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Toward a Workable Definition of Social Corporate Responsibility: A Restitutive Approach

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Abstract

Corporate Social Responsibility (CSR) continues in its six-decade evolution as a concept and in search of a concrete definition. The colorations of its evolution have been reflective of social and political trends throughout its timeframe, the most contemporary consisting of adoption of the primary tenets of stakeholder theory. This work seeks to develop a viable and workable definition based on the fundamental characteristics of private property and the distinguishing features of the corporate form. It argues that these provide grounding for a deontological-principled and consequentialist-practical solution to CSR by way of restitution for damage caused by a corporation in the creation of a product or performance of a service.

***Key words**: Capitalism, corporate social responsibility, corporate social responsiveness, corporation, ethics, history, management, philanthropy, restitution, shareholder rights, stakeholder rights*

1. Introduction

There is no denying the importance that corporate social responsibility programs play in the global economy. According to KPMG (2017), an international auditing firm that conducts regular global surveys to track CSR programs, indicated that of the "Top 100" companies (by revenue) in forty-nine researched countries, 75% engaged in CSR reporting with a majority including CSR information in their annual financial reports. Despite its pervasive utilization, a solid theoretical foundation for CSR does not exist. It is a concept that continues to evolve, most recently adopting a stakeholder theory orientation.

This work explores the current definitional state of CSR and provides a working alternative based on a restitutive approach anchored to the fundamental features of a corporation.

2. Literature Review

The attempt to create a working definition for CSR has a timeline that goes back to the 1950s (Hack, Kenyon, & Wood, 2006). Dahlsrud (2008) found no less than thirty-seven different definitions for CSR. Frankental (2001) found the term to be "vague and intangible." It is a concept that has been determined to be elusive (Reich, 2008)), subjective (Aupperle, Carroll, & Hatfield, 1983; Carroll & Brown, 2018), lacking in empirical verification and theoretical integration (DeFillipi, 1982; Post, 1978), and void of any paradigmatic integrity (Aupperle et al, 1983). Okoye posited a postmodernist argument that CSRwould remain an "essentially contested concept" that did not require any concrete definition. In addition to its definitional uncertainty, CSR's actual implementation often reflects philanthropic endeavors that traditionally fell within the purview of public relations and could which bear no connection to what the corporation may be answerable for as per its operations (Franco, 2015).

The phenomenon of globalization has generated a plethora of literature focusing on problems which corporations have been blamed for: labor injustice, unsafe working conditions, health risks, environmental damage, and sustainability practices (Bourguignon, F., 2015; Chossudovsky, M., 1997; Korten, D., 1999; Rosen, E.I., 2002; Stiglitz, J. E., 2003; Suzuki, D., &

Dressel, H., 1999; Vandana, S., Jafri, A., & Bedi, G., 1995; Young, I.M., 2004). These issues, along with the egalitarian focus found in most academic studies, have fueled a search for a theoretical framework for CSR that runs counter to the position taken by Milton Friedman (1970, 1972) and other libertarians.

Friedman (1970) argued that the "social responsibility of business is to increase its profits" within a rule of law and refraining from the use of fraud and deception. A business' fundamental accountability is to its shareholders. When managers engage in acts of "social responsibility," they are acting outside of their professional competence. If shareholders did not directly request or approve of these activities, then any expenditure to direct towards these aims is "stolen money from the owners" (Friedman, 1970). In echoing a view held by Adam Smith, Friedman (1972) stated:

> By pursuing his own interest, [an individual] frequently promotes that of the society more effectually than when he really intends to promote it. I have neverknown much good done by those who affected to trade for the public good.

Hayek (1969) concurred that CSR posits businesses in a situation that is not their "proper aim." Drucker (2010), though not a libertarian, maintained that CSR should only be utilized as an endeavor to increase wealth to the shareholder:

> The first responsibility of business is to make enough profit to cover the costs
> for the future. If this social responsibility is not met, no other social responsibility can be met….the proper social responsibility of business…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.

The most comprehensive framework presented to counter the libertarian position is that of the stakeholder theory (Abreu & Crowther, 2005; Foster & Jonker, 2005; Freeman, 1984; Jamali, 2008; Longo, Mura, & Bonoli, 2005; Nunan, 1988; Papasolomou-Doukaki, Krambia-Kapardis, & Katsioloudes, 2005; Schaefer, 2008; Schwartz & Saiia 2012; Spiller, 2000; Valackiene & Miceviciene, 2011). The stakeholder framework argues that "the needs of shareholders cannot be met without satisfying to some degree the needs of other stakeholders" (Jamali, 2008). Valackiene & Miceviciene (2011) summarize stakeholder theory regarding CSR as follows:

> …it might be concluded that CSR requires a responsible firm to take into *full* consideration its *impact on all stakeholders* prior to making any business decisions which may affect them and captures the essence of this transformed relationship between state, market and civil society and signals a new role for private actors in future national and global governance.

A "stakeholder" has been defined as "any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of [an] organization" (Weiss, 2006). Stakeholders have been identified to include, but are not limited to, the following: shareholders, business partners, management, employees, suppliers, banks providing loans, customers, nongovernmental organization, lenders, insurers, regulators, intergovernmental bodies, local and national governments, private investors, lobbyists, courts, labor unions, environmentalists, the media, and the community in general (Hohnen & Potts, 2007; Jamali, 2008; Longo et al, 2005; Papasolomou et al, 2005; Spiller, 2000. Among these, those identified as *primary* stakeholders would include owners, management, vendors/suppliers, employees, and "others crucial to the organization's survival" (Levy & Mitschow, 2009).

The stakeholder theory, as a normative proposition, is riddled with epistemological and logic flaws. By definition, it incorporates shareholders under the umbrella of "stakeholders" while purporting to advance all stakeholder interests. However, it does not reconcile when divergence occurs between shareholder's interests (e.g., maximizing profits in return for their investment) and stakeholder's interests (which consist of a broad range of desired moral goods). For example, the agenda of a labor union could conceivably conflict with the desires of shareholders. Which stakeholder's interest is prioritized when there is conflict? Who comes first?

Also, while stakeholders make demands on the firm's decision-making, they do not grant such a right over their own actions to either the firm or other stakeholders. A community group in a town dominated by one corporation might seek leverage in the management of that company under a normative theory of stakeholder's rights, but it is highly unlikely that it would grant the corporation's right to interfere in the management of the community group even though that corporation is a substantial stakeholder in the community. The inevitable consequence is continued conflict among a vast array of stakeholders where unanimity is virtually impossible, especially regarding shareholders versus non-shareholders within the taxonomy of stakeholders. The lack of unanimity or consensus would lead some stakeholders to attempt to apply coercive tactics by turning to government intervention. The result is continual conflict leading to paralysis.

The implementation of the stakeholder model would also hamper effective management of a firm. The competitive market process formulates plans *ex ante* based on upon imperfect information that is enhanced as subsequent activities provide additional information. These include market shifts, price discrepancies, and new entrepreneurial opportunities (Grinder & Hagel, 1997). Stakeholder theory calls for prioritization of stakeholder group interests over the quest for profit maximization. To accomplish this, managers must take into consideration the pluralistic and competing agenda of all stakeholders before taking action. This could lead to a "paralysis by analysis" (Levy & Mitschow, 2009) in initial decision-making and would severely hamper any praxeological significance in the collection of new market information derived from subsequent events since all new entrepreneurial decision-making would still require stakeholders' approval.

Finally, there is the continued challenge as to what constitutes CSR. Six decades of academic research and discussion have produced dozens of definitions with no consensus. CSR finds itself lacking substance and stability. Being operationalized by the stakeholder theory only offers moreuncertainty under unbridled plurality and inevitable conflict. Much of the advocacy literature on stakeholder rights is grounded on moral superiority and an egalitarian orientation advocating government intervention for implementation. However, there is virtually no discussion as to the potential consequences of allowing government, at various levels, to participate in the managerial decision-making of all corporations. Given the collective wealth and influence of corporations, a very likely outcome of such an amalgam would be corporatism, with political means being used to benefit firms through subsidies, bailouts, state-enforced restrictions on competitive entry, tariffs, and the socialization of costs (e.g., research and development; state subsidization of international marketing of products) (Grinder & Hagel, 1977; Molina & Rhodes, 2002; Twight, 1975; Winters, 2011).

3. Conclusion and Recommendations

A viable solution for CSR is to return to basics regarding responsibility and by providing a model that is contextual to capitalism. A corporation is a creature of capitalism and is, therefore, based on a natural law paradigm that includes the principles of self-ownership, property rights, non-aggression, and adherence to contractual obligation. The corporate form itself features entity status, perpetuity, and limited liability. Entity status makes a corporation a separate legal entity that holds title over the firm's assets. Shareholders did not have such title and their power is limited to the appointment of managers and to receive dividends when declared.

"Responsibility" is commonly understood and operationalized on a common basis as being "answerable" or "liable to be called upon to answer for one's acts or decisions" (Merriam- Webster, 2004). Within the principles of natural law and sanctity of property rights that form the moral foundation of the capitalist system, CSR can best be contextualized as seeking to hold "a firm accountable for any damage or disruption it may cause in the process of providing a good or service" (Franco, 2015). In effect, it would be providing restitution for property rights that it has damaged, even if such property rights are not acknowledged or enforced by the local system of law enforcement or jurisprudence. The direct linkage to property damage would provide a tangible and empirical nexus between victim and victimizer under a restitutive paradigm where direct cause of damage can be more easily established and monetized (Barnett, 1980; Giglio, 2007).

CSR has always carried the implication of empowering individuals through collective action that calls and holds companies toward accountability. Mises (2007) stated that the "real bosses in the capitalist system of market economy are the consumers" since corporations cannot survive unless they constantly redirect their resources to meet changing demand. Accountability from the bottom up can also be consumer driven if corporations are held by consumers (actual and potential) to provide restitution where there is empirically verifiable evidence of property rights being violated. The legitimacy of this would hold by applying a commonsensical and commonly applied notion of responsibility and by maintaining the capitalist context of a corporation engaging in commerce.

The legacy of CSR is one that is not grounded on solid and meaningful theory. It even lacks consensus as to its definition while offering over three dozen. In addition, CSR has now been intertwined with stakeholder's theory, a framework that is epistemologically and operationally unsound. Research is needed to tie CSR to its logic application, which is restitution. In addition, more exploration is necessary to determine the actual character of activities being reported by corporations as being CSR to determine evolutionary trends and distinctions from traditional public relations endeavors such as philanthropic activities. A key question is whether many corporations have taken advantage of the fog of uncertainty regarding CSR's true nature to merely transfer public relations projects (traditionally philanthropic) into the realm of CSR. Ifthis is the prevailing case, then the intended people power potential of the CSR phenomenon (whether from a libertarian or stakeholder's perspective) becomes sabotaged by way of corporate gifts (payoffs) to placate key groups within a community setting.

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