



**Foundation for Law &  
International Affairs**

## FLIA Consulting Briefing Issue No. 1

### Corporate Social Responsibility: Concepts and Theories

Miaoqiang Dai

Edited and translated by FLIA CSR Project Team<sup>1</sup>

#### Abstract:

Corporation is the most popular form of production organization but among various factors that support it, equity which denotes the ownership of a corporation constantly enjoys a dominant position. Enterprises are usually regarded as a vehicle of wealth maximization for those who owns them, however, businesses that set profit-making as their sole goal also brings problems such as financial crisis, environmental pollutions and labor abuses. There must be something we did not pay enough attention to, such as responsibilities of businesses to the community, the environment and people whose lives are affected are not currently covered by the legal system. Nowadays, such responsibilities are becoming widely referred to as “corporate social responsibilities,” or CSR, across the world.

Currently, there is no settled definition of CSR but scholars have already been exploring the meaning of it for a long time, many theoretical frameworks were also proposed for CSR analysis and practice. This report briefly reviews those concepts and theories.

#### 摘要

企业是现代社会最普遍的生产组织形式，但在支撑企业运转的多个生产力要素中，资本作为所有权的代表始终占据着主导地位。企业往往被看作是帮企业主实现财富增值的工具，但纯粹为股东追求利润的企业也为社会带来了诸如金融危机、环境污染、压榨劳工等一系列问题。一定有些企业的责任是我们还没有关注到的，比如企业对其所在社区的责任，企业对环境的责任，以及对那些生活受到企业经营影响但并没有得到法律保护的人的责任。现在，这种责任普遍被称为企业社会责任（CSR）。

目前企业社会责任还没有一个明确的定义，但很多学者已经开始探索这一概念的含义，许多企业社会责任的理论分析框架也广为应用，本文简要梳理了这些概念和理论。

---

<sup>1</sup> Team Members: Vicky Chien-hui Weng, Odelia Tinghua Chen, Jianguyun Yang, Daris Miaoqiang Dai

Except for profit-maximization for shareholders, are there any other responsibilities that a legally operating business has to society? The answer is increasingly positive but also elusive. One of the most conventional and plausible viewpoints is that the fundamental social responsibility of a business is to operate and thus provide customers with goods and services, create jobs, and pay taxes. From a classic economic perspective, rationally self-interested businesses will benefit each other by making money for themselves. Difference of investment returns drives the invisible hand allocates resources throughout the market. The more profit one enterprise has, the more efficient it is. Thus the social responsibility of business is to perform its duty of an economic person: increasing profit (Friedman 1970).

Corporation as the omnipresent form of business is employed by entrepreneurs to put together production factors; namely capital, equipment, labor, know-hows, materials, etc., among which equity denotes the ownership of the business along with the obligations and rights attached to it. In this sense, the responsibility of a corporation is clearly to keep its operation and generate profit for its owner who founded the corporation for a mercenary purpose. Such a story sounds plausible but it becomes increasingly debatable as we see problems emerge along with egoistic business operations across the world.

Bankers on Wall Street designed convoluted but worthless financial products that helped them make colossal profits without being exposed to effective regulation and lawsuits, but at last led to the Financial Crisis that swept the global economy ten years ago. International chemical companies set up factories in poor third-world countries through foreign subsidiaries that insulate them from being unaffordably responsible for events such as the toxic chemical leak that killed thousands of people in Bhopal, India in 1984. Fast-fashion garment retailers sell sweaters and jeans to people around the world for a hundred dollars each, while the workers in Bangladesh who made them only get paid 2 to 4 dollars per day (Elven 2018) in over-crowded and flimsy facilities which might collapse in a second.

There must be something we did not pay enough attention to, such as responsibilities of businesses to the community, the environment and people whose lives are affected are not currently covered by the legal system. Nowadays, such responsibilities are becoming widely referred to as “corporate social responsibilities,” or CSR, across the world.

Currently there is no consensus on the definition of corporate social responsibility across academia, industry or policy-making circles. However, there are some established models to approach CSR. Some scholars argue that corporate social responsibility could be defined as international private business self-regulation (Sheehy 2015), as those responsibilities are not required by the public administration in most regulatory systems. It is thought that CSR is brought out by private businesses themselves to avoid misconduct and keep their operation away from troubles. International Standard Organization defines a socially responsible business as “acting in an ethical and transparent way that contributes to the health and welfare of society” (ISO 2010).

Anyway, there are some commonly recognized theoretical frameworks in observing and understanding CSR. The most attractive one to businesses is a liberal model proposed by Milton Friedman in 1971. In line with his idea that the purpose of business is to serve the owners' need for profitability, the liberal model argues that the social responsibility of a business is sufficiently met once the business obeys the law and pays taxes while operating (Kanji and Agrawal 2016). In this model, engagement in charitable undertaking is up to choices of businesses and it will meet the social end of businesses' responsibility as a private voluntary contribution to the community. Such a model is increasingly being regarded as obsolete as more and more aspects of corporate responsibility emerge in the horizon.

The framework of three bottom lines consisting of social, economic and financial dimensions is widely accepted as the Triple Bottom Line Model (3BL or TBL) for CSR. It was first coined by John Elkington a quarter of century ago (Elkington 2018) arguing that instead of focusing on short-term business turnouts for shareholders, a company should build its business value through comprehensive considerations of its responsibilities to a wider range of stakeholders.

Unlike the conventional parochial business mindset, the scope of stakeholders includes not only internal stakeholders such as employees and shareholders, but also external stakeholders such as suppliers, business partners, customers, and even the community and the environment at large. First elaborated by scholars including Ian Mitroff and Edward Freeman in 1983, the stakeholders theory is now universally embraced as a morally adequate principle of organizational management and ethical conduct not only in business, but also in many other fields.

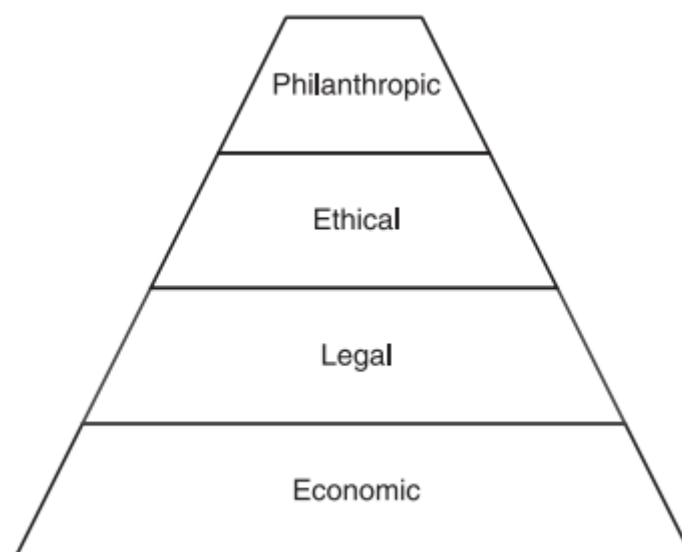


Figure 1 Pyramid Model

Archie Carroll argues that even though profit is important to businesses, a wider purpose and a pyramid of multiple levels of responsibilities should be taken into consideration. The pyramid of CSR consists of four levels of responsibilities, namely economic, legal, ethical and philanthropic, with the order being set by descending importance from the bottom to the top. (Carroll 1991). Businesses' economic responsibilities to make profit are the base on which all other responsibilities could rest. Legal responsibilities are those required by law in operation and ethical responsibilities are those that stand out of the boundaries of law but are still expected as moral standards for businesses. Philanthropic responsibilities are marginal in the system with the least importance. (Kanji and Agrawal 2016)

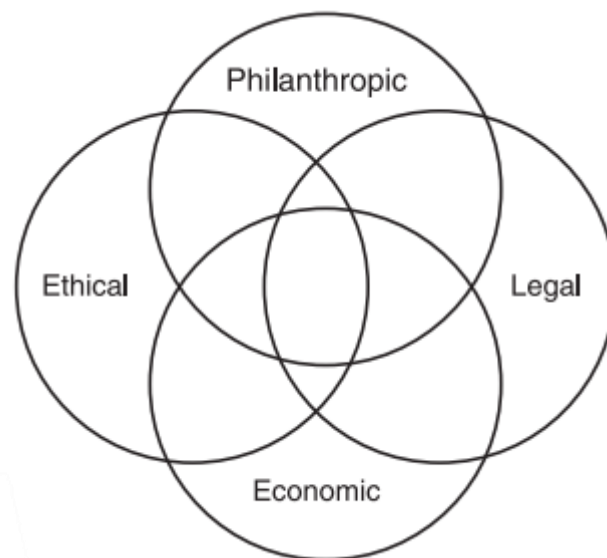


Figure 2 Intersecting Circles Model

By refusing to prioritize the order of the four aspects of responsibilities, Schwarz and Carroll presented the Intersecting Circles Model in 2003 to draw a juxtaposition structure of four levels of responsibility mentioned above. In this model, intersections between different responsibilities are also identified to show responsibilities that could fall in multiple spheres at the same time. This model clearly pointed out the fact that responsibilities could be intertwined in many ways for businesses. (Kanji and Agrawal 2016) Such a model significantly demonstrates descriptive value in observing the occasions in which profits made by businesses might not be only subject to purely economic responsibilities, but are also relevant to other responsibilities. From another perspective, it also helped the understanding of the fact that performing legal, ethical and philanthropic responsibilities could also have implications to the economic aspect.

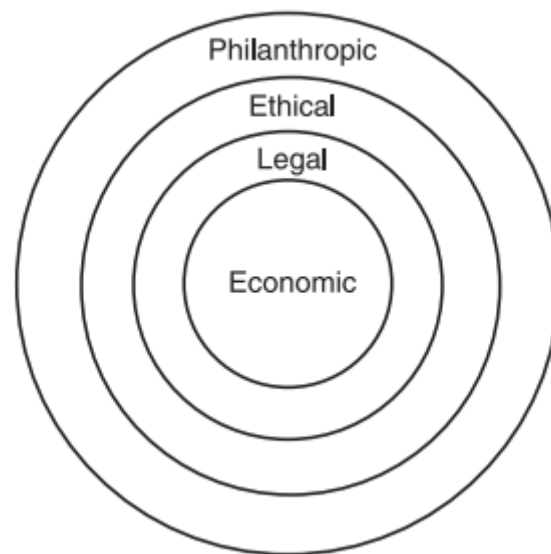


Figure 3 Concentric Circles Model

Move one step further in the relationship among different levels of responsibilities, the Concentric Circle Model proposed by the Committee for Economic Development in 1971 provided a structure that locates the different responsibilities in terms of width of coverage. In contrast to other models, philanthropic responsibilities in this model covers the widest range inclusive of ethical, legal and economic responsibilities respectively with an order of descending coverage. Each level of responsibility covers the level below and economic responsibility sit in the center as the most parochial one encompassed by all others. (Kanji and Agrawal 2016) This model reflected the idea that CSR is the concept adopted by businesses to secure private economic values by making sure public welfare is not infringed, not only economically, but also legally, ethically and philanthropically, by their operation.

Businesses vary from one to another in terms of size, industry, business model, governance structure etc., hence theoretical frameworks applicable also vary from one corporation to another. Above we discussed several established CSR models but they are far from sufficient in terms of meeting the need of CSR research and practice. With the emergence of complex and innovative businesses, it is becoming commonly accepted among scholars and practitioners that new and more elaborated models should be proposed and adopted. The field of CSR is gaining more and more attention and we will keep on exploring.

### **Bibliography**

- Carroll, Archie. "The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders". *Business Horizons*, 34, no.4 (1991): 39–48.
- Friedman, Milton. "The Social Responsibility of Business is to Increase Its Profits" In *Corporate Ethics and Corporate Governance*, edited by Walther Ch. Zimmerli, Klaus Richter and Markus Holzinger, 173-6, Springer, 2007. First Published in *The New York Times Magazine*, September 13, 1970.
- Sheehy, Benedict. "Defining CSR: Problems and Solutions" *Journal of Business Ethics*,

131(2015): 625-648.

Elven, MarJorle. "Bangladesh Raises Minimum wage for Garment Workers" Fashion-United. Posted September 14, 2018. Accessed September 28, 2018. <https://fashionunited.uk/news/business/bangladesh-raises-minimum-wage-for-garment-workers/2018091438912>

Elkington, John. "25 Years Ago I Coined the Phrase "Triple Bottom Line" Here's Why It's Time to Rethink It" *Harvard Business Review*, Posted June 25, 2018. Accessed October 8, 2018. <https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it>

International Organization of Standardization "ISO 26000 – Social Responsibility" Website of ISO. Accessed October 10, 2018. <https://www.iso.org/iso-26000-social-responsibility.html>

Kanji, Repaul. and Agrawal, Rajat. "Models of Corporate Social Responsibility: Comparison, Evolution and Convergence" *IIM Kozhikode Society & Management Review*. 5, no. 2 (2016): 141-155.