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**A Stage Theory Model Of
Corporate Social Responsibility Policy Development**

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A Stage Theory Model Of Corporate Social Responsibility Policy Development

Abstract

We have drawn upon survey data collected in 1994, 1996 and 1999 ⁽¹⁾ which we have updated with a series of qualitative interviews to offer a stage theory model of corporate ethical policy development. Our research suggests that CSR issues have become increasingly more significant in large companies. We did not find any companies which have wholly achieved the last stage of development in our model ie total mainstreaming, but our qualitative interviews suggested that a number are working towards this position and that some are using initiatives such as EMAS to help them achieve this goal.

Introduction

The modern concept of corporate social responsibility draws upon a model put forward by Carroll (1979) which delineates four categories of responsibility. The first two are mandatory for survival. Firstly, corporations in the private sector have an *economic* responsibility to be profitable. Secondly, they have *legal* obligations to obey the law in the societies in which they operate. The third and fourth responsibilities are voluntary or discretionary. The third is termed *ethical* by Carroll, and refers to the perceived obligation of a corporation to behave in ways which are regarded as right, just and fair, irrespective of compulsion. One practical problem here is that what is regarded as right just and fair in one cultural setting may not be similarly viewed in another. Nonetheless, the category may be considered to highlight the fact that not all that is expected of an

ethical corporation in a given cultural setting will be encompassed by the rule of law. Carroll's fourth category is termed *philanthropic*. The term denotes activities deemed to be desirable by a given society but not necessarily expected. The ethical and philanthropic categories have often attracted the attention of CSR researchers, because they have been taken to be indicative of a degree of commitment to responsible behaviour which moves beyond the spheres of compulsion and compliance. In our research we have taken the position that, when companies take practical steps to embed CSR into business processes and procedures, irrespective of economic and/or legal considerations, this demonstrates commitment.

Since the 1980s calls for companies to become more socially and environmentally responsible have grown louder. (e.g: Roome, 1992; Ladd, 1994 DTI, 1995) In Europe, corporate social responsibility was placed in the limelight in 2001 with the publication of a green paper 'Promoting A European Framework For Corporate Social Responsibility' (EU Green Paper 2001) There is a large literature centred around the debate as to whether or not good corporate social performance and strong financial performance are linked (Lantos, 2001) and the economic obligation which corporations have to stockholders is an obvious potential motivator, if a link between corporate social performance and profit can be demonstrated. Governmental agencies and other organisations promoting the CSR agenda assume a correlation between good corporate social performance and financial performance, although the findings of academic studies have been mixed. Some have found no correlation between the two either positive or negative (McWilliams and Seigel 2000; 2001). Others postulate a positive correlation (e.g. Waddock and Graves, 1997;

Balabanis et al, 1998; Ruf et al 2001). Yet others have suggested that the relationship between CSR and financial performance is negative (e.g. Wright and Ferris, 1997). There are problems inherent in any attempt to establish a link between social performance and financial performance (Lantos 2001), but this has not prevented companies from becoming interested in maintaining the 'triple bottom line', namely some metrics for the economy, society and the environment, as aspects of a company's performance. It is recognized that not all the benefits of good CSR are tangible and measurable. For example, a good reputation can confer differentiation advantages which are difficult to quantify, and maintaining such a reputation can involve levels of socially responsible behaviour that move beyond minimum legal requirements.

The classical approach to corporate responsibility (Quazi and O'Brien, 2000) followed the thinking of economists like Friedman, (1962), who emphasized the pursuit of profit maximization to the benefit of shareholders. From such a standpoint, social responsibility is not an organizational problem, but one which should be dealt with at the macro level of government. The more recent stakeholder approach recognizes that a variety of groups can affect and be affected by organizational activities (Freeman, 1984). From this standpoint, corporations are part of society. They operate because they are given implicit public consent to do so. Increasingly, corporations have been forced to re-consider their place in complex and evolving societal structures. Academics have pointed out that vociferous demands for socially and environmentally responsible corporate behaviour require corporations to integrate social and environmental policies into operating strategies (Porter and Van der Linde, 1995; Shrivaster, 1995; Hutchinson, 1996; Lober,

1996) in order to sustain competitiveness. As Prahalad and Hamel (1994) note, managers have become increasingly aware of the need to effectively manage the issues that affect stakeholders' attitudes as a means of sustaining competitive advantage.

The question we ask here is 'To what extent have companies evolved more effective practices and procedures for implementing CSR and environmental policies in the UK during the past ten years? We draw upon data collected in three surveys concerned with environmental ethics and policy conducted between 1994 and 1999 by a team from Middlesex University⁽¹⁾ In 1994, a team of researchers led by Abby Ghobadian started the process of developing an understanding of corporate attitudes, expectations and implementation issues with respect to a range of aspects of environmental corporate policy. Three surveys were conducted in 1994, 1996 and 1999 respectively. The data base of respondents was drawn from the Times Top 1000 list of the highest grossing UK companies for each year. We have subsequently extended the data and built upon it. In 2004 we conducted in-depth follow up interviews with selected original respondents to ascertain how practices and procedures for the implementation of environmental policy had evolved between 1999 and 2004. Our research indicates that companies evolve through a number of stages of CSR and environmental policy development, which can ultimately lead to the embedding of CSR and environmental ethics into business processes and corporate cultures. We present a developmental stage theory model in this paper. Although it is based specifically upon research in the area of environmental ethics and policy development, we suggest that it may be indicative of the progression from awareness to cultural embedding in the context of CSR more generally. Our work should

prove useful to managers seeking to promote, establish and develop a positive CSR/environmental ethics climate in their organizations and embed CSR and environmental values and practices more firmly in their organizational processes and cultures.

The Evolution Of CSR

Our research is suggestive of a developmental process leading from awareness to mainstreaming. In this process, structural changes coupled with the implementation of increasingly effective practices and procedures to promote ethical behaviour in particular areas can lead ultimately to a more ethical corporate culture. In noting the areas covered by CSR policies, our research also suggests that many companies start out with a relatively narrow concept of ethical requirements, which broadens out to encompass additional areas of ethical concern. This pattern was summed up by Dr Lovell of Johnson Matthey, one of our 2004 interviewees thus:

‘We have gone from a Health and Safety Policy to an Environmental one, and on to CSR more broadly in recent years. We haven’t really got into the social issues yet. In this area we are in the early stages of awareness and development’.

In offering our model, we note that companies can be more advanced in some areas, such as health and safety and environment, than others, such as CSR and other social issues such as inclusivity (see figure 1 below).

Figure 1: Culturally Embedding CSR: A Developmental model

STAGE 1: DEVELOPING AWARENESS
Senior Managers Become Aware Of Issues

Policy Developed

Policy Linked To Mission Statement

STAGE 2: PROMOTING AWARENESS
Promote Awareness Of Issues And Image

Appoint Someone To Oversee Policy

Publish Reports

STAGE 3: INITIAL IMPLEMENTATION
Develop And Publish Quantifiable Measures

Offer Abstract Guidance To Departments On Operation of Policy

Circulate Reports More Widely And Involve Stakeholders

STAGE 4: MAINSTREAMING
Implement Concrete Procedures For Departments To Follow

Monitor Performance In Accordance With Quantifiable Measures

Take Appropriate Action To Ensure Effective Policy Operation

The 1994 and 1996 surveys appear to support the suggestion that during these years, most respondents were operating at stages 1 and 2. From 1999 to 2004 most of the larger companies at least would appear to have been moving through stage 3, while some in 2004 were found to be entering stage 4.

Through the above actions promote the development of an ethical corporate culture. In the first stage, a developing awareness of the importance of ethical issues leads to the formulation of policies which are subsequently linked to mission statements. During the period 1994 to 1999, the percentage of companies surveyed with environmental policies linked to mission statements climbed from 15% to 53%. In 1999, there were still some

notable large companies included in the survey which had not yet taken this step with respect to environmental policy, but for the most part they were companies in service and financial sectors which were not perceived to have the same potential for direct environmental impact as those in such sectors as petrochemicals and manufacturing. All the large companies interviewed in 2004 and/or researched on the web had made the linkage between environmental policy and/or ethical policy which suggests that the majority of large companies have already passed through stage 1 of our model.

Our 2004 interviews and the earlier surveys suggest that in order to operationally implement an increasing commitment to CSR policy, moving through the four cultural stages, specific actions along the lines of those in figure 2 below are typically carried out.

(insert figure 2 about here)

In 1999, 24% of companies surveyed still had no formal environmental policy. However, many of these firms were comparatively small and others came from the financial and services sectors. An analysis of survey results revealed that companies in these sectors were less likely to adopt such a policy throughout the 1994 – 1999 survey period than those in manufacturing, petrochemicals and utilities and the proportions of financial sector firms in the sample increased during this period.

Table 2: Composition Of Survey Respondents

Survey year 1994	1996	1999
<i>Sector</i>	<i>Sector</i>	<i>Sector</i>

Manufacturing	33%	Manufacturing	31%	Manufacturing	29%
Services	31%	Services	29%	Services	23%
Utilities	17%	Financial	15%	Financial	12%
Petrochemical	19%	Utilities	13	Utilities	10%
		Petrochemical	12	Petrochemical	8%
				Transport	4%
				Construction	7%

We stress that one of the aims of the original survey programme was to grow a data base. In 1996, the numbers of respondents in the financial sector (banking and insurance) increased, warranting a separate categorization for such firms. In 1994 the services categorization included banking and insurance. Transport and construction were catered for in 1999, but not in the previous two surveys, where the small numbers of transport respondents were included in services, and the small numbers of construction respondents in manufacturing. From 1994 to 1999, companies in the petrochemicals and manufacturing sectors led the field in terms of the stages of environmental ethical policy development outlined above, but between 1999 and 2004 in the wake of scandals such as Enron, financial sector firms became more aware of the need to operate both ethical and environmental policies more effectively.

Arguably, the potential for environmental impact from firms in the financial sector is much less than those in some other sectors, a factor which may in part explain some of the survey findings, but by 2004 it was possible to find environmental policy statements from environmentally aware financial sector firms such as Deloitte & Touche published on the web. Their policy, which was updated in 2003, is not merely directed towards awareness, but also provides for the monitoring and review of performance:

1. Comply with the letter and spirit of all relevant environmental legislation.

2. Adopt a purchasing programme that takes into account the environmental impact of products and services in areas of key concern.
3. Implement waste management strategies that promote waste minimisation, re-use, recovery and recycling where appropriate. Where these options are not available, we will ensure that our waste is disposed of in a way that minimises its impact on the environment.
4. Incorporate energy efficiency measures into building design and promote efficient energy use in all areas of business activity.
5. Where possible minimise the need to travel, and when having to travel, make choices that minimise environmental impacts.
6. Ensure that our staff are aware of the environmental impacts of their work activities and encourage them through awareness raising and training to minimise those impacts.
7. Pursue a programme of continuous improvement of our policies and practice.
8. Ensure that our policy is available for public review on request.

This policy will be reviewed on a regular basis to evaluate continued relevance and to monitor compliance. (See WWW.deloitte.com)

In 1999 10% of companies surveyed with written policies did not publish reports, but 42% of companies with formal written policies did have quantifiable measures although these were not always widely publicized. Our 2004 qualitative interviews suggested that corporate perceptions of requirements have been changing since 1999. Although many companies still do not publish quantifiable measures for external consumption, most large companies publish some form of ethical report, and our interviews revealed that the problem of how to quantify, measure and mainstream ethical performance internally has become a more major preoccupation with managers in companies across the variety of sectors originally surveyed.

During the 1994 to 1999 period, survey findings from the total of respondents concerning the impact of environmental policy on acquisition planning were mixed.

Table 3: Impact Of Environmental Policy On Acquisition Planning

1994		1996		1999	
High	48%	High	66%	High	51%
Medium	11%	Medium	20%	Medium	18%
Low	3%	Low	10%	Low	30%

In relation to this question, unsurprisingly perhaps, none of the increasing numbers of financial respondents in the sample viewed the environment as a significant factor, although manufacturing, utilities and petrochemical respondents rated it highly. Since 1999, ethical issues in general and environmental ethics in particular have become a more significant factor in mergers and takeovers. The newsletter Ethical Performance (vol 6 issue 3 July 2004) highlights a KPMG study of 105 of the 500 largest companies in Europe. The study has shown that a majority negotiated the price of merger/takeover deals downwards after carrying out social and environmental due diligence. 46 of 72 high risk sectors such as mining, chemicals, and construction later renegotiated the price as a result of their investigations – and 16 out of 33 companies in medium risk sectors such as banking and telecoms did so. By contrast, many of those that had not carried out due diligence in these areas often found themselves hit by ‘unpleasant post-acquisition surprises. When this was the case, 42% of companies affected found that their operating costs rose, and 21% had to deal with unplanned financial liabilities. Chris Hinchliffe, one of our interviewees was a former employee of Courtaulds Textiles, which had recently been acquired by Sara lee of the USA.. He told us:

‘we have an environmental policy which aims to be statistical and objective based on ISO14001. This is now a very influential benchmark. It isn’t enough by itself, but it is a useful catalyst. Since the acquisition in 2000, the main board gets involved in sustainability policies and the environmental approach has now been broadened to include CSR’.

This was clearly a company which was moving towards the stage 4 'mainstreaming' phase of ethical policy development..

Earlier Research

One of the aims of the Gobadian surveys described above was to grow the population sample. Therefore in 1994 the survey was administered to 164 of the top 200 companies (Ghobadian et al, 1995, p 47). In 1996 it was distributed to 400 companies (James et al, 1999, p 339) and in 1999, 911 companies were surveyed. Although response rates over the period dropped, it is noted that 25.6% of the original respondents supported the subsequent two surveys, which provides a basis for the identification of patterns of development and longitudinal trends.

The declining response rates from 1994 to 1999 can be partly explained by the growing numbers of companies involved. They may also be in part due to the prevalence of short-term attitudes towards environmental policy issues which the surveys highlighted. Our subsequent follow up research suggests that although some senior executives are beginning to adopt a longer term perspective on environmental policy issues, short-termist attitudes still prevail amongst the majority of managers. During the years in which the surveys were conducted, smaller companies proved to be less inclined to continue their support by returning the questionnaires. The Middlesex team acknowledged that this biased findings in favour of larger companies (See Ghobadian et al 1995; 1999).

Nonetheless this focus was defended as legitimate and worthwhile on four grounds. First, larger corporations are more likely to actively engage with the environment as a significant issue as they are more prominent social actors (Hutchinson and Chaston,

1994). Second, Larger corporations are likely to have a greater environmental impact. Thirdly, larger corporations perform the function of role model for smaller companies. (Taylor and Welford, 1993). Finally, large companies can and do influence the behaviour of smaller firms through their supply chain and logistical activities (Hill, 1991). In 2004, we selected a sample of interviewees from larger companies with whom to conduct follow-up semi structured interviews in ten key areas of environmental policy implementation which were explored in the original surveys. One of these key areas, the extent to which practical arrangements for the implementation of environmental policy have changed is the focus for the rest of our paper.

In their 1994 and 1996 surveys, Ghobadian et al (1995; 1999) asked respondents with formal environmental policies whether or not company mission statements reflected environmental policy. The question was not asked in 1996, but the results from the first and last surveys enable a comparison to be made between 1994 and 1999 as discrete points in time. The proportion of companies which answered this question in the affirmative rose from 15.5% in 1994 to 53% in 1999. These findings were taken to reflect the growing significance of environmental ethics in overall corporate policy. Our follow up research suggests that the trend towards linking environmental policy to mission statements has continued in large companies, but that many companies still have a long way to go if they are to embed environmental values firmly into their corporate cultures.

Our 2004 research revealed that the majority of large companies now have CSR policy statements on their websites. Many publish reports on the web and it was apparent from

our qualitative interviews that this is a development, which has gathered force since the 1999 survey was conducted. Managers have become more aware of the social and environmental issues during the period 1994 to 2004, and they are more sensitive to potential impacts on society. Legislative changes over the past ten years have been a factor in heightening awareness, and our qualitative data suggests that although many managers still appear to adopt a short to medium term reactive perspective on environmental issues, some are beginning to see commercial opportunities for the future in such areas, although legislative compliance is still the main driver.

In comparing results from the 1996 and 1999 surveys a greater proportion of respondents believed in the potential for environmental opportunity in future in 1999 than in 1996 , but in considering environmental issues in the context of day to day operations they were more keenly aware of potential threats than opportunities.

Table 1: Perceptions of environmental issues as opportunities ⁽³⁾

1996			1999		
Potential Opportunity	% of Respondents		Potential Opportunity	% of Respondents	
Competitive Advantage	YES:	46	Competitive Advantage	YES:	31
	NO:	11		NO:	5
	IN FUTURE:	44		IN FUTURE:	58
Enhanced Profitability	YES:	44	Enhanced Profitability	YES:	30
	NO:	12		NO:	12
	IN FUTURE:	44		IN FUTURE:	50
Cost/Waste Savings	YES:	69	Cost/Waste Savings	YES:	61
	NO:	5		NO:	2
	IN FUTURE:	27		IN FUTURE:	30
Improved Public Image	YES:	73	Improved Public Image	YES:	63
	NO:	4		NO:	3
	IN FUTURE:	24		IN FUTURE:	26

Our subsequent follow up research suggests that this situation has not fundamentally changed amongst middle managers, but that senior executives are beginning to perceive environmental and CSR issues as potential opportunities to re-align business strategy in future to a changing social and marketing environment. In other words, corporations have become more aware of the significance of CSR and environmental issues as potential commercial opportunities during the past ten years, and since 1999 some executives are beginning to perceive them in a more positive light as a potential future driver for organizational renewal. Our qualitative interviews confirmed this. There have also recently been some public statements of this position. For example, during a CSR round table discussion reported in 'Strategic Risk', Alan Knight, head of social responsibility for Kingfisher plc described his role in the following terms:

'I translate social and environmental trends into the business strategyone of the things I do is make the business realise it actually causes some of the trends' (Knight, 2003, p 5).

If corporations are to take advantage of opportunities presented by social and environmental trends, rather than merely mitigating risks, responding to perceived threats and conducting a public relations exercise, corporate and environmental responsibility needs to be embedded both culturally and organisationally into the company. There is clearly a difference between an organisation which internally promotes an abstract awareness of CSR and environmental issues and externally promotes a green public relations image to one which implements concrete internal procedures to ensure that its policy operates and involves stakeholders. Ultimately to be effective in the long-run this

will involve mainstreaming CSR policy as has been stressed by Peter Lacy, Chief Executive of EABIS (The European Academy for Business in Society)

Mainstreaming

The survey responses during the 1994 – 1999 period revealed little evidence of stage 4 mainstreaming development. As noted above, many companies did not have quantifiable measures, many that did, failed to publish them widely. Many offered advice to operating departments, but had few concrete procedures to ensure best practice, and very few companies had their environmental and social reports independently audited.

Published reports have become more common since 1999, although in moving towards environmentally ethical behaviour invariably some companies have progressed faster than others. Some make it clear that their policies are intended to apply company wide while others refer to particular departments or operating divisions. In their environmental policy statements, some companies are quite vague, offering only a general pledge to minimize environmental impact. Others are more specific detailing particular measures which are to be taken to achieve this goal.

A range of initiatives have been variously adopted by companies seeking to make public their commitments to environmental protection. This has led many large corporations to implement environmental management systems of some form or another. Some have developed their own, some have adopted the EU supported certification scheme which was introduced in 1995 (EMAS) others adopted the British standard BS7750 which was replaced in 1996 by the international standard ISO 14001. The fact that companies sign

up to such schemes does not in itself guarantee the actions that will make environmental protection operate effectively. These schemes tend to focus upon systems and processes as opposed to performance outcomes. They are effectively a testament to system quality, rather than a testament to what is delivered. There is no guarantee that a company will follow best practice just because it has an environmental management system. We found evidence of this in our 2004 interviews during which one of the managers we interviewed from a large company and relatively well-known company pointed out that they operated an extensive 'global systems programme', but despite this, environmental reports from his division were for internal consumption only and were 'signed off' by a group manager rather than externally audited. However, initiatives such as EMAS and ISO 14001 can provide an impetus to implement good practices and concrete procedures. Both initiatives have reporting requirements and although there is no common reporting standard as yet, effective audited published reports can be used in conjunction with these initiatives as a means of monitoring performance. Implementing concrete procedures and monitoring performance are part of what is required for the 'mainstreaming' of good environmental practice into the organization.

A scan of the web suggests that since the last survey in 1999, there has been an increase in the numbers of companies publishing environmental reports in this publicly available format. Some may still consider their reports to be a public relations exercise, but there are others which have attempted to use them as a means of enhancing corporate accountability using quantifiable measures, sometimes in conjunction with initiatives such as EMAS, noted above, which are externally audited and open to external scrutiny.

Baggeridge Brick Company, one of the companies included in our round of 2004 interviews provides an example of an organization which is attempting to use reporting coupled with an environmental management system to try to mainstream good environmental practice into the company organization wide. It has clearly not reached this goal yet. Not all of its divisions have reached the same standard, but the company does have a desire not to degrade the environment and is making progress in its efforts to institute good practices, procedures and monitoring systems.

This company has 5 operational brick works. They were all acknowledged to be 'at different stages of CSR awareness and development', but the company is aiming to achieve best practice organisation wide. It introduced an Environmental Policy in 1989, ahead of Government action in the area. It also operates EMAS, the EU supported environmental management system. Since 2000 this system has been fully applied to one of the brickworks and is almost fully applied in a second. The company started to publish corporate environmental reports in 2000 and updated its format in 2002 to provide for quantifiable information. In 2001 it was decided to verify EMAS. Details of this process are made publicly available on the company website.

The manager we interviewed told us that responsibility for CSR falls within the domain of human resources where a CSR department was set up in 1992. As a company, they have tried to be proactive in environmental issues, for example, the manager we interviewed sits on the British Ceramics Federation environmental committee. The group has a waste management policy bound by the Packaging and Waste requirements (legal

govt requirements) and has been considering how to influence suppliers in matters of good environmental practice. At the time of our interviews the company had recently sent out an environmental practices questionnaire to suppliers.

In this particular company, the environment had become something of a priority issue. It was using EMAS coupled with its reporting systems to institute good environmental practices, procedures and performance monitoring. Most of the pressures towards good environmental practice were perceived to be internal, but it was acknowledged that customers were beginning to want green credentials more and more and that spillages cause bad reputations and have to be attended to if a company in the industry is to remain competitive. Legislation was also a driving factor, but interestingly, it was not perceived to be the major one in this company as it had tried to stay ahead of the game.

Conclusions

The surveys did not suggest that any of the companies with an environmental policy had reached the mainstreaming stage. Our qualitative interviews and web research on survey participants failed to identify a company which appeared to have reached it by 2004.

However, our qualitative interviews suggested that corporate social responsibility and environmental practice has been increasing in importance and more companies are taking these issues seriously.

Mainstreaming has become a goal in a number of large companies, some of which are beginning to perceive environmental and CSR issues as potential future opportunities and

not merely as potential threats. Undoubtedly, legislative changes coupled with market and stakeholder expectations have been significant drivers, but increasingly we find that executives are expressing an inherent desire to be more environmentally responsible

Since 1994 almost all of the companies researched appear to have moved from a general senior managerial awareness of issues to the development of a policy which has subsequently been linked to mission statements (stage 1). From this starting point, most have attempted to promote an awareness of issues internally by appointing someone to oversee the policy, offering internal guidance and publishing reports. At this stage of development, companies may perceive themselves to be more engaged in a public relations exercise than an attempt to embed ethical values into the organisation structurally and culturally. This effort begins in earnest when concrete procedures supersede abstract guidance, a stage of development which we have termed 'initial implementation'. Mainstreaming is the final stage. We did not identify any companies which had achieved this stage of development organisation wide, but some such as Baggeridge Brick had reached it in some of their divisions and all of those interviewed in 2004 aspired to this stage of development.

Notes

1. Some info re surveys carried out by Abby and co.

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Fig 2 – Organisational Development of CSR

