

# Ethical objectives and corporate social responsibility (CSR)

## Concept

### Ethics

There are important ethical issues tied to business activity. Setting up a business means creating a dense network of people with relationships and responsibilities to each other and to the environment on which we all depend.

Businesses are increasingly seeing their objectives broaden from growth and profit, to a wider set of objectives related to corporate social responsibility (CSR).

The definition of CSR has changed over time. When the term was first adopted by businesses, it referred to business self-regulation and contribution to societal goals. These contributions often took the form of extra non-core business actions such as philanthropy, activism, charity or supporting employee volunteers in external organisations.

Over time, CSR has become increasingly internalised. Michael Porter's creating shared value (CSV) (<https://www.isc.hbs.edu/creating-shared-value/csv-explained/Pages/default.aspx>) theory proposed that businesses need to move beyond traditional CSR activities to recognise that the success of businesses and the health of their communities are interdependent. CSV recognised that engaging to solve social and environmental problems linked to a business could ultimately improve the bottom line of that business, and it is an important way to maximise profits.

Most recently, CSR has evolved away from being used as a tool to maximise profit. Rather, there is an increased focus on distributing more of the value generated by the business to multiple stakeholders.

As Paul Polman, former CEO of Unilever, points out in the book Net Positive (<https://netpositive.world/>), businesses should be optimising and distributing value for multiple stakeholders instead of maximising value for just one group. This is a distributive multi-stakeholder and net positive conception of CSR and can be expressed in an inquiry question:

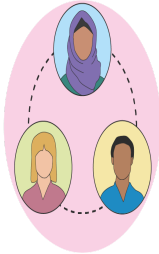

How can our business support thriving people, in a thriving place,  
while respecting the wellbeing of people worldwide and the health of  
the whole planet?

Responding to this question requires the business to examine its impacts on the two domains of society and the natural environment. Businesses also need to consider their impacts on both the local and global scales. Companies that take CSR seriously do not limit themselves to simply obeying laws and regulations, which may be too weak to meet ethical responsibilities. And they are not simply looking for social and environmental actions that improve profits. Instead, they are actively seeking ways to improve society and the environment through core business activities and business designs. Such businesses are called generative (regenerative) businesses, a concept that will also be explored in [Section 1.5.6 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/generativeregenerative-business-id-36870\)](#) and in a video by Kate Raworth in [Section 1.3.5 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/strategies-and-tactics-id-36851\)](#).

The matrix in **Table 1** can help a business consider these impacts and its generative (regenerative) and distributive role.

**Table 1.** A matrix of questions to help a business consider its ecological and social impacts at the local and global scales.

	Local	Global
Ecological	<div>How can our business support a thriving local natural ecosystem?</div> <div></div>	<div>How can our business respect the health of the whole planet?</div> <div></div>

	Local	Global
Social	<p>How can our business support the wellbeing of local stakeholders?</p> 	<p>How can our business respect the wellbeing of people worldwide?</p> 

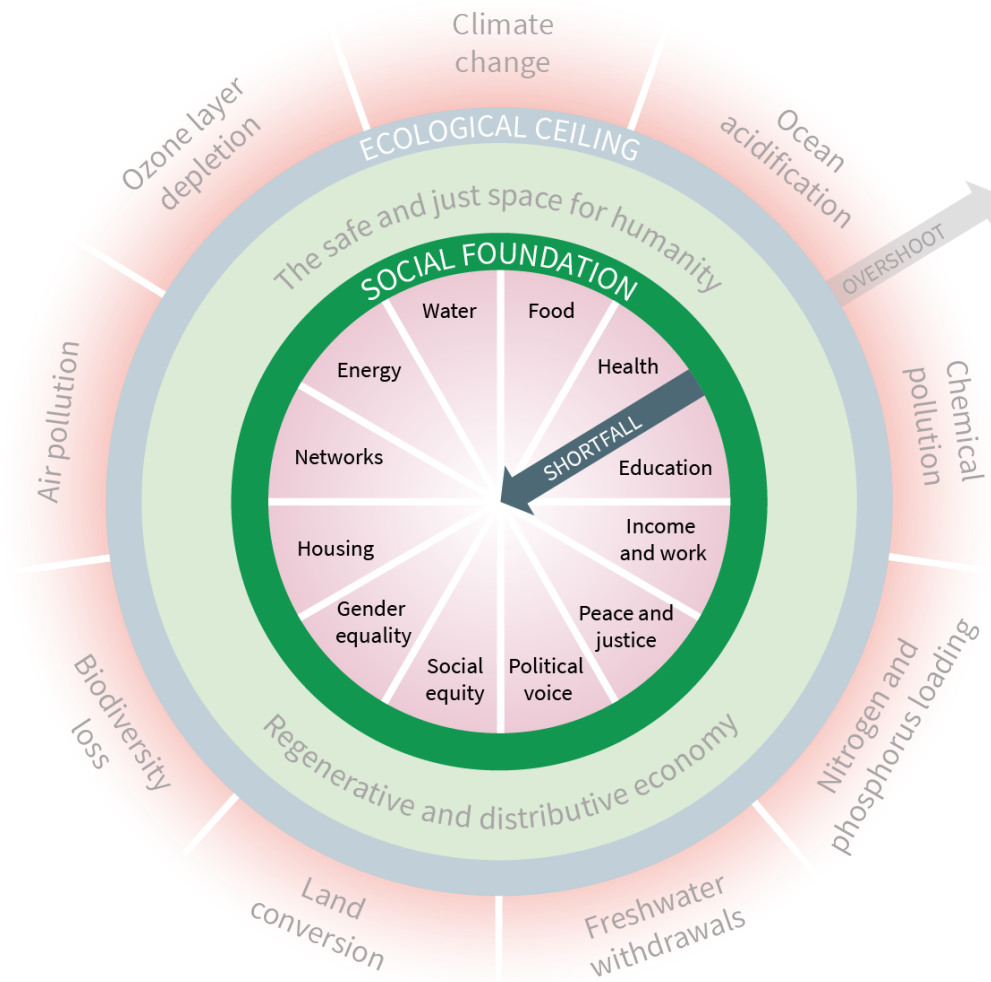
### International Mindedness

The central question for businesses pursuing CSR requires that they examine their impact and responsibilities on a local and global scale. This is an important change from the way businesses have operated in the past, where global impacts on people and the planet were often ignored.

Many cities around the world, including Amsterdam (<https://www.kateraworth.com/wp/wp-content/uploads/2020/04/20200406-AMS-portrait-EN-Single-page-web-420x210mm.pdf>), Melbourne (<https://www.regen.melbourne/>), Barcelona, and a growing number of cities globally (<https://doughnuteconomics.org/news/27>) are using frameworks like these to consider both the local and global impacts and responsibilities of their urban development.

## Social responsibilities

The social responsibilities of a business are related to the human needs in the ‘social foundation’ of the inner ring (**Figure 2**) of the Doughnut Economics Model you learned about in Section 1.1.2 (</study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-doughnut-economics-model-id-36830>). Some of those needs may be met through the core business. To take the bakery example in Section 1.3.2 (</study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/business-objectives-and-value-id-36848>) again, the core business provides food, which is a basic human need. But beyond its core business, the business needs to consider its impact on and responsibility for other elements of the social foundation at the local and global scales.



**Figure 2.** The social foundation of the Doughnut Economics Model helps businesses understand their local- and global-social responsibilities. (Click to enlarge image.)

Credit: [Kate Raworth \(http://www.kateraworth.com/doughnut/\)](http://www.kateraworth.com/doughnut/) and Christian Guthier.

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## Local-social responsibilities

How can the bakery business outlined in [Section 1.3.2 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/business-objectives-and-value-id-36848\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/business-objectives-and-value-id-36848) support the wellbeing of local stakeholders?

For its local-social responsibilities, the bakery might consider how it can strengthen networks in the local community, provide secure employment and adequate income to its employees and attend to other basic needs of the social foundation at the local scale.

## Global-social responsibilities

How can the bakery business support the wellbeing of people worldwide?

For its global-social responsibilities, the bakery might consider how it can strengthen networks beyond its local community, perhaps by collaborating and sharing knowledge with bakeries elsewhere. It would also know its supply chain well and ensure that its suppliers are meeting their responsibilities for the basic human needs in the social foundation. The bakery would want to pay suppliers fairly and ensure that the workers harvesting the wheat or producing other supplies receive a living wage and work in good conditions.

## Ecological responsibilities

As well as relating to social responsibilities, CSR relates to environmental responsibilities. These responsibilities are found at both the local and global scales.

## Local-ecological responsibilities

How can the bakery business support a thriving local natural ecosystem?

For its local-ecological responsibilities, a business such as the bakery might consider how it can support and regenerate nature in its immediate area. For example, in many cities it is possible to get permission, or even partial funding, to remove paving on some wider pavements in front of buildings to plant gardens, which can clean the air, promote biodiversity and moderate urban air temperatures. Using renewable energy, greening roofs and facades, and recycling wastewater are other ways that a business can provide some of the same benefits that nature does. Acting like nature in this way is called biomimicry.





**Figure 3.** Businesses can improve local natural ecosystems, even in urban areas.

Credit: ferrantraite, Getty Images

## Global-ecological responsibilities

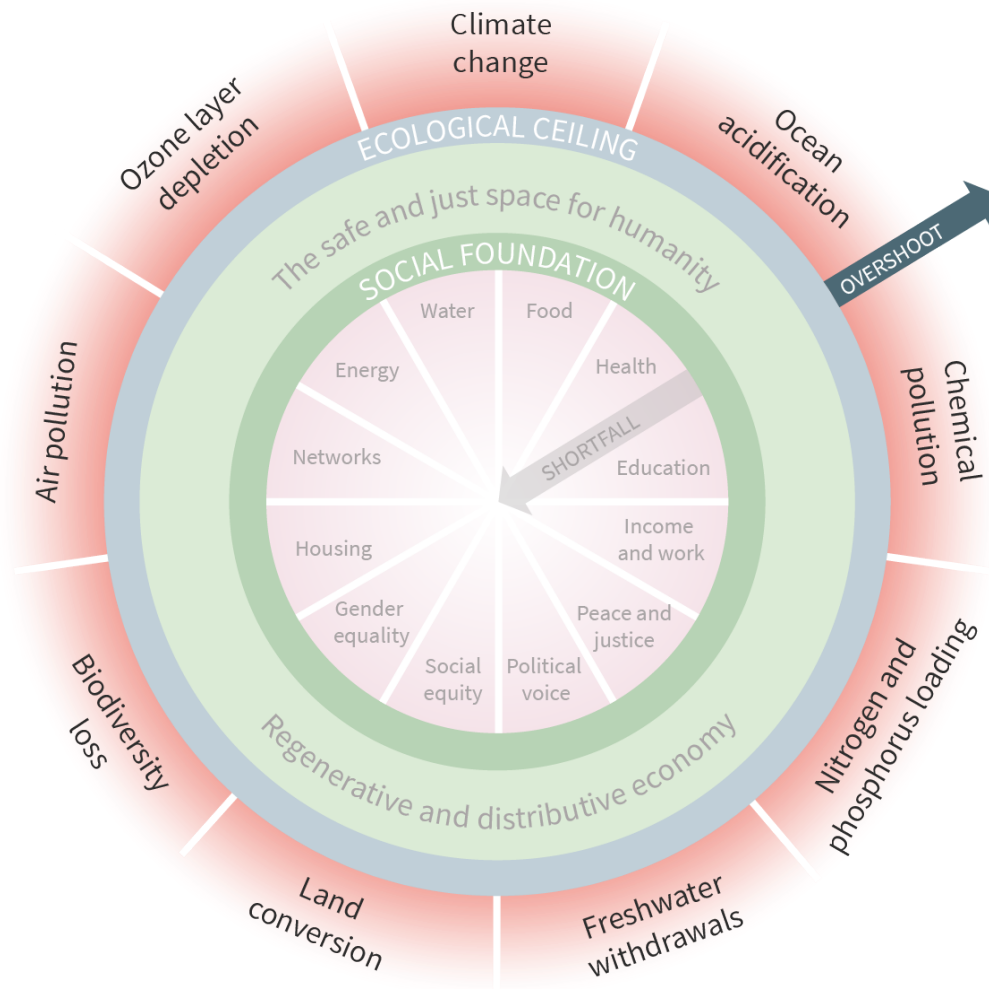
How can the bakery business support the health of the whole planet?

For its global-ecological responsibilities, a business such as the bakery might consider planetary boundaries, or the ecological ceiling. If you recall from [Section 1.1.2](https://app.kognity.com/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-doughnut-economics-model-id-36830) ([/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-doughnut-economics-model-id-36830](https://app.kognity.com/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-doughnut-economics-model-id-36830)), this comes from the outside of the Doughnut Economics Model (see **Figure 4** below). To meet these responsibilities, a business would need to:

- reduce its CO<sub>2</sub> emissions by using more renewable energy
- reduce its water usage or recycle wastewater

- source its raw ingredients from farms using regenerative agriculture that promotes biodiversity
- use transportation methods that do not cause air pollution.

All of these actions will reduce the pressure of the business on the ecological ceiling.



**Figure 4.** Businesses must reduce their impact on the planetary boundaries found in the outside of the Doughnut Model. (Click to enlarge image.)

Credit: [Kate Raworth \(http://www.kateraworth.com/doughnut/\)](http://www.kateraworth.com/doughnut/) and Christian Guthier.

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The point is that businesses can be designed, or re-designed, to be more regenerative and distributive. The matrix questions in **Table 1** above can help to support the thinking needed to promote more responsible business purpose and practices. The internal design

of business itself can also support those goals. At the end of the next section on strategy, there is a video by Kate Raworth explaining how business purpose, ownership, governance, networks, and finance can support regenerative and distributive practices.

## Activity

**Learner profile:** Principled

**Approaches to learning:** Thinking skills (creative thinking)

Think about a change that your school is considering or could consider making. For example, building a new campus or wing of the school, renovating the outdoor facilities, or changing the food on offer. You may need to discuss possibilities with your teacher.

- How could that action be designed to improve social and/or ecological impacts at the local and global scales? Use the questions in the matrix in **Table 1** to brainstorm ideas for improving your school's impact and responsibility at the local and global scales.
- To what extent could a matrix like this help to improve school decision-making generally?

# Evaluating ethical objectives and CSR

## Activity

**Learner profile:** Knowledgeable

**Approaches to learning:** Thinking skills (critical thinking)

As you read through the benefits and limitations of CSR in this section below, consider classifying them in terms of the main business functions: human resources, marketing, finance and accounts, and operations. This can help you understand the benefits and limitations in the context of the entire business.

There are a number of benefits of adopting CSR. Most importantly, CSR policies and actions help businesses to improve their positive impact on society and the environment. This could be by changing their core business to focus more on human needs or on solving environmental problems, just as social enterprises do. Or it could be through changing the value they bring to stakeholders, being more generative and distributive and thus improving ethical outcomes.

But there is also a strong business case for organisations pursuing CSR.



- Businesses pursuing long-term objectives with a social and/or environmental focus can earn higher revenue as consumers seek out businesses that align with their values. According to a Unilever press release in 2019 (<https://www.unilever.com/news/press-and-media/press-releases/2019/unilevers-purpose-led-brands-outperform/>), the book *Net Positive* (<https://netpositive.world/>), points out that Unilever's purpose-driven brands have grown 69% faster than the rest of the business with higher profit margins.
- Consumers are more likely to try, stay loyal to, promote and pay a price premium for purpose-led products (The Power of Purpose, Forbes (<https://www.forbes.com/sites/afdhelaziz/2020/03/07/the-power-of-purpose-the-business-case-for-purpose-all-the-data-you-were-looking-for-pt-2/?sh=13b754fa3cf7>)).
- Purpose-led businesses are more likely to recruit, retain and motivate talented employees (The Power of Purpose, Forbes (<https://www.forbes.com/sites/afdhelaziz/2020/03/07/the-power-of-purpose-the-business-case-for-purpose-all-the-data-you-were-looking-for-pt-2/?sh=13b754fa3cf7>)).
- Given current environmental and social risks, purpose-led businesses that are actively engaged with modern CSR reduce their future risks and protect their reputations. They also give themselves more time to adjust to anticipated stricter social and environmental regulations from governments and from court decisions that force them to meet their obligations (Reuters (<https://www.reuters.com/markets/commodities/activists-behind-shell-climate-verdict-target-30-multinationals-2022-01-13/>)).



**Figure 5.** Purpose-led businesses are better able to recruit, retain and motivate talented employees.

Credit: Nitat Termmee, Getty Images

Despite the strong business case, there are some limitations of CSR.

- Businesses may find it difficult to change the culture of the organisation to focus on CSR. All the stakeholders may be entrenched in certain ways of doing things and it will take energy and vision to bring about change. Shareholders may need educating in the benefits of long-term objectives; managers and employees need to be given the time and support to change practices.
- CSR may also increase costs of production in the short term, as more responsible supply chains are implemented, and training in ethics and sustainability is improved. Inputs may be more expensive for the business.
- There is also a reputational risk for the business if it does not follow through on its public CSR commitments. However, this risk is probably lower than the risk of doing nothing.

## Making connections

### What is ESG and how is it different from CSR?

ESG is a set of performance metrics that measure a company's Environmental Social Governance (ESG) standards. Discussions around positive business behaviour are increasingly revolving around ESG standards. This is because many long-term investors concerned about sustainability are looking for ways to more accurately measure and compare how companies are performing ([see article, The Guardian](https://www.theguardian.com/the-invested-generation/2021/nov/22/the-new-long-term-why-a-sustainable-business-approach-is-attracting-investors)) (<https://www.theguardian.com/the-invested-generation/2021/nov/22/the-new-long-term-why-a-sustainable-business-approach-is-attracting-investors>).

## Case study

Patagonia is a US outdoor equipment and clothing company and a leader in CSR. The company originated as an alpine climbing equipment manufacturer, but changed its product portfolio over time to outdoor clothing.

In 2018, Patagonia changed its vision and mission to:

*We're in business to save our home planet.*

*We aim to use the resources we have—our voice, our business and our community—to do something about our climate crisis.*

The company is well-known for its strong sustainability policies and actions. It constantly vets its supply chain and is working to improve the sustainability of its material inputs (<https://directory.goodonyou.eco/brand/patagonia>). It has a circular strategy (see [Section 1.3.7 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-circular-business-models-id-36853\)](#)), which includes a platform called Worn Wear (<https://wornwear.patagonia.com/>) where customers can trade in and buy used Patagonia clothes that have been repaired by the company.



**Figure 6.** Outdoor clothing retailer Patagonia is a leader in CSR.

Credit: Vitalalp, Getty Images

Patagonia also considers the ethical implications of other business functions. It refuses to advertise on Facebook and Instagram, and carefully considers the financial institutions it works with. It also promotes more responsible consumption. As long ago as 2011 it had a famous 'Don't buy this jacket' advertising campaign ([https://www.patagonia.com/blog/wp-content/uploads/2016/07/nyt\\_11-25-11.pdf](https://www.patagonia.com/blog/wp-content/uploads/2016/07/nyt_11-25-11.pdf)), and you might hear the check-out person at a Patagonia store asking, "Do you really need this shirt?" These messages encourage conscious consumerism, even though it may hinder growth in the company's sales revenue. However, Patagonia has a strong community who appreciates the company's values.

In 2021, on Black Friday (a major shopping day in some countries at the end of November), Patagonia pledged to donate 100% of sales revenue to environmental non-profits. The company raised and donated 10 million USD, five times the amount expected. Throughout the year, 1% of Patagonia's sales revenue is donated to these organisations.

However Patagonia is far from perfect on CSR. The company's size, growth and supply chain complexity present challenges for its social, environmental and ethical objectives. And its claims on sustainability make it a target for critics. But that feedback is often used to improve the company's materials, processes and policies.

### Questions

1. Define corporate social responsibility (CSR). [2 marks]
2. Explain one benefit and one limitation of Patagonia's strong CSR actions and policies for the company itself. [4 marks]