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Corporate Social Responsibility: Why do CSR Programmes have such a low Impact on Business Decision-Making?

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Biographies

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Abstract: Based upon an empirical study of CSR programmes across a number of multinational companies, we explore some of the underlying reasons why CSR seems to have a low impact on business decision-making through a validated framework linking CSR programmes with business and social outcomes.

Key Words: CSR; Business Decision-Making.

Track: Social Responsibility, Ethics and Consumer Protection.

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Introduction

According to GlobeScan (www.globescan.com), an international opinion research company, rising expectations of advances in Corporate Social Responsibility (CSR) practices among consumers are not being met by most companies. In fact, GlobeScan report that company ratings on social performance have fallen in the last four years (Maitland 2005). In a similar vein, John Elkington the CEO of Sustainability and a widely-respected authority on CSR, offers a stark critique of management practices. His research suggests that although the number of firms engaged in social reporting is increasing, the quality of their CSR reporting has hardly improved in the last five years despite a widening recognition amongst business leaders of the need to accept a broader responsibility than short-term profits (Elkington 2003). At the same conference, Simon Zadek of Accountability, reporting on his research (Zadek 2002), concludes that these social reports are not having a significant impact on managerial decision-making.

In this paper, we report on an empirical study of CSR programmes among a number of leading multinationals to explore some of the underlying reasons why CSR seems to have evolved with such low impact on business decision-making. In addition, we propose a framework developed during the study that clearly links CSR to both business and social outcomes. We conclude the paper by identifying some of the issues that still need to be resolved and our contribution to theory and practice. In the next section, we explore the growing impact of CSR on business as viewed by differing interest groups.

The Growing Impact of Corporate Responsibility on Businesses

Over 30 years ago, Milton Friedman wrote in the New York Times that the social responsibility of a business was to increase its profits. Any diversion of company resources to social programmes, charity and other non-profit generating activities, the Nobel Laureate argues, represents a tax on consumers and investors (Friedman 1970). Such a tax reduces society's total wealth and satisfaction. His position, based upon sound free-market ideology, has come under increasing attack since time of writing and can no longer provide the business leader with an erudite means of avoiding the issue. Corporate Social Responsibility (CSR) is something that every Board must now address in some form. Ironically, it is arguably the triumph of free-market ideology over regulated economies, which have foisted new responsibilities on increasingly powerful multinationals companies. Globalisation strategies provide businesses with unprecedented access to markets and ever-lower production costs (Day and Montgomery 1999), it has also brought closer to reality the concept of the global village first discussed in the 1960s. Business practices, even those conducted a very long way from their home markets, can be subject to intense scrutiny and comment by customers, employees, suppliers, shareholders and governments, as well as other groups upon whose support the business relies. One such group, Non-Governmental Organisations (NGOs), have become more and more powerful in recent years, calling business to account for policies in the areas of fair trade, human rights, workers' rights, environmental impact, financial probity and corporate governance.

This discussion between advocates of Milton Friedman's position – limiting responsibility to maximising profit – and NGO activists who regard firms being primarily instruments of social

policy represents the extreme ends of the debate. Many academics writing in the field of CSR are cognisant of these extremes and seek to establish a middle ground:
Wood (1991) suggests that the public responsibility of business is divided into areas of social involvement directly related to their business activities and competencies, with secondary areas of involvement relating to its primary activities. For example, an automaker might reasonably be expected to deal with vehicle safety and the environment but not low-income housing or adult illiteracy. Clarkson's long-term study of corporate behaviour (Clarkson 1995) indicates that companies deal with stakeholders, not society, and that CSR must distinguish between stakeholder needs and social issues; managers can address stakeholder requirements but not abstract social policy. Caroll (1979) suggests corporate responsibility has different layers: economic, legal, ethical and discretionary categories of business performance and that business leaders must decide the layer at which they choose to operate.

In our study we explore the linkages between CSR programme outcomes and their impact on business decision-making across a number of multinational businesses. Our research objectives, design and protocol are discussed next.

Research Objectives, Design and Protocol

Since our research objectives are exploratory in nature, we anticipate that our study will contribute to the development of CSR as an instrumental theory. The three specific objectives of our research are:

- To explore how strongly CSR investment is linked to business and social outcomes among mainstream business.
- To develop a framework for linking CSR programmes with business decision-making.
- To identify the consistencies (and inconsistencies) among CSR policy makers and how their CSR programmes are implemented.

Clarkson (1995) identified numerous problems encountered by researchers working towards similar objectives. In a landmark, 10-year study, he concludes that researchers should concentrate on how firms actually manage their stakeholders rather than upon empirically validating inherently untestable frameworks of social responsiveness. Consequently, we felt it necessary to look at developing a framework for linking CSR programme measures with business decision-making.

Research Design and Protocol

Content analysis of the CSR, customer and reputation management literature identified the assertions made about the link between CSR and business and social outcomes. These relationships are illustrated in our prototype framework (Figure 1) and suggest that CSR programmes affect stakeholders' cognitions that then change their behaviours in ways sympathetic to the company's commercial interests.

To understand if firms do conceive of the linkage between CSR and performance in this manner, the researchers interviewed the CSR leaders of six multinational companies who are among the global market leaders in their fields. Purposeful sampling (Eisenhardt 1989) was employed to eliminate firms facing acute CSR issues, such as extraction or tobacco companies, who are judged by the researchers as being unrepresentative of typical businesses.

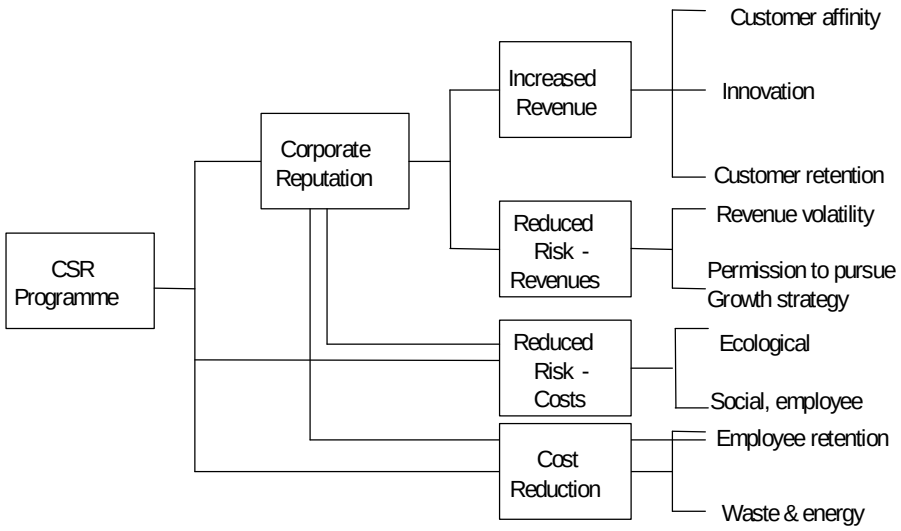

FIGURE 1: CSR Link to Corporate Reputation and Business Performance

The selected firms were: Orange (UK), Diageo PLC, Pilkington PLC, Unisys, Company X and Company Y. [Both Company X and Company Y opted to remain anonymous by name but we can report they are a global software vendor and an IT service provider respectively]. All six firms had a readily identifiable executive responsible for CSR. This person normally reported into the Main Boards of their companies through the Corporate Affairs function. Two of the interviewees, Diageo and Pilkington, are responsible for their firm's global CSR policies, one (Unisys) responsible for Europe-Middle East-Africa and the other three responsible for the UK. However, the true power of these individuals within their firm and, hence, their ability to provide accurate data as to how CSR policy influences decision-making are made, cannot readily be assessed by the researchers. We acknowledge this as a limitation of our methodology.

Empirical evidence was gathered in semi-structured interviews with these CSR leaders and, whilst the literature identifies a wide variety of definitions of "CSR investments", we allowed the participating companies to determine how they defined CSR rather than impose a definition upon them. Towards the end of the interview and before sighting our prototype framework (Figure 1), interviewees were asked to create their own framework illustrating the links between their CSR programmes and outcomes. They were then asked to assess our prototype framework and contrast this with what they had just drawn. As suggested by Eisenhardt (1989), we modified our prototype framework through successive interviews and, after two or three iterations, the revised framework remained largely unaltered and could be used in the final interviews to guide discussions. Interviews lasted between two to three hours and each of the respondents agreed to clarify any remaining issues as necessary post interview. Finally, all the interviewees agreed to read and modify a draft of a commercial report we produced (Authors 2003) to ensure that they concurred both with our revised framework (Figure 2) and our other findings. This report was unanimously endorsed by our respondents and in the next section, we report on this empirical framework and key findings.

The CSR Framework and Key Findings

Since our empirical framework has been developed iteratively with our six respondents on behalf of their respective companies, it is both convenient and instructive to present our research findings against this framework.

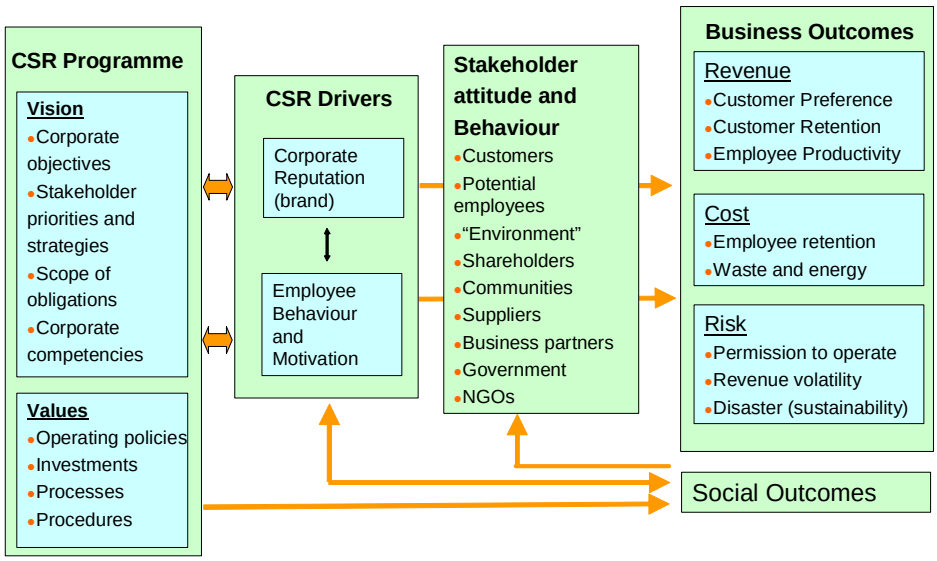

FIGURE 2: An Empirical Framework Linking CSR with Outcomes

We found for most respondents that the common starting point of their CSR programmes was the company's vision and values that had usually developed on a normative basis. Whilst none of the respondents would claim to have such a formalised, instrumental framework as we offer here, each recognised that their corporate vision and values co-evolved with corporate reputation and the behaviours of its employees. There was full agreement that CSR programmes favourably enhance corporate reputation and to some extent could influence employee behaviour. Thus, it was felt that once CSR is "embedded", their business would automatically act more responsibly, have a greater understanding of the risks in its environment and strengthen its corporate reputation. With the exception of Diageo which does adopt a shareholder value approach to its CSR policies and practices (i.e. programmes to outcomes directly [Figure 2]), the remaining companies tend to assess performance measures on the left-hand side of the framework; setting CSR objectives, identifying their primary stakeholder(s), scoping obligations and, perhaps, developing some measure of employee awareness and assessing their buy-in towards such programmes. With such strong normative positions linking CSR programmes to the company vision, values and reputation, it is understandable why "hard-edged" business cases do not always accompany CSR programmes.

Referring back to Figure 2, we report next on our CSR findings that relate both to visioning (the scoping of social obligations and the challenge of prioritising stakeholders) and to the assessment of social outcomes:

Companies feel responsible for communities impacted by their core business operations

All respondents interviewed felt that their companies should comply fully both with regulatory (and legislative) demands as well as industry norms and expectations. The key reference point for most companies was their industry, rather than an idealised gold standard of corporate responsibility. This finding concurs with Wood and Jones (1995) that businesses

involve themselves in social areas related to their primary areas of involvement and extends these authors' conclusions by identifying competitors as a reference point. Those with the most articulated positions on what they wish to be held accountable for used the following criteria for this assessment:
Their social responsibilities should leverage their unique core competencies so as to make a contribution others cannot match and their social programmes should have a direct relationship to the industry in which they operate.

Companies are clear on their most important stakeholders but are less able to set priorities among the rest
Most respondent firms have a flat list of stakeholders beyond their priority stakeholders (normally customers). These include: Government, NGOs, suppliers, employees and communities. There is no consistent approach to prioritising their secondary stakeholders.
This issue of stakeholder prioritisation is of vital importance to the effective management of CSR and seems to be largely absent in policy decision-making amongst the firms interviewed. Mitchell, Agle and Wood (1997) offer a model, which classifies stakeholders into one of seven types according to the urgency, power and legitimacy of their claims over the company and provides a mechanism for this differentiation.

Social outcomes need more formal assessment
Diageo stands alone in publishing an analysis of social outcomes as well as calculating the Economic Value Added (EVA) it creates in local markets through its activities and tax revenue generated for host governments. The other firms face commercially difficult choices against their policy decision-making discussed above since, without a mechanism for prioritising stakeholders for CSR purposes and with no substantive means of measuring successful outcomes, how do senior management make these choices?

Conclusions

All respondent companies claim to have conducted a broad and deep scan of the NGO and stakeholder environment relevant to their business operations. Most engage stakeholders and NGOs formally in order to understand and assess expectations of their CSR measurement and reporting. However, we sense a real paradox here of companies wanting standardisation of the information required of them but vociferously rejecting a "one size fits all" approach to CSR measurement and reporting (Authors 2003). In addition, social and environmental reporting was separate from their financial reports across all the firms we interviewed (except Pilkington). If the core idea of the triple bottom line of company reporting (improved financial, social and environmental transparency) is to be achieved, then an integrated approach to such reporting (and measurement) across the three areas is required, as Waddock, Bodwell and Graves (2002) discuss in their paper.

Finally, the development of our performance framework, derived from theory and the empirical work with our respondents, makes a contribution to instrumental CSR theory. Our CSR policy and practice findings extend those of Wood and Jones (1995) as to how firms define their areas of social responsibility and identify the difficulties firms have in setting priorities between stakeholders, as set out by Mitchell, Agle and Wood (1997).

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