WHAT DO WE MEAN BY CORPORATE SOCIAL RESPONSIBILITY?

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There is an increasing focus by firms on examining their social responsibilities. For example, Business in the Community published ‘Winning with Integrity’ in November 2000. This has as part of its objectives ‘to produce materials and resources on how companies should measure and report their impact on society’ (Business Impact, 2000). It lists twenty such initiatives in various areas of furthering corporate social responsibility, not including its own report. Similarly, the World Business Council for Sustainable Development (WBCSD, 1999) seeks to develop a clear understanding of corporate social responsibility, including a matrix of corporate social responsibility indicators.

But what is meant by Corporate Social Responsibility (‘CSR’)? Responsibility for what and to whom and who is calling for firms to be socially responsible? This article examines the broad development of the ideas behind CSR within the literature and some of the current attempts to define the social responsibilities of business. It starts by examining the debate about the nature of corporate social responsibility and current attempts to define CSR. It then looks at some theories to explain how and why business might undertake CSR –stakeholder theory, social contracts theory and legitimacy theory. The article concludes by describing ways of assessing corporate social performance – from industry and also from the academic literature.

The need for companies to undertake activity that might be regarded as socially responsible has been discussed in the literature and has been a topic of academic study for decades (Heald, 1957, cited in Ullmann, 1985). Cannon (1992) discusses the development of corporate social responsibility via the historical development of business involvement leading to a post-war re-examination of the nature of the relationship between business, society and government. He identifies that the primary role of business is to produce goods and services that society
wants and needs, however there is an inter-dependence between business and society in the need for a stable environment with an educated workforce. Cannon, (1992:33) quotes Lord Sieff, the former chairman of Marks and Spencer PLC: ‘Business only contributes fully to a society if it is efficient, profitable and socially responsible’. Similarly, Wood (1991) states that ‘the basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities’.

**What are the social responsibilities of business?**

The area defined by advocates of CSR increasingly covers a wide range of issues such as plant closures, employee relations, human rights, corporate ethics, community relations and the environment. Indeed, CSR Europe, a membership organisation of large companies across Europe, in their reporting guidelines look at the following areas: workplace (employees), marketplace (customers, suppliers), environment, community, ethics and human rights.

Whether or not, business should undertake CSR and the forms that responsibility should take depends upon the economic perspective of the firm that is adopted. Those who adopt the neo-classical view of the firm would believe that the only social responsibilities to be adopted by business are the provision of employment and payment of taxes. This view is most famously taken to the extremes of maximising shareholder value and reflected in the views of Milton Friedman (1962: 133): ‘Few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can.’
An alternative view of the firm following the behavioural theorists (Cyert and March, 1963; cited in Wartick and Wood, 1998) might view corporate social activity from a standpoint that examines the political aspects and non-economic influences on managerial behaviour. This might also be extended to examine personal motivations, such as the Chairman’s personal preferences or alternatively some of the critical perspectives associated with the exercise of power. This approach has two identifiable strands of development. The first is associated with some form of moral or ethical imperative that because business has resources, it is part of the role of business to assist in solving social problems. Thus, Holmes (1976), in a study of executive attitudes to social responsibility, finds that the strongest response was that ‘in addition to making a profit, business should help to solve social problems whether or not business helps to create those problems even if there is probably no short-run or long-run profit potential’. In effect some view that because business has resources and skills there is a quasi-moral obligation to be involved. However this may be the views of the executives rather than the owners of the business.

Proponents of CSR claim that it is in the enlightened self-interest of business to undertake various forms of CSR. The forms of business benefit that might accrue would include enhanced reputation and greater employee loyalty and retention. We can identify this approach in some of the current approaches by business. So, the introductory section of the recent report by the World Business Council for Sustainable Development on Corporate Social Responsibility (1999) used phrases such as ‘business benefits’, ‘could destroy shareholder value’, ‘control risks’, ‘identify market opportunities’, ‘improving reputation’ and ‘maintaining public support’.
This analysis is supported by a recent study in Australia of motivations by business for community involvement (CCPA, 2000). The study finds that Australian business is ‘experiencing a transition in expectations of its social role’, but part of the reason is that this social role ‘contributes to the continuing health and growth’ of business. Three-quarters of the companies studied have ‘the goal of long-term business sustainability at the heart of the ‘business case’ for community involvement.’ The involvement ‘is a way to maintain trust, support and legitimacy with the community, governments and employees.’ A further 10 per cent of the companies studied claim that community involvement is a way to ‘put back’ without seeking a return and 10 per cent see their social obligations as ‘met exclusively by returning value to their shareholders.’ Thus we can see three broad strands of enlightened self-interest, a moral approach linked to social expectations and the neo-classical approach. It is interesting to note, in particular, the reference to social legitimacy. This implies that there is some form of social expectation that a legitimate business would act in a particular manner – in effect some form of social contract.

This leaves open the issue of whether those advocates of enlightened self-interest are motivated by the profit motive advocated by Friedman – and thus agree with him – and regard greater CSR as the manner in which to achieve maximisation of shareholder wealth or whether there is an underlying moral or ethical imperative. This tension is evident in current attempts to address the nature of CSR. CSR Europe’s approach is that business benefits from being more socially responsible and can help to build sales, the workforce and trust in the company as a whole. The objective is to build sustainable growth for business in a responsible manner.

Within the literature on CSR, we can identify developments in our understanding as well as in business practice. This is well described by Frederick (1986, 1994) in his terminology and progression of the development of CSR. Frederick (1994) identifies the development in the understanding of CSR up to 1970 as an examination of ‘corporations’ obligation to work for social betterment’ and refers to this as CSR1. However, around 1970 he notes a move to ‘corporate social
responsiveness’, which he calls CSR$_2$. He identifies corporate social responsiveness as ‘the capacity of a corporation to respond to social pressures’. In effect the move from CSR$_1$ to CSR$_2$ reflects a move from a philosophical approach to one that focuses on managerial action – that is will the firm respond and how. Latterly, Frederick (1986) has developed this analysis to include a more ethical base to managerial decision taking in the form of corporate social rectitude and terms this CSR$_3$. In this development, Frederick claims that the study of business and society needs an ethical anchor to ‘permit a systematic critique of business’s impact upon human consciousness, human community and human continuity’. He asserts that whilst CSR$_1$ was normative, it was hesitant and that CSR$_2$ led to non-normative enquiry. Thus the requirement for a moral basis provides a normative foundation for managers to take decisions in the area of CSR. As part of a normative manifesto, he proposes that the ‘claims of humanising are equal to the claims of economizing’. This approach is thus fundamentally different to that proposed by the neo-classical economists.

Brummer (1991) in a wide-ranging review attempts to provide clear definitions of responsibility as well as looking at the different philosophical approaches. In a deep review of the meaning of responsibility, in this context he proposes that responsibility means that executives are held accountable for their actions. He summarises three types of corporate conduct normally thought as requiring a rendering from executives:

1. Actions performed that go beyond the corporation’s domain of authority or permissibility
2. Non-performance of acts within the corporation’s domain of responsibility
3. Inferior performance of acts within the latter domain.

In addition to the neo-classical approach, he discusses three further theories to explain to whom corporations might be accountable. These are stakeholder theories, which are discussed below,
social demandingness theory where firms respond to demands from society and social activist theory. This last mentioned takes the position that although there should be concern for the welfare of the public, it is a concern for their welfare as an expression of their ideal or rational interests rather than merely their present or expressed interests. Few firms can be identified that adopt these last two approaches – possibly firms such as Traidcraft and the Body Shop might adopt the approach. By far the greater number of commentators that propose active CSR do this by means of stakeholder analysis (e.g. Steiner and Steiner, 2000; Frederick, Post and Davis, 1992; Carroll, 1996). This is also true of approaches within the corporate sector (e.g. Business Impact, 2000).

But how does business actually define CSR? The World Business Council for Sustainable Development proposes a definition for CSR as:

‘the ethical behavior of a company towards society. ….management acting responsibly in its relationships with other stakeholders who have a legitimate interest in the business.’

and

‘CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.’

Examples from individual companies in the area of CSR re-enforce stakeholder analysis:
Johnson and Johnson – ‘the company’s responsibilities to be fair and honest, trustworthy and respectful, in dealing with all our constituents.’ (Johnson and Johnson, 2000).

Volkswagen (2000) adopt a position which builds both shareholder value and workholder value in order to deliver ‘sustainable growth for the future’. They define CSR as ‘the ability of a company to incorporate its responsibility to society to develop solutions for economic and social problems’.

Shell: ‘We all need to assess the impact our business makes on society and ensure that we balance the economic, environmental and social aspects of everything we do.’ (Responsible Business, 1999: 2).

These proponents of active CSR propose practices built around stakeholder analysis and engagement, including understanding stakeholders’ aspirations and needs and then communicating with and interacting with stakeholder groups. Business Impact (2000: 7.03) claims ‘interacting with its stakeholders can help a company understand its capacities (and limitations) to behave in a way that reflects the needs and aspirations of society’.

Thus a current analysis of CSR would involve meeting the needs of all stakeholders and not just shareholders against some form of ethical basis. This basis is described by Business Impact (2000: 1.02) in the following key principles:

- To treat employees fairly and equitably
- To operate ethically and with integrity
- To respect basic human rights
- To sustain the environment for future generations
- To be a caring neighbour in their communities

This begins to accord with Frederick’s corporate social rectitude, however the need for business benefits is never far away.

In this discussion we are able to identify theories which might explain active CSR – those of stakeholder theory to explain how and social contract theory, closely allied with legitimacy theory to explain why. We now briefly explore these theories in the context of CSR.

**Theories to analyse and explain corporate social responsibility**

**Stakeholder theories**

The Stakeholder Theory of the firm is used as a basis to analyse those groups to whom the firm should be responsible. As described by Freeman (1984), the firm can be described as a series of connections of stakeholders that the managers of the firm attempt to manage. Freeman’s classic definition of a stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984: 46). Stakeholders are typically analysed into primary and secondary stakeholders. Clarkson (1995: 106) defines a primary stakeholder group as “one without whose continuing participation the corporation cannot survive as a going concern” – with the primary group including “shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations may be due” (p.106). The secondary groups are defined as “those who influence or affect, or are influenced or affected by
the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival”.

The major divide within stakeholder theory is whether it is a coherent theory or a set of theories (Treviño and Weaver, 1999). Effectively, the divide is whether stakeholder theory is a normative theory based upon largely ethical propositions or an empirical/instrumental/descriptive theory (e.g. Donaldson and Preston, 1995; Jones and Wicks, 1999). This remains a contentious area within the literature (Jones and Wicks, 1999; Freeman, 1999; Donaldson, 1999; Treviño and Weaver, 1999; Gioia, 1999). In terms of the issue of social responsibility, the central issue is whether stakeholder analysis is part of the motivation for business to be responsible and, if so, to which stakeholders. Hamil (1999), adopting Donaldson and Preston’s (1995) typology, finds that corporate giving is nearly always instrumental.

An important question that has been addressed is to which groups do managers pay attention? Mitchell, Agle and Wood (1997) develop a model of stakeholder identification and salience based on stakeholders possessing one or more of the attributes of power, legitimacy and urgency. Agle, Mitchell and Sonnenfeld (1999) confirm that the three attributes do lead to salience. Thus, we might anticipate that firms would pay most attention to those legitimate stakeholder groups who have power and urgency. In practice this might mean that firms with problems over employee retention would attend to employee issues and those in consumer markets would have regard to matters that affect reputation. Stakeholder groups may also become more or less urgent; so environmental groups and issues became more urgent to oil firms following the Exxon Valdez oil spill (Patten, 1992).

We note from the current commercial approaches to CSR that stakeholder analysis is important, but that the rationale remains largely instrumental (WBCSD, 1999; Business Impact, 2000). However, there are elements that are also normative. For example, Business Impact begins by advocating that CSR should be based against set purposes and values – nevertheless such purpose
and values are also linked to ‘contributing to [the firm’s] reputation and success’ (Business Impact, 2000: 1.01).

Social Contracts Theory

Gray, Owen and Adams (1996) describe society as ‘a series of social contracts between members of society and society itself’. In the context of CSR, an alternative possibility is not that business might act in a responsible manner because it is in its commercial interest, but because it is part of how society implicitly expects business to operate. Donaldson and Dunfee (1999) develop Integrated Social Contracts Theory as a way for managers to take decisions in an ethical context. They differentiate between macrosocial contracts and microsocial contracts. Thus a macrosocial contract in the context of communities, for example, would be an expectation that business provide some support to its local community and the specific form of involvement would be the microsocial contract. Hence companies who adopt a view of social contracts would describe their involvement as part of ‘societal expectation’ – however, whilst this could explain the initial motivation, it might not explain the totality of their involvement. One of the commercial benefits that was identified in the Australian study (CCPA, 2000) was described as ‘licence to operate’ – particularly for natural resource firms. This might be regarded as part of the commercial benefit of enhanced reputation, but also links to gaining and maintaining legitimacy (Suchman, 1995).

Legitimacy Theory
Suchman (1995) defines legitimacy as ‘a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions.’

Bringing together, prior literature on legitimacy management – including the strategic tradition of resource dependence theory (Pfeffer and Salancik, 1978) and the institutional traditions (DiMaggio and Powell, 1983), he identifies three types of organizational legitimacy:

- Pragmatic
- Moral
- Cognitive

and he also identifies three key challenges of legitimacy management – gaining, maintaining and repairing legitimacy. Suchman points out that “legitimacy management rests heavily on communication” – therefore in any attempt to involve legitimacy theory, there is a need to examine some forms of corporate communications.

Lindblom (1994, cited in Gray, Owen and Adams, 1996) notes that legitimacy is not necessarily a benign process for organizations to obtain legitimacy from society. She argues that an organization may employ four broad legitimation strategies when faced with different legitimation threats:

1. Seek to educate its stakeholders about the organisation’s intentions to improve that performance
2. Seek to change the organisation’s perceptions of the event (but without changing the organisation’s actual performance
3. Distract (i.e. manipulate) attention away from the issue of concern
4. Seek to change external expectations about its performance
Thus there is a need to examine any particular corporate behaviour within its context and in particular to look for alternative motivations.

Thus legitimacy might be seen as a key reason for undertaking corporate social behaviour and also then using that activity as a form of publicity or influence (Lindblom cited in Gray et al, 1996 and in Clarke, 1998). A converse view to this, i.e. not that business uses its power to legitimate its activity but, rather that society grants power to business which it expects it to use responsibly is set out by Davis (cited in Wood, 1991): ‘Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it’. In effect, this is a re-statement of the concept of a social contract between the firm and society.

We may begin, therefore, to examine the practice of CSR within business as potentially motivated by some form of principle as described in social contracts theory, analysed in the particular by some form of stakeholder analysis in order to provide enhanced reputation or legitimacy to the firm. This is, of course, not the only way to review the practice of CSR, however the separation into principles, practices and outcomes is a way to assess performance in the area.
Assessing Performance

The literature on Corporate Social Responsibility and Stakeholder Theory come together in an examination of Corporate Social Performance. The literature has attempted to describe an emerging model of the issues that lead to a coherent model of what would represent corporate social performance. As such, this body of research is normative. However, it is also designed to assist managers in thinking through social issues (Carroll, 1979).

Following on from Carroll (1979) and Wartick and Cochran (1985), Wood (1991) develops a complete model of corporate social performance. This builds upon the issues of corporate social responsibility and corporate social responsiveness to include measurement. The model is presented in Figure 1:

Wood has thus introduced a need to measure corporate social performance. The model offers no guidance on how the measurement should be derived, other than by a reference to the corporate social reporting literature. For those businesses that undertake corporate social behaviour, the types of activities undertaken may be examined from an organisation-centred stakeholder
perspective, with employees, the environment or the community as the typical stakeholder. However, this assumption should not discount the possibility that social behaviour might be undertaken for the benefit of shareholders or managers and presented as for the benefit of other stakeholders. The Wood model is effectively a normative model of a framework in which to assess corporate social performance – inherent in this model is an assumption that such behaviour is, in part, motivated by the interests of the firm and from the perspective of the firm. It should be noted, also, that the model does seek to measure the social outcomes of the corporate activity – but it does, nonetheless start from a firm perspective.

Adopting Wood’s framework, business might undertake corporate social behaviour, because:

- The activity relates to the business primary or secondary activity and that there is a business return (Preston and Post, 1975)
- It forms part of corporate philanthropy
- Business wishes to influence particular stakeholder groups

Wood and Jones (1995) extend the CSP model by finding that the type of measure involved depends upon the particular stakeholder to be addressed. Measures they examine include reputational measures or others such as corporate crime which have been ‘developed for certain purposes’. They observe that “although the measures that have been used so far have focused on particular areas of CSP ... they have limited use in depicting how and why specific stakeholder relationships occur and develop.”

Practitioners continue to struggle with ways to assess corporate social performance. Thus, CSR Europe (2000: 46) states ‘in order to measure their overall performance as well as their performance on specific CSR issues, companies use input, output, outcome and process indicators.’ (emphasis in the original). They then cite, from a review of 45 companies, a number of detailed workplace climate, marketplace, environment, community and local economic development, human rights and ethics performance indicators. These indicators are then
compared to proposed indicators by ‘other initiatives’ and then the Business Impact Task Force derives ‘suggested impact indicators for each CSR issue’ (p.58). Particular indicators are proposed for companies at different stages of development from those ‘beginning to measure progress’ through to ‘further improvement of their performance’. It is interesting to note the range of areas covered in an assessment of CSR. The debate on what to measure in assessing corporate social performance and how objective measures can be obtained and verified is an issue of much current debate (e.g. Gray Owen and Adams, 1996; Gonella, Pilling and Zadek, 1998), however it is clear that business is seeking a practical solution.

**Conclusion**

This article has reviewed a broad understanding of what is meant by corporate social responsibility and how and why business might undertake such behaviour. Whether actions by business that provide business benefits are ultimately regarded as socially responsible by stakeholders is a question that remains open. There are emerging methods of assessing corporate social performance but these are not established and are subject to considerable debate. However, common threads in the literature involve establishing principles for action and using stakeholder analysis and engagement as a way of determining precise activities. Nevertheless, there is an increasing focus both by business on CSR and also by society on the actions of business.


Lindblom, C.K. The implications of organizational legitimacy for corporate
social performance and disclosure, paper presented at the Critical perspectives on Accounting Conference, New York


