporations are aiding in development and providing badly needed jobs.
In response to the exploitation of workers by multinational corporations operating under free trade agreements, Solidaridad\textsuperscript{24} launched the “fair trade” movement in 1988. The fair trade movement, aimed at ensuring humane working conditions and fair pay for workers, initially focused on agricultural products like bananas and coffee, as well as products, such as clothing, that were often manufactured in sweatshops, sometimes using child labor. Offering “fair trade” products showed that a company was “responsible,” but fair trade products are expensive, making it unlikely to be widely adopted by firms willing to move factories and employ sweatshop labor to shave pennies per item off their cost sheets. Nevertheless, fair trade products found a niche, and that niche continues to grow today.

One effect of the fair trade movement was the increased awareness among the public on issues such as sweatshop and child labor. Multinational corporations, so driven by competition and bent on profits, had scarcely responded to public pressure on such issues before this time. In the coming years, major multinational corporations like Nike, GAP, and others would be boycotted in protest of their labor practices (Sparks 2003; Schwartz and Gibb 1999).

The example of Nike, GAP and other multinational corporations being boycotted because of their labor practices lends a certain level of weight to the common argument leveled by CSR advocates that, in today’s business environment, CSR is a fact of life for corporations. The trend of increased scrutiny by watchdog groups, NGOs and the media is likely to continue in the future, and corporations must behave responsibly or risk incurring sanctions. Economist and business scholar Geoffrey Heald believes that:

\textsuperscript{24} Solidaridad is a Dutch ecumenical organization that advocates for social justice.
corporate social responsibility needs to be an important part of corporate strategy. Indeed, it can be a matter of survival, as societies penalize companies perceived to be in conflict with underlying values (Heald 2004).

David Vogel (2005) also recognizes this motivation for socially responsible behavior. However, Vogel argues “remarkably few firms have been rewarded or punished by the financial markets for their social performance” (Vogel 2005, p. 73). Like investors, consumers appear equally ambivalent in most cases, as socially responsible behavior rarely influences consumer purchasing behavior. In a few extreme cases, though, such as the Nike case, corporate irresponsibility has hurt firms by generating bad public relations, drawing boycotts, protests, regulation or other sanctions. Rather than seeking accolades for their responsible practices, argues Vogel, many high profile firms, especially those firms that have been publicly reprimanded for their previous “irresponsibility,” engage in CSR in order to stay out of the spotlight.

**CSR and the “Tyranny of the Bottom Line”**

The first few years of the 21st century will perhaps forever be remembered for the rash of high profile corporate accounting scandals, such as those involving Enron and Arthur Anderson. By any standards, these are blatant cases of corporate irresponsibility. The damage done to the reputation of big business was immediately apparent, although these scandals are unlikely to have caused any tangible harm to business, in general. What makes the Enron case, in particular, so interesting is that, before the scandal was uncovered, the company was widely regarded as a model corporate citizen (Vogel 2002/3). Vogel uses this paradox to make the point that CSR is not a black and white issue, and that not all CSR is good CSR. Firms may be rated as highly responsible according to certain criteria, but may be behaving irresponsibly in other areas.
In February 2002, largely in response to the recent high-profile corporate accounting scandals, President George W. Bush unveiled his “Ten point plan to improve corporate responsibility and protect America’s shareholders,” based on the three core principles of information accuracy and accessibility, management accountability, and auditor independence. While President Bush’s rhetoric was of responsibility to communities, the environment and others, he made it clear that the goal of his proposed reforms was to “safeguard the rights of investors” and to protect the free enterprise system. Corporate responsibility is of vital importance, according to President Bush, because “the whole design of free market capitalism depends upon free people acting responsibly.” However, as the war in Iraq escalated and as the American public turned its attention to other issues, the White House also turned its attention elsewhere. On the White House’s official Corporate Responsibility homepage, the most recent official presidential acknowledgement of corporate responsibility came in 2003.

The corporate accounting scandals and innumerable other instances of corporate irresponsibility are often portrayed by politicians and perceived by the public as bad people doing bad things. But, while ethical shortcomings certainly play a part, it is rarely so simple. Wall Street places an enormous amount of pressure on firms to maximize short-term returns to investors. Failure to meet the immediate demands of the stock market can mean ruin for corporate executives. Often what is seen as corporate irresponsibility is managers desperately trying to meet the short-term demands of Wall

25 http://www.whitehouse.gov/infocus/corporateresponsibility/
28 http://www.whitehouse.gov/infocus/corporateresponsibility/
Street by cutting corners and shaving costs on “expenses” like labor or environmental standards.

In *Tyranny of the Bottom Line* (1996), Ralph Estes argues that managers are held hostage by the corporate “scorecard” that stresses the “bottom line” as the sole measure of corporate performance. At the risk of losing their jobs, corporate managers are forced, in their organizational roles, to emphasize the bottom line, often at the expense of more desirable social or environmental ends. But the bottom line is not an accurate measure of corporate performance, argues Estes, and strict obedience to it sometimes forces otherwise ethical managers to do irresponsible or unethical things.

**The Rise of Socially Responsible Investing**

An encouraging trend for advocates of CSR has been the steady rise in socially responsible investing (SRI). Socially responsible investing formally originated in the 1970s as an alternative investment option for investors that wanted to avoid “sin stocks” like tobacco, alcohol and, for some, oil. The past 15 years have seen a proliferation and increasing sophistication of socially responsible investment funds. Not only have these SRI funds grown in number, but they have proven to be competitive with mainstream investment funds. The Dow Jones Sustainability Indexes (DJSI), launched in 1999, are the first indexes that track the financial performance of the world’s leading sustainability-driven companies. The DJSI are growing rapidly and gaining credibility in investment circles, signaling to investors and corporations that CSR and cannot be dismissed as a trivial phenomenon.

A monumental landmark in the development of SRI came in April 2006, when United Nations Secretary-General Kofi Annan brought together a group of the world’s
largest institutional investors to launch the “Principles for Responsible Investment,” which include institutions representing more than $2 trillion in assets. Commenting on the Principles, Annan (2006) remarked:

Developed by leading institutional investors, the Principles [for Responsible Investment] provide a framework for achieving better long-term investment returns and more sustainable markets. I invite institutional investors and their financial partners everywhere to adopt these Principles.29

Voluntary initiatives and business organizations committed to sustainability and CSR have popped up in numbers over the past decade-and-a-half. The World Business Council for Sustainable Development, Business for Social Responsibility, and other groups, especially when buoyed by the success of SRI, put a legitimate face on socially responsible business and serve as a forum for the growth of new ideas and practices.

**The Global Compact**

In December of 2005, less than one year prior to the establishment of the Principles for Responsible Investment, the 191 Member States of the United Nations General Assembly officially endorsed the Global Compact, an international voluntary corporate citizenship initiative. The idea behind the Global Compact is that international companies should go above and beyond compliance in their business practices – that they should “commit themselves to observing and exceeding certain minima moralia in terms of labor, the environment, fighting corruption, and human rights” (Leisinger 2006).

As of March 2006, the Global Compact included over 2,900 participants and “other stakeholders” from 90 countries (Kell 2006). The hope behind the Global Compact was to engage business in working toward “fair globalization” and the attainment of the

UN Millennium Development Goals, and to provide a framework for doing so (Leisinger 2006). According to UN Secretary-General Kofi Annan, “this sense of what business can do for others -- and what it must do for itself -- is at the heart of the Global Compact corporate citizenship initiative” (Annan 2006).

The UN claims that the Global Compact enjoys unprecedented support and participation in the developing world, where a significant percentage of the Compact’s 2,900 members reside. This is no doubt an important element of any global initiative, but closer inspection reveals that many of the economic powers of the global North, particularly the United States, have been less enthusiastic participants. The United States and its numerous multinational corporations are major loci of power in the global economy, yet only nine of the 219 US corporations included in the Financial Times 500 are Global Compact members (www.unglobalcompact.org). Western European corporations from the FT 500 have been more supportive of the compact: 23 out of 28 French corporations are members; 11 out of 19 German corporations are members; six out of 12 Swiss corporations are members; and five out of 12 Italian corporations are members. British support has been less than its European neighbors, with only 10 out of 33 corporations being Global Compact members. Japan has also been slow to support the Compact, with only four of its 43 FT 500 corporations being members. Until the power-holding nation-states and corporations fully engage with the principles put forth by the initiative, the Global Compact, however noble its intentions, risks a fate of inconsequence.

**Conclusion**

Today, corporations proudly tout their socially responsible behavior, as a cursory glance at any major corporation’s website will surely attest. But why do these
corporations claim to be responsible? Are they really responsible, or is it simply a public relations tactic? Multinational corporations like Nike, GAP, and others have been called out and boycotted in recent years because of their labor practices in their overseas factories. These companies eventually acknowledged the protests and have made efforts to improve their labor practices, although sweatshop and child labor are still employed by many corporations.\footnote{Nike and GAP may or may not still employ these practices.} But for these large companies, the pressures to keep costs low to stay competitive still exist. Any social responsibility they claim in terms of labor, the environment, or other issues comes at a cost. The tangible benefits of CSR are sometimes small, if visible at all, and the studies on the economic impacts of CSR to date are inconclusive.\footnote{More than half of the studies conducted on the link between CSR and firm financial performance have suggested a positive relationship (See Roman et al. 1999), but the widely vary methods and results of these studies does not allow one to draw any conclusions.} Even though nearly every large corporation prominently displays its corporate social responsibility on their websites and through other media, Vogel (2005) argues that most large corporations do not engage in CSR with the hope of reaping the benefits of public goodwill toward them. Rather these corporations engage in CSR to a certain level in order to stay out of the public spotlight.

Regardless of the reasons behind firms’ acknowledgement of CSR, the fact that nearly every major corporation publicly touts its CSR practices and business journals continue to regularly devote space to CSR signals the continued relevance of CSR in today’s economy and society. Many advocates of CSR argue that the trend of increased scrutiny by watchdog groups, NGOs and the media is likely to continue in the future, making CSR a fact of life in business today. Jeffrey Hollender, CEO of Seventh Generation, a company that makes eco-friendly home products, believes that CSR is
the future of business. It’s what companies have to do to survive and prosper in a world where more and more of their behavior is under a microscope.\footnote{Hollender, as quoted in Vogel 2005, p. 2}

The CSR discourse has evolved over the past 60 years as scholars and business leaders have attempted to adjust to the ever changing social, political and economic environment in which business operates. Despite its conceptual and practical evolution, the CSR literature continues to be characterized by inconsistency. As Votaw (1972, p. 25\footnote{as quoted in Garriga and Mele, p. 51-52}) observed, “corporate social responsibility means something, but not always the same thing to everybody.” Many CSR and CSR-related theories have been put forth, but these theories, while valuable, fail to offer insight into the thought processes underlying the arguments put forth in the CSR debate. In the following chapter, I outline the research methodology and theoretical framework I employ in my search to answer my questions of whether or not an integrated CSR theory, or theories, exists, and what rationalities inform the CSR debate.
CHAPTER 3:
RESEARCH METHODS AND THEORETICAL FRAMEWORK

Having outlined the historical context from which CSR arose, and in which it exists, I turn now to the research methodology and theoretical framework I employ in my analysis of the CSR literature. I approach this analysis of the CSR literature with two research questions: First, what patterns exist in the arguments put forth in the CSR literature and can these patterns be classified into theoretical categories of CSR? Second, what rationalities underlie the predominant arguments for CSR, and how do these rationalities inform the CSR debate? The nature of my research questions necessitates a two-tiered methodological approach. I begin by conducting an inductive review of the business literature to understand the CSR discourse as it is presented. I then turn to the sociology literature – particularly the theories of Max Weber – to develop a theoretical lens with which to analyze the CSR theories.

Research Methods:

In seeking to determine whether any patterns exist in the arguments put forth in the CSR literature, and whether these patterned arguments can be classified into theoretical categories of CSR, I conduct a thorough review of the CSR literature. In my review of the literature, I searched academic journals in the fields of business, economics and the social sciences, as well as magazines containing articles by, interviews with, and speeches given by prominent business leaders or scholars discussing CSR. I also searched books written by scholars in the fields of business, economics, law and the social sciences, as well as by prominent business leaders and social commentators.
Because the CSR literature is so expansive, an exhaustive literature review would have been impossible under the current constraints of time and space. I judged an exhaustive review also to be unnecessary, as I fairly quickly reached a point of saturation in my review; that is to say, after searching over 200 books, speeches and articles on CSR, I reached a point where no new arguments or themes emerged from the literature. In order to paint an accurate portrait of the CSR discourse, I include in my analysis seminal and other significant contributions to the discourse, as well as less often cited works that make unique contributions to the CSR discourse in that they offer an argument or perspective not put forth in the rest of the literature.

I loosely model my analysis of the CSR literature after Curtis E. Beus and Riley E. Dunlap’s (1990) article in *Rural Sociology* titled “Conventional versus Alternative Agriculture: The Paradigmatic Roots of the Debate,” in which they present their analysis in the form of a debate between adherents to conventional and alternative agricultural paradigms. Their article suggests a Kuhnian paradigmatic struggle between the adherents of each respective agricultural paradigm. Like Beus and Dunlap, I analyze competing paradigms by comparing them with each other. While I do not present the CSR theories as a debate, per se, I do present them side-by-side-by-side in order to allow for comparative analysis of their similarities and differences. As did Beus and Dunlap, I opted not to confine my analysis to the strictly academic literature. Because most of the peer-reviewed academic literature takes a more value-neutral approach to its discussion of CSR, I found, as did Beus and Dunlap, that speeches, books and articles by, and interviews with, business scholars and leaders proved much more fruitful in identifying the predominant arguments in the literature.
In applying Beus and Dunlap’s model to the CSR discourse, I located several recurring points of paradigmatic contention in the CSR literature along which those arguing from different perspectives diverge in their arguments. The four points of contention I identified are: 1) the role and responsibility of business; 2) to whom corporations are responsible; 3) justification for engaging, or not engaging, in CSR, including reference to the bottom line; and 4) democracy, the free market, and the role of the state. Within each of these general codes, I identified and coded the literature according to several sub-codes. On the role and responsibility of business, the six most common arguments as to the role and responsibility of business are to make profits for shareholders, to drive innovation and progress, to ensure proper functioning of the free market, to meet society’s needs for goods and services, to turn social problems into economic gain, and to serve the public good. On the question of to whom corporations are responsible, the three arguments that emerge from the literature are that corporations owe sole responsibility to shareholders (as long as they obey the laws), that corporations owe primary responsibility to shareholders and secondary responsibility to other stakeholders, and that corporations owe responsibility to a wide array of stakeholders affected by the corporation’s actions. Several arguments or justifications for or against engaging in CSR emerged from the literature, with the most common being that CSR is good or bad for business, that CSR leads to competitive advantage or disadvantage for a variety of reasons, that CSR is or is not serving the shareholders’ interests, that CSR is detrimental to or vital to the survival of the free enterprise system, or that CSR is the morally right or wrong thing to do. Finally, within the category I title “On democracy, the free market, and the role of the state,” CSR is seen as everything from an anti-
capitalist, collectivist doctrine to a necessary component of a healthy, democratic free enterprise system. The state is generally seen as a constraining, albeit unavoidably necessary, force that CSR helps keep at bay. Coding the literature according to these points of contention allowed me to determine whether any patterns exist in the arguments put forth in the CSR discourse.

Upon coding the CSR literature according to these four points of contention, three endogenous patterns emerge, with each pattern representing a general theoretical category of CSR that is employed by contributors to the CSR discourse. I call these theoretical frameworks corporate libertarian theory, enlightened self-interest theory, and moral theory. Corporate libertarian theory holds that the only responsibility of corporations is to make profits for their shareholders, the “owners” of the business. The second theory follows the reasoning of enlightened self-interest, arguing that corporations should engage in CSR because it is good for business. I call this theory the enlightened self-interest theory. The third theory, also in favor of CSR, is based on the understanding of the purpose of business as more than providing society with goods and services and creating wealth for shareholders. According to this argument, business exists to serve the public good and therefore has moral responsibilities to wide array of stakeholders. Managers must be mindful in their decision-making process to balance these disparate stakeholders’ interests. I call this theory the moral theory.

The three CSR theories, as I present them here, have not been formally articulated in the CSR literature. Rather, they represent endogenous themes, or patterns, that emerged from the CSR literature based on my coding scheme. I present them here, then, not as formal theories, but as Weberian ideal types that I have created with the intention
of adding clarity to the considerable noise of the CSR discourse. Weber developed the ideal type as “a conceptual tool with which to approach reality” (Swedberg 2005, p. 120). When attempting to analyze a phenomenon empirically, “sharp differentiation in concrete fact is often impossible, but this makes clarity in the analytical distinction all the more important” (Weber 1921/1968, p. 214). The ideal type allows the researcher to capture the essence of a phenomenon, rather than merely reproducing its often confusing real form or empirical situation (Swedberg 2005). Each ideal typical CSR theory presented here represents an amalgamation and distillation of a set of recurring arguments either for or against CSR representing a particular normative orientation and internal logic. Presenting them as ideal types allows for a comparative analysis, or a comparison of the theories with each other, enabling us to see the similarities and differences in and between them. By doing so, “[researchers] can generate properties of categories that increase the categories’ generality and explanatory power” (Glaser and Strauss 1967, p. 24).

In my review of the CSR literature, I searched academic journals in the fields of business, economics and the social sciences, magazines containing articles by or interviews with prominent business leaders or scholars discussing CSR, and books written by scholars in the fields of business, economics, law and the social sciences, as well as prominent business leaders and social commentators. Because the CSR literature is so expansive, an exhaustive literature review would be impossible under the current constraints of time and space. In order to paint a thorough portrait of the CSR discourse, I included in my analysis seminal and other significant contributions to the discourse, as
well as less often cited works that make unique and worthwhile contributions to the CSR discourse.

To be clear, the many CSR-related theories, such as stakeholder theory, corporate citizenship, and corporate social performance, among many others,\(^{34}\) are treated here not as distinct theories in their own right, but simply as variants on CSR, all of which fall under the larger CSR umbrella.

It is also important to note that I do not include corporate philanthropy in my analysis of CSR. While corporate philanthropy is often equated with CSR, especially in the early CSR discourse, I see this as a conflation of related concepts. I confine my analytical parameters of CSR to include actions taken by corporations in their business-related operations. Corporate philanthropy is a separate phenomenon for two reasons. First, it is not an activity directly related to the daily business activities of a corporation. It may be peripheral, as in the case of tobacco companies having to give money to certain types of charities as part of a legal settlement, but this type of corporate giving simply falls under legal compliance. Second, it could be argued that corporations have no “responsibility” to donate to charity, in most cases, any more than any individual has “responsibility” to do so. Corporate philanthropy may or may not be a beneficial activity for corporations or other stakeholders, and there may be cases where corporations are morally or ethically obligated to engage in philanthropy, but for the purposes of this analysis, corporate philanthropy remains a separate, although closely related, issue from CSR.

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\(^{34}\) In addition to stakeholder theory, corporate citizenship and corporate social performance models, other CSR-related theories include: corporate social and environmental responsibility, corporate societal accountability, the triple bottom line, corporate responsiveness, issues management, and others.
Theoretical Framework: Max Weber’s Theory of Rationality

To answer my second research question – what rationalities underlie the predominant arguments for or against CSR, and how do these rationalities inform the CSR debate? – I turn to the sociology literature, particularly the work of Max Weber. I employ Max Weber’s intertwined theories of rationality and rational action. In doing so, I also incorporate his discussion of value spheres, bureaucracy, the firm, and the role of the state. Weber’s concept of rationality provides a valuable theoretical tool in analyzing the CSR literature in that it helps us to understand the way in which various scholars and business executives understand society and business’ place in society, and how they orient their actions accordingly. Viewing the CSR theories through the lens of Weber’s theory of rationality allows us to understand how the rationality employed by each CSR theory informs the arguments put forth by each theory’s adherents.

I begin by presenting Weber’s concept of value spheres, which informs my subsequent discussion of his theories of rationality and rational social action. I close this chapter by presenting an overview of Weber’s theories of bureaucracy, the firm, and the role of the state. While I make brief mention of the relevance of the following concepts to CSR in this chapter, I apply Weber’s theories more explicitly in my analysis of the three CSR theories in the final chapter.

Value Spheres

Important to the discussion of rationality, and particularly useful in the analysis of CSR through the lens of rationality, is Weber’s concept of value-spheres,35 or “demarcated realm[s] characterized by definable value constellations of subjective

35 Value spheres are also called societal domains, arenas, orders, or realms (Kalberg 2005, p. xxviii).
meaning” (Kalberg 2005, p. xxviii). There are many value-spheres (economic, religious, political, family, etc.), which are not entirely isolated from each other. Rather, they overlap each other to varying degrees, often standing at odds with the logic or values of other spheres, leading to a constant, dynamic tension between spheres. On a societal level, value spheres influence large and small scale social processes, ranging from public opinion to institutional behavior to state and corporate policy. The influence a particular sphere has on these processes relates to the sphere’s relevance to the particular process or institution, as well as to the overall dominance of the sphere in a given society.

In a market economy, business corporations operate in the economic sphere, where the pursuit of profit is the primary value. Corporations’ purpose is generally understood as economic in nature. While other value spheres, such as the religious sphere, may exert influence on individuals, these same individuals, when fulfilling their role as corporate executive or board member, are influenced primarily, if not entirely, by the values of the economic sphere. Unlike individuals, who exist in a dynamic world made up of many value spheres, corporations are single-minded creatures of the market that exist only in the economic sphere.

Rationality
Because values from the different spheres in which an individual exists are often in conflict with each other – for instance, in capitalism, religious and economic values are often in conflict – it can be difficult for actors to choose which values to follow. Rationality – or a mental process that help actors to consciously master reality, ordering its seemingly disconnected fragments into meaningful regularities – helps actors make

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36 When discussing “business corporations,” or simply “firms” or “corporations,” I am referring to for-profit business corporations.
37 As well as the influence of bureaucracy (discussed below).
sense of the world around them and how it relates to their values, and helps guide their actions accordingly. The rationality adopted by corporate managers, board members, and policy-makers greatly influences corporate behavior. This is why understanding the rationality underlying each CSR theory is important in understanding the CSR debate.

Weber’s four types of rationality, as well as his types of meaningful social action, are ideal types, meaning that they are simplified distillations of patterns in society that serve as heuristic devices. In this case, they help us understand how people interpret the world and orient their actions according to this interpretation.

The four types of rationality Weber identifies are practical, theoretical, substantive and formal, the latter two being of particular interest to the discussion of CSR. Practical rationality refers to an individual actor’s means-end rational response or adaptation to the random flow of daily events and interests (Kalberg 2005). That is, in seeking to satisfy one’s own purely pragmatic and egoistic wants or needs, an actor employs means-end rational calculations to determine the most effective means of satisfying those needs (Kalberg 2005; Ritzer and Goodman 2004). Because CSR takes place on an institutional level, involving a complex set of factors, regulations and interests, practical rationality will not be employed in this analysis.

Theoretical rationality relies on cognitive processes, rather than any particular orientation to interests or values, to interpret reality. In their quest to supply coherent meaning to the random events of everyday life, those who employ theoretical rationality seek “conscious mastery of reality through the construction of increasingly precise abstract concepts rather than through action” (Kalberg 1980, p. 1152). As opposed to the direct patterning of action as a result of practical rationality, theoretical rationality does

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38 See discussion of means-end rational action below.
not directly pattern one’s actions, although Kalberg suggests that “it contains a potential indirectly to introduce patterns of action” (Kalberg 1980, p. 1154). Corporate social responsibility is rooted in action, and within a dynamic framework of laws and other demands, so theoretical rationality has perhaps only a peripheral effect on the discourse and so will not be discussed further.

Substantive rationality directly orders one’s actions into patterns in relation to “ultimate values, regardless of the nature of these ends” (Weber 1921/1968, p. 85). Unlike the other three types of rationality, “substantive rationality involves a choice of means to ends within the context of a system of values” (Ritzer and Goodman 2004, p. 221). That is, as opposed to choosing the most efficient means to a desired end, as in practical or formal rationality, substantive rationality emphasizes choosing among means and ends that are in line with an actor’s particular value constellation. Because the number of possible constellations of values is infinite, action may be ordered into an endless number of patterns. By assigning rationality to a particular set of values and orienting one’s actions to those values, subjectively rational actors are basing their actions on value-rational calculations. But, because one’s actions, and one’s rational understanding of the world, are guided by his or her particular values, a believer in one set of values may find him- or herself in conflict with those believers of a different set of values, and both sides will try to discredit each other’s values as irrational. This is readily apparent in the CSR discourse, as scholars from one theoretical perspective regularly try to discredit arguments put forth by scholars coming from another theoretical
perspective, even when they are making the same argument, as is sometimes seen in the CSR debate.\textsuperscript{39}

Despite the dominance of formal rationality in the economic sphere, substantive rationality plays a significant role in the CSR debate. Not surprisingly, substantive rationality is employed by those making moral arguments for CSR. Also not surprisingly, those employing substantive rationality in the CSR debate are targets of critics who attempt to portray their value-laden arguments as irrational in the competitive, profit-driven market economy.

Formal rationality is the dominant rationality in modern Western society, according to Weber. Unlike the first three types of rationality, which are all “intercivilizational and epoch-transcending… formal rationality generally relates to spheres of life and a structure of domination that acquired specific and delineated boundaries only with industrialization” (Kalberg 1980, p. 1158). This is particularly true in the economic, legal, and scientific spheres, as well as in the bureaucratic form of domination (Kalberg 1980). Formal rationality involves means-end rational calculation but, unlike practical rationality, where means-end rational action is taken strictly in relation to an actor’s own pragmatic and egoistic wants and needs, formal rationality occurs with reference to universally applied laws, regulations, and rules (Kalberg 1980). That is, within a given system of laws and regulations, a formally rational actor will choose the most effective means to achieving his or her desired ends. Within the economic sphere, particularly in the capitalist market economy, formal rationality of economic action is determined by “the extent of quantitative calculation or accounting

\textsuperscript{39} For example, enlightened self-interest theory and moral theory both favor firms engaging in CSR, but disagree fundamentally on why firms should do so.
which is technically possible and which is actually applied” (Weber 1921/1968, p. 85).

For corporations, which exist in the formally rational economic sphere, this quantitative calculation of actions in relation to desired ends leads to an unwavering focus on the bottom line. Capital accounting, then, plays a significant role in the CSR debate in that the entire concept of CSR is framed, for many scholars and business leaders, in relation to the bottom line.

**Rational Action**

Weber’s two forms of rational action\(^{40}\) are particularly important to the discussion of CSR in that they help us understand the rational action orientation of business executives and board members, which, in turn, largely determines the extent of corporations’ socially responsible behaviors. Weber’s two types of rational action, value-rational and means-end (instrumental) rational action, are linked, respectively, to substantive and formal rationality.

Value-rational action, which is very closely associated with substantive rationality, is “determined by a conscious belief in [a] value for its own sake… independently of its prospects of success” (Weber 1921/1968, p. 24-25). This means that the values of an actor guide the actor’s actions entirely. Ends do not justify means. While ends may be considered, the means to those ends, and in fact the ends themselves, are selected based on their accordance with the actor’s values, and not on the efficacy of the means or the desirability of the ends. In terms of CSR, substantive, value-rational arguments for CSR are often marginalized in the formal, means-end-dominated economic sphere. But in the

\(^{40}\) Weber believed that there are four types of meaningful social action – affectual, traditional, value-rational and means-end rational – but I will only discuss the two types of rational social action, as the other two are not relevant to this discussion of CSR.
face of formidable opposition, value-rational proponents of CSR hold their ground in terms of their values. As Weber theorized, value-rational action is characterized by a “clearly self-conscious formulation of the ultimate values governing the action and the consistently planned orientation of its detailed course to these values” (Weber 1921/1968, p. 25).

Means-end, or instrumental, rational action is “determined by expectations as to the behavior of objects in the environment and of other human beings; these expectations are used as ‘conditions’ or ‘means’ for the attainment of the actor’s own rationally pursued and calculated ends” (Weber 1921/1968, p. 24). Weber believed that all human beings, in all epochs, were capable of means-end rational action:

even everyday actions of ‘primitive’ man could be subjectively means-end rational, as, for example, when specific religious rituals were performed with the aim of receiving favors from a god. In Weber’s eyes, this pure exchange relationship as it existed in sacrifice and prayer… was identical in form to the modern businessman’s calculation of the most efficient means to acquire profit (Kalberg 1980, p. 1148).

The means-end rational actions taken by the “primitive man” above are based on his practical rational desires to meet his purely egoistic needs. The means-end rational actions of the “businessman” are guided by a formal rationality, meaning that the consideration of means and ends is constrained by universally applied laws, regulations and other legitimate means of compulsion. In the formally rational economic sphere, the desired end is profit, and a means-end rational orientation leads to quantitative calculations of the most efficient means to this desired end. Capital accounting, a process necessitated by the rationality of the capitalist economic sphere, reduces actions to their quantitative value in terms of money, which Weber argues is “the most ‘perfect’ means of economic calculation” (Weber 1921/1968, p. 86). The qualitative values of other
spheres are thus overridden by the quantitative calculus of profits. As Swedberg (2005, p. 211) argues, “profit-making is indifferent to substantive postulates.”

Weber considers an action to be means-end (instrumental) rational action when the end, the means, and the secondary results are all rationally taken into account and weighed. This involves rational consideration of alternative means to the end, of the relations of the end to the secondary consequences, and finally of the relative importance of different possible ends (Weber 1921/1968, p. 26).

When considering this definition in regard to CSR, it is important to note that a corporate actor’s considerations of possible means and ends takes place within the corporation’s narrow constellation of interests; namely, the pursuit of efficient profit maximization. For the rational corporate actor, this means that means and ends based on values or interests outside the economic sphere, especially those that don’t contribute toward profitability, are rarely considered unless they are mandated by law or otherwise related to the firm’s bottom line.

**Bureaucracy**

Historically, societies have organized themselves and their component parts in myriad ways, employing a variety of organizational structures. But the predominant organizational structure in the modern Western (rational) world, the bureaucracy, “constitutes the most efficient and (formally) rational way in which human activity can be organized” (Swedberg 2005, p. 19). A bureaucracy, simply put, is an organizational form characterized by an internal division of labor, a rigid hierarchy of offices and duties, and institutionalized rules, regulations, and means of compulsion. Bureaucracy is the ubiquitous organizational form in today’s business corporations.
Bureaucracy and formal rationality are natural bedfellows, particularly in the economic sphere. As organizations grow in size and complexity, this relationship becomes even stronger. This is because bureaucracies possess several characteristics that make them the ideal organizational form in modern Western capitalism. First, they are exceedingly efficient in handling a large number of varying tasks, particularly those that require a large amount of paperwork (Ritzer 2000). Second, they reduce tasks and outcomes to quantifiable measures, ensuring a high level of calculability across organizational processes. This calculability helps managers gauge performance, but does not take into account quality of outcomes (Ritzer 2000). Third, due to the institutionalized rules and specific expectations of actors in any given role, bureaucracies are highly predictable (Ritzer 2000). Finally, they are consistent in their orientation to the organization’s desired ends because the division of labor, rigid hierarchy, and institutionalized laws and regulations effectively remove from the process any element of human judgment or imposition of any outside values that might detract from the attainment of the organization’s desired end. Those employed in a bureaucratic organization are compelled, even forced, to choose the most efficient means to achieve the organization’s desired ends (Ritzer 2000).

Weber was explicit in his belief that the bureaucracy is the most efficient and rational organizational system, but he feared that bureaucracy, growing in scope and influence along with the formal rationality of the increasingly dominant economic sphere, posed a threat to society:

Weber is worried that, in a modern world in which impersonal political, economic, and legal orders dominate, and large-scale bureaucracies characterized by rigid hierarchies, specialized tasks, conformist pressures,
and routine work are ubiquitous, individual autonomy and ethical responsibility will be eroded (Kalberg 2005, xxiv).

Once established, Weber saw bureaucracies as “escape proof” and nearly impossible to dismantle (Ritzer 2004). Bureaucracies, and Weber’s fears about them, are extremely important in the analysis of CSR because the agency of corporate managers is greatly constrained, even coerced, by the bureaucratic structure. An actor within a bureaucracy, even a high ranking manager, acts not according to his or her own value orientation, but more or less as a cog in the bureaucratic machine. In their organizational role, they act in means-end accordance with the formal rationality of the organization.

The Firm and the Modern State in a Capitalist Market Economy

Weber defines an economy as “autocephalous⁴¹ economic action” (Weber 1921/1958, p. 63). He defines a market economy as an economy in which wants are satisfied as a result of “[economic] action oriented to advantages in exchange on the basis of self-interest and where co-operation takes place only through the exchange process” (Weber 1921/1968, p. 109).

For Weber, capitalism, a rational market economic system, is characterized by the diligent, disciplined, calculated pursuit of profits. This form of accumulation is distinct from the earlier forms of greedy accumulation present throughout history.⁴² In a capitalist market economy, want satisfaction through the market normally “presupposes money calculation. Where capital accounting is used, it presupposes the economic

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⁴¹ In this context, autocephalous means “that the economy is independent and not directed from the outside” (Swedberg 2005, p. 77).

⁴² I would like to thank Max Pfeffer for clarifying this distinction.
separation of the budgetary unit (household) and the enterprise” (Weber 1921/1968, p. 109).

In modern Western capitalism, the seemingly natural economic form of choice is the firm. A firm is an economically oriented organization whose “organized action, as governed by the order, is primarily autocephalous economic action of a given kind” (Weber 1921/1968, p. 74). That is, it is a creature of the market and its actions, oriented toward profits, are guided by the laws, expectations and constraints of the market order. Values not directly related to a firm’s pursuit of profits are rarely, if ever, considered in the firm’s calculation of means and ends. The division of labor in a firm adds to its formal rationality and necessitates bureaucratic organization. Bureaucracy becomes increasingly necessary and institutionalized as firms grow larger, requiring the order and efficiency of bureaucratic organization. Particularly in large firms, the agency of managers as moral actors is constrained by the bureaucratic organization of the firm.

A market economy, particularly a large-scale market economy characterized by private enterprise, could not function properly without the state. Weber defines the state as having monopoly control over the legitimate means of violence in a specific geographic territory (Kalberg 2005). The legally legitimated, rational (bureaucratic) order of the modern state is particularly suitable to capitalism because of its predictability (Swedberg 2005). In addition to its monopoly on legitimate use of violence, the modern state also has a monopoly on the creation and regulation of money, as well as on economic policy, including taxation (Swedberg 2005).

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43 “An economic form refers to the way in which a company is organized and managed; that is, the relationship of employers to workers, the type of accounting, the movement of capital, etc. (all of which can occur according to a traditional or modern economic ethic).” (Kalberg, xxiii)
44 A firm today may also be called a business corporation or a company.
Central to capitalism and the concept of enterprise is the idea of profit-making, which presupposes private property45 (Swedberg 2005). For a system based on private property to function, the state is necessary to protect private property rights and enforce contracts (Weber 1921/1968). In addition to its role of “enforcing formal order,” the role of the state in a market economy is also to establish and enforce laws and regulations to ensure that the market functions properly (Weber 1921/1968). While the role of the state, for Weber, is not primarily economic, the state does have economic interests.

**Conclusion**

Weber’s intertwined theories of rationality and rational social action, along with his discussion of value spheres, bureaucracy, the firm and the state, provide a unique and valuable lens with which to analyze contemporary CSR theories. But what rationalities underlie each of the CSR theories? Do they differ in the rationalities they employ? How does the underlying rationality of each CSR theory shape the arguments their advocates put forth? In the following chapter, I present and discuss the three CSR theories that have emerged from the literature. I present them first as ideal typical theories, which allows for a comparative analysis of the theories to understand their fundamental similarities and differences. In the final chapter, I analyze the CSR theories through the lens of Weber’s theories outlined above. Using Weber’s theories as an analytical lens will offer a unique insight into the CSR debate by helping us understand the underlying rationalities of the CSR theories and how each theory is informed by the rationality it employs.

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45 Swedberg defines private property as “having access to something from which others are excluded.” (Swedberg 2005, p. 211)
CHAPTER 4:
CSR THEORY

The CSR discourse has grown considerably, both in volume and in maturity, over the past 60 years. Numerous theories and arguments have been put forth, but the concept remains nebulous and the theory fragmented. Ample space in business journals, including journals dedicated to CSR or related concepts, has been allotted to the discussion of CSR, but most of the articles simply attempt to define the concept, link CSR with profitability, or to make arguments either for or against CSR based on either economic or moral logic. Despite the voluminous literature on the subject, there is not a single, integrated body of CSR theory that allows us to gain insight into the underlying thought processes and assumptions of the various CSR arguments.

An inductive review of the CSR literature reveals three endogenous theoretical frameworks that inform the arguments for or against CSR based on a given normative orientation or logic. I present the three CSR theories – corporate libertarian theory, enlightened self-interest theory, and moral theory – as ideal types, created to capture the essence of the arguments put forth in the mainstream CSR debate. Presenting the theories as ideal types allows for comparative analysis, which helps make apparent the theories’ similarities to and differences from each other. The ideal types were created, not by imposing theory on the literature, but by coding the literature according to four points of paradigmatic contention along which the various arguments diverge. The four points of contention along which the three CSR theories emerge (and diverge from each other) are: 1) the role/purpose of business; 2) to whom corporations are responsible; 3) justification for engaging, or not engaging, in CSR: the bottom line; and, 4) democracy,
the free market, and the role of the state. Within each category, several arguments, or sub-categories, emerged. It is according to these sub-categories that the three endogenous CSR theories emerge from the literature. I highlight the four points of contention in my presentation of the three CSR theories below.

Other scholars have reduced the CSR literature into general themes or categories for analysis. Garriga and Melé (2004) recognized four categories of CSR theories, which they call “instrumental theories,” “political theories,” “integrative theories,” and “ethical theories.” Their purpose was to provide a conceptual map of the various CSR-related theories that have been presented. While helpful in understanding how the many CSR-related theories relate to each other, it does not offer significant insight into my research questions.

Van Marrewijk (2003) recognized similar patterns in the CSR literature to those I present here, categorizing them into three approaches he calls the “shareholder approach,” the “stakeholder approach,” and the “societal approach.” However, in my inductive review of the CSR literature, the three patterns of arguments, or theories, that emerged did not exactly match his three approaches. I chose not to adopt the categorical names he used in order to avoid any confusion and because the names I assigned are more appropriate for the ideal typical theories I developed. Unfortunately, as elaborating on the three approaches was not van Marrewijk’s aim, he presents them in such little depth as to make any further, meaningful comparisons between his approaches and my ideal typical theories impossible.

I highlight the following contributions to the CSR literature because they exemplify the ideal typical theories under which they are classified. However, it should
be noted that not all of the arguments put forth in the CSR literature fit neatly into one of the theoretical categories as I present them here. Nevertheless, these ideal typical theories do capture the essence of the predominant arguments, or theoretical frameworks, employed in the CSR discourse.

Outlining and comparing these CSR theories, their underlying assumptions and their similarities to and differences from each other, will help add clarity to the CSR discourse and help us to gain a new depth of insight into the CSR debate. It will also provide the foundation upon which my sociological analysis will take place in the following chapter.

Three CSR Theories

While the CSR debate is often reduced to pro- or anti-CSR arguments, an inductive analysis of the CSR literature reveals three endogenous theories: two pro-CSR theories and one theory that stands opposed to CSR. Based on my coding scheme, the three CSR theories that emerged from the literature are corporate libertarian theory, enlightened self-interest theory, and moral theory. The latter two theories favor CSR, though for fundamentally different reasons. Corporate libertarian theory and moral theory stand diametrically opposed to each other on all four of the points of contention I present below. Falling somewhere between these two polar opposites is enlightened self-interest theory, which shares similarities with each of the other theories, but also contains its own internal logic. Surprisingly, however, this comparative analysis suggests that corporate libertarian theory and enlightened self-interest theory are more closely related than first appears, despite their opposing arguments on whether or not firms should engage in CSR.
I present the three CSR theories in the following order – corporate libertarian theory, enlightened self-interest theory, moral theory – as a way of tracing the spectrum of arguments. While presenting the polar opposite theories next to each other would be useful in highlighting their differences, I present the enlightened self-interest theory second in order to highlight its surprising similarities to corporate libertarian theory. These similarities will be further highlighted in the final chapter.

By outlining the general arguments put forth by each theory, as well as highlighting how they diverge along the four points of contention, the following discussion offers insight into the similarities and differences in the three CSR theories, and sets the table for discussion of their underlying rationalities in the following chapter. The following discussion of the three CSR theories is also important in that it contributes to the existing body of theoretical CSR literature, offering a potential step toward a more integrated CSR theory.

**Corporate Libertarian Theory**

Corporate libertarian theory\textsuperscript{46} is the most straightforward, consistent theory that emerged from the CSR literature, and is the only theory that holds that firms should not engage in CSR. Often called shareholder theory, corporate libertarian theory presents a clear definition of the purpose of business and the responsibility of managers; business exists, in a free market system, to pursue maximum profits, while staying within the “rules of the game” (Friedman 1970). By the very nature of the competitive enterprise system, businesses, by pursuing maximum profits, will effectively meet society’s

\textsuperscript{46} I borrowed the term “corporate libertarian” from Korten (2001).
material needs by efficiently allocating resources to where they are most needed. The only responsibility of managers is to serve the shareholders’ interests by maximizing profits, and therefore maximizing the return they receive on their investments (Henderson 2004a, 2001; Friedman 1970). Because corporate libertarian theory depicts CSR as harmful to profits, it holds that CSR should not be practiced by firms.

The Role/Purpose of Business

The first point of contention along which the three corporate social responsibility theories are distinguished is ‘Role/Purpose of Business.’ Within the CSR literature, those scholars categorized under the corporate libertarian theory view the role of business as meeting society’s needs for goods and services while maximizing profits for shareholders (Laffer 2005, as quoted in Gupte 200547, Henderson 2004a, 2001; Forbes 2004; Friedman 1970, 1962, Rostow 1960). For example, economist and Nobel laureate Milton Friedman (1970), using the language of “responsibility,” offered arguably the most famous corporate libertarian definition of CSR:

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 (Friedman 1970).

Contemporary corporate libertarians argue that capitalist business enterprise, operating within a competitive market economy, has been a major driver of rapid, sustained progress in terms of material welfare and quality of life (Rodgers 2005; Henderson 2004a, 2001; Forbes 2004). The primary role of business is to continue to drive this growth – “to act as agents of economic progress” (Henderson 2004a, p. 28).

47 Hereafter referenced as Laffer 2005.
The motives of those who own or manage business enterprises are irrelevant in evaluating their performance (Rodgers 2005; Henderson 2004a; Friedman 1970). The “effective performance” of business, argues Henderson,

*does not depend on a conscious attempt by business leaders to make the world a better place.* It derives its legitimacy, and its significance, from its bearing on the welfare of people in general (Henderson 2004a, p. 61).

**Responsibility to Whom**

The second theme I used to code the CSR literature was to whom corporations, and corporate managers, are responsible. In serving society and driving economic progress through its solitary pursuit of profits, according to corporate libertarian theory, corporate managers have responsibility to only one group: shareholders. No other stakeholder interests should take precedence (Laffer 2005; Henderson 2004a, 2004b, 2001; Forbes 2004; Friedman 1970, 1962; Rostow 1960). This unwavering loyalty to shareholders lies at the heart of the corporate libertarian argument. Again presenting a representative corporate libertarian perspective, Friedman (1970) argues that:

In a free-enterprise, private-property system a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.

As Friedman’s statement suggests, those whom I classify as corporate libertarians see the shareholders as the legitimate owners of the corporation (Henderson 2004a, 2001; Forbes 2004; Friedman 1970, 1962; Rostow 1960). Henderson (2004b) goes
as far as to argue that “managers have moral responsibilities to owners.” Managers can best fulfill this moral duty to shareholders by always seeking to maximize profits, thus maximizing the return shareholders receive on their investments (Henderson 2004a, 2001; Friedman 1970). While “it may give us a warm and comfortable feeling to say that the director is a trustee for the community,” argues Rostow (1960, p. 68), such a notion is misguided. The economic job of directors and managers is difficult enough without taking on the ill-defined responsibilities to a multitude of stakeholders (Rostow 1960).

If society expects business to fulfill higher social obligations, then the explicit responsibility of managers must be redefined (Rostow 1960).

Corporate executives share their responsibility to shareholders with the corporation’s board of directors. From a legal standpoint, argues Rostow (1960, p. 63), “The law books have always said that the board of directors owes a single-minded duty of unswerving loyalty to the stockholders, and only to the stockholders.” Because engaging in CSR involves a trade-off between “social responsibility” and profits, it is not serving shareholder interests and should therefore not be undertaken (Rodgers 2005; Henderson 2001; Friedman 1970).

Justification for Not Engaging in CSR: The Bottom Line

The third theme with which I coded the CSR literature was ‘justification for engaging, or not engaging, in CSR.’ Corporate libertarian CSR theory is the only CSR theory that holds that firms should not engage in CSR. Rostow (1960, p. 63) called CSR “all bewildering balderdash,” while Arthur Laffer (2005) argues that "what corporate social responsibility really means… is irresponsibility." This “irresponsibility” is rooted
in the perceived divergence of business managers from their explicit responsibility to serve the interests of shareholders by maximizing profits.

The corporate libertarian theory depicts CSR as being harmful to a firm’s profitability by increasing costs, overburdening managers and limiting their effectiveness, and making a firm less responsive to the market (Rodgers 2005; Laffer 2005; Laffer, Coors and Winegarden 2004; Henderson 2001; Friedman 1970). Every one of the scholars I classified under the corporate libertarian theory argued that, by deciding to engage in CSR, corporate managers are reducing the firm’s competitiveness and profitability (Rodgers 2005; Laffer 2005; Henderson 2004, 2001; Forbes 2004; Friedman 1970; Rostow 1960). In doing so, they are stealing from shareholders by “redistributing” the shareholders’ wealth (Friedman 1970). This divergence from managers’ perceived responsibility to shareholders lies at the heart of the corporate libertarian argument against CSR.

**On Democracy, the Free Market, and the Role of the State**

The fourth point of contention I employed to code the CSR literature, ‘democracy, the free market, and the role of the state,’ seems at first to be an unwieldy theme. However, as its component elements are so intimately related within the CSR literature, I chose to aggregate them into a single theme for the purposes of accuracy and clarity.

As it emerged from the literature based on my coding scheme, corporate libertarian theory appears closely aligned with the free market libertarian view in its view of the free market and the role of the state (Rodgers 2005; Henderson 2004a, 2001; Forbes 2004; Friedman 2005, 1970, 1962). Based in neoclassical economic theory, the free market libertarian view contends that “a system based on private property and free
markets is a sophisticated means of enabling people to cooperate in their economic activities without compulsion” (Friedman 2005). Corporate libertarians see the role of the state as maintaining a properly functioning market by setting the necessary parameters and otherwise more or less staying out of it, allowing business, and the free enterprise system, to efficiently meet society’s needs (Henderson 2004a, 2001; Forbes 2004; Friedman 1970, 1962). Free enterprise – that is, freedom from government interference in the market – is the cornerstone of our capitalist system (Henderson 2001; Friedman 1962). Henderson (2001, p. 140) argues that “prosperity and economic freedom go together.” Relying on Adam Smith’s theory of the “invisible hand,” corporate libertarian theorists argue that profit-oriented business enterprise is the most effective mechanism for meeting society’s needs (Rodgers 2005; Henderson 2004a, 2001; Friedman 2005, 1970).

Corporate libertarian theory regards CSR as a deeply flawed ‘doctrine’ that is undermining the free market economy and reducing the general welfare by imposing on the market “anti-competitive tendencies and overregulation” (Henderson 2004a, p. 19: see also Forbes 2004; Friedman 1970). Friedman (1970) argues that:

- the doctrine of ‘social responsibility’ involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.

Henderson, echoing a sentiment put forth by many corporate libertarians (Rodgers 2005; Friedman 1970) argues that “CSR is a new variation on a standard collectivist theme” (Henderson 2001, p. 143). Friedman repeatedly bashes CSR as a radical collectivist doctrine that “does clearly harm the foundations of a free society” (Friedman 1970). He goes on to say that
[Advocates of CSR] are – or would be if... anyone... took them seriously – preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades (Friedman 1970).

**Enlightened Self-Interest Theory**

Unlike corporate libertarian theory, enlightened self-interest theory does not see CSR as a zero-sum endeavor. Furthermore, enlightened self-interest theory does not hold “society” and “business” as conflicting interests, but rather as interdependent entities; a successful business needs a healthy society, and a healthy society benefits from healthy businesses (Porter and Kramer 2006). The enlightened self-interest theory presents itself in a way that makes it appear as a sort of middle ground between the corporate libertarian and the moral theories of CSR. Its central premise is that, in today’s globalized market economy, where corporations are simultaneously faced with cutthroat competition and a constant barrage of new and complex societal demands, meeting society’s needs is the most effective means of gaining competitive advantage and ensuring continued profitability. Simply put, firms should engage in strategic CSR because it is good for business in the long-term and, in many cases, also in the short-term. The argument for CSR from an enlightened self-interest perspective is often called the “business case” for CSR (Dubee 2006).

**The Role/Purpose of Business**

When it comes to the role or purpose of business, enlightened self-interest theory appears to be rooted in a similar view of the role of business as corporate libertarian theory. Like corporate libertarian theorists, enlightened self-interest theorists argue that
the primary role of business is to generate profits while meeting society’s needs for goods and services (Drucker 1984; Richardson 1981; Carroll 1979). The two theories differ slightly, in that enlightened self-interest theorists see the role of business as catering to a broader range of societal needs (Sparks 2003; Drucker 1984; Carroll 1979). However, in meeting society’s needs, business should continue to “concern itself primarily with profit” (Ford II 1970, p. 32; see also Sparks 2003; Drucker 1984; Richardson 1981).

**Responsibility to Whom**

Coding the CSR literature based on the question of to whom corporations are responsible revealed another similarity between enlightened self-interest theory and corporate libertarian theory. In engaging in CSR, according to enlightened self-interest theory, managers must always remember that, while some degree of responsibility is owed to employees and other stakeholders, the primary responsibility of managers is to shareholders (Sparks 2003; Richardson 1981).

A wide array of stakeholders may demand responsibility on the part of business; and it is business’ responsibility to meet these expectations, if for no other reason than that it makes good business sense (Sparks 2003; Burke and Logsdon 1996; Ford II 1970; Stryker 1966). Drucker (1984) argues that calls for social responsibilities beyond profits are often short-sighted; if corporations don’t first meet their responsibility of earning profits, they will fail. And if they fail, no one will benefit. What’s more, by pursuing profits, business will be serving society’s best interests, both now and in the future (Sparks 2003; Burke and Logsdon 1996; Drucker 1984).

While enlightened self-interest theorists argue that corporations should engage in CSR because it is good for business, acknowledging the many and widely varied calls for
corporate social responsibility presents a new challenge for corporate managers; that is, to whom are corporations responsible? While corporate libertarians call CSR a trade-off, that to be “responsible” means sacrificing profits, and vice-versa, enlightened self-interest theory sees the opposite as true (Burke and Logsdon 1996; Richardson 1981; Ford II 1970), but acknowledges the new dilemma it presents. In an effort to address this dilemma, Richardson (1981) presents a “concentric circles” model for understanding and guiding firms’ social responsibilities:

it is clear that a number of groups are legitimately owed some degree of responsibility. One can visualize them as being arranged in concentric circles. In the inner circle are the shareholders and employees of the company. In the next circle are the company’s customers, both actual and potential, including those who constitute the market as a whole. In the outer rings are the claims of the industry to which the firm belongs and of business generally. Finally, there are the interests of the general public in the behavior of corporate citizens toward such pervasive interests as the safeguarding of public health, the protection of the environment, and the maintenance of ethical standards (Richardson 1981, p. 4).

The clear priority Richardson’s model gives to shareholders’ interests is one of the distinguishing arguments that separates the enlightened self-interest theory from the moral theory, which gives more equal weight to disparate stakeholder interests. However, by acknowledging business’ responsibility to other stakeholder groups, Richardson’s model is also distinct from corporate libertarian theory, which does not recognize any corporate responsibilities beyond the responsibility to shareholders.48

**Justification for Engaging in CSR: The Bottom Line**

‘Justification for engaging in CSR: the bottom line’ is the theme along which the enlightened self-interest theory distinguishes itself most significantly from the other two

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48 Some corporate libertarians, such as Rodgers (2005), also see corporations as having duties to customers.
theories. Whereas corporate libertarians argue that CSR hurts profits and should therefore be avoided, and whereas moral theorists argue that firms have a moral responsibility to multiple stakeholders, enlightened self-interest theorists assert that strategic CSR is good for profits, and should therefore be undertaken as part of a firm’s competitive strategy (Porter and Kramer 2006, 2002; Sparks 2003; Birchard 1999; Burke and Logsdon 1996; Richardson 1981; Ford II 1970).

According to the enlightened self-interest theory, CSR, when strategically integrated into a firm’s business practices, is beneficial in helping the firm gain a competitive advantage over its competitors (Porter and Kramer 2002; Birchard 1999; Burke and Logsdon 1996). This competitive advantage, or what Sparks (2003) calls a firm’s “economics of reputation,” can be seen on three fronts: first, CSR will benefit firms by generating a positive image for the firm, attracting and maintaining customers, investors, and employees who value responsible business practices (Dubee 2006; Sparks 2003; Kramer and Porter 2002; Birchard 1999). Second, CSR will help a firm avoid risk, in terms of both government and public sanction – avoidance of the former being of utmost importance (Heald 2004; Birchard 1999; Burke and Logsdon 1996). Government sanctions and regulations can be costly; CSR will help firms stay ahead of regulations and ahead of competitors when regulation does occur (Burke and Logsdon 1996; Richardson 1981). Finally, CSR is vital in meeting the future needs of all stakeholders, especially shareholders. The unrestricted satisfying of present wants comes at too large of a cost to the firm’s ability to satisfy future wants. A forward thinking CSR strategy will help firms continue to serve the interests of shareholders as the business landscape changes (Dubee 2006; Sparks 2003; Birchard 1999; Davis 1973).
A successful firm engages in CSR – in addressing society’s issues and needs – in order to turn these problems into profits (Birchard 1999; Drucker 1984; Davis 1973).

Peter Drucker famously argued that:

…the proper ‘social responsibility’ of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well paid jobs, and into wealth (Drucker 1984, p. 62).

Beyond profitability, enlightened self-interest theorists argue that, in today’s political and economic environment, business is better suited to meeting society’s needs than any other institution, including government (Drucker 1984; Davis 1973). The strength of business is in its managerial skill, its capacity for innovation, and its technological resources and human capital (Birchard 1999; Drucker 1984; Davis 1973). These strengths, along with the incentive of profit, allow business to find innovative ways of meeting society’s needs. Indeed, Drucker argues:

Only if business, and especially American business, learns that to do well it has to do good, can we hope to tackle the major social challenges facing developed societies today… [T]he economic realities ahead are such that ‘social needs’ can be financed increasingly only if their solution generates capital, i.e. generates a profit. This governments cannot do. But it is precisely what business is being paid for (Drucker 1984, p. 55).

**On Democracy, the Free Market, and the Role of the State**

Generally, enlightened self-interest theory views the state as a constraining force that CSR will help, to some extent, to keep at bay (Birchard 1999; Burke and Logsdon 1996; Davis 1973). In a free market economy, it is ideal to rely first on market incentives for business to adjust its practices to meet arising social needs. When market incentives fail, government regulation may be necessary to create them (Ford II 1970).
Enlightened self-interest theory sees CSR as a means of keeping the state from imposing itself on the market, thus allowing the market – and corporations – to operate unfettered (Heald 2004; Birchard 1999; Burke and Logsdon 1996; Davis 1973). But the state plays an important role in determining what is seen as responsible, or irresponsible, corporate behavior. Laws and standards change. A corporation with CSR integrated into their competitive strategy will respond more favorably than its less “responsible” competitors when state regulations do occur (Birchard 1999).

While clearly in favor of free market competition over government regulation, enlightened self-interest theory does recognize that the state plays an important role in upholding laws, ensuring property rights, and setting regulatory standards that protect consumers and corporations (Porter and Kramer 2006).

**Moral Theory**

Moral theory is rooted in the fundamental view that corporations exist for the betterment of society, and that managers are morally obligated to consider and balance in their decision-making processes the interests of all stakeholders affected by a firm’s actions. Like enlightened self-interest theory, moral theory sees society and business as interdependent, rather than competing, spheres. Perhaps in recognition of the competitive demands of the market system, moral theory also holds that CSR is beneficial for businesses (Mackey 2005; Handy 2002; Goodpaster and Matthews 1982). Goodpaster and Matthews (1982, p. 139) argue that:

> The pursuit of profit and self-interest need not be pitted against the demands of moral responsibility. Moral demands are best viewed as containments – not replacements – for self-interest.

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49 I would like to thank Elena Iankova for suggesting this name, which I see as fitting, as most of the scholars I classify under this theory make moral arguments for CSR.
The Role/Purpose of Business

Moral theory stands apart from the other two CSR theories in its understanding of the role of business in society. Moral CSR theory views business as existing to benefit society, and not simply to make profits (Mackey 2005; Handy 2002; Houser 1957; Bowen 1953). Business holds great power today, but with that power comes concomitant responsibility (Handy 2002; Davis 1960; Houser 1957; Bowen 1953). Bowen (1953, p. 135) argues that business managers must recognize that ultimately business exists not for profits, for power, or for personal aggrandizement, but to serve society. They must recognize that the freedom and the power which they enjoy [have] been committed to them by society… Such freedom and power, of course, entail great responsibility.50

Moral CSR theory does not, as critics contend, suggest that business does not also exist for profits. Rather, the role of business – or what Mackey (2005) calls the “enlightened corporation” – in society is to “create value for all of its constituencies” (Mackey 2005; Carroll 1991; Bowen 1953).

Responsibility to Whom

When considering the variable ‘responsibility to whom,’ moral theory is immediately distinguishable from the other two theories. Whereas the other two theories see shareholders as the group to whom managers owe primary responsibility, moral CSR theory contends that all stakeholders directly or indirectly affected by a corporation’s actions are owed some level of responsibility (Mackey 2005; Woller 1996; Goodpaster and Matthews 1982; Houser 1957; Bowen 1953). Each of these stakeholders, ranging

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50 This view is often called the social contract theory.
from shareholders to employees to neighboring communities, makes legitimate claims as to the responsibility of business (Mackey 2005; Woller 1996).

Both corporate libertarian theory and enlightened self-interest theory point to a contract or promise running from management to shareholders (Henderson 2001; Friedman 1970), but moral theorists argue that such an exclusive promise does not exist (Mackey 2005\textsuperscript{51}; Handy 2002; Goodpaster and Matthews 1982; Stone 1975). What’s more, the moral CSR theorists who address this idea of a ‘promise’ believe that shareholders today are no longer the “owners” of the corporation in the true sense of the word and that their interests should not be privileged as such (Mackey 2005; Handy 2002; Goodpaster and Matthews 1982; Stone 1975; Houser 1957). Handy (2002) argues that, while the shareholders are the legal “owners” of the corporation, it would be more accurate to call them “investors, perhaps even gamblers. They have none of the pride or responsibility of ownership and are, if truth be told, only there for the money” (Handy 2002, p. 5; see also Mackey 2005; Stone 1975; and Houser 1957). Shareholders’ involvement with a corporation, in the form of their investment, is entirely voluntary (Mackey 2005; Handy 2002; Stone 1975; Houser 1957). If they are unhappy with a firm’s actions, they can file a claim at the annual shareholders’ meeting, or simply sell their stock in the company (Mackey 2005; Stone 1975). Other stakeholders, including communities in which a business operates, those affected by air and water pollution, and others, cannot simply opt out of the harmful side-effects of a corporation’s actions (Stone 1975). It is often the most vulnerable stakeholders that are most negatively affected by the corporate actions; and it is these groups that have the least opportunity to remove themselves from harm’s way or to pursue avenues of recourse. Moral theory regards the

\textsuperscript{51} Mackey argues that this ‘promise’ need not exist, but admits that it is dependent on the firm’s charter.
claims of all stakeholder groups as valid and worthy of consideration in a business’ decision-making processes.

In response to the argument that managers owe sole or primary responsibility to shareholders, Goodpaster and Matthews (1982), among other moral theorists (see Stone 1975), argue that:

The trust that managers hold does not and never has extended to ‘any means available’ to advance the interests of the principals. Both legal and moral constraints must be understood to qualify that trust – even, perhaps, in the name of a larger trust and a more basic fiduciary relationship to the members of society at large (Goodpaster and Matthews 1982, p. 139).

**Justification for Engaging in CSR: The Bottom Line**

The ‘bottom line,’ referring to overall costs and benefits, is often invoked as the guiding principle in, or justification for, either engaging or not engaging in CSR practices. While both corporate libertarian theorists and enlightened self-interest theorists employ the logic of the bottom line in their arguments for or against CSR, moral theory employs a fundamentally different understanding of the bottom line. The ‘bottom line’ employed by moral CSR theorists, whether explicitly stated or not, is often called the “triple bottom line,” in that it takes into account the economic, social and environmental costs and benefits of a firm’s actions (Henriques and Richardson 2004). That is, a firm’s performance cannot simply be judged in dollars, but rather in the firm’s impact on social and environmental well-being.

Despite criticisms that CSR is unrealistic and untenable in the competitive global marketplace, moral theory holds that corporate managers have unequivocal ethical obligations.

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52 Not all arguments for CSR make reference to the environment.
responsibilities to stakeholders beyond their fiduciary responsibility to shareholders (Woller 1996; Houser 1957; Bowen 1953). Corporate social responsibility implies that [managers] also bear an ethical responsibility to those members of society who sustain the firm or who have a stake in or are affected by its operations. These would almost certainly include the firm’s employees, its customers, its suppliers, and the local communities in which it operates (Woller 1996).

While the economic bottom line isn’t the only performance measure moral theorists consider, many moral theorists appear to recognize that CSR is unlikely to become widely adopted without evidence that it is profitable (Vogel 2005a; Goodpaster and Matthews 1982). It is therefore not uncommon for moral theorists to share the enlightened self-interest theory’s argument that CSR is good for business in the long-term (Mackey 2005; Davis 1973, 1960; Houser 1957). Beyond simple profitability calculations, however, moral CSR theorists argue that more widespread acceptance of the moral theory of CSR will result in a more robust business model than the profit-maximization model that it competes against, because [it] encourage[s] business managers to tap into more powerful motivations than self-interest alone (Mackey 2005).

On Democracy, the Free Market, and the Role of the State

Like enlightened self-interest theory, moral theory recognizes CSR as a tool for ensuring (capitalist) democracy and keeping the state from imposing itself on the market in the form of regulations or anti-competitive laws (Mackey 2005; Handy 2002). While still favoring the free market system, moral theorists recognize that the state has an

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53 Mackey (2005) goes as far as to refer to himself as a free market libertarian.
important role to play and that CSR will help to keep the state from overstepping its bounds:

To be sure, the state and the political process will and must remain the primary mechanisms for protecting the public interest, but one might be forgiven the hope that the political process will not substitute for the moral judgment of the citizenry or other components of society such as corporations (Goodpaster and Matthews 1982, p. 139).

Many critics of CSR present the argument that staying within the ‘rules of the game’ – as determined by the law – is sufficiently responsible corporate behavior, and that CSR is simply altruism, which has no place in business. Moral CSR theorists respond by arguing that CSR is not altruism (Mackey 2005; Stone 1975) – it simply refers to firms considering in their decision-making processes the impacts of their actions on multiple stakeholders (Mackey 2005; Handy 2002; Stone 1975; Davis 1967). While CSR is not altruism, neither is it mere legal compliance (Davis 1973; Walton 1960). Although coherent laws and regulations explicitly outlining responsible behavior are possible and even desirable, in many instances, laws are insufficient, ineffective, or even counterproductive in encouraging responsible behavior (Handy 2002; Goodpaster and Matthews 1982; Stone 1975).

Stone (1975) identifies three inherent problems in reducing corporate responsibility to legal compliance: first, the law remains a primarily reactive institution, meaning that there is a significant time-lag – in which significant damage can be done – from the identification of a problem and the appreciation of and response to the problem by lawmakers. Second, while the law-making process is supposed to represent the interests of the public, this is often not the case. Corporations and industries have a heavy hand in shaping laws that we trust to constrain them (Stone 1975). As Stone
(1975) recognizes, many laws that are passed are simply acknowledgments of already
established and accepted industry standards and rules. Third, problems arise with the
implementation and enforcement of laws and regulations. Not only are corporations
adept at sidestepping regulations, but the existing legal system is unfit as a forum for
dealing with such complex issues.

While moral theory does not place unwavering primacy on profits, neither is it
preaching socialism, as Friedman and other corporate libertarians suggest (Friedman
1962, 1970; Henderson 2001, 2004). Profits are still vitally important to any business in
a market economy, and profit considerations must necessarily be given substantial weight
in business decisions. A business that fails can do no good. However, moral CSR
theorists argue that managers must find “the appropriate balance and [try] to create value
for all of our stakeholders” (Mackey 2005; see also: Wood 1991).

Far from preaching socialism, moral CSR theorists argue that it is the corporate
libertarians that are, in fact, undermining market freedom with an unadulterated pursuit of
profits and the deification of the free market at the expense of other societal values
(Mackey 2005; Handy 2002):

Both capitalism and corporations are misunderstood, mistrusted, and
disliked around the world because of statements like Friedman’s on social
responsibility. His comment is used by the enemies of capitalism to argue
that capitalism is greedy, selfish, and uncaring. It is right up there with
William Vanderbilt’s ‘the public be damned’ (Mackey 2005).

Moral CSR theorists view the state with less antagonism than the other two
theories. However, moral theorists are skeptical as to the state’s ability to meet society’s
needs; they see business as the most effective tool to do so (Handy 2002; Davis 1973).
If business is not responsible, it will lose the trust and confidence of the people. If this
happens, people “will be left to rely increasingly on governments for the creation of our wealth, something that they have always been conspicuously bad at doing” (Handy 2002, p. 3; see also: Davis 1960).

**Discussion**

A review of the CSR literature reveals three endogenous themes, or commonly recurring arguments for or against CSR based on a given normative orientation or logic, with each general argument representing a contemporary CSR theory. The three CSR theories presented here – corporate libertarian theory, enlightened self-interest theory, and moral theory – are ideal types, created to capture the essence of the arguments put forth in the mainstream CSR debate over the past 60 years. Presenting these theories as ideal types allows for comparative analysis, which helps make apparent the theories’ similarities to and differences from each other.

On the question of the role/purpose of business, both corporate libertarian theory and enlightened self-interest theory hold that the purpose of business is to meet society’s needs for goods and services through the pursuit of profits. Moral theory diverges from the other two theories in that it views the corporation as existing to benefit society. This suggests a fundamental difference in how adherents to each theory approach the CSR debate, and perhaps begins to shed light on the often hostile verbal battle between those arguing from different theoretical perspectives.

Corporate libertarian theory and enlightened self-interest theory again display similarities on the question of to whom firms are responsible, as both theories give primacy to shareholders’ interests. However, the two theories diverge dramatically on the question of how shareholders’ interests are best served; that is, on the question of
whether or not firms should engage in CSR practices. Not surprisingly, theorists from each side point to empirical studies to support their arguments. However, as the arguments put forth by the pro- and anti-CSR groups remain strong in the face of weak empirical data, the question arises as to whether their arguments are based on the data, or whether they are rooted in their underlying normative orientations and conceptions of the role of business in society.

It is important to note, however, that while both corporate libertarian theory and enlightened self-interest theory give primacy to shareholder interests, enlightened self-interest theory does recognize other stakeholder demands. This divergence can be traced to each theory’s depiction of the business-society relationship, with corporate libertarian theory implying a conflictual, zero-sum relationship and enlightened self-interest theory suggesting an interdependent relationship.

In some instances, two theories share a similar argument, even though their underlying assumptions or logic may differ greatly. For example, both enlightened self-interest theory and moral theory favor corporations engaging in CSR, but for fundamentally different reasons. While enlightened self-interest theory supports CSR on the grounds that it is good for business, and that business needs a strong society to be successful, moral CSR theory supports corporations engaging in CSR because corporations – or at least corporate managers – have moral obligations to multiple stakeholders.

While both the enlightened self-interest and moral theories of CSR suggest finding a balance in the decision-making process where a variety of stakeholder interests are considered, the fulcrum used by each theory to find the appropriate balance between
stakeholder interests differs, with the enlightened self-interest model placing greater emphasis on shareholder interests – see Richardson’s (1981) concentric circle model – and the moral theory giving more equal weight to multiple stakeholders.

On the point of contention I label “on democracy, the free market, and the role of the state,” my analysis has shown that scholars who argue from one theoretical perspective are often operating on a fundamentally different set of assumptions than scholars from another theoretical perspective. For instance, corporate libertarians Milton Friedman (1962, 1970) and David Henderson (2001, 2004a) argue that CSR is a “subversive doctrine” that is undermining not only the free market, but the very foundations on which our democratic society is built. At the same time, moral theorists like Mackey (2005), Handy (2002), and Stone (1975) argue precisely the opposite; that arguments like those made by Friedman and Henderson are harmful to the free market system in that they fuel criticisms of capitalism and mistrust of corporations.

When it comes to discussion of the role of the state, the CSR literature is notably thin. However, of those who do make direct or indirect references to the role of the state, corporate libertarians share the free market libertarian view that the free market system is the best system for meeting society’s needs, and that the role of the state is to ensure proper functioning of the free market by more or less staying out of it (Friedman 1962). Enlightened self-interest theory also holds the free market as the ideal system, diverging, however, in its view that proactive CSR will allow firms to stay ahead of government regulation, thus minimizing the negative impacts of state interference. The moral theory makes little reference to the role of the state, although brief mention is made by Handy
(2002) and Davis (1973) that business is better suited to meeting most of society’s needs than the state, and that increased state involvement in the market is undesirable.

While this comparative analysis has shown that many of the differences between theories are rooted in fundamental differences in conceptions of the role of business in society, or in normative orientations toward the business-society relationship, it could be argued that some of the discrepancies between theories are merely a matter of semantics. Most notably, enlightened self-interest theory sees corporate actions that are beneficial to society as CSR, even when those actions are also profitable or otherwise beneficial to the corporation. Corporate libertarian Milton Friedman (1970) questions whether these actions should be considered CSR. He argues that, in many cases,

> there is a strong temptation to rationalize these actions as an exercise of ‘social responsibility’… this is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest.

**Conclusion**

This comparative analysis of the three CSR theories has allowed us to see many of the similarities and differences between them. Alone, however, a comparative analysis offers little insight into rationalities underlying each CSR theory. Important questions remain unanswered, such as: how is each theory informed by the rationality it employs? Is the enlightened self-interest theory really a middle ground between the two other theories, or is it more fundamentally related to one of the other two theories than may first appear? What structural factors influence the arguments put forth in the CSR debate? In the following section, I seek to address these and other questions. I begin by applying Weber’s theories to the CSR debate to understand the rationalities underlying
each CSR theory and how the rationalities employed inform the CSR discourse. I then situate the CSR discourse in a broader social context by discussing structural factors that influence the CSR discourse and how the rationalities employed within the CSR debate relate to these broader social processes. Finally, I present an alternative perspective on the business-society relationship and ask whether or not there is a place for CSR today.
CHAPTER 5:
DISCUSSION AND CONCLUSION

In the face of economic globalization, transnational capital flows, and increasing corporate power vis-à-vis the state, the concept of corporate social responsibility is as important today as ever. Along with the state, corporations are the most powerful actors in the world today. The concept of corporate social responsibility arose from this recognition of the transformative power of business. The CSR literature offers a window into the different perspectives on the roles and responsibilities of business in society. However, the CSR theories that exist, while each contributing to the larger body of scholarship on the business-society relationship, remain fragmented and fail, for the most part, to offer any depth of insight into the underlying rationalities and other factors influencing the arguments put forth either for or against CSR. Understanding the rationalities that inform these arguments allows us to gain insight into the corporate decision-making processes and the rationalities guiding the actions of corporate managers.

In this thesis, I set out to answer two fundamental questions: first, what patterns exist in the arguments put forth in the CSR literature, and can these patterns be classified into an integrated theoretical framework of CSR? Second, what rationalities underlie the predominant arguments (theories) in the CSR literature, and how do these rationalities inform the CSR debate?

Through an inductive review of the CSR literature, three endogenous theories emerged: corporate libertarian theory, enlightened self-interest theory, and moral theory. In the previous chapter, I presented a comparative analysis of these theories, exposing many of their underlying similarities and differences, as well as making clear their
conceptions of the business-society relationship, the role of business, to whom business is responsible, justification for engaging, or not, in CSR, as well as each theory’s view of how CSR relates to the free market system and the role of the state. The comparative analysis proved valuable in exposing the theories’ similarities to and differences from each other, but offered little insight into the rationalities employed by each theory.

In this chapter, I employ Weber’s theory of rationality to analyze each CSR theory, shedding light on how each theory informs the arguments being put forth in the mainstream CSR literature. I then discuss CSR and the role of the state in the face of economic globalization, followed by a discussion of how bureaucracy also shapes the CSR debate. Following the more theoretical discussion, I argue that all three CSR theories uncritically accept the “realities” of the current market system as a given, which greatly constrains the discourse. I then present an argument that CSR, while important, does not address the root causes of many of the ills we face, and often blame on corporations, today. Rather, it is the structure of the market system that discourages CSR by placing ultimate value on short-term profits. I close this discussion by illustrating the importance of rationality in the CSR debate. Finally, after discussing suggestions for future research, I conclude by asking whether or not there is still a place for CSR in business today.

**Corporate Libertarian Theory**

Corporate libertarians see the role of the corporate executive as serving the interests of the shareholders by constantly seeking to maximize profits, while staying within the “rules of the game” (Friedman 1970). Not only does CSR not fit into the profit
maximization equation, it is harmful to profits and should therefore not be considered (Henderson 2004a, 2004b, 2001; Friedman 1970). Corporate libertarian theory holds “society” and “business” as two separate, even competing, spheres.

Corporate libertarian theory is based on the formal rationality of the market. Those who adopt this argument are employing means-end rational calculation, based on universally applied rules, laws, or regulations – or the ‘rules of the game’ – “without regard to persons” (Kalberg 1980, p. 1158), to determine the most effective means to achieve maximum profits. Their use, whether conscious or unconscious, of formally rational, means-end calculations is based in their action orientation to the formal laws and demands of the market and necessarily precludes the employment of any values other than profit maximization.

At first glance, this may seem contrary to Weber’s definition of means-end (instrumental) rational action, in which he states that

action is instrumentally rational when the end, the means, and the secondary results are all rationally taken into account and weighed. This involves rational consideration of alternative means to the end, of the relations of the end to the secondary consequences, and finally of the relative importance of different possible ends (Weber 1921/1968, p. 26).

This definition of means-end (instrumental) rational action suggests consideration of several means and ends, as well as the possible secondary consequences of the action, in the decision-making process. But this definition, taken alone, can be misleading. As corporations today exist entirely (or nearly so) in the economic sphere, with profits as their solitary objective, the “secondary results” and “different possible ends” considered in their decision-making processes are considered only from the within the value constellation of the economic sphere, and in respect to their goal of profit maximization.
The quantitative, means-end capital accounting of all transactions – that is, the calculation of all of a firm’s activities in terms of its relationship to the bottom line – that dominates the economic sphere in today’s market economy leaves little room for qualitative, non-economic values or “socially responsible” ends, such as social welfare or environmental protection, to be taken into consideration. The only ends considered valid in the formally rational economic sphere, as it exists today, are profits. The instrumental rational action orientation necessitated by “free market” competition and the dominance of the economic sphere ensures that the most efficient means to that end will be undertaken. Other values and other ends considered important in other value-spheres are dismissed as irrational and are rarely, if ever, considered in the calculations of means and ends unless explicitly enforced by laws or in some way beneficial to a firm’s bottom line.

*Enlightened Self-Interest Theory*

The corporate libertarian argument against CSR and the enlightened self-interest argument in favor of CSR both stem from means-end rational calculations of costs and profits, rooted in the formal rationality of the economic sphere. The desired *end*, on which both theories agree, is maximum profits, and both theories employ formal rationality to determine the most effective means to achieving their desired end. Both theories hold that, by maximizing profits, managers are best serving their shareholders, to whom they owe primary responsibility. Where they differ from each other most notably is on the “technical question” of *means*. Corporate libertarians argue against CSR because they see it as irrational; that is, as going against shareholder interests and as financially costly and harmful to profitability. Enlightened self-interest theory still
privileges profits and “shareholder interests” above other values and other ends. Where enlightened self-interest theory diverges dramatically from corporate libertarian theory is in its belief that acting in accordance with other societal values will serve the interests of the corporation, and its shareholders, in the long-term and, in many cases, also in the short-term. That is, firms should engage in CSR precisely because it is good for business.

Enlightened self-interest theorists argue that CSR is good for business on three fronts: 1) it will improve a firm’s “economics of reputation” – that is, the firm will benefit from its reputation as a responsible corporate citizen by its increased ability to attract and maintain customers and high quality employees who value social responsibility (Sparks 2003; Birchard 1999); 2) CSR will help a firm avoid risk, particularly government regulation or negative public attention (Heald 2004; Birchard 1999). When regulation does occur, a firm already committed to CSR will be a step ahead of its competitors in adjusting to the new regulations (Birchard 1999; Burke and Logsdon 1996); and, 3) CSR will allow a firm to best serve its customers and shareholders in the future by meeting society’s needs today (Porter and Kramer 2006; Drucker 1984). For enlightened self-interest theorists, these three arguments justify the adoption of CSR as an effective means of maximizing profits and serving shareholder interests in the long-term, as opposed to the short-sighted emphasis on immediate returns that characterizes the corporate libertarian theory. This logic also demonstrates the means-end calculation process undertaken by adherents to this theory. The means may be less direct, and even less visible, than the means adopted by corporate libertarians, but they are nonetheless means calculated by their efficacy in achieving profits, the desired end.
**Moral Theory**

In contrast to the formal, means-end rationality employed by the other two CSR theories, the moral theory arises from a substantive rationality and employs a value-rational action orientation. That is, profits are not, and should not be, the only ends pursued by business, nor do the ends (profits) justify the means to achieving them. The purpose of business, as it should be, according the moral CSR theory,

is not to make a profit, full stop. It is to make a profit so that the business can do something more or better. That ‘something’ becomes the real justification for the business (Handy 2002, p. 5).

For a manager to justify a corporation’s action solely on the basis of shareholder interests, argues Handy, “is to be guilty of logical confusion.” (Handy 2002, p. 5)

Substantive rationality and value-rational action are, by Weber’s definition, guided by values rather than ends. In terms of CSR, adherents to the moral theory are united in their value that all stakeholders potentially affected, whether directly or indirectly, by a corporation’s actions are legitimately owed responsibility from that corporation (Mackey 2005). All stakeholders are not all given equal weight in every situation, and profits are necessarily given significant weight because de-emphasizing profits too much will lead to a firm’s failure (Mackey 2005; Handy 2002). But the interests of all stakeholders must be considered and balanced, to some extent, in every instance in which they might be affected by a firm’s actions.

Just as the corporate libertarians try to discredit the moral argument, rooted in values beyond profits, as irrational, proponents of the moral argument believe that
unwavering profit-seeking is both unethical and irrational in that the social and environmental costs of such behavior are unsustainably high. As the literature reveals, many business leaders and academics want to believe that CSR is good for business, and there is a flood of articles arguing and attempting to prove that it is. While moral CSR theorists argue that the costs of the profit-maximizing behavior of corporations are usually unfairly borne by the public and by the environment, the institutionalized formal rationality of the capitalist market system not only favors this behavior, but demands it (Korten 2001; Derber 1998; Henderson 1968). To create an environment in which business can serve this higher purpose, “we need to rethink our assumptions about the purpose of business” (Handy 2002, p. 5).

**CSR and the State in an Era of Economic Globalization**

In a capitalist society, the role of the State is to establish and enforce laws and regulations to ensure a healthy market and that the interests of the public are taken into account and protected. Conservative economists and business leaders often bemoan government intervention in the market, but a properly functioning market depends on the State. And corporations need the State, as well. The State, at various administrative levels (federal, state, local), provides infrastructure (such as roads, water and electricity), educational training (in the form of schools), police and fire departments, courts, and other services that corporations benefit from. This is on top of the State’s more vital functions, such as passing laws and protecting property rights, establishing and enforcing foreign policy, and opening new markets for trade.
Formally rational actors seek the most efficient means to desired ends within the context of laws and regulations. But if those laws and regulations aren’t enforced, which can happen without a strong state, the formally rational actor will soon learn that means need not be constrained by laws and regulations. This breakdown of the formal legal structure is antithetical to the notion of capitalist free enterprise, which presupposes State protection of private property (Swedberg 2005).

The state is also vitally linked to CSR in that CSR, while reified in the discourse, is a nebulous concept defined, to a great extent, in relation to laws and regulations established by the state. As laws change, the CSR landscape changes accordingly. What may have been considered responsible at one time may later be considered irresponsible with the passing of new laws. To reach a point where CSR is widely practiced, and not simply given lip service, Vogel (2005a) calls for significant changes in the business-government relationship. To get to a point where CSR actually benefits both business and society on a broader scale, CSR must move from a voluntary initiative to a regulated behavior. The role of government must change to create an environment that encourages social responsibility and discourages irresponsibility (Vogel 2005a). However, alone, “legal systems of rules and incentives are insufficient, even though they may be necessary, as frameworks for corporate responsibility” (Goodpaster and Matthews 1982, p. 138).

In the face of neoliberal globalization, characterized by transnational capital flows and multinational corporations that have evolved to a point where they regularly and easily sidestep attempts by states to control them (Korten 2001), it is becoming increasingly difficult for any governing body to hold corporations accountable for the
effects of their actions. Many advocates of CSR suggest that corporate self-monitoring through CSR can serve as an alternative to government regulation (Richardson 1981), but Korten (2001, p. 202) likens this argument to "recommending that police departments and the courts be disbanded in favor of calling on criminals to police themselves."

**CSR and Bureaucracy**

By treating corporate managers as individual moral actors, which they certainly are to some degree, both pro-CSR theories neglect the power of bureaucratic organization to reduce individuals, even high level managers, to more or less programmed cogs in the bureaucratic machine:

Rather than think of corporate actors as individual personalities, they should be viewed as actors who assume certain roles. The requirements of these roles are defined by the organizations, not by the actor’s personality (John Braithwaite, as quoted in Estes 1996, p. 75).

Within the intellectual constraints of bureaucracy and the formal rationality of the economic sphere, corporate managers’ agency is limited, leaving them ill-prepared to make moral decisions in their role as managers (Woller 1996).

Just as corporate managers are held hostage by the all-important bottom line (Estes 1996) – or, worse, reduced to amoral cogs in the corporate bureaucracy – and so constrained in their role as moral actors, today’s business corporations are creatures of the market – and highly adapted creatures at that. Hazel Henderson argues that, if society expects corporations to engage in CSR, we must revamp the legal framework in which they function:

Fundamentally, a corporation is like a computer in that it is programmed in the language of dollars and cents. Once we understand this, we are then in a position, if we decide that we do want the corporation to participate in
solving public problems, to establish ground rules to permit it to do so by changing the laws that govern its behavior. Critic Ralph Nader takes this view of our present immobility in the face of staggering problems. He feels that passing laws specifically mandating corporate involvement in these areas, with due accountability to the public, is the most pressing item on our society’s agenda (Hazel Henderson 1968, p. 81).

**CSR and the Economic Sphere: Weber’s Fears Realized and Adam Smith Revisited**

Weber feared that the economic sphere would come to dominate in modern society, overriding or pushing to the margins other important value spheres. In modern Western capitalism, Weber worried that, along with dominance of the economic sphere, would come the dominance of formal rationality, means-end rational action based on quantitative capital accounting, and bureaucratic organization:

in the economic sphere, formal rationality increases to the extent that all technically possible calculations within the ‘laws of the market’ are universally carried out, regardless of either their effect on individual persons or the degree to which they may violate ethical substantive conditions (Kalberg 1980, p. 1159).

In many ways, Weber’s prescient fears have been realized. The economic sphere is as dominant today as at any point in human history, and both the State and the private sector are under its influence. The logic of economics has become institutionalized and “has long since proven its utility as a rationalization tool for management decision making,” (Woller 1996) often at the expense of other values – even democracy. Nader, Green and Seligman (1976) argue that

…the nonmarket impacts of giant corporations have become institutionalized. Pollution of the human environment is rationalized as an economic necessity. Subsidies have become an entrenched corporate welfare system inducing inefficiencies and political rewards. Such corporate excesses align big government with big business against public interests. As power begets power, large corporations are able to pursue their activities beyond the law, above the law, or against the law – a state
of affairs clearly incompatible with democracy (Nader, Green, and Seligman 1976. p. 7-8).

Central to the ideology of the market today is the idea of the “free market” as the ideal economic arrangement; “its normative prescriptions have become the dominant framework for business ethics in American society today” (Woller 1996). However, the “free market” of neoclassical economics does not, nor will it ever, exist in reality (Woller 1996; Goodpaster and Matthews 1982). The ‘invisible hand’ so often celebrated by free market libertarians was a conceptual tool designed by Adam Smith to illustrate the ability of an economy based on small scale firms to efficiently distribute resources, guiding them to where they are most needed by society. Smith, who is revered with near religious fervor by many corporate and free market libertarians, never intended for his theories to be uncritically applied to a market, like today’s, that is characterized by global capital mobility, giant corporations with huge market shares and governments, in many ways beholden to the interests of footloose corporations, handing out subsidies and other forms of corporate welfare in an effort to keep jobs and resources within their borders. As Woller (1996) and Korten (2001) suggest, these free market libertarians who cling religiously to Smith’s *The Wealth of Nations* would be well-served to read Smith’s other major work, *The Theory of Moral Sentiments*. When taken together, as was intended by Smith, it becomes clear that Smith was not advocating for a value-free society characterized solely by formally rational, self-interested actors:

Smith never did advocate an economic system based solely on self-interested behavior. While it is true that to Smith, self-interest was a necessary condition for free markets, it was never to him a sufficient condition. *The Wealth of Nations* (originally published in 1776) must be interpreted in light of Smith’s *The Theory of Moral Sentiments* (originally published in 1759), and vice versa, which, when done, makes evident both
his serious doubts about the efficacy of the invisible hand and the central
role played by the moral sentiments in tempering self-interest and
regulating human affairs. In this light, the implications of Smith’s
writings for business ethics are quite the opposite from those supposed by
advocates of the liberal business ethos (Woller 1996).

**CSR in a Rogue Financial System**

The “rules of the game” in the global market leave little room for corporations to
deviate from the highly focused pursuit of profits. Multinational corporations find
themselves in cutthroat competition with each other and enslaved to the bottom line
(Estes 1996). Failure to stay competitive in the race to cut costs, gain market share, and
increase profits spells disaster for any multinational corporation.

However, at the same time corporations find themselves constrained and driven
by the economic system, they also find themselves as some of the most powerful actors in
society. Under economic globalization, corporations have grown huge, highly mobile,
and immensely powerful. As transnational capital flows are becoming increasingly
difficult for states to regulate, and as corporations are becoming increasingly powerful
actors relative to states in the global economy, the debate on corporate social
responsibility takes on added significance.

Despite its significance, Korten (2001, p. 204) argues that “those who call on
corporate managers to exercise greater social responsibility miss the basic point.” But
this criticism is not directed primarily at advocates of CSR. Rather, it is a criticism of the
current market system. Korten argues that:

A rogue financial system is actively cannibalizing the productive
corporate sector. In the name of economic efficiency, it is rendering
responsible management ever more difficult… Corporate managers live
and work in a system that is virtually feeding on the socially responsible
(Korten 2001, p. 204).
The CSR discourse – including the three CSR theories presented here – is confined to a forum that has as its unspoken premise an acceptance, whether conscious or not, of the “realities” of the current economic order. The arguments of virtually all of the participants in the CSR discourse, with the exception of a few advocates of the moral theory, such as Stone (1975), are constrained by an acceptance of the market as it exists today. The uncritical acceptance of the current market system leads to an “intellectual prison that restricts the way in which managers, and society, for that matter, frame issues, identify alternatives, and make decisions” (Woller 1996). If the market system itself forces corporations to behave in a manner that is contrary to the interests of the people, argue critics like Korten, Nader, Estes, and Hazel Henderson, it’s time to change the system.

Most advocates for systemic reform are not arguing against corporate social responsibility, *per se*. Rather, they are arguing that social responsibility is a problematic endeavor for corporate managers in today’s “predatory” economic system:

there are a great many socially and environmentally conscious managers. The problem is that they work within a predatory system that demands they ask not ‘What is the right thing to do?’ but rather ‘What is the most immediately profitable thing to do?’” This creates a terrible dilemma for managers with a true social vision of the corporation’s role in society. They must either compromise their vision or risk being expelled by the system (Korten 2001, p. 202).

The formal rationality of the economic sphere exerts enormous pressure on corporate managers – a pressure that is irreconcilable with the recognition of substantive values from other spheres. Such a system seems to leave little room for “social responsibility.”
**CSR and the Bottom Line**

While the majority of empirical studies conducted on the CSR-firm financial performance relationship have found a slightly positive correlation, the criticism coming from corporate libertarians that CSR hurts companies by taking up resources and managerial energy, and that it puts “responsible” corporations at a competitive disadvantage against “less scrupulous” firms in a very competitive market, may, in many cases, hold true. The formal rationality of the capitalist market system doesn’t favor social responsibility; it favors profits. Wall Street demands short-term returns, meaning that managers must focus on short-term profits or risk losing shareholders, or even their jobs. Dozens of studies have been conducted attempting to find a correlation between CSR and firm financial performance, but the findings have been consistently inconsistent. For a variety of reasons, from inconsistently operationalizing or measuring CSR to difficulty determining the direction of causality between CSR and firm financial performance to the intangible benefits of CSR (Griffin and Mahon 1997; Vogel 2005), the body of literature attempting to answer the question of the economic impacts of CSR is far from conclusive.

Despite the inconclusiveness of these empirical studies, however, both proponents and opponents of CSR point to these studies to support their arguments that CSR is either beneficial or harmful for a firm’s bottom line or share price, which invariably limits the intellectual and practical parameters of the CSR discourse. As Handy (2002, p. 4) suggests, “one result of the obsession with share price is an inevitable shortening of horizons.”

As this research suggests, while contributors to the CSR discourse regularly point to the effects of CSR on a firm’s bottom line, their arguments appear to be greatly
influenced by the rationality they employ. Nevertheless, in a numbers-driven economy, where pressure to show quantifiable results of nearly every action drives policy and strategy, the lack of convincing, or even consistent, evidence suggesting a positive relationship between CSR and firm financial performance presents a significant barrier to its widespread adoption. Unless CSR advocates are able to demonstrate quantifiable short-term benefits to the firm as a result of CSR, they will never win the CSR battle in practice.

**Beyond Quantification: Understanding CSR’s Mediating Factors**

While the quest goes on to measure the economic effects of CSR, Margolis and Walsh (2003) argue that it is time to go beyond reducing the CSR debate to such narrowly focused attempts to quantify its economic impacts. The authors recognize that “business organizations operate in the face of a sometimes irreducible conflict between humanitarian needs and economic objectives” (Margolis and Walsh 2003, p. 290). In order to develop a more productive CSR discourse, Margolis and Walsh (2003, p. 296) propose a scholarly agenda that

accepts this tension as a starting point. The dispute among justifiable but competing demands reflects the reality that firms face in society today. By honoring the dispute and exploring the tension, we offer a different starting point for organization theory and research. In the end, this new scholarship can inform managers and citizens alike as we struggle to meet these daunting challenges.

Campbell (2007) recognized a major theoretical hole in the CSR literature. While much time and effort has been spent attempting to define CSR and determine its relationship to firm financial performance:

little theoretical attention has been paid to understanding why corporations act in socially responsible ways or not… Indeed, much of the literature on
corporate social responsibility has been more descriptive or normative than positivist in tone (Campbell 2007, p. 1).

Campbell used the literature from institutional analysis and comparative political economy to determine under what conditions firms are more or less likely to engage in socially responsible behavior, as opposed to simply paying lip service to the idea. Campbell found that a poor economy or weak firm financial performance tends to reduce the probability of socially responsible behavior. Interestingly, either high or low levels of competition also reduce the likelihood of CSR, leading to a “curvilinear effect where moderate levels of competition tend to elicit more socially responsible behavior” (Campbell 2007, p. 29). However, economic and competitive factors are not the only relevant factors in explaining the likelihood of firms engaging in CSR. He found that a variety of institutional conditions mediate these basic economic relationships. Corporations are more likely to act in socially responsible ways the more they encounter strong state regulation, collective industrial self-regulation, NGOs and other independent organizations that monitor them, and a normative institutional environment that encourages socially responsible behavior. Moreover, socially responsible corporate behavior is more likely to occur to the extent that firms belong to industrial or employee associations and engage in institutionalized dialogue with stakeholders (Campbell 2007, p. 29).

Campbell’s findings suggest that the proliferation of voluntary initiatives, both domestic and global, to encourage CSR will have a bearing on corporate behavior. The impact of the most significant of these initiatives, the UN Global Compact, has yet to be felt.

**Internalizing Externalities**

Under the law, or at least through legal loopholes or through side-stepping regulation by transferring operations overseas, corporations have been allowed to externalize many of the harmful byproducts of their operations. In doing so, they are
often able to exclude from their cost calculus the costs of the harmful side-effects, such as pollution, disease, or other social costs caused by their operations. These costs are borne by individuals, communities, and taxpayers, few of whom benefit from the activities that created the harm in the first place, and many of whom suffer from its lasting effects. If corporations were required to internalize these costs they’ve been allowed to externalize, their cost calculus would change to include the entire cost of their production processes. In order to cover their costs, they would then be forced to charge the full cost (price) for their goods. Companies would seek ways to reduce costs in order to stay competitive by lowering the price of their goods in the market. Companies would thus have the incentive to incorporate mechanisms into their production processes that reduce harmful or costly side-effects (such as pollution) of their operations.

The idea itself is a simple one, but the resistance to its implementation from corporations and those who benefit from the current paradigm would be immense. For such a dramatic policy to be effectively implemented in the face of such opposition would require a strong State – one free from the influence, and financial contributions, of corporations. It would also require a strong global governing body that would prevent corporations from sidestepping such regulations by transferring their operations to countries with more lenient regulations. Voluntary global initiatives, such as the UN Global Compact, are a positive first step in encouraging this type of responsibility from corporations, but it is far from a solution.

*The Importance of Rationality in the CSR Debate*

Corporate decision-makers are confronted daily with a complex set of often conflicting demands, including economic, ethical, legal, personal and professional
demands. They are forced to weigh these competing demands in their decision-making processes, determining which demands will influence their corporation’s actions. Rationality is important in the study of CSR because the rationality business leaders employ determines how they interpret the constellation of demands placed upon them.

Nobody values harmful side effects of industry, such as polluted rivers, exploited workers or industry-related increases in mortality rates, yet corporate libertarians defend the corporations that cause these harms, as long as they are within the ‘rules of the game.’ Martin (2002, p. 6) argues that, in today’s economy, “When the interests of shareholders and the larger community collide, management typically (and quite rationally) sides with the shareholders.” Critics, including moral CSR theorists and those arguing for broader systemic reform, use the language of values and ethics in their arguments against the corporations and the system that cause such ills. But adherents to the corporate libertarian theory do not argue from personal values. They speak not as free moral actors, but as the formally rational cogs they represent in the corporate and economic orders. They are mouthpieces of an amoral economic system – one they all have benefited from – and the formal rationality of that system permeates their arguments. This can be seen in Milton Friedman’s argument that:

The political principle that underlies the market mechanism is unanimity. In an ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation benefit or they need not participate (Friedman 1970).

It hardly needs to be pointed out that all cooperation, especially indirect “cooperation,” in the market is not voluntary. In most cases, it is those who have no choice that are the most vulnerable, and that are most negatively and inescapably affected
by those voluntarily “cooperating” in the market – namely, corporations and their “owners,” the shareholders. Shareholders can opt out of their involvement with a corporation by selling their stock. Wealthy investors and executives can live far away from the ugliness of their corporations’ doings. But for communities whose waters have been polluted, whose resources have been drained, or whose citizens have fallen ill, all due to a corporation’s selfish pursuit of profits, “cooperation” in the market was not voluntary. Time and time again, it is those with the resources who benefit, and those without that suffer. Corporate libertarians argue that society is best served when corporations are left to their own devices in their selfish pursuit of profits. Whether they truly believe this or not, it is clear that they are “engaged in one of man’s oldest exercises in moral philosophy; that is, the search for a superior moral justification for selfishness.”

As this example shows, scholars and business leaders engaged in the CSR debate often fail to connect with each other in a productive dialogue because they are approaching the issue from such different rationalities that they are literally speaking past each other. What’s more, while both opponents and proponents of CSR point to empirical studies of the CSR-firm financial performance relationship to support their claims, this analysis of the underlying rationalities of the CSR theories suggests that their arguments are based more on the rationality they employ than on the empirical data they cite to support their stance. Understanding the rationality underpinning the major CSR arguments will not only aid in gaining insight into the CSR theories, but has the potential to contribute to a productive dialogue between adherents to the various theories.

Is Enlightened Self-Interest Really CSR?

This analysis of the three CSR theories has shown that the enlightened self-interest theory is quite closely related to the corporate libertarian theory, notably differing on the selection of the best means to maximizing profits. Corporate social responsibility, for enlightened self-interest theorists, is a rationally calculated means to achieving profits. This presents a question, then, as to whether these rationally means-end calculated actions taken by firms can be considered “corporate social responsibility,” or whether they might simply be considered calculated business decisions to increase a firm’s profits.

Baron (2001, p. 9) argues that

A firm motivated only by profits may adopt a practice labeled as socially responsible because it increases the demand for its product. This strategic CSR is simply a profit-maximization strategy motivated by self-interest and not by a conception of corporate social responsibility.

Whether or not actions taken by firms adhering to the enlightened self-interest theory should be considered CSR is a valid question, but the answer merely seems like a matter of semantics. As enlightened self-interest theorist Henry Ford II (1970) argues, “good results are much more valuable than good intentions.” If a desirable outcome arises from a corporation’s actions – say, reduction of air or water pollution in a manufacturing process – does the motivation, or rationality, of the firm matter? Whatever the answer to this question, understanding the rationality underlying this theory is still useful in adding clarity to the often muddled CSR debate and presents hope for a productive dialogue in the future – or at least insight into why the dialogue has been so unproductive.
**Weaknesses in the CSR Literature**

Corporate social responsibility has proven to be a pliable concept; that is, CSR means many things to many people and is often defined in a way so as to suit specific interests or arguments (van Marrewijk 2003). Banerjee (2001, p. 42) argues that CSR is “too broad in its scope” to be useful to business organizations and Henderson (2001, pp. 21-22) argues that “there is no solid and well-developed consensus which provides a basis for action.” Criticisms such as these, of CSR being too vague and inconsistently defined, are widespread, suggesting a major weakness in CSR theory and a significant challenge for scholars researching CSR.

Another weakness in the CSR literature is the lack of critical discussion of the role of the state. Clearly, the state is vitally important in shaping not only the parameters of the CSR debate, but the very landscape in which businesses operate. A more critical discussion of the role of the state will add greater depth and robustness to the CSR literature.

**Limitations of this Research**

Under time and space constraints, an exhaustive review of the CSR and CSR-related literature was impossible. While this research covers a significant portion of the CSR literature and includes seminal and often-cited works, an exhaustive review may reveal some unique perspectives not included in this work. Another limitation of this research is that it focuses primarily on CSR discourse, which, while vitally important in understanding the phenomenon itself, resides primarily in the realm of theory. It does not focus on trends or patterns in CSR practice, although discourse and practice are certainly not mutually exclusive. Finally, this research is entirely qualitative and contains no
quantitative analysis. While this qualitative analysis offers depth of insight into the CSR discourse, quantitative analysis would prove useful in recognizing broader trends and patterns in the discourse.

**Recommendations for Future Research:**

Today’s global economic landscape differs greatly from the more contained national economies of the past. In our highly fluid global economy, where capital flows are unencumbered by national borders and regulations are but hurdles to be side-stepped, it is imperative that more attention be paid to understanding the effects of globalization and transnational capital flows on corporate behavior. For instance, how do factors such as increased capital mobility and decreased ability of states to regulate corporations affect a firm’s CSR strategy?

Handy calls free market libertarians “capitalist fundamentalists” (Handy 2002, p. 5). Fundamentalism entails an unwavering devotion to a value, or set of values, that guides one’s actions. This suggests a substantive, value-rational orientation on the part of free market, and corporate, libertarians. The question thus arises: has the pursuit of profit become an ultimate value, inspiring unwavering corporate (and individual) action in accordance with this value? And, if so, might corporate libertarians be employing a form of substantive rationality?

**Conclusion: Is There a Place for CSR?**

In 1953, Howard Bowen recognized that business held great power to shape “the lives and fortunes of us all” (Bowen 1953, p. 3). Bowen, the “father of CSR” (Carroll
1999), recognized the importance of CSR as one way to attempt to harness the transformative powers of business for the benefit of society. However, he also recognized that CSR is not a panacea, although it contains important truths that must continue to guide business actions (Bowen 1953)

In his book *The Market for Virtue* (2005), Vogel argues that, while there is, indeed, a “market for virtue” in today’s marketplace, it is a niche market (Vogel 2005). Corporate social responsibility can be beneficial for some firms, in certain circumstances, but not for all firms in all circumstances. Individual firms engaging in CSR are in competition with “less virtuous” competitors; and the returns on socially responsible behavior don’t appear to be as positive as CSR advocates would like to believe. Barring increased regulation of the market by the State – regulation that would encourage socially responsible business practices and create economic disincentives for irresponsible corporate behavior – the CSR movement is doomed to remain in its current, relatively marginal niche in the larger business environment.
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