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## **Legitimizing Business Activities Using Corporate Social Responsibility: Is there a Need for CSR in Agribusiness?**

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### **1. Introduction**

In recent years the agribusiness sector has been shocked by numerous crises and conflicts. As a result, enterprises in the agribusiness sector are increasingly exposed to the public eye (Jansen/Vellema: 2004). The perception of consumers and other stakeholders - which are according to Freeman "any group or individual who can affect, or is affected by, the achievement of the organization's objectives" - is of growing criticism and risk-consciousness and manifests itself in changed attitudes towards food production (Jäckel/Spiller: 2006; Haddock: 2005). The use of GMO in agriculture, e.g., is regarded to be morally reprehensible (Becker: 1999). The BSE-crisis and other food scares led to growing consumer uncertainty and resulted in decreased meat consumption and in the increasing percentage of outspoken vegetarians and low-meat consumers (von Alvensleben: 1997; Staack: 2005). Moreover, the influence capacity of stakeholders is growing (Gerlach: 2006). As a result these factors have reduced the legitimacy of traditional (e.g., animal production) as well as new production technologies (e.g. bioenergy) in the agribusiness. In the long term the success of enterprises in the agribusiness can be affected by legitimacy losses. Against this background, legitimacy is regarded as a resource that guarantees the long-term survival of an enterprise (Palazzo/Scherer: 2006).

Primarily the market based view in general management literature and the macro-institutional approach in neo sociological-institutionalism are employed to understand business operations embedded in societal structures. In this context legitimacy means the conformation of an organization with social norms, values and expectations (Oliver: 1996).

Despite the high conflict potential in the agribusiness, so far only small-scale research has been undertaken in the field of agribusiness relations to society, even though the relevance of integrating societal demands of the external environment – e.g. concerning animal welfare, food safety, environmental concerns and the use of GMOs (Grunert et al.: 2005) - into firm strategies in the agribusiness has been recognized (Boston et al: 2004). More lately, it is discussed in literature whether using Corporate Social Responsibility (CSR) is an instrument for enhancing legitimacy of business operations (Müller/Seuring: 2007).

The main objective of our project is to answer the question whether pursuing a CSR strategy could be promising reduced legitimacy for enterprises in the agribusiness. In addition, within further research on this topic the interrelations between CSR, legitimacy and reputation, and corporate financial performance (CFP) shall be analyzed.

In the first part of the paper we define the terms image, reputation and legitimacy and detect their importance for enterprises in general. Subsequently, we present a systematic overview of the conflicts between agribusiness and society. After having analysed the literature that aims to enhance the interrelations between society and the agribusiness, we identify its research gap. In

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recent years neo-institutional theory discusses whether CSR is a successful strategy to obtain legitimacy for business operations (cf. Hiss 2006) but CSR is scarcely analysed for the agribusiness. Therefore, we provide a synopsis of different CSR definitions. Finally, we conclude our paper by discussing to which extent enterprises could obtain legitimacy by pursuing a CSR strategy and outline some future research directions.

## **2. Legitimacy and conflicts in the agribusiness**

### *2.1 Definitions: image, reputation and legitimacy*

Before we analyse the concept of CSR and its way to improve the interrelations between society and enterprises some expressions currently appearing in the literature that analyses interrelations between enterprises and society have to be defined. No common definitions exist either for the aspects of reputation and image nor for the notion legitimacy, but there is a multitude of different descriptions of these terms.

#### Image and reputation

The terms image and reputation are often used synonymously and characterize a managerial perspective of the prestige of an enterprise or its products. Due to this point of view management tools that are employed to improve the prestige of an enterprise are called reputation-management (Wiedmann/Fombrun/van Riel: 2007) or image-management (Buss/Fink-Heuberger: 2000) without further distinguishing between the terms. We will respond to the question whether these terms are congruent.

In recent years an increasing share of enterprises has recognized that image and reputation may have an important impact on their current market value but that this is depending on whether the enterprise can combine desired and perceived prestige. At this point a distinction between the terms image and reputation is appropriate, although both terms are often used as synonyms. Whilst from the perspective of the enterprise image is regarded as the desired prestige, reputation is the prestige of an enterprise from an external view (Schwalbach: 2000). Furthermore, image is a term issuing originally from behavioural science and incorporates subjective views and beliefs about an object whereas the term reputation is derived from game-theory and terms the trust capital in information and institutional economics (Bodenstein/Spiller: 1999). Or in Fombrun's (1996, 72) words "a corporate reputation is a perceptual representation of a company's past action and future prospects that describes the firms overall appeal to all of its key constituents when compared with other leading rivals." Holding an institutional perspective we are distinguishing between image and reputation in the before mentioned way and are referring to the term reputation when the perception of the prestige quality of an enterprise is meant.

#### Legitimacy

The central problem of an organization is legitimating its goals, structures and processes (Parsons: 1956). Legitimacy in this context is understood as the conformity of an organization with social norms, values and expectations (Oliver: 1996). Legitimacy is subjectively perceived and ascribed to actions or institutions by social construction (Berger/Luckmann: 1966). For organizational survival legitimacy is vital as it is a precondition for the continuous flow of resources and the sustained support by the organization's constituents (Parsons: 1960; Pfeffer/Salancik: 1978). Persons or institutions losing legitimacy have difficulties entering processes of social exchange as their partners have lost trust in their compliance with social rules (Palazzo/Scherer: 2006). Therefore, enterprises are dependent on qualified acceptance of business operations by the public – in other words on legitimacy. More precisely this means that institutions receive their „license to operate“ only under the condition of not acting illegitimately (Suchanek: 2004).

Actions are legitimated, if within a social system they are evaluated as being appropriate and right within a socially constructed system of norms, values, beliefs, and definitions (Suchman: 1995). Overall, enterprises are forced primarily to meet the expectations of the society without scrutinizing it (Scott/Meyer: 1994). An organization is seen to be legitimated if it follows “socially acceptable goals in a socially acceptable manner” (Ashforth/Gibbs: 1990). Türk (2004) concedes that the value orientation of an organization has to be based on overall societal values. For this reason taking over societal, social and ecological responsibility by enterprises is one central research topic in market-based management (Münstermann: 2007). More recently, from a neo-institutional perspective, Corporate Social Responsibility (CSR) has been discussed as a concept for legitimating business operations or in other words, obtaining a license to operate (Hiss: 2006). But before we introduce the CSR concept, we provide a synopsis about existing legitimacy conflicts in the agribusiness.

## *2.2 Conflict lines in the agribusiness*

General conflicts between agribusiness and society are not a new issue. The agribusiness is an industry sector with large conflict potential because it has public goods characteristics, handles with nature and produces food which is indispensable to life. Mainly disparities between consumers' perceptions and agricultural reality can be observed (Bruhn: 2003). A study conducted in the year 2007 which analysed the image of agriculture in Germany shows that consumers are especially interested in quality and transparency of food production, conditions of livestock-keeping, organic farming, and bio energy. But a majority of respondents recognizes agriculture as operating not environmentally conscious (72%) and as not acting responsible in animal keeping (57%) (Information Medien Agrar: 2007). The perception of consumers and other stakeholders regarding the agribusiness is not only increasingly critical and risk-conscious (Haddock: 2005), their influence capacity is growing, too (Gerlach: 2006). The protests have developed to an ever more professional level (Becker/Oppermann: 1994). Nongovernmental organizations (NGOs), e.g. Greenpeace or Foodwatch, are able to promote their protests because of their large social capital and good relations with the media (Jäckel/Spiller: 2006). In addition, it has to be pointed out that individual scandals of several enterprises are brought to the public in a generalizing way. In the worst case, this has negative effects for the whole sector. In this context, the media as gatekeepers for information can be discerned as the sensitive factor of more or less objective reporting (Zühlsdorf: 2002) regarding the food chain.

Against this background, which sub-sectors of the agribusiness are confronted most with societal concerns? In agriculture the main problem is that modern technical-oriented agriculture is not always congruent with the wishes of consumers concerning food production. Intensive livestock-keeping is criticized for its emissions, slurry, animal transports, and husbandry conditions (Jansen/Vellema: 2004; Von Alvensleben: 2002). In times when millions of people in less developed countries are facing famine, fattening animals in the industrial world with, e.g. soy beans produced in the third world is regarded as unethical by some activists. In this context, the human-animal food concurrence is of importance because approximately one third of globally produced grain is consumed by animal nutrition (Steinfeld et al.: 1997). The use of soy beans is also in the centre of criticism for other reasons. On the one hand, soy bean production is blamed for cutting-down the rainforests, on the other hand, consumers regard the use of GMO soy beans with increasing ethical condemnation (Becker: 1999). Another topic recently discussed is the release of emissions, e.g. methane or nitrous oxide, in the agricultural sector, thus contributing to the climate change (EEA: 2006).

But frictions cannot only be observed between modern livestock-keeping and societal wishes. Conventional high-input plant production is criticized to cause, e.g. erosion, loss of biodiversity, pesticide residues, and nitrate emissions. Particularly in this context, monocultures and the high energy consumption in agriculture are mentioned (Jansen/Vellema: 2004). Although bio-energy is a comparatively new production sector in the agribusiness and high subsidies indicate massive societal and political support, some technologies have already damaged the image of green energies. Some examples are oil palm farming in Malaysia and sugar cane production in Southern America. Both are blamed to be environmentally critical because, e.g. rainforest is cut down (Casson: 1999). In Europe other aspects become crucial in the debate. Although in some cases biogas plants are criticized to cause environmentally undesired developments, primarily the competition between energy and food production, which leads to higher prices for agricultural products, is brought on the agenda (Heißenhuber et al.: 2006; Zeddies: 2006). Other conflicts recently discussed between agriculture and society are agricultural subsidies provided by EU agricultural policy (Kafsack: 2007).

Furthermore, the BSE-crisis severely damaged the reputation of agriculture (Von Alvensleben: 1997) even though BSE cannot be traced back to practices in agriculture but to the British meat meal industry. The outbreaks of BSE, foot-and-mouth disease, avian influenza, and other food scares, such as GMOs, pesticide residues and chemical food additives, have put organic agriculture on the policy agenda (Jansen/Vellema: 2004). But the detection of Nitrofen, a pesticide for many years illegal in Europe, in organic food in 2002 damaged the pure image of organic agriculture (Piel: 2003).

Conflicts with society do not only exist in the agricultural sector, the practices in the upstream and downstream sectors of the agribusiness are debated, too. Life science industries e.g. are criticized for their biotechnology programmes. Input industries such as plant protection and fertilizer producers are being charged for systematically contaminating the environment (Jansen/Vellema: 2004). For the food and beverage industries health issues become more and more important (Schäfer Elinder et al.: 2006). Obesity, alcohol abuse, diabetes, and coronary diseases are keywords in this debate in which the responsibility of enterprises is often claimed. Furthermore, dishonest practices such as corruption, bad corporate governance, poor working conditions in work-intensive industries, for instance the meat industry, or meat scandals (Spiller et al.: 2005; Hollmann-Hespos: 2007) have led to crucial trust losses on the consumer side.

It can be concluded that “general discontent with the industrialization of agricultural production and food provision systems has put agribusiness and the food industry at the core of societal debates” (Jansen/Vellema: 2004, 4).

### **3. Approaches for improving the interrelations between agribusiness and society**

#### *3.1 Agricultural economics*

Different research strands within agricultural economics have been analyzing the conflict between agribusiness and society and possible solutions. Most research focusses on animal production or the image of agriculture. For reducing the conflicts concerning agricultural investments mainly permit, conflict and relationship management have been employed (Dombert et al.: 2006; Sekul: 2003; Gerlach: 2006). The lost trust of consumers in the food system brought quality management, certification, and transparency into the focus of agricultural economists (Jahn et al.: 2004; Frentrup/Theuvsen: 2006). A recent study conducted by Fritz and Fischer (2007) observed a relatively high level of trust of consumers in the food chain so these instruments can be regarded as suitable for trust building. Furthermore, environmental reporting in the food industry is discussed to meet society’s environmental concerns (Haddock: 2005). A more often analysed research topic has been the image of the agribusiness. Publications in that area have

focussed mainly on improving the image of agriculture (von Alvensleben: 1998; Linnartz: 1994; Piel: 2003; Scheper: 1999) or transferring a positive image onto the products of the food system (Langosch/Schlenz: 1990). In recent years, the issue of sustainable agriculture has also been broached (Kantelhardt/Heißenhuber: 2005; Vorley: 2004). But existing approaches to improving stakeholder-relations in the agribusiness, e.g. supplier or customer relationship management (Spiller/Wocken: 2006; Schulze et al.: 2006; Torres et al.: 2007), are concentrating mainly on just one stakeholder, in most cases on a firm's input or output side, and are not fully tying up societal issues. Only few publications exist with regard to stakeholder-management in the agribusiness (Boston et al.: 2004) and CSR (Schiebel/Pöchtrager: 2003; Lautermann: 2005). Nevertheless, existing societal conflict lines concerning the production of plants, renewable energies, or in the agribusiness including the food and beverage industries have not been tackled sufficiently by agricultural economists. Especially approaches to analyse the legitimacy of production technologies in the agriculture as well as in the agribusiness have been neglected in this context. Therefore, we analyse general management literature in order to detect suitable approaches for a better understanding of agribusiness firm-society interactions.

### *3.2 Management literature*

General management literature provides a broad basis for analyzing and understanding the interrelations between society and economy. Primarily the market-based view in industrial economics (Drucker: 1954; Dreher: 1994; Kohli/Jaworski: 1990) and neo-institutional<sup>1</sup> theories (DiMaggio/Powell: 1991; Scott: 1987; Oliver: 1988) have been employed in this context. Furthermore, also contingency theoretical approaches and the stakeholder-management perspective (Freeman: 1984) provide frameworks for better understanding the enterprise-stakeholder relations. Instead of giving an extensive overview about all different theoretical strands analysing business and society interactions, we focus on neo-institutional approaches as their broadened perspective allows understanding of the interrelations embedded in the social environment (cf.: Hiss 2006).

Already in the 1950s Parsons (1956) introduced the research programme of neo-institutional approaches. He pointed out that organization analyses even for intra-organizational structures have to be embedded in societal structures (Parsons/Smelser: 1956). Nevertheless, the macro-institutional approach in neo sociological institutionalism introduced by e.g. Meyer (1977), Meyer/Rowan (1977) and DiMaggio/Powell (1991) seems to be more appropriate for this study as the neo-sociological institutionalism explicitly focuses on the interdependencies between enterprises and their societal environment. From this perspective, enterprises are conceptualized as part of society embedded in mutual construction processes and legitimacy coherencies. Therefore, this standpoint is not restricted to corporate profit goals, but entrepreneurial acting is understood as being part of social construction processes (Hiss: 2006). This view is distinguished from the more normative corporate and business ethics perspective but enables to take into account aspects of moral legitimating (Hiss: 2006) and, furthermore, allows to relativise the assumption of profit-maximising rational actors.

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1. "The New Institutionalism in organization theory and sociology comprises a rejection of rational actor models, an interest in institutions as independent variables, a turn toward cognition and cultural explanations and an interest in proportions of supra-individual unity of analysis that cannot be reduced to aggregations or direct consequences of individuals' attributes or motives." (DIMAGGIO/POWELL: 1991, 8)

## 4. Tackling the legitimacy crisis using Corporate Social Responsibility

### 4.1 *The concept of Corporate Social Responsibility*

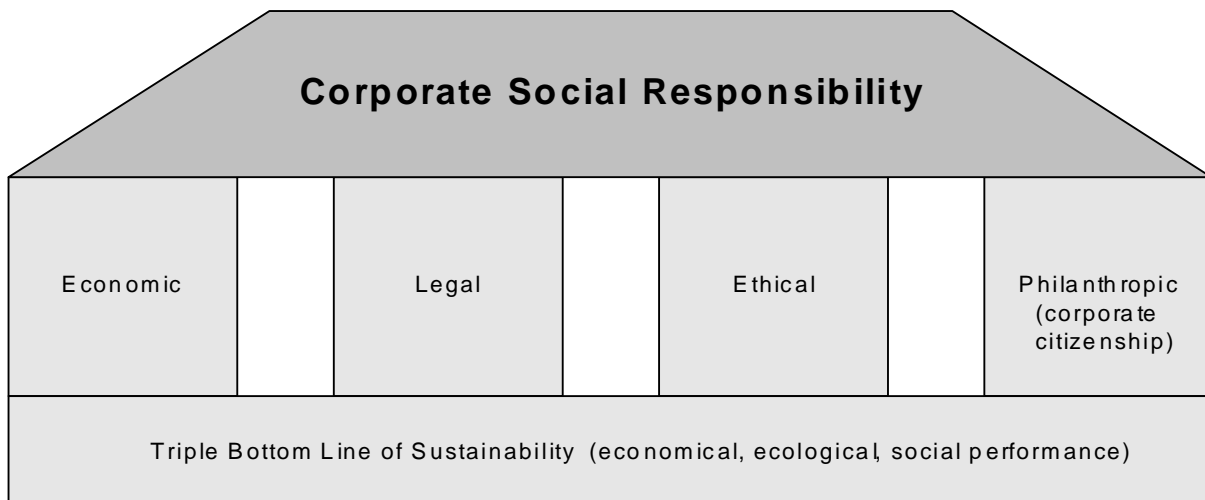
Even though the concept of CSR has gained a prominent position in general management literature (de Bakker/Groenewegen/Den Hond: 2005), there is still uncertainty about an adequate definition<sup>1</sup> (Dahlsrud: 2006). Carroll (1999) catalogues 25 different definitions of CSR in the literature. Similar terms, e.g. corporate citizenship, accountability or good corporate governance, are often used synonymously (Hiss: 2006). Nevertheless, a multi-stakeholder dialogue conducted by the EU has concluded that CSR can be defined as a concept that on a voluntary basis integrates social and environmental demands into business operations and the interrelationship with stakeholders of enterprises (European Commission: 2001). In a very similar way, the World Business Council on Sustainable Development (WBCSD) defines CSR as a concept that embraces “the integration of social and environmental values within a company’s core business operations and to the engagement with stakeholders to improve the well-being of society” (WBCSD: 2002). Unlike most definitions of CSR, the definitions of the European Commission and the WBCSD take environmental topics into consideration. Since environmental issues are crucial for the agri-food chain, we follow this broader approach according to which CSR means the responsibility of an enterprise for the effects of its business operations on the environment, its employees and society.

Despite the often synonymous use of the terms CSR and corporate citizenship, a clear distinction is needed because the concepts behind both terms are not fully congruent. The most common definition regards corporate citizenship as a part of CSR (Dubielzig/Schaltegger: 2005a). Carroll (1998) developed a model based on the aforementioned definition which will be applied in this study. According to Carroll (1998), CSR incorporates economic, legal, ethical and philanthropic responsibility. An enterprise acts economically responsible, if it is offering societally wished goods and services at fair prices. Through selling these goods and services, the enterprise secures employment and contributes to the wealth of society. This has to take place in compliance with laws (legal responsibility). Ethical responsibility includes compliance with rules and values even if they are not legally codified. These rules and ethical values given by the society may determine the playground of companies more than laws can. Compliance with these guidelines is equivalent with acting within the frame of legitimacy. Philanthropic responsibility, being equal to the corporate citizenship concept, stands for different philanthropic actions of enterprises, for instance charity. It is also called corporate giving or giving back to society because society enables economic success (Dubielzig/Schaltegger: 2005b).

Figure 1 extends Carroll’s model by placing the “house of CSR” (Figure 1) which includes the four columns of Carroll’s model on the fundament of the triple bottom line of sustainability. This is a concept seeking to balance the economical, ecological, and social performance of an enterprise (Loew et al.: 2004; Elkington: 1994). Barnett (2007, 808) argues that CSR activities by firms with a very good corporate financial performance (CFP) might be recognized critically because “excessive CFP indicates that a firm is extracting more from society than it is returning and can suggest that profits have risen because the firm has exploited some of its stakeholders in order to favor shareholders and upper management.” In this context, we suggest to apply the triple bottom line of sustainability in order to balance economical, ecological and social performance. This could represent a helpful guideline for bolstering the success of CSR strategies.

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1. For an overview see DAHLSRUD (2006); DE BAKKER/GROENEWEGEN/DEN HOND (2005); HISS (2005).



**Figure 1.** The house of CSR

The answers to the questions, whether or not business should undertake CSR and what forms that responsibility should have, depend very much upon the economic perspective of the firm that is adopted. According to the neo-classical view of the firm, the only social responsibilities of business are the provision of employment and taxes (Friedman: 1970). The most famous example of this perspective is the principle of maximising shareholder value. Other theoretical strands, such as behavioural theory, view CSR from a perspective that analyses the political aspects and non-economic influences on managerial behaviour. “Proponents of CSR claim that it is in the enlightened self-interest of business to undertake various forms of CSR. The forms of benefit that might accrue would include enhanced reputation, employee loyalty” and to maintain legitimacy by the community, governments and employees which goes beyond a short-term maximisation of profits in the neo-classical view (Moir: 2001, 17).

A third theoretical strand besides enlightened self-interest and neo-classical theory is a moral approach stressing social expectations. In this context a moral obligation is called for because business has resources and skills and, therefore, owners and managers should participate in solving social problems. In particular, the reference to social legitimacy is noteworthy. This implies that there is some form of social expectation that a legitimate business would conduct in a specific manner or, in Moir’s (2001, 17) words, “in effect some form of social contract.” Following a neo-institutional approach that focuses on the social embedding of business, we will notably analyse the particular context of obtaining legitimacy due to CSR without a further analysis of either the rational or the moral motives behind CSR strategies.

A multitude of studies conducted to detect the dependencies between CSR and corporate financial performance show that enterprises pursuing CSR strategies are more successful than those that do not (Orlitzky et al.: 2003; Mackey et al.: 2007; Cramer: 2002). One can assume that the better performance of enterprises that are regarded as acting responsible is due to better legitimacy. In the following section we shed some light on the interrelationship between pursuing CSR strategies and obtaining legitimacy.

#### *4.2 Gaining legitimacy using Corporate Social Responsibility*

As mentioned before CSR is discussed currently as a tool for legitimating business activities because enterprises are increasingly forced to legitimate their activities due to direct disputes with their stakeholders. In other words, existing conflict lines provoke that successful management



is adjusting the goals of enterprises to the interests of the societal environment (Zerfaß/Scherer: 1993).

In general, different kinds of organizational legitimacy exist. Suchman (1995) differentiates between pragmatic, cognitive and moral legitimacy:

Pragmatic legitimacy results from the calculations of the corporation's key-stakeholders or the wider public. As self-interested individuals they ascribe legitimacy to an enterprise as long as they benefit from the activities of the enterprise. This could, for instance, be directly through payments or cost reductions, or indirectly through benefiting from the output of the macroeconomic system as a whole. Diligent stakeholder management or strategic manipulation of perceptions through, e.g. instrumental PR, can be instruments for influencing key-stakeholders or the wider public (Palazzo/Scherer: 2006).

Cognitive legitimacy emerges, when society regards an enterprise and its output as necessary and unavoidable. Cognitive legitimacy is located mainly at the subconscious level therefore, it is difficult for the enterprises to directly influence and manipulate perceptions strategically (Oliver: 1991). However, cognitive legitimacy can be achieved by an enterprise through orientation on certain roles they are supposed to fulfil in the society (Scott: 1995).

Moral legitimacy refers to conscious moral judgements regarding the output and procedures of an enterprise. Moral legitimacy is the result of explicit public discussion and in Suchman's (1995) view enterprises gain moral legitimacy through actively participating in these discussions.

These are the fields linked to CSR where societal legitimacy is acquired. The four columns of CSR provide multiple starting points to secure legitimacy because "the successful management of organizational legitimacy by both, passive compliance and active manipulation, contributes to corporate survival" (Palazzo/Scherer: 2006, 74) or, in other words, securing legitimacy is „considered as a resource to guarantee the corporation's continued existence" (ibidem, 72).

Discussions about CSR are primarily focused on the pragmatic or the cognitive approach but for different reasons, for instance internationalisation, moral legitimacy is becoming increasingly important for enterprises (Palazzo/Scherer: 2006).

In sum, the more enterprises are in the focus of critical stakeholder groups and NGOs or in the public focus due to scandals, the more CSR actions are seen as an appropriate means to regain legitimacy. An improved legitimacy facilitates companies to gain higher profits in the long run because with increased legitimacy it is less probable that enterprises are in the focus of protests and, thus, the risk of being target of, for instance, consumer boycotts is decreased (Hiss: 2005). The following propositions summarize the interrelations between CSR and legitimacy as well as between legitimacy and corporate financial performance:

**Proposition 1:** The worse the legitimacy of an enterprise is, the more probable it is that enterprises start to pursue CSR strategies.

**Proposition 2:** The implementation of CSR strategies improves the legitimacy of companies and production processes.

**Proposition 3:** The better the legitimacy of an enterprise is, the better is its long-term financial performance.

## 5. Conclusions and managerial implications

In recent years, due to numerous scandals enterprises in the agribusiness are increasingly in the public eye. The legitimacy of their business operations, which is regarded as essential for the long term success of enterprises, thus, is threatened. Confronted with multiple stakeholder goals and relationships, especially enterprises in the agribusiness could obtain legitimacy by pursuing a CSR strategy.

From a theoretical perspective, the outline of this paper is innovative and represents the first attempt to transfer the CSR-concept to agribusiness. From a managerial perspective, alternative strategies for improving intangible assets, for instance reputation, can be brought to the minds of decision makers in the agribusiness. This includes ideas such as sustainable food production or good corporate citizenship. Implementing CSR could be an appropriate means to legitimate business activities, especially in the agribusiness. In combination with a better reputation an improved "license to operate" could make enterprises, operating in the in recent years highly criticised agribusiness, more immune against campaigns of pressure groups. Following a CSR strategy and being a "good citizen" in the community can be suitable ways for obtaining legitimacy and conciliating public opinion towards enterprises in the agribusiness.

Meanwhile, some agribusiness firms, mainly from industries with threatened legitimacy, have partly recognized the high importance of these issues. Westfleisch, Germany's third-largest slaughterhouse, for instance, has just recently relaunched its CSR guidelines under the programmatic title "Quality Partnership Program. Through these guidelines, Westfleisch has committed itself to fair business practices and the consideration of the company's stakeholders' legitimate interests (Westfleisch: 2007).

Due to the widespread conflicts in the agribusiness, further research is needed. Empirical research that highlights the status quo of CSR activities as well as the perception of enterprises involved in the most vital conflicts in the particular sub-sectors of the agri-food chain could develop as a basis for deducting sub-sector specific CSR management strategies. This procedure goes beyond Kirchoff's (2006) proposal for a perception analysis that helps to prepare a CSR strategy and to get special knowledge about the needs and the evaluation of stakeholder-groups.

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