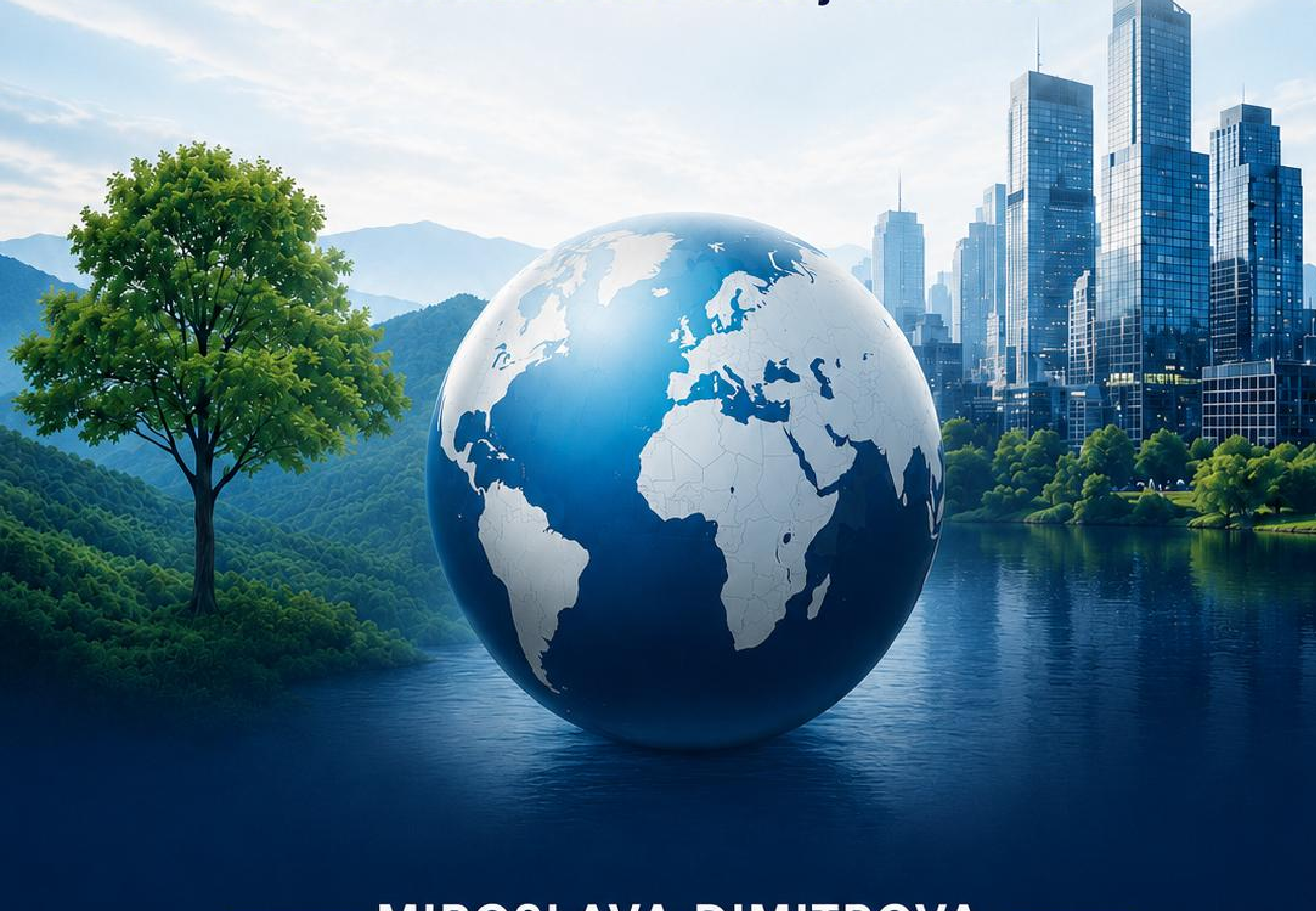
RESPONSIBLE BUSINESS

IN A CHANGING WORLD

CSR and ESG from Theory to Practice



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RESPONSIBLE BUSINESS IN A CHANGING WORLD

CSR and ESG from Theory to Practice

Miroslava Dimitrova PhD

2026

Responsible Business in a Changing World, CSR and ESG from Theory to Practice provides a comprehensive introduction to the principles, frameworks, and practical applications of Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) management. The book explores the evolution of responsible business from traditional CSR approaches to contemporary ESG strategies, examining how organisations create value while addressing environmental, social, and governance challenges.

Through real-world case studies, practical activities, and contemporary examples, readers will gain a deeper understanding of stakeholder management, sustainability, business ethics, environmental stewardship, responsible leadership, circular economy principles, ESG reporting, sustainable finance, and the growing role of artificial intelligence in sustainability management.

Designed for undergraduate and postgraduate students, as well as practitioners seeking a structured introduction to responsible business, this textbook bridges theory and practice, equipping readers with the knowledge and tools needed to navigate an increasingly complex and interconnected world.

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Preface

Business today operates in a world of profound transition. Climate change, resource scarcity, social inequality, technological disruption, shifting generational expectations, and declining trust in institutions have changed the way organisations are viewed. Companies are no longer assessed only by the quality of their products or the strength of their financial results. They are increasingly evaluated by how they treat people, how they affect the planet, how they govern themselves, and how honestly they communicate their impact.

This textbook introduces students to the evolving fields of Corporate Social Responsibility, sustainability, and Environmental, Social, and Governance performance. It is designed to help readers understand not only the concepts and frameworks behind CSR and ESG, but also the strategic choices, ethical dilemmas, and practical challenges that organisations face when they attempt to act responsibly in complex markets.

Chapter One lays down the foundations of CSR, sustainability, and ESG. It introduces key concepts such as Carroll's Pyramid, the three pillars of sustainability, the United Nations Sustainable Development Goals, the Paris Agreement, and the distinction between substantive and symbolic CSR. It also examines why CSR and ESG have become central to business legitimacy in an age of growing transparency and public scrutiny.

Chapter Two develops the theoretical and stakeholder foundations of CSR. It traces the debate between shareholder primacy and broader social obligation, explores the four responsibilities of business, and introduces stakeholder theory as a practical framework for understanding corporate accountability. Through case studies such as Herman Miller, Starbucks, Warby Parker, and Disney, students are encouraged to see CSR not as an abstract ideal, but as a set of real decisions involving real stakeholders.

Chapters Three, Four, and Five examine the three pillars of ESG in detail. The environmental chapter explores climate change, resource scarcity, biodiversity, pollution, renewable energy, environmental risk, and corporate environmental leadership. The social chapter focuses on business ethics, employees, customers, product safety, privacy, philanthropy, and community engagement. The governance chapter examines board oversight, accountability, transparency, risk management, executive compensation, whistleblower protection, and responsible leadership. Together, these chapters show that ESG performance is a way of understanding how organisations create, protect, and share value.

Chapter Six turns to the circular economy as a practical response to environmental and social limits. It introduces students to circular design, cradle-to-cradle thinking, doughnut economics, renewable energy, sustainable food systems, circular cities, the sharing economy, sustainable fashion, and greenwashing. The aim is to move beyond the question of how businesses can reduce harm and toward the more ambitious question of how they can redesign systems to eliminate waste and regenerate value.

Chapter Seven brings the themes of the book together by examining how organisations can create shared value through CSR and ESG. It explores materiality, ESG reporting, sustainability standards, ESG ratings, sustainable finance, impact investment, artificial intelligence, and the development of a practical sustainability roadmap. The chapter emphasizes that responsible business is not merely a matter of compliance or reputation management. It can also be a source of innovation, resilience, competitiveness, and long-term value creation.

Throughout the textbook, case studies are used to connect theory with practice. Some cases illustrate leadership, innovation, and strategic responsibility; others expose failure, greenwashing, fraud, weak governance, or ethical breakdown. This combination is intentional. Students need to understand both what responsible business can achieve and what happens when responsibility is reduced to slogans, reports, or public relations.

In the preparation of this textbook, AI-assisted tools were used at selected stages to support drafting, editing, language refinement, proofreading, idea development, and the generation or formatting of selected charts, tables, and visual materials. All AI-assisted content was reviewed, edited, fact-checked, and substantively controlled by the author

The book is intended for students of business, management, sustainability, entrepreneurship, marketing, finance, and related disciplines. It may also be useful for early-career professionals, educators, and anyone seeking a structured introduction to CSR and ESG. Each chapter is designed to support classroom discussion, independent study, applied analysis, and critical reflection.

The central message of this textbook is simple: responsible business is not peripheral to business success. It is increasingly part of how success is defined. Organisations that understand their environmental, social, and governance responsibilities are better positioned to manage risk, build trust, attract talent, innovate, and create durable value for both business and society. CSR and ESG are therefore not only about doing less harm, but about re-defining the role of business in a changing world.

CHAPTER ONE

Introduction to Corporate Social Responsibility

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

1. Define corporate social responsibility (CSR) using multiple conceptual frameworks and identify the key differences between leading academic and institutional definitions.
2. Explain the concept of sustainability and its relationship to CSR, with reference to the Brundtland Report (1987) and the United Nations Sustainable Development Goals.
3. Describe the ESG framework and explain how it builds upon, yet differs from, the traditional concept of CSR.
4. Trace the historical evolution of CSR and ESG from the shareholder primacy model through to the stakeholder economy of the twenty-first century.
5. Assess how shifting generational values are reshaping societal expectations of corporate behaviour, driving demand for more transparent and accountable CSR practice.
6. Distinguish between symbolic and substantive CSR, and apply this distinction critically to real-world cases of corporate conduct.

“Corporations have neither bodies to be punished, nor souls to be condemned; they therefore do as they like.”,

Edward Thurlow, (18th century)

Nearly three centuries after this observation was made, the question it raises, namely what moral obligations, if any, can meaningfully be imposed upon corporations, has never been more pressing. Today, of the world’s 100 largest economic entities measured by revenue, 69 are corporations rather than countries (Global Justice, 2018). The decisions made in corporate boardrooms reverberate far beyond the confines of shareholder meetings: they reshape ecosystems, determine employment conditions for hundreds of millions of people, influence the health of communities all over the world, and increasingly dictate the pace of the global response to the climate emergency.

This extraordinary concentration of economic power has given rise to one of the most dynamic and consequential fields in contemporary management: Corporate Social Responsibility (CSR). Initially conceived as a philanthropic impulse - the idea that profitable businesses should ‘give something back’ to the communities that sustain them, CSR has evolved over eight decades into a sophisticated strategic and governance framework that is reshaping how businesses are financed, managed, reported, and evaluated. In its contemporary expression as Environmental, Social, and Governance (ESG) analysis, the discipline of corporate responsibility has moved from the margins of corporate life to its very centre.

This opening chapter provides the conceptual foundation for the entire book. It begins by surveying the major definitions of CSR and situating the concept within the broader discourse of sustainability. It then introduces the ESG framework and its three analytical dimensions, traces the historical evolution of corporate social responsibility from the age of shareholder primacy through the rise of stakeholder theory to the integrated ESG frameworks now embedded in investment analysis and regulatory architecture, and examines the sociological forces that are radically accelerating the CSR agenda, particularly the emergence of Millennials and Generation Z as dominant consumer and employee cohorts. The chapter concludes by drawing a critical distinction between symbolic and substantive CSR, a distinction that will serve as an analytical touchstone throughout the remainder of this book.

Two end-of-chapter case studies bring the conceptual material to life: the Volkswagen Dieselgate emissions scandal and the Theranos blood-testing fraud. Together, these cases illustrate that the gap between symbolic and substantive CSR is not merely a reputational risk to be managed, but a failure with real-world consequences, and a reminder that accountability, transparency, and genuine ethical commitment are not optional features of responsible business, but its very foundation.

1.1 What is Corporate Social Responsibility?

Defining CSR is a complex task. The concept sits at the intersection of business strategy, ethics, law, and social theory, and different stakeholders from corporate lawyers to community activists, from institutional investors to environmental campaigners, tend to define it in ways that reflect their own priorities and perspectives. Rather than imposing a single definition at the outset, this section surveys the major conceptual approaches before settling on a working definition that will guide the analysis throughout this book.

At its simplest, CSR can be understood as a company’s commitment to operate ethically and responsibly by considering its social, environmental, and economic impacts on the world around it. This broad formulation captures the intuitive core of the concept: that businesses exist not in a vacuum, but in relationship with society, and that this relationship generates genuine obligations beyond the pursuit of profit.

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CHAPTER TWO

CSR Framework, Approaches, Stakeholders

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

1. Trace the evolution of CSR theory from the shareholder primacy doctrine of Friedman through to the stakeholder approach of Freeman
2. Apply Carroll's Pyramid of Corporate Social Responsibility to evaluate specific corporate decisions and assess the four distinct layers of business obligation: economic, legal, ethical, and philanthropic.
3. Explain the CSR continuum and the five-stage model of corporate response to social and environmental pressure, and position real organizations along this spectrum.
4. Define stakeholders, distinguish between primary and secondary stakeholders, and apply Mitchell, Agle, and Wood's (1997) framework to assess the relative salience of competing stakeholder claims.
5. Evaluate the principal mechanisms of stakeholder engagement including dialogue, partnership, capacity building, grievance mechanisms, and sustainability reporting
6. Critically analyse the case studies presented in this chapter, applying the theoretical frameworks introduced across this chapter to evaluate real corporate decisions in terms of their ethical, legal, strategic, and stakeholder implications.

"Great companies endure because they manage to get stakeholder interests aligned."
Edward Freeman, University of Virginia (2010)

Chapter One established the conceptual foundations of Corporate Social Responsibility, introduced the ESG framework, and traced the broad historical arc from Friedman's shareholder primacy doctrine to the emergence of stakeholder theory. It also introduced the critical distinction between symbolic and substantive CSR, a distinction that will continue to animate our analysis throughout this book. This chapter builds directly upon that foundation. Where Chapter One asked what CSR is, this chapter examines how it is structured, how organizations position themselves along the spectrum of corporate responsibility, and toward whom it is directed..

The central question of stakeholder management, who counts, and why, is one of the most consequential in contemporary business. The answer a corporation gives to this question determines how it allocates resources, manages risk, responds to crisis, and communicates its values to the world. Companies that answer poorly, ignoring legitimate stakeholder claims, or that treat their workforce and communities as costs to be minimized rather than assets to be cultivated, pay a profound price. Companies that answer well, build the relational capital, the licence to operate, and the organizational resilience upon which sustainable competitive advantage depends.

This chapter proceeds in five sections. Section 2.1 revisits the theoretical landscape of CSR, tracing the intellectual journey from the earliest formulations of corporate responsibility through to the frameworks that now guide managerial practice. Section 2.2 examines the four dimensions of business responsibility as articulated in Carroll's influential framework, with particular attention to the tensions and interdependencies between them. Section 2.3 introduces the CSR continuum and the five-stage model of corporate response to social and environmental pressure. Section 2.4 develops the theory and practice of stakeholder management, introducing the most widely used analytical models for identifying, classifying, and responding to stakeholder demands. Section 2.5 examines the principal mechanisms through which companies engage their stakeholders in practice. Seven end-of-chapter case studies bring the theoretical frameworks to life across a range of industries and contexts.

2.1 Revisiting and Expanding CSR Frameworks

The theoretical landscape of Corporate Social Responsibility is not monolithic. It has evolved over more than seven decades, shaped by successive waves of intellectual challenge, empirical observation, regulatory intervention, and corporate scandal. Understanding this landscape, and the lineage of ideas that produced it, is indispensable for any manager who wishes to engage with CSR beyond the level of marketing rhetoric.

From Shareholder Supremacy to Social Obligation: The Foundational Debate

The modern debate about corporate responsibility begins, as noted in Chapter One, with Milton Friedman's 1970 assertion that the sole social responsibility of business is to increase its profits within the rules of law and fair competition. Friedman's position - known as the Shareholder Supremacy Model - held sway over corporate strategy

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continuous relationship with the corporation and, typically, a formal contractual or ownership claim upon it.

External stakeholders constitute a far more diverse and heterogeneous group. They include customers, who purchase the company's products and services and have claims to safety, quality, transparency, and fair pricing; suppliers and supply chain partners, whose livelihoods depend on the company's procurement decisions and whose ESG performance is now widely recognised as forming part of the company's own ESG footprint; investors and creditors, who provide capital and have claims to financial transparency, prudent risk management, and, increasingly, ESG performance; the media, which shapes public perceptions of the company; communities and civil society organisations, which bear the consequences of the company's environmental and social impacts; trade unions, which represent the collective interests of workers; and government agencies, which establish the regulatory framework within which the company operates.

Figure 2.2: The Internal and External Stakeholders in a CSR Perspective

CASE STUDY 5 — Warby Parker: Strategic CSR and Stakeholder Mapping in the Eyewear Industry

Background

Warby Parker is an American eyewear company founded in 2010 by four Wharton Business School graduates with a mission to offer designer eyewear at a dramatically lower price point than the incumbent market leaders, while simultaneously creating a scalable social impact model. The company's direct-to-consumer business model, bypassing traditional retail and optical intermediaries, enables it to offer high-quality prescription glasses for around US$95, compared to industry averages of US$200–$400.

The Buy a Pair, Give a Pair Model

At the heart of Warby Parker's social model is its partnership with VisionSpring, a non-profit organisation that distributes affordable eyewear in developing countries. For every pair of glasses sold by Warby Parker, a pair is distributed through VisionSpring to a person in need – not through direct donation, but through a micro-entrepreneurship model in which local entrepreneurs are trained to sell glasses in their communities at approximately US$4 per pair, generating both access to vision care and sustainable local income. This model is designed to avoid the distortions associated with direct product dumping, and to create self-sustaining local distribution networks.

Stakeholder Mapping

Warby Parker's stakeholder landscape is particularly rich and illustrates the breadth and complexity of modern CSR stakeholder relationships. Its primary commercial stakeholders - customers seeking affordable, stylish eyewear - are served through the direct business model. Its employee stakeholders are engaged through a mission-driven brand identity that combines business performance with social purpose, making Warby Parker a compelling employer for values-aligned talent. Warby Parker engages a set of stakeholders who are more typical of a non-profit than a retail company: VisionSpring as a non-profit partner; local entrepreneurs in developing countries who benefit from training and micro-business opportunities; and end users in underserved communities who gain access to affordable vision care.

Discussion Questions

1. Is Warby Parker's social model primarily ethical, strategic, or both? Does the company's clear commercial interest in the Buy a Pair, Give a Pair model - as a brand-building and customer acquisition strategy - undermine its CSR

credentials?

2. What risks arise when a company links its brand identity closely to social impact claims? How should Warby Parker manage these risks?
3. Compare VisionSpring's entrepreneurship-based distribution model with a simple product donation approach. What are the stakeholder implications of each model, and why might the entrepreneurship-based approach be considered more aligned with the principles of substantive CSR?
4. Which CSR theoretical framework – Carroll's Pyramid, Swanson's ethics-driven approach, or the managerial/strategic approach of Ackerman, Cochran, and Wood – best explains Warby Parker's strategy? Justify your answer.

2.5 Stakeholder Engagement in Practice

Identifying stakeholders and understanding their claims is necessary but not sufficient. Effective CSR requires not merely knowing who your stakeholders are but actively engaging with them creating the conditions under which their concerns can be heard, addressed, and integrated into corporate decision-making. Stakeholder engagement is the practical expression of the stakeholder theory outlined in Section 2.4, and its quality is one of the most reliable indicators of the depth of a company's CSR commitment.

Unilever, one of the world's largest consumer goods companies with brands including Dove, Hellmann's, Knorr, and Rexona, explicitly positions stakeholder engagement as foundational to its sustainability strategy. The company's sustainability page states: 'Our purpose is to brighten everyday life for all, and we're on a mission to prove that sustainable business is good business. But we can't do this alone' (Unilever, 2024). This acknowledgment of interdependence, that sustainable business outcomes require the active participation of a wide range of stakeholders, is a key principle of effective stakeholder engagement. The sections below outline the main mechanisms through which companies put this principle into practice:

Dialogue and Consultation

The most fundamental mechanism of stakeholder engagement is the creation of structured opportunities for two-way communication. Dialogue and consultation encompass a wide range of activities: face-to-face meetings and workshops with community groups and NGOs; stakeholder panels and advisory committees; focus groups and consumer research; employee surveys and works councils; online

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CHAPTER THREE

Environmental Factors

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

1. Define the environmental pillar of ESG and explain its relationship to corporate social responsibility.
2. Trace the key milestones in international environmental governance from 1970 to the present day
3. Explain the concepts of climate change, the greenhouse effect, global warming, and the corporate response strategies of mitigation and adaptation.
4. Distinguish between carbon neutrality, net zero, decarbonisation, and cap-and-trade emissions trading systems.
5. Identify the principal environmental issues facing businesses such as pollution, water scarcity, waste management, biodiversity loss, and deforestation, and assess their material relevance to corporate strategy.
6. Evaluate corporate approaches to environmental responsibility along the low-to-high commitment spectrum, and apply the framework of physical, transition, and human environmental risks to real-world business cases.

“We are the first generation to feel the impact of climate change and the last generation that can do something about it.”

Barack Obama, United Nations Climate Change Summit, Sept. 2014

Businesses do not operate in a vacuum; they draw on natural resources, produce emissions and waste, occupy land, and depend on stable ecological systems to function. This chapter turns, therefore, to the environmental dimension of corporate responsibility, the ‘E’ in ESG, examining what it means, why it matters, and how companies of every size and sector are responding to the accelerating environmental challenges of the twenty-first century.

The environment has moved from the margins to the centre of corporate strategy with remarkable speed. Regulatory pressure, investor expectations, consumer activism, and the physical reality of a changing climate have combined to make environmental performance a business-critical issue rather than a voluntary add-on. This chapter traces the historical arc of environmental governance, from the first Earth Day in 1970 to the 2022 Kunming–Montreal Global Biodiversity Framework, before examining the specific environmental issues that define the corporate environmental agenda today: climate change, pollution, water scarcity, waste, biodiversity loss, and deforestation. Throughout, theory is grounded in practice through six case studies drawn from industries as varied as fossil fuels, retail, automotive, apparel, and furniture design, illustrating both the hazards of environmental negligence and the competitive advantages that accrue to organisations that treat the environment not as a constraint, but as a strategic opportunity.

3.1 The Environmental Pillar of ESG

The ESG framework (Environmental, Social, and Governance) has become the dominant vocabulary through which investors, regulators, and corporations discuss non-financial performance. Of its three pillars, the environmental dimension is arguably the most urgent and the most quantifiable. As defined by mainstream ESG reporting frameworks, the environmental pillar encompasses the risks and opportunities that arise for a company and its suppliers and partners from climate events and social actions, including impacts generated by its direct and indirect employees, customers, and the communities in which it operates. In practical terms, this translates into five measurable sub-categories: climate change and greenhouse gas (GHG) emissions; air emissions other than GHGs; water use and wastewater management; material use and waste management; and biodiversity and ecosystems.

Understanding the environmental pillar requires engaging with a prior question: why does the natural environment matter to business at all? The answer operates on three levels. First, protecting natural resources ensures the long-term availability of the inputs - water, minerals, timber, agricultural products - on which virtually all production depends. Second, maintaining ecosystem balance preserves the natural services - pollination, water filtration, climate regulation, flood control - that economies receive for free and that would be extraordinarily expensive to replicate artificially. Third, and most fundamentally, ensuring a healthy natural environment is a prerequisite for the welfare of future generations - a responsibility enshrined in the concept of sustainable development introduced

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CHAPTER FOUR

Social Factors

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

1. Define the social pillar of ESG and explain its significance within corporate social responsibility frameworks.
2. Articulate the foundations of business ethics, including the principles, values, and norms that govern organisational behaviour.
3. Distinguish between the major moral philosophies - consequentialism, egoism, utilitarianism, deontology, and justice theory, and apply each to corporate decision-making scenarios.
4. Analyse the individual and organisational factors that influence ethical decision-making, including corporate culture, psychological contract, whisleblower protection etc.
5. Define CSR in customer relations and explain how ethical, transparent customer relationships create long-term business value.
6. Evaluate the principles of ethical marketing and assess real-world cases of misleading advertising against regulatory and CSR standards.
7. Distinguish between genuine corporate philanthropy and performative or reputationally motivated giving, identifying the risks of each approach.
8. Analyse the ethical dimensions of community engagement as expressions of the external social dimension of CSR.

"Business is a deeply human institution."
R. Edward Freeman, 2014

The social dimension of corporate social responsibility and ESG encompasses all of a company's interactions with people - its employees, its customers, its suppliers, the communities in which it operates, and the broader society it serves. Where the environmental pillar asks what a company does to the planet, the social pillar asks what a company does to people. The two are not separable: environmental disasters harm communities, and social failures such as corrupt practices, unsafe products, abusive

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of organisational efficiency. The Google layoffs of 2023, examined in Case Study 4, represent this transactional logic applied in a setting where its psychological costs were particularly acute.

The 2020s have introduced a new complexity: a generation of workers who have come of age in an era of portfolio careers, platform employment, and pandemic-driven renegotiation of the terms of work. Research consistently shows that younger workers are less attached to any single organisation's values and more focused on the quality of specific work experiences, the flexibility of working arrangements, the opportunities for learning and purpose, and the alignment of employer values with their own (National Association of Colleges and Employers, 2014). The psychological contract for this generation is simultaneously more demanding and more portable: employees expect more but will withdraw more quickly if expectations are not met.

Workforce Reduction: Ethical Obligations and CSR Implications

The process of workforce reduction: the elimination of employment positions in response to competitive, technological, or economic pressures, represents one of the most ethically demanding decisions in corporate life. It involves the direct rupture of the psychological contract for the individuals affected, and indirect damage to the morale and trust of those who remain. Done well, workforce reduction can be a necessary and even ethically defensible act, undertaken with transparency, generosity, and genuine concern for those affected. Done badly, as the case studies below illustrate in contrasting ways, it becomes a defining moment of organisational character that reveals whether ethical commitments to employees are genuine or performative.

The CSR obligations that attach to workforce reduction are substantial. They include advance notice that gives affected employees time to plan their transition; generous severance and support (such as career counselling, job placement assistance, access to training) that reflects the value of the contribution employees have made; honest communication about the rationale for reductions that treats employees as adults capable of understanding difficult business realities; and proactive community engagement where plant closures affect local economies in ways that extend beyond the directly employed.

CASE STUDY 3 — Malden Mills / Polartec: Compassionate Leadership in Crisis

Background

Malden Mills was a family-owned textile manufacturer based in Lawrence, Massachusetts, founded in 1906 by Henry Feuerstein and later run by his grandson Aaron Feuerstein. The company was best known as the inventor of Polartec, a synthetic fleece fabric that became the industry standard for high-performance

CHAPTER SUMMARY

This chapter has examined the social dimension of CSR and ESG, including its internal and external aspects. The following key themes were discussed

- The social pillar of ESG encompasses a company's responsibilities to its internal stakeholders — principally its employees — and to its external stakeholders, including customers, consumers, and the broader community. Managing social performance effectively generates direct competitive advantages in talent attraction, customer loyalty, and regulatory risk management..
- Business ethics is an integral dimension of sound management. The principal moral philosophies: consequentialism, egoism, utilitarianism, deontology, and justice theory offer distinct but complementary frameworks for evaluating ethical decisions in corporate contexts, and their application in practice is shaped by individual values, organisational culture, co-worker norms, and opportunity
- The employer-employee relationship is governed by both formal legal obligations and an informal psychological contract whose violation produces measurable declines in engagement, productivity, and organisational trust. Low employee engagement represents one of the largest preventable sources of value destruction in modern organisations.
- Employee well-being extends beyond compensation to encompass work-life balance, psychological safety, physical health, and meaningful career development. Employers of choice are those who compete successfully for talent over the long term and are characterised by ethical cultures, strong leadership, growth opportunities, fair compensation, and demonstrated social responsibility.
- CSR in customer relations encompasses ethical marketing, product safety, data protection, fair customer service, and inclusive design. Companies that treat customers as people whose long-term well-being matters generate stronger brand loyalty, better regulatory relationships, and superior long-term commercial performance.
- Product safety is a fundamental CSR obligation that cannot be subordinated to cost considerations or commercial convenience. The cases of Johnson & Johnson (Tylenol, 1982), IKEA (MALM dresser, 2016), and General Motors (ignition switch defect) illustrate both exemplary and deficient corporate responses to product safety crises, with consequences that range from lasting brand enhancement to criminal liability.

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CHAPTER FIVE

Governance

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

1. Define corporate governance and explain its role as the structural foundation of the ESG framework and corporate social responsibility.
2. Trace the key milestones in international and domestic corporate governance regulation.
3. Explain the governance system elements: control, oversight, and accountability, and the core governance principles of transparency, accountability, and fairness.
4. Analyse the six key governance issues facing corporations: board oversight and accountability, corporate ethics and integrity, transparency and disclosure, risk management, executive compensation and incentives, and whistleblower protection.
5. Evaluate different governance structures: centralised, decentralised, and team-based, and explain the characteristics of responsible leadership and the SCORE framework for purpose-led governance.
6. Describe how governance performance is measured, reported, and assured, including the role of integrated reporting frameworks and rating systems such as MSCI, Sustainalytics, and SASB.

"It takes twenty years to build a reputation and five minutes to ruin it. If you think about that, you will do things differently."

Warren Buffett, Chairman and CEO, Berkshire Hathaway

Chapter Four examined the social pillar of ESG: the obligations companies hold towards the human beings whose lives they touch, from employees to consumers, communities, and the populations served by global supply chains. It demonstrated that social responsibility is not merely a question of good intentions but of organisational systems: the codes of conduct, psychological contracts, marketing ethics, and consumer protection frameworks that translate values into behaviour. Yet systems of social and environmental commitment, however carefully constructed, can be undermined, subverted, or simply ignored without a third and foundational pillar: governance.

Governance is the 'G' in ESG is the pillar that makes the other two pillars function. Without governance, environmental commitments remain marketing slogans and social pledges remain aspirational language. With governance, they become embedded in strategy, monitored by boards, linked to executive incentives, and verified by independent auditors. As the lecture materials for this course observe: without governance, CSR stays marketing; with governance, it becomes strategic management.

The governance pillar asks three fundamental questions about any organisation: Who decides? Who monitors? And who is accountable? These questions are not merely structural, but also ethical. The answers determine whether a company's promises to employees, shareholders, customers, and communities can be trusted. The history of corporate scandal from Enron to Boeing, from Credit Suisse to Wells Fargo, is, at its core, a history of governance failure: of boards that did not ask the right questions, of executives whose incentives drove them towards misconduct, of cultures that silenced rather than protected those who raised concerns.

This chapter examines the governance dimension of CSR and ESG in full. It begins by defining the governance pillar and its foundational elements, before tracing the regulatory milestones that have shaped modern corporate governance over three decades. The chapter then turns to the six governance issues of greatest material relevance to businesses today: board oversight, corporate ethics, transparency, risk management, executive compensation, and whistleblower protection - grounding each in a real-world case study drawn from industries as varied as energy, aviation, banking, retail, and technology. The chapter concludes by examining governance structures, responsible leadership, and the systems by which governance performance is now measured, reported, and independently assured.

5.1 The Governance Pillar of ESG

Corporate governance, in the context of ESG, is a system of structures, authority, rules, controls, incentives, and oversight mechanisms that ensure a company acts responsibly and is held accountable for its social and environmental impact. This definition distinguishes governance from management: management is concerned with the day-to-day execution of strategy, while governance is concerned with the authorisation, direction, and supervision of that strategy from above. The board of directors governs; the executive team manages. The distinction matters because the most catastrophic corporate failures in recent history, explored throughout this chapter, have typically involved not managerial incompetence but governance abdication: boards that failed to ask what management was actually doing.

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CHAPTER SIX

The Circular Economy

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

1. Define the circular economy and explain how it differs from the linear "take-make-waste" model of production and consumption.
2. Explain the three core principles of the circular economy: design out waste and pollution, keep products and materials in use, and regenerate natural systems.
3. Describe the Butterfly Diagram and the Cradle to Cradle design framework, and explain how they distinguish between biological and technical material cycles.
4. Apply Kate Raworth's Doughnut Economics model to explain how organisations and cities can operate within planetary and social boundaries.
5. Analyse how circular economy principles are applied across key sectors: renewable energy, green transportation, sustainable food and agriculture, sustainable homes, and circular cities.
6. Evaluate the sharing economy as a model for increasing asset utilisation and reducing overconsumption, including its potential and limitations as a circular strategy.
7. Identify and evaluate greenwashing, distinguishing deceptive sustainability claims from authentic circular business practice.

""If we could build an economy that would use things rather than use them up, we could build a future."

Ellen MacArthur, environmental activist

Chapter Five established governance as the structural foundation of responsible business - the set of mechanisms through which organisations are directed, monitored, and held accountable for their social and environmental commitments. Yet governance operates within a broader economic system. And for more than a century and a half, that system has followed a single, dominant logic: take raw materials from the earth, make products from them, use those products, and throw them away. Economists call this the linear economy. Ecologists describe it as a one-way flow of matter and energy.

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CHAPTER SEVEN

Creating Value Through CSR

LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

1. Describe the concept of ESG materiality and construct a basic materiality matrix for a chosen organisation.
2. Evaluate how ESG integration can generate competitive advantage through risk reduction, cost savings, innovation, and enhanced access to capital.
3. Compare and contrast the major ESG disclosure frameworks, including GRI, SASB, TCFD, ISSB/IFRS S1 & S2, the EU CSRD, and CDP.
4. Explain how ESG ratings agencies operate, identify the key sources of divergence between ratings, and critically assess the limitations of existing rating methodologies.
5. Distinguish between impact investing, ESG investing, and socially responsible investing, and assess the role of green bonds and sustainable finance instruments in channelling capital toward sustainability.
6. Analyse the transformative potential of artificial intelligence in ESG data collection, reporting, and risk modelling, while critically evaluating AI's own environmental and ethical footprint.
7. Apply a sustainability maturity model to map an organisation's current ESG position and design a step-by-step roadmap toward deeper integration.

"I have always looked on my businesses not just as money-making machines, but as adventures that can, I hope, make people better off."

Richard Branson, 2013

7.1 From CSR to ESG. An Integrated Framework

The previous chapter introduced the circular economy as a systemic redesign of how resources flow through our economies: from take-make-dispose linearity toward regenerative, restorative cycles. Chapter Seven moves from the architecture of sustainable systems to the architecture of sustainable organisations. If the circular

RESPONSIBLE BUSINESS IN A CHANGING WORLD

CSR and ESG from Theory to Practice

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Responsible Business in a Changing World offers a clear and practical introduction to CSR and ESG, showing how organisations can create lasting value while responding to environmental, social, and governance challenges.

Combining key concepts with real-world cases, the book explores sustainability, stakeholder management, business ethics, responsible leadership, circular economy principles, ESG reporting, sustainable finance, and the growing role of artificial intelligence. Designed for students and practitioners, it bridges theory and practice and provides the tools needed to navigate responsible business in an increasingly complex world.

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