CHAPTER-II

REVIEW OF LITERATURE
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HISTORICAL BACKGROUND

Most of the modern concepts, ideals and social philosophy can be traced to the socio economic institutions of the past. The social values and the cultural factors, which influenced the ancient society, have undergone change. A research into the ancient foundations will enable us to understand the reasons for changes that have occurred through a study of man and his habits. Historical knowledge and a study of human experience will enable the modern thinkers to evade the mistakes made in the past and to find a solution of the problems that we face today.¹

The Arthashastra written by Kutilya possibly between the 4th century B.C. and 150 A.D. deals every aspects of trade, the third pillar of economic activity and Social Responsibility. Apart from promoting trade by improving the infrastructure, the state was required to keep trade routes free of harassment by courtiers, state officials, thieves, and frontier guards (sloka 2.1.38). Traders were mistrusted. ‘ Merchants are all thieves, in effect, if not in name; they shall be prevented from

oppressing people' (4.1.65); their propensity to fix prices by forming cartels (4.2.19, 8.4.36); make excessive profits (4.2.28-29); a deal in stolen property (4.6.3-6) was guarded against by making these offences punishable by heavy fines.²

In India, from 4th Century B.C. till the end of 10th century A.D., evidence is available to the historians which indicate that the relation between business, workers, employees and the society was by and large were rationally based on justice and equity. During the invasion period after 10th century, foreign invaders carried away vast treasures from different parts of India. These invasions destructed works of art, treasures and economy of the states for next 600 years. The society mainly consisting of artisans, craftsmen and unskilled laborers simply dispersed to villages to avoid further destruction of life and property. The result was deterioration in social justice, equity, and responsibilities. There was hardly any difference between a worker and a slave.³


Then came era of colonialism. Double standards came in force all over the world. Industrialized nations of the west intervened in the political spheres of vast and naturally gifted nations of east, southeast and south Asia. They occupied and converted these nations into colonies to get raw materials and cheap labor for their industries following the Industrial Revolution in the European countries. It became a worldwide phenomenon. Erosion of moral values, slavery, apartheid, communalism, extortion and mistrust completed the established norms of social responsibility by trade and industries.

At this point in history, as globalization surges on while technology continues to shift the foundations of economic reality at local, national, and international levels, ushering in new challenges to all firms and governments and blurring traditional distinctions among social institutions, it is critical to examine the notion of Corporate Social Responsibility (CSR). The CSR movement draws on a history of corporate accountability to society.

Although there is no general consensus on what constitutes CSR and how much of it ought to be prescribed for businesses, several CSR themes overlap with similar ideas in the field of business ethics. Because of this uncertainty and because of the importance of business ethics in the modern economy, it is absolutely necessary for managers
to understand CSR and implement it correctly. Similarly, it is just as important for public stakeholders to understand the issue so as to effectively distinguish beneficial CSR from its perversion in "pernicious CSR." Only after people appreciate the complexity of the CSR issue and its implications for ethics and social justice can the CSR movement become adopted as sound business practice that enhances corporate productivity and promotes social stability. It is undeniable that some fundamental accountability exists for the corporation to society. Even a strict legalist view adopting the notion that corporations are entitled to the same rights as those enumerated for persons in the US Constitution must concede that the corporation will ultimately be accountable to the government for practicing its business in accordance with the principles of its corporate charter, the document that establishes the legal existence of the corporation. The word “charter” derives from the Latin word carta, meaning, “paper.” For many years it was synonymous with “contract,” and is therefore a concept that has long been enshrined in modern society. In fact, since the purpose of civil society itself is to provide people with a means for interaction and trade with one another, it is imperative to guarantee the legitimacy of contracts, lest an otherwise civilized group of people degenerate into anarchy.4

**PEOPLE-PLANET-PROFIT (PPP)**

In line with the globalization of the world economy and the increasingly rapid flow of information that simplifies the detection of unethical performance of companies, the interest in, and importance of, CSR are continuously increasing. During the latest decade, CSR has achieved its breakthrough among the wider international business community and taken its place in the general business discourse (see for example Jutterström; 2006, Perrini; 2006 and Whitehouse; 2006).

The concept of corporate social responsibility acknowledges the corporate sector’s obligations towards society beyond short run profit maximization and that the group of stakeholders, whose interests are to be considered in corporate strategies and operations, are extended further than to the shareholders to include societal and environmental values. The World Business Council for Sustainable Development (WBCSD) defines CSR as: “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.”5

This description of CSR reflects the general idea of the concept – to redefine the relationship between business and society and to

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emphasize the social and environmental responsibilities by corporations acting in the world economy. Recent literature recognizes that the concept of CSR lacks a precise definition, which makes it, to a certain extent, open for interpretation by the individual practitioner (Campbell; 2006). It is likely that its content will fluctuate according to cultures as well as to societal norms and trends (Snider, Martin and Hill; 2003, Garrega and Melé; 2004). Whitehouse (2006) argues that the only statement that can be made regarding the identification of CSR is that there exists no universal definition of the concept.6.

Blowfield and Frynas (2005) and Valor (2005) identify CSR as an umbrella concept, including a variety of theories and practice which recognize the social and environmental responsibilities of corporations, as well as that companies are responsible for the behavior of others with whom they do business – for example with supply chains. This definition allows for a multitude of interpretations and also addresses the difficulties of establishing one single, universal definition and meaning of CSR. Companies and organizations often develop and adopt their individual understanding of the concept. Among the business community, the

6. Corporate Social Responsibility and Development, Linna Palmqvist
denotation of the “Triple Bottom Line” or “Triple p –people, planet and profit” constitutes a popular reference to the concept of CSR and recognizes the integration of the economic, societal and environmental responsibilities into the business strategy of modern companies (Painter-Morland; 2006, Garrega and Melé; 2004, Husted and de Jesus-Zalazar; 2006). It can also be seen as a reference to CSR as an integral part of the business strategy of contemporary international corporations.

CSR is often identified as the social and environmental care that constitutes an integral part of the business strategy and cooperation that goes beyond compliance with the existing legislation in the home location and the host country of operation. Löhman and Steinholtz (2004, p. 13) state that the focus on beyond compliance is emphasized in for example the European Union’s definition of CSR. Jutterström (2006) quotes a statement by the International Chamber of Commerce (ICC) and the International Organization of Employers (IOE): “Compliance with the law is the minimum acceptable level of performance; [CSR], in our view, refers to the initiatives that go above and beyond legal compliance”. Along with the definition of CSR as the actions beyond legal compliance goes the understanding that CSR must have a voluntary character, which is the current nature of the concept.
Since the stakeholders are supposed to constitute the beneficiaries, or recipients, of CSR strategies, a definition of the concept is appropriate. Blowfield (2005) defines the notion stakeholder as "any entity that influences or is affected by a company", a definition of a rather general character. Corporations have their individual definitions of stakeholders, in line with the specific strategies and priorities of the company, and so do academics. Morimoto et al. (2005) include the following agents in their definition of stakeholders: "employees and contract staff, shareholders, clients and customers, local inhabitants, suppliers, and the general public that includes the government as well as environment." From this definition, it can be concluded that the interests of all stakeholders cannot easily be simultaneously adhered to without conflict, which constitutes a delicate problem for the many companies that are engaging in CSR. The above definition has a broad and all-embracing character. However, individual companies’ interpretations of the concept tend to have a more confined nature.

How a company chooses to define its stakeholders is crucial for the direction of the CSR strategy and determines the beneficiaries of CSR. It is to America’s credit as a nation dedicated to the free pursuit of private property that the legal protection bestowed to contracts and the transactions they represent has been extended to the corporation. In many countries at many points in history corporate charters have been frivolously rescinded and companies nationalized or seriously manipulated by government to the detriment of many and the benefit of a select elite. However, the Supreme Court case Santa Clara v. Southern Pacific Railroad Co.—where the court overturned a local tax law of significant cost to the railroad and of dubious justification—set the precedent that a corporation is entitled to the same legal protection as are private citizens, and it expanded American

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7 Corporate Social Responsibility and Development Linna Palmqvist Lund University School of Economics and Management, Department of Economics
companies’ freedom for general practice and from undue regulation (Santa Clara v. Southern Pacific Railroad Co.). It is important to revisit this issue because the most zealous critics of CSR may claim that the corporation is no more accountable to society at large than is the private citizen. That interpretation is founded on inaccurate scholarship. Being entitled to the same legal protection as persons does not bestow upon corporations the same status as persons. Rather, this legal stipulation is intended to curb irrational government intervention in private business affairs by establishing corporations’ right to due process, most simply defined as “procedural fairness,” not immunity. Therefore, it is totally legitimate for the government via its numerous departments and agencies to impose certain restrictions on corporate activity, provided that it does so in a judiciously responsible manner with legitimate purpose in protecting social welfare.

It should be obvious that corporations, whose survival is contingent upon their good standing with society and the continued renewal of their corporate charters, must conduct business in a socially responsible manner so as to justify their existence. If a corporation endangers the public—by establishing a monopoly or poisoning a local community, for example— it can be divided or dissolved. The underlying logic protecting the public from certain companies’ special
interests is illustrated in numerous antitrust cases, most notably the notorious case of Standard Oil, a monopoly that was dissolved in 1911 (Standard Oil Co. of New Jersey v. US). Average citizens do not carry this existential burden and it underscores the reason for a heightened expectation of righteous behavior among corporations than among average citizens.\textsuperscript{8}

To say that CSR reflects a mistaken analysis of how capitalism serves society is certainly not say that managers can be left to do as they please, nor to say that the behavior of firms is nobody's concern but their own. There is indeed such a thing as "business ethics": managers need to be clear about that, and to comprehend what it implies for their actions.\textsuperscript{9}

In this way, private business is a win-win situation: the firm makes money while the public satisfies its wants. This principle assumes, however, that commodities will be priced in a way that accurately reflects cost. Oftentimes, costs known as externalities are left unaccounted for, thus compromising the above standard. Former Vice President Al Gore stresses, "externalities are costs created by industry but paid for by society" (The Wall Street Journal). The most obvious type of externality is pollution. Unless a firm takes care to account for


\textsuperscript{9} ibid The Wall Street Journal
the environmental damage resulting from engaging in production in
the price of its products, it is promoting a market failure that may
require remedy. Traditional ethicists who believe that a company
ought to account for the full economic cost it incurs would endorse
such remedies.

Prominent business ethicists also support the second aspect of Mr.
Heinemann's definition. Just as average citizens are expected to
comply with all criminal statutes, so should companies take special
care to comply with their own legal guidelines. It would be rare to find
a person who would assert corporate exceptionism to the law. If
anything, most business ethicists would be comfortable with the notion
that companies ought to exhibit greater commitment to rules and
regulations than the average person, for the damage done to society
and the market by flagrant violators of business standards is much
greater than the damage done to society by solitary criminals. A major
argument made by CSR proponents as well as those generally
interested in advancing business ethics is that being "merely legal" is
not enough for a firm to be considered socially responsible: Some
businessmen appear to believe that anything which is not outright
illegal, however unethical, can be regarded as proper business
conduct. But without ordinary decency (which goes a long way beyond
what the law requires of firms), business could not be carried on.
Firms that lie and cheat cannot be expected to stay in business very long, even if the law allows their actions. Dishonest companies will be unable to borrow, to obtain working capital, or to form stable business relationships with suppliers and customers. Decency in this sense is not just good for business, it is essential. When it comes to maximizing long-term owner value, honesty is not just the best policy; it is the only feasible policy.  

**BEGINNING OF NEW ERA**

Table 2.1: PRESENT CONCEPT OF CSR

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Percent that agreed</th>
<th>Small company response</th>
<th>Medium company response</th>
<th>Large company response</th>
</tr>
</thead>
<tbody>
<tr>
<td>It fits our company's traditions and values.</td>
<td>76%</td>
<td>75%</td>
<td>75%</td>
<td>79%</td>
</tr>
<tr>
<td>It improves our reputation / image.</td>
<td>66%</td>
<td>63%</td>
<td>67%</td>
<td>75%</td>
</tr>
<tr>
<td>It's part of our business strategy</td>
<td>60%</td>
<td>58%</td>
<td>59%</td>
<td>66%</td>
</tr>
<tr>
<td>It's important to our customers / consumers</td>
<td>53%</td>
<td>49%</td>
<td>56%</td>
<td>63%</td>
</tr>
<tr>
<td>It helps to recruit / retain employees</td>
<td>41%</td>
<td>30%</td>
<td>54%</td>
<td>56%</td>
</tr>
<tr>
<td>It gives us a competitive advantage</td>
<td>41%</td>
<td>40%</td>
<td>40%</td>
<td>47%</td>
</tr>
<tr>
<td>It helps us reduce business risks</td>
<td>33%</td>
<td>32%</td>
<td>34%</td>
<td>37%</td>
</tr>
<tr>
<td>It's expected in our community</td>
<td>33%</td>
<td>26%</td>
<td>38%</td>
<td>44%</td>
</tr>
<tr>
<td>It helps manage regulatory pressures</td>
<td>29%</td>
<td>23%</td>
<td>33%</td>
<td>40%</td>
</tr>
</tbody>
</table>

SOURCE: [http://www.ethicsworld.org/corporatesocialresponsibility/graphics/drivers%20for%20CSR.jpg](http://www.ethicsworld.org/corporatesocialresponsibility/graphics/drivers%20for%20CSR.jpg)

The first phase of CSR reporting was composed of advertisements and annual-report sections in the 1970s and 1980s that paid homage to the environment the way a person might throw a coin into a fountain along with a wish. The reports were not linked to corporate performance. Leaving aside the "green-wash" reports that were disinformative and were also labeled "eco-pornography," there were a few isolated corporate efforts, such as that by Abt & Associates in 1972, to add an environmental report to its annual financial statements.

The Abt report was pioneering, but it was also idiosyncratic. Its concept of social responsibility was strictly related to air and water pollution and its financial auditor disclaimed any responsibility for the data on the basis that no standards had been introduced for such audits. It also rashly attempted to reduce everything to a dollar bottom line. So one of us (John Tepper Marlin) wrote an article for The Journal of Accountancy in February 1973 suggesting ways in which accountants could measure pollution; it included a model environmental report and hypothetically added an Auditor's Opinion. We also contributed a joint article to the first issue of Business and Society Review suggesting how International Paper could have handled and should handle environmental issues in its annual report.
The second phase of CSR reporting, of which the Body Shop and Shell Canada are examples really began with Ben & Jerry's, which in 1989 commissioned a "social auditor" to work with the B&J staff on a report covering 1988. It was an extraordinary move by B&J. The social auditor was given free rein to interview anyone in the company for two weeks, on any day or night shift. The social auditor visited not only the main ice cream factory but also a smaller one that made "Peace Pops" and other special products. The social auditor was also encouraged to speak with suppliers such as their dairy processor, and with public and private representatives of the community.

This social auditor recommended that the report be called a "Stakeholders Report" (the concept of stakeholders existed but this was possibly the first-ever report to stakeholders) and that it be divided into the major stakeholder categories: Communities (Community Outreach, Philanthropic Giving, Environmental Awareness, Global Awareness), Employees, Customers, Suppliers, Investors. Suppliers had not previously been thought of by B&J as a stakeholder. B&J prepared the Stakeholders Report with the social auditor's input and the social auditor then appended a "Report of Independent Social Auditor" and signed it, saying it was his "opinion that the Stakeholders Report fairly describes the performance of the company in the area of social responsibility for the year 1988 with
respect to the five stakeholder groups" (this social auditor was John Tepper Marlin).

This is the first of what Mallen called the New Model corporate reports. It meets all your definitions of such a report. After this first social audit in 1989, B&J continued to issue annual social reports, rotating to different social auditors as they sought to develop the concept. Improvements were made both in B&J practices and in the annual social reports, but as the firm grew year after year the ways in which it was strong and the ways it was weak, as reported each year, in our view did not change greatly. The social audits still lacked a set of generally accepted standards against which B&J performance could be measured. B&J's social auditors were still individuals without external validation of their qualifications, or of the process they used for their audits or of the standards against which they measured the company's performance.

The third phase of CSR reporting is surely the most interesting because it introduces not only third-party certification of the reports, but certification by bodies that are accredited to certify against social or environmental standards. It breathes life into standards and on-site inspection, because social auditors are firms and people who are accredited by environmental or social accreditation bodies (or by both). The new phase makes the social auditor at the same time both
stronger and more circumscribed than the independent social auditor of the B&J vintage. The social auditor today has much more clout because large buyers are serious about wanting a facility certified, because their customers care. No certification, no business. Because more is at stake, the social auditing team in the new phase does not have the same latitude the first B&J auditor did to interview and to interpret. The standards are already determined before an auditor goes in and the procedures are specified. When a violation is found, the facility is given a chance to take corrective action. Some of the violations are considered small, some enough to put certification in jeopardy; the auditor must say which it is. The auditor returns to see that required corrective actions are made. Major problems are not allowed to remain year after year.

The global leader of the new phase in the social area is Social Accountability International (SAI), founded in 1997. The first facility certified against its multi-stakeholder global standard was an Avon factory in New York State, on January 1, 1998. Other pioneers on the environmental side were the Forest Stewardship Council, the International Federation of Organic Agriculture and the Dutch Max Havelaar Foundation, now FairTrade. Together, these groups have formed the International Social and Environmental Accreditation and Labeling (ISEAL). The formation of ISEAL is very significant because it
is an international group of standard-setting and accreditation bodies that have joined together to help make social and environmental standards meaningful, widely recognized and of a high quality. SAI alone has so far accredited nine certification bodies (organizations of auditors), with thousands of social auditors at their disposal. The three phases of CSR reporting overlap with the dating of the three "waves" of media coverage of CSR issues by Sustainability, because both were influenced by changing economic conditions (the preoccupation of corporations with oil shortages and inflation in the late 1970s preempted much progress on CSR issues) and by events (such as the Exxon Valdez oil spill).

This social auditing work now adds up to a lot of business that accountants could have had if they had followed up on the suggestions in the February 1973 article in The Journal of Accountancy. Not until 2002 did two of the Big Four accounting firms, KPMG and PWC, jointly sign a Verification of the 2001 Shell Report. But there was an obstacle in the way of traditional accounting firms going this route. The key to the new social audits is that certification auditors are accredited, with regular on-site inspections of their certification practices. Financial auditors in the United States never have been subject to accreditation or investigations of on-site practices by an accreditation body ("peer review" is not a long-term substitute). The new Accounting Oversight
Board has the power to do what accreditation bodies do, i.e., remove the right of an auditor to certify against a standard. But until this new Board asserts such power, financial accountants and auditors operate less rigorously than social auditors.

Thank you for inspiring us to review the history of CSR reporting. We may not have it all exactly right, but we think this is a marginal improvement on the perspective you provided in your last Dispatch. This is not to take anything away from the good work of Shell Canada or Shell anywhere. Shell has got the message, but we don't believe they were the first.11

CSR EUROPE

CSR Europe is the leading European business network for corporate social responsibility with around 70 multinational corporations and 25 national partner organisations as members. Its mission is to support member companies in integrating CSR into the way they do business, every day.

CSR Europe is a platform for:

11 Business Respect, Issue Number 51, dated 9 Mar 2003 By Alice and John Tepper Marlin
Alice Tepper Marlin, President of Social Accountability International in New York City.
John Tepper Marlin, Ph.D., Chief Economist for the Comptroller of the City of New York
Adjunct Professors of Markets, Ethics and Law, Stern School of Business, NYU
• Connecting companies to share best practice on CSR
• Innovating new projects between business and stakeholders
• Shaping the modern day business and political agenda on sustainability and competitiveness

The organization was founded in 1995 by senior European business leaders in response to an appeal by the European Commission President Jacques Delors. It has since grown to become an inspiring network of business people working at the very forefront of CSR across Europe and globally.\footnote{http://www.csreurope.org/pages/en/about_us.html}

Since 1995 businesses and European policy makers have been engaged in a dynamic of reinforcing one another's efforts in developing initiatives on CSR and sustainable development. The timeline below illustrates CSR Europe's pioneering role in the European CSR movement and strategy, from the European Business Declaration against Social Exclusion in the 1990s to the current European Alliance for CSR.

Moreover, the timeline provides links to initiatives and resources pooled together through our pan-European network. These examples show how business practitioners are innovating business models and developing practical solutions to socio-economic and
environmental challenges. They also highlight how CSR Europe energises the vibrant dialogue, cooperation and competition with social partners, civil society, governments and academia, in and beyond Europe. 1993 The Appeal of President Jacques Delors to business on CSR.

In June 1993, President of the European Commission Jacques Delors makes an appeal to businesses' talents and solutions to address Europe's structural problems of unemployment, restructurations and social exclusion. He invites enterprises to adopt a European Declaration against Social Exclusion.

1994 Pioneering companies design first level playing field for CSR In response to the Delors Appeal, Glaverbel, Levis, BP, Accor, Philips, Bayer, BT, the London Enterprise Agency, the Manifeste Français des Enterprises canter l'Exclusion and Uniapac - with coordination by Patrick Venturini and Jan Noterdaeme for the European Commission - define the principles, areas of action and examples for business involvement in joint efforts against social exclusion in Europe.

1995 European Business Declaration against Social Exclusion

On 10 January 1995, 20 business leaders and European Commission President Jacques Delors adopt and announce the European Business Declaration against Social Exclusion. Signatories call for the
development of a European network for the exchange of information and experience.

1996 A new European Business Network is born.

Under the umbrella of the King Baudouin Foundation and with the support of the European Commission, the initial group of company signatories of the Declaration appoints Ann Vandenhende and Jan Noterdaeme to set up and coordinate the European Business Network for Social Cohesion (renamed CSR Europe in 2000).

1997 Businesses engage in the European Year against Racism

Among its very first activities, the Network succeeds in mobilizing a critical mass of companies across Europe for sharing best practice and building new knowledge and tools to address discrimination at work and in the community.

1998 Launch of CSR Europe's Online Resource Centre

In October 1998, business leaders together with the President of the European Commission Jacques Santer launched the European Resource Centre on CSR (now CSR Europe's website). In the same year, Viscount Etienne Davignon hosts CSR Europe's first Advisory Board including representatives from IBM, Randstad, Johnson & Johnson, Shell, Accor and Caisse des Dépôts et Consignations.
1999 The European Day - "Business & Government Joining Forces for Employment and Social Cohesion"
The forthcoming Portuguese EU Presidency invites Etienne Davignon and other leaders of CSR Europe and The Copenhagen Centre to provide input into the European Summit on Employment, Economic Reform and Social Cohesion to be held in Lisbon in March 2000. President of the European Commission Romano Prodi and European Commissioner Anna Diamantopoulou provide strong backing for this Portuguese invitation. 2000 European business leaders present plans for promoting CSR to Portuguese Prime Minister.

Top European business leaders meet with Prime Minister Antonio Guterres on 8 March 2000. Twenty CEOs address to all Heads of State and Governments and propose 12 concrete ways to: build an entrepreneurial and inclusive knowledge society; develop a culture of communication and multiplication of best practices; expand teaching of corporate social responsibility, corporate citizenship and business ethics; invest in public-private partnerships for effective responses to economic and social challenges. For Etienne Davignon, the Lisbon Summit is the right moment for governments and the European Commission to recognise that businesses can successfully combine economic competitiveness and social responsibility.
2000 European Heads of State and Governments make an Appeal on CSR
In the conclusions of the European Lisbon Summit, 15 Heads of State and Governments make an appeal on the business case for responsibility, placing CSR at the heart of the Lisbon Strategy 2010: "To make Europe the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion by 2010."

2001 Belgian EU Presidency Conference on CSR
In the closing debate of the Belgian EU Presidency Conference on CSR, and in reply to ETUC's request to negotiate a European Directive on CSR Transparency, Viscount Etienne Davignon proposes to set up a European Multi-Stakeholder Platform on CSR. At the gala evening organised by CSR Europe, Mr Davignon and Alan Christie share with the 400 participants some of the European Campaign's aims, tools and planned activities. These include: preparing the future generation of tomorrow's managers through the European Academy of Business in Society; helping SMEs to evaluate and strengthen their social responsibility by using the SME Key toolkit; equipping the European investment community with the SRI Compass, an online reference guide to all 285 green and ethical funds in Europe.
2002 First European Commission Communication on CSR

In response to the Lisbon Appeal on CSR and on the basis of a wide consultation (Green Paper), the European Commission releases its first Communication on CSR. Highlights include: a European definition of CSR ("CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis"); the principle of a European Multi-stakeholder Forum on CSR; and the way in which the European Commission relates CSR to specific European policies.

2002 Launch of the European Academy of Business in Society

CSR Europe and The Copenhagen Center team up with universities and business schools to found the European Academy of Business in Society (Eabis). Its mission is to be a world-class reference point for the integration of CSR into the mainstream of business practice, theory and education, and to enhance models for sustainable business success. Viscount Etienne Davignon, Mads Ovlisen (Chair TCC and Novo Nordisk) and European Commissioner Philippe Busquin set the ground for new European support for CSR research through the European Research Framework Program.
2002 European Commissioner for Trade challenges business

In December 2002, in the presence of Georg Kell from the United Nations Global Compact, European Commissioner for Trade Pascal Lamy challenges CSR Europe’s General Assembly to forge business to business alliances towards trade for aid activities. He urges CSR Europe members to provide best practice information to businesses worldwide and to contribute fully to the European Multi-stakeholder Forum on CSR.

2003 CSR Europe adopts new strategy to mainstreaming CSR

After 5 years of intense campaigning, awareness raising and knowledge building across Europe, CSR Europe member companies decide to renew the organization’s mission: to help enterprises mainstream CSR into business strategy and practice. CSR Europe’s Board of Directors appoints Bernard Giraud from Danone as the first Executive Director of CSR Europe.

2004 The European Multi-Stakeholder Forum on CSR

Starting October 2002, together with ETUC, Businesseurope and the European Platform of NGOs, CSR Europe coordinates the European Multi-Stakeholder Forum on CSR hosted by the European Commission. A Final Report is presented in June 2004, including common principles and values; a base line understanding on CSR; nine recommendations for future CSR knowledge and capacity building in and beyond Europe.
2005 The first European Marketplace and the Roadmap on CSR

CSR Europe celebrates its 10th anniversary with the first European Marketplace on CSR, where 400 business and stakeholder practitioners come together to share practical CSR solutions. At this occasion, Frank Welvaert, Chair of the Board of CSR Europe, presents the European Roadmap for Businesses - "Towards a Competitive and Sustainable Enterprise". In response to the Roadmap, European Commission President Manual Barroso offers businesses a new partnership. Commissioners Günter Verheugen (Enterprise and Industry) and Vladimir Spidla (Employment and Social Affairs) invite Etienne Davignon and CSR Europe’s member companies to elaborate on this partnership (see the European Alliance for CSR launched in 2006).

2005 First Sino-European International Conference on CSR in Beijing

Frank Welvaert, Chair of CSR Europe’s Board of Directors, and European Commissioner Vladimir Spidla open the Sino-European International Forum on CSR co-organised by CSR Europe and WTO China in Beijing (September 2005). One year later, CSR Europe and ORSE release a joint publication on CSR in China aimed at supporting investors in China who are looking to combine performance requirements and sustainable development priorities.

2006 Second European Commission Communication on CSR and the European Alliance for CSR
Building upon the outcomes of the European Multi-stakeholder Forum and further consultations with business leaders, the European Commission renews its policy on CSR through a communication to the European Parliament, the Council and the European Economic and Social Committee. The communication entitled "Implementing the partnership for growth and jobs: making Europe a pole of excellence on corporate social responsibility on CSR" entails key elements such as: the integration of CSR within relevant European policies - with a strong focus on development and trade; the European Multi-Stakeholder Forum on CSR; the European Alliance for CSR; the High Level Group of Government Representatives on CSR; support for CSR Research.

2006 The second European Marketplace and the European Cartography on CSR

More than 500 practitioners gather at CSR Europe's second European Marketplace on CSR on 22 June 2006. More than 120 company solutions on CSR are presented in and around the ten priority areas defined in the European Business Roadmap and the European Alliance for CSR. Together with its national partner organizations, CSR Europe launches a European Cartography on CSR. Based on a survey of over 500 business solutions and 140 business-networking activities, it provides valuable indications on how and where in Europe CSR
business innovation is occurring. It also highlights some remaining gaps in the area of CSR and identifies different types of constraints companies face when implementing CSR.

2007 Three high level meetings in light of the European Alliance for CSR

First High Level Meeting of the European Alliance for CSR

The Vice President of the European Commission Günter Verheugen and European Commissioner Vladimir Spidla invite business leaders to a first High Level Meeting of the European Alliance, in Brussels on 8 February 2007. The objective is twofold: to review progress of the Alliance and to have an open debate on the linkages between CSR and competitiveness, in support of the European Strategy for Growth and Jobs. After a fruitful discussion, the intention of the EU Commission is to convene the next meeting in March 2008.

European Commission Director Generals meet business practitioners to explore synergies

On 10 October 2007, Viscount Etienne Davignon together with Director Generals of Employment (Mr van der Pas) and Enterprise (Mr Zoure), host representatives from Suez Tractebel, BASF, Microsoft, L'Oréal, Telecom Italia, IBM, Danone and HP to meet with Director Generals and Directors from DG Development, DG Aidco, DG Trade, DG External Relations, DG Enterprise and Industry, DG Employment and Social
Affairs, DG Sanco, DG Regional Policy, DG Internal Market, DG Research and Development, and DG Information and Society. Together they explore how to better link some CSR priority issues - as set in the Alliance in 2006 and currently being addressed in CSR Laboratories - with specific European policies and initiatives.

**High-Level Group of National Representatives on CSR**

The High-Level Group of National Representatives on CSR coordinated by the European Commission holds a meeting on 16 October in Brussels. Representatives of EU Member States, CSR Europe and Business Europe participate in this information and discussion session on the progress of the European Alliance for CSR, in particular on the CSR Laboratories. Expressing their interest in these initiatives, some national delegates advocate for improved and more inclusive communication about the Laboratories.

**2007 The third European Market Place and a new website section on the European Alliance for CSR**

More than 600 company and stakeholder representatives attended the third European MarketPlace on CSR in November 2007 to share innovative solutions to today's business challenges and to tackle pressing societal issues together. Around 90 new CSR solutions were shared among 650 company representatives, European policy makers and other stakeholders. The event also introduced a new format of co-
inventing CSR solutions in CSR Laboratories. At the Market Place, CSR Europe also launched its renewed website, making over 600 company CSR solutions available in the public domain.\(^\text{18}\)

**WHY CSR**

Companies that are socially responsible in making profits also contribute to some, although obviously not all, aspects of social development. Every company should not be expected to be involved in every aspect of social development. That would be ludicrous and unnecessarily restrictive. But for a firm to be involved in some aspects, both within the firm and on the outside, will make its products and services (for example financial services) more attractive to consumers as a whole, therefore making the company more profitable. There will be increased costs to implement CSR, but the benefits are likely to far outweigh the costs.

Corporate social responsibility is not a new issue. The social responsibility of business was not widely considered to be a significant problem from Adam Smith’s time to the Great Depression. But since the 1930s, and increasingly since the 1960s, social responsibility has become an important issue not only for business but in the theory and practice of law, politics and economics. In the early 1930s, Merrick Dodd of Harvard Law School and Adolf Berle of Columbia Law School debated the question “For whom are corporate managers trustees?” Dodd argued that corporations served a social service, as well as a profit-making function, a view repudiated by Berle. This debate simmered for the next 50 years, according to Gary von Stange, before it once again sprang into prominence in the 1980s in the wake of the

“feeding frenzy atmosphere of numerous hostile takeovers”. This concern for the social responsibility of business has even accelerated since the fall of the Berlin Wall, which symbolized the collapse of communism and (more importantly) the onset of turbo-charged globalization Further acceleration has occurred in the past few years. Global concerns have been given an additional edge by the awful events of the collapse of Enron and WorldCom, and their auditor Arthur Andersen, due to dubious accounting practices, has raised the level of scrutiny of large companies, as well as their auditors. And in spite of the most company-friendly President of the United States known in modern times. Even the President has broached, albeit tamely, the notion of the responsibility of corporations. Moreover, previously quiet CEOs have begun to note the pressure. In a rare public appearance in June 2002, the Chairman and Chief Executive of Goldman Sachs, Henry M. Paulson Jr. noted, after the collapse of the Enron Corporation in late 2001, that “I cannot think of a time when business over all has been held in less repute.”

The need to address questions of low living standards, exploitation, poverty, unemployment and how to promote social development in general, has to date been almost entirely the preserve of governments. Clearly, they will continue to have a, if not the, major

role to play in this area. But, increasingly in the future, the promotion of social development issues must also be one of partnership between government and private and non-governmental actors and, in particular, the corporate sector. Until the 1970s, despite regulation and legislation, business continued largely along an autonomous path, ignoring its critics and listening only to its shareholders, to whom it felt somewhat responsible.

But the decade of the 1960s was to be a period of enlightenment for many. The Korean War had ended indecisively, and new conflicts in South-East Asia seemed destined to follow the same pattern. Citizens were distrustful of government, business and the undefined "establishment". Consumers had grown suspicious of adulterants in their food and dangerous defects in the products they bought. People were becoming aware of the fragile nature of the earth's ecology, while simultaneously becoming more cognizant of human rights. The focus, in this paper, is on the largest companies, the Transnational corporations (TNCs). By the early 1980s, trade between the 350 largest TNCs contributed about 40 per cent of global trade; today, TNCs account for 70 per cent of the world's trade. Foreign direct investment from TNCs doubled between the early 1980s and the early 1990s, from $US910 billion to $US1.7 trillion. Because of their often immense size, decisions about the location of investments, production
and technology by TNCs not only influence the distribution of factor endowments, notably of capital, skilled labor and knowledge, between the countries in which they run their activities, but also assume crucial importance for their political and social consequences.

We are now seeing consumers avoiding what they see (rightly or wrongly) as socially irresponsible products or the products of companies that have allegedly not acted in society's best interest. Enterprises have noted that social responsibility is good for business for, and from, each of the seven main azimuths within which they trade and operate. These are: their shareholders and potential investors; managers; employees; customers; business partners and contractors or suppliers; the natural environment; and the communities within which they operate, including national governments. They are now commonly known as an enterprise's stakeholders. On the plus side, according to the United States Social Investment Forum, for the first time ever, over $US1 trillion in assets are under management in the United States in socially and environmentaly responsible portfolios. Estimates vary, since much depends on the definitions adopted, but this latter figure has been backed up by The Cerulli Edge-Global Edition, published by Cerulli Associates, a well-regarded Boston and London-based research consultancy, which in September 2001 estimated the value of the world's ethical investment portfolio to be US$1.42 trillion.

Previously, CSR was only associated with philanthropy, and employee voluntarism whereas now it is associated with ethics, governance, financial transparency, community engagement, diversity, and employee relations. CSR is assumed to have relationships with other organizational variables such as organizational commitment, organizational citizenship, corporate performance and employee loyalty. CSR drivers takes power from the expectations of society,

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employees, shareholders, consumers, the need for branding and concern for reputation.

CSR mandates that the corporation has not only economic and legal obligations, but also certain responsibilities to society that extend beyond these obligations. CSR requires decision makers to take actions that protect and improve the welfare of society as a whole along with their own interests (McGuire et al., 1988).

When we consider old and new ethics of business we see that, in the old ethics, companies were doing just what was required by law, they were keeping low profile, downplayed public concerns, and they were replying to shareholder's inquiries when necessary. But new company ethics include doing and showing the right thing, seeking to identify and address public concerns, feeling responsible to stakeholders and integrating the concerns for CSR in their decision making (Carroll, 2004).

According to Carroll (1999), there is four-part definition of CSR. CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time. Carroll’s Corporate Social Performance model integrates economic concerns into a social performance framework. According to this view, firms have economic and legal responsibilities
and the objectives are to be profitable, to obey laws and regulations similarly.

Ethical and discretionary responsibilities are desired or expected. They aim at doing what is right, fair and just, being a good corporate body. CSR is viewed as a set of practices and actions that are added into business operations, supply chain management processes that include topics concerning business ethics, community engagement, environmental concerns, governance, transparency, plus employee relations. Carroll covers CSR under the term of corporate citizenship, which has three sub parts. These parts are corporate social responsibility that emphasizes obligation and accountability to society. Corporate social responsiveness is the second part and it is business’s capacity to respond to society.

To do so, it must know as much as possible about this business environment, be capable of analyzing its data, and must react to the results of this analysis, which emphasizes action and activity. Corporate social performance is the third part and it is a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships. It emphasizes outcomes and results (Carroll, 1999). Stakeholder view
of CSR explains which stakeholders are affected in which order by each responsibility as it is seen from the table below.

When we look at evolutionary development of CSR we see that the debate began in the early 20th century—Two broad principles—charity and stewardship. The arguments for CSR tend to focus on the relationship between power and responsibility, the need for good stakeholder relations, and business’ desire to forestall government regulation. The arguments against CSR tend to focus on the economic function of business (to make products, not to solve social problems that are the responsibility of individuals, society, and the government). The arguments against CSR focuses on the following issues:

Firstly, it restricts the free market goal of profit maximization, which is also the primary aim of business. The arguments also defend that the business is not equipped to handle social activities. There are also other arguments for CSR. They argue that CSR addresses social issues business caused and allows business to be part of the solution. It protects business self-interest and also limits future government intervention. Additionally, it addresses issues by using business resources and expertise (Fairbrass et al., 2005).
THEORIES OF CSR

In recent years, scholars and managers have devoted greater attention to the strategic implications of corporate social responsibility (CSR). Consistent with McWilliams and Siegel (2001), we define CSR as situations where the firm goes beyond compliance and engages in 'actions that appear to further some social good, beyond the interests of the firm and that which is required by law'. However, this is just one interpretation of CSR. Numerous definitions of CSR have been proposed and often no clear definition is given, making theoretical development and measurement difficult. CSR activities have been posited to include incorporating social characteristics or features into products and manufacturing processes (e.g. aerosol products with no fluorocarbons or using environmentally-friendly technologies), adopting progressive human resource management practices (e.g. promoting employee empowerment), achieving higher levels of environmental performance through recycling and pollution abatement (e.g. adopting an aggressive stance towards reducing emissions), and advancing the goals of community organizations (e.g. working closely with groups such as United Way). Researchers are moving beyond just defining and identifying CSR activities, to examine the strategic

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1 Journal of Management Studies 43:1 January 2006 0022-2380 © Blackwell Publishing Ltd 2006. Published by Blackwell Publishing, 9600 Garsington Road, Oxford, OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA.
role of CSR in organizations. Similarly, there is growing interest among
managers in the antecedents and consequences of CSR, especially for
executives at multi-national, multi-divisional companies. These
corporate leaders are mindful of the fact that business norms and
standards, regulatory frameworks, and stakeholder demand for CSR
can vary substantially across nations, regions, and lines of business.
They are also aware that their divisional managers are under constant
pressure from employees, suppliers, community groups, NGOs, and
government to increase their involvement in CSR.
Unfortunately for both academicians and practitioners, the analysis of
CSR is still embryonic, and thus theoretical frameworks, measurement,
and empirical methods have not yet been resolved. Furthermore, this
topic cannot be analyzed through the lens of a single disciplinary
perspective. Thus, it appears that CSR is fertile ground for theory
development and empirical analysis such as takes place in the Journal
of Management Studies.2
The purpose of this special issue is to further the CSR research agenda
by bringing together multiple perspectives. After issuing an open call
for papers on the Academy of Management website and other venues,
the Academy received 32 manuscripts. We reviewed these papers and
selected several for presentation at a Special Issue Workshop at the

2 ibid JMS
University of Illinois at Chicago. Among the authors and discussants at the workshop were scholars from several academic disciplines (management, political science, accounting, marketing, and economics), many international contributors, and a high proportion of junior scholars. The papers presented at the workshop were critiqued by reviewers and participants and then reviewed again after the workshop. From these revised manuscripts, we selected the five best for publication in the special issue. Several themes emerged from these studies: the relation between CSR and competitive advantage, the role of differences in institutional environments in framing stakeholder expectations regarding the propensity of firms to engage in CSR, a comparison of the social desirability of the strategic use of CSR versus 'coerced' CSR, the role of economic, philosophical, and global corporate citizenship perspectives on CSR, and the evolution and influence of the academic literature on CSR.

**POLICIES AND PROCEDURES ON CSR**

Numerous theories have been brought to bear on the subject of CSR. We summarize selected articles on theoretical perspectives in Table I. Theodore Levitt could be credited with setting the agenda for the debate about the social responsibility of business in his *Harvard ibid, JMS*
Business Review article 'The Dangers of Social Responsibility', in which he cautions that 'government’s job is not business, and business job is not government' (1958, p. 47). Milton Friedman (1970) expressed the same sentiment and added that the mere existence of CSR was a signal of an agency problem within the firm. An agency theory perspective implies that CSR is a misuse of corporate resources that would be better spent on valued-added internal projects or returned to shareholders. It also suggests that CSR is an executive perk, in the sense that managers use CSR to advance their careers or other personal agendas.

R. Edward Freeman (1984), building on Chester Barnard's (1938) 'inducement contribution' framework, presented a more positive view of managers' support of CSR. Freeman's stakeholder theory asserts that managers must satisfy a variety of constituents (e.g. workers, customers, suppliers, local community organizations) who can influence firm outcomes. According to this view, it is not sufficient for managers to focus exclusively on the needs of stockholders, or the owners of the corporation. Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that non-financial stakeholders perceive to be important, because, absent this, these groups might withdraw their support for the firm. Stakeholder
theory was expanded by Donaldson and Preston (1995) who stressed the moral and ethical dimensions of CSR, as well as the business case for engaging in such activity. Another perspective, stewardship theory (Donaldson and Davis, 1991) is based on the idea that there is a moral imperative for managers to 'do the right thing', without regard to how such decisions affect firm financial performance. Institutional theory and classical economic theory have also been applied to CSR in a paper by Jones (1995). The author concludes that companies involved in repeated transactions with stakeholders on the basis of trust and cooperation are motivated to be honest, trustworthy, and ethical because the returns to such behavior are high. Institutional approaches have also been used to analyze environmental social responsibility. More specifically, Jennings and Zandbergen (1995) analyze the role of institutions in shaping the consensus within a firm regarding the establishment of an 'ecologically sustainable' organization. Finally, a recent paper by Waldman et al. (2004) applies strategic leadership theory to CSR. These authors conjecture that certain aspects of transformational leadership will be positively correlated with the propensity of firms to engage in CSR and that these leaders will employ CSR activities strategically.

To the extent that firms engage in CSR strategically, this behavior can be examined through the lens of the resource-based-view-of-the-firm
(RBV). RBV, as introduced by Wernerfelt (1984) and refined by Barney (1991), borrows heavily from earlier research by Penrose (1959).[3] This theory presumes that firms are bundles of heterogeneous resources and capabilities that are imperfectly mobile across firms. Barney (1991) maintains that if these resources and capabilities are valuable, rare, inimitable and non-substitutable, they can constitute a source of sustainable competitive advantage.

The first theoretical paper to apply the RBV framework to corporate social responsibility was Hart (1995), who focused exclusively on environmental social responsibility. Hart asserted that, for certain types of firms, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage. Russo and Fouts (1997) tested this theory empirically using firm-level data on environmental and accounting profitability and found that firms with higher levels of environmental performance had superior financial performance, which they interpreted to be consistent with the RBV theory. Using the RBV framework, a more formal theory-of-the-firm model of ‘profit maximizing’ CSR was posited in McWilliams and Siegel (20Q1). These authors outlined a simple model in which two companies produce identical products, except that one firm adds an additional ‘social’ attribute or feature to the product, which is valued by some consumers or, potentially, by other stakeholders. In this
model, managers conduct a cost/benefit analysis to determine the level of resources to devote to CSR activities/attributes. That is, they assess the demand for CSR and also evaluate the cost of satisfying this demand.

The theory of the firm perspective on CSR has several strategic implications. The first is that CSR can be an integral element of a firm’s business and corporate- level differentiation strategies. Therefore, it should be considered as a form of strategic investment. Even when it is not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance.

A second strategic implication of a theory of the firm perspective is that one can apply the RBV logic to CSR, in the sense that it is possible to generate a set of predictions regarding patterns of investment in CSR across firms and industries. For example, we expect to observe a positive correlation between CSR and both R&D and advertising (McWilliams and Siegel, 2000), an assertion that is explained below. Expanding on this theory of the firm perspective, one can shed further light on the strategic implications of CSR. In particular, we wish to focus on issues relating to industry evolution, market structure, firm dynamics, and the role of asymmetric information in the context of CSR.
Firstly, the context of using CSR to differentiate products, it is important to distinguish between two types of product differentiation. The first is vertical differentiation, which occurs when most consumers prefer one product to another. Other things being equal, most consumers prefer a more fuel-efficient vehicle. In the context of CSR, such a situation could occur when it is clear in the mind of consumers that the product with a CSR characteristic is better than the product without such a characteristic. For example, a 'hybrid' version of a Honda Accord generates less pollution than a standard Honda Accord. Thus, it is clear to most consumers that the hybrid car is better than the standard model. Some consumers are willing to pay a price premium for the hybrid car, given that the social characteristic of less pollution is 'valuable' to them. This type of differentiation can strengthen or maintain the reputation of the firm, which adds value in addition to allowing the firm to meet a particular market demand.\footnote{Fombrun and Shanley, 1990.}

In contrast, horizontal differentiation occurs when only some consumers prefer a particular product, but the preference is based on taste, rather than quality. For example, some consumers choose a particular vehicle because of the color. This type of differentiation does not contribute to the reputation of the firm and does not allow the firm to charge a premium price. Horizontal differentiation also operates for
different brands. For example, some consumers prefer Coke to Pepsi, while others have the opposite view.

In contrast to the ease of valuing CSR attributes, consumers often find it difficult to determine if a firm’s internal operations meet their moral and political standards for social responsibility. The level of asymmetric information regarding internal operations can be mediated by the firm itself or by activists. For instance, companies such as McDonalds, Motorola, and Nike publish annual reports on social responsibility. One can view this activity as a form of advertising, especially for more general types of CSR. While such reports may be useful, some consumers perceive this information as biased, since it is filtered through senior management.

Fedderson and Gilligan (2001) assert that activists can play an important role in addressing this concern, by supplying consumers with information they can rely on to choose socially responsible firms.

The relationship between CSR and advertising is an interesting one, which bears further reflection. Several stylized facts relating to industry evolution and the nature of advertising are useful to consider. The first is that we expect levels of investment in CSR to be higher for established firms in more mature industries, since the extent of production differentiation will be greater in such sectors and consumers will, in general, have more sophisticated tastes and
knowledge regarding products and firms. It is clear that such companies are likely to derive greater benefits from the use of CSR for reputation enhancement/protection. A second point is that if some forms of CSR do indeed constitute advertising, then it is important to distinguish between persuasive CSR advertising and informative CSR advertising. Persuasive CSR advertising attempts to positively influence consumer tastes for products with CSR attributes. It follows that this type of advertising need not be firm specific.

Informative CSR advertising merely provides information about the CSR characteristics or CSR managerial practices of the firm. Following Milgrom and Roberts (1986), one could also view a high level of CSR advertising (either persuasive on informative CSR advertising) as a signal of product or firm quality.

Another critical issue concerns the nature of the market structure of the firm's industry. A key conclusion of the McWilliams and Siegel (2001) paper was that, in equilibrium, firms that engage in CSR would earn the same rate of profit as firms that do not engage in CSR. We refer to this finding as the neutrality result. This finding was misinterpreted by Piga (2002) as implying that CSR can only occur in monopolistically competitive industries, since some oligopoly models of vertically differentiated markets predict that (in equilibrium) firms selling the higher quality product (in our case, the firm that sells a
good with a CSR characteristic) reap 'abnormal' profits. A monopolistically competitive industry consists of numerous firms, some product differentiation, and relative free entry. Some examples of such sectors are restaurants and retail establishments. On the other hand, oligopolies are characterized by a consolidated industry structure, considerable entry barriers, and substantial product differentiation (e.g. autos, computers). We believe that the neutrality result holds under both oligopoly and monopolistic competition. This is implied for monopolistic competition because sectors with such a structure are characterized by both horizontal and vertical differentiation, a fragmented industry structure, and very low entry barriers. Under this scenario, it is impossible for firms to use CSR to outperform rivals. Examples of firms in monopolistically competitive industries that engage in CSR include restaurants, hotels, companies selling organic produce, and different types of retail establishments.

The neutrality result likely holds for monopolistic markets as well. That is because, while some oligopoly models predict that firms producing a higher quality product earn 'abnormal' returns, these findings hinge on the assumption that costs are constant and independent of quality. These assumptions were not invoked in the McWilliams and Siegel (2001) model. Furthermore, recent economic models of CSR (Baron, 2001; Fedderson and Gilligan, 2001) identify an important
countervailing force on the ability of companies to engage in strategic CSR in oligopolistic industries: activists who target leading firms (e.g. the attack on Nike’s Asian production). This countervailing force makes it difficult for oligopolistic firms to achieve a competitive advantage through the strategic use of CSR.

The question of whether firms can use CSR to achieve a sustainable competitive advantage is another important question. A paper by Reinhardt (1998) finds that a firm engaging in a CSR-based strategy can only generate an abnormal return if it can prevent competitors from imitating its strategy. In competitive markets this is unlikely, since CSR is highly transparent, with little causal ambiguity. Other theoretical studies (Dutta et al., 1995; Hoppe and Lehmann-Grube, 2001) show that any early mover advantages that might be gained by offering higher quality products (recall that CSR is modelled as a ‘quality improvement’ in McWilliams and Siegel, 2001) are eroded when competitive strategies are observable. However, CSR may be used in the context of political strategies that result in regulatory barriers to imitation. One such strategy would be for firms to use Freeman Stakeholder Managers should tailor their policies to satisfy numerous workers, customers, suppliers, and community organizations. Donaldson Stewardship There is a moral imperative for managers to ‘do the right thing’, and Davis theory without regard to
how such decisions affect firm performance (1991) Donaldson Stakeholder Stressed the moral and ethical dimensions of stakeholder theory, and theory as well as the business case for engaging in CSR Preston (1995) Jones (1995) Stakeholder Firms involved in repeated transactions with stakeholders on the theory basis of trust and cooperation have an incentive to be honest and ethical, since such behavior is beneficial to the firm Hart (1995) Resource-based For certain companies, environmental social responsibility can view of the constitute a resource or capability that leads to a sustained firm competitive advantage.

Jennings Institutional Institutions play an important role in shaping the consensus and theory within a firm regarding the establishment of an ‘ecologically Zandbergen sustainable’ organization (1995).

Baron Theory of the the use of CSR to attract socially responsible consumers is (2001) firm referred to as strategic CSR, in the sense that firms provide a public good in conjunction with their marketing/business strategy Feddersen Theory of the Activists and NGOs can play an important role in reducing and firm information asymmetry with respect to CSR Gilligan on the part of consumers (2001) McWilliams Theory of the Presents a supply/demand perspective on CSR, which implies and Siegel firm that the firm’s ideal level of CSR can be determined by cost- benefit analysis McWilliams
Resource-based CSR strategies, when supported by political strategies, can be viewed as tools used to create sustainable competitive advantage for a firm. Waldman's theory of the certain aspects of CEO leadership can affect the propensity of firm-strategic firms to engage in CSR. Companies run by intellectually leadership-stimulating CEOs do more strategic CSR than comparable firms. Theory government regulation to impose CSR on rivals who do not employ an appropriate technology, thus raising the costs of those rivals relative to the initiating firm.

Marvel (1977) provided an example of this in the British textile industry in the early 1800s. The first child labor law was passed in Great Britain after the mill owners who employed modern technology banded together and lobbied for restrictions on child labor, which was used more by the older, smaller mills. McWilliams applied the RBV framework to demonstrate how US firms can use political strategies based on CSR to raise regulatory barriers that prevent foreign competitors from using substitute (e.g., low labor cost) technology.

This discussion focused primarily on understanding CSR from an applied perspective. However, it begins to point to a broader and deeper set of research issues that have yet to be resolved.
STRATEGIC IMPLICATIONS OF CSR

There are numerous unresolved theoretical and empirical issues relating to the strategic implications of CSR. These include defining CSR, identifying institutional differences in CSR across countries, determining the motivations for CSR, describing CSR strategies, modelling the effects of CSR on the firm and stakeholder groups, determining the effects of leadership and corporate culture on CSR activity, assessing the effect of CSR on the firm and stakeholder groups, measuring the demand for CSR, measuring the costs of CSR and assessing the current knowledge base.

THEORETICAL ISSUES TO BE RESOLVED

Worldwide there is no strong consensus on a definition for CSR. CSR has been used as a synonym for business ethics, defined as tantamount to corporate philanthropy, and considered strictly as relating to environmental policy. CSR has also been confused with corporate social performance and corporate citizenship. The lack of consistency in the use of the term CSR makes it difficult to compare results across studies, hampering our ability to understand the implications of CSR activity. As other issues are resolved, we hope that they lead to the emergence of an agreed-upon definition of CSR.

Having a good definition of CSR, with a common terminology, would aid us in modeling the role of organizational culture and leadership in
determining the importance of CSR within an organization. Researchers could analyze how changes in corporate control, particularly through merger or acquisition, affect the type and level of CSR activity within firms. Alternatively, changes in top management (CEO or team) might be examined to determine whether leadership style and characteristics are more important than corporate control/culture for predicting SR activity. Understanding the role of leadership could be extended to understanding the decision making process and how decisions about CSR activity are affected by demands from multiple stakeholders.

Asymmetric information makes it difficult to study the antecedents and consequences of CSR. Managers may perceive that many external stakeholders view CSR activity more favorably if it is divorced from any discussion of the bottom line. With this in mind, managers may not reveal the more practical motivations (such as product promotion, labor cost control and reputation building) behind their CSR activities, especially in corporate publications such as annual reports. This lack of candid information has made it difficult to distinguish and discuss the different motivations for CSR, which may be private or social.

The use of CSR to capture value is referred to as strategic CSR by Baron (2001) who points out that 'it is the motivation for the action
that identifies socially, as opposed to privately, responsible action'. That is, if the motivation is to serve society, at the cost of profits, the action is socially responsible, but if the motivation is to serve the bottom line, then the action is privately responsible. For privately responsible actions, there may well be social benefits that exceed the cost of the action to the firm. However, this does not change the motivation, unless these social benefits are of value to managers. For example, providing day care may lower the number of juvenile crimes in a community, but the firm might provide the day care only because it increases the availability of workers and lowers the cost of absenteeism.

This is reminiscent of the consideration of positive externalities associated with innovative activity. An externality is defined as the impact of an economic agent's actions on the well being of a bystander. Pollution is a classic example of a negative externality, while innovation (whose benefits cannot be entirely appropriated by its creator) is a classic example of a positive externality. While the private returns to innovation (or those that accrue to the company) may be high, the social returns to innovation (through the creation of new or improved products and processes) may be even greater. Researchers need to use more direct methods, such as interviews and surveys, to 'tease out' less self-serving information about the motivations for CSR
activity and improve the precision of measurement of the private and social returns to CSR.

In addition to understanding the motivation for the provision of social benefits, we need to understand how the provision of these goods, through strategic CSR, affects society. An example of strategic CSR is when a firm links the provision of a public good to the sale of their (private) products (e.g. eco-labelling). Bagnoli and Watts (2003) model this behavior and find that the propensity of firms to engage in strategic CSR depends on two factors: the intensity of competition in the market and the extent to which consumers are willing to pay a premium for social responsibility. The authors conclude that there is an inverse relation between intensity of competition and provision of CSR. That is, in more competitive markets, less of the public good will be provided through strategic CSR. Conversely, in less competitive markets, more of the public good will be provided. This is easy to understand, since more competition results in lower margins and, therefore, less ability to provide additional (social) attributes or activity. Conversely, less competition leads to the potential for higher margins and more ability to provide additional attributes or activity.

An analysis of the provision of public goods by private firms is a welcome addition to the management literature on CSR, which has been primarily concerned with answering the following question: do
firms 'do well by doing good'? Showing that a firm does well by doing good is often referred to as making the business case for CSR. While understanding the relation between firm performance and social performance is of primary importance in the management literature, a more thorough understanding of the CSR phenomenon requires that we take account of other stakeholders as well. These stakeholders include: customers, employees, governments, suppliers, taxpayers, community groups, and underrepresented groups. Our understanding of CSR should be extended to an examination of the strategic use of CSR activities. Fombrun and Shanley (1990) established that investing in CSR attributes and activities may be important elements of product differentiation and reputation building. McWilliams and Siegel (2001) suggest that CSR activities be included in strategy formulation and that the level of resources devoted to CSR be determined through cost/benefit analysis. Analysis of the strategic implications of CSR is hampered by cross-country/cultural differences in the institutions that regulate market activity, including business, labor and social agencies. Institutional differences lead to different expectations and different returns to activity. For firms operating in multiple countries/cultures this complicates the process of determining which activities to engage in
and how much to invest. As the knowledge base of CSR develops worldwide, we will be better able to analyze and advise on CSR.

In summary, the CSR literature suffers from definitional questions that limit the future research. Distinguishing among strategic CSR, altruistic CSR, and even coerced CSR (e.g. Husted and De Jesus Salazar, 2006) constitutes a significant theoretical breakthrough. However, until theory and research can adequately agree upon what, specifically, constitutes CSR, research will continue to provide a lack of consistent results. It is to this empirical research that we next turn our attention.

**PRACTICAL ISSUES TO BE RESOLVED**

Problems with measurement of the costs and benefits of CSR activities continue to cloud our understanding of the strategic implications of CSR. A major impediment to empirical research is the continuing confusion over definition and policy framework mentioned above. At present it is impossible to measure something that we cannot define and, as long as we use different definitions, we will get empirical results that cannot reliably be compared.

Focus on the relation between CSR and firm performance. Now is the key issue of all researches. Early studies used either the event study methodology (which is based on analysis of short-run changes in stock prices as a proxy for firm performance in the aftermath of a CSR-
related event) or regression analysis (which uses an accounting measure of profitability, such as return on assets, as the dependent variable in a regression model that ‘explains’ firm performance). These studies usually attempted to answer the question: do firms do well by doing well? The reported results have ranged from showing a negative relation between CSR and firm performance, to showing no relation, to showing a positive relation. There is little consistency in these findings. This may be a result of inconsistency in defining CSR, inconsistency in defining firm performance, inconsistency in samples, imprecision and inconsistency in research design, misspecification of models, changes over time, or some more fundamental variance in the samples that are being analyzed.

McWilliams and Siegel (1997) critiqued the use of the event study methodology to measure the consequences of CSR. The authors reported that the findings of event studies of CSR appearing in top management journals were unreliable, due to serious flaws in the research design and implementation of the event study methodology (McWilliams et al., 1999). They also cautioned that the use of stock price as a metric for performance is not appropriate for studying CSR. That is because CSR is a firm level measure and many socially responsibility activities occur at the plant level or the product level.
Another concern is that an analysis of stock price effects only relates to financial stakeholders and it is clear that non-financial stakeholders are also affected by CSR activities.

McWilliams and Siegel (2000) challenged the conventional regression model used to assess the relationship between corporate social performance (CSP), which is often used as a synonym for CSR, and firm performance. They noted that the typical regression equation estimated was wrongly specified because it did not include two key variables: the level of R&D spending and advertising expenditure. Both of these variables have been shown to be determinants of firm performance and, because all three (R&D, advertising, and CSP) are elements of a differentiation strategy, they hypothesized that R&D and advertising would be correlated with a measure of CSP. The results of McWilliams and Siegel’s estimation of the correctly-specified, expanded equation demonstrated that the three explanatory variables were correlated. Thus, the model that excluded R&D and advertising variables was wrongly specified. Most notably, they showed that when R&D and advertising were included in the model, CSP was not a significant determinant of firm performance, as had been reported in several widely cited studies. Consistent with Baron’s (2001) distinction between altruistic CSR and strategic CSR, Hillman and Keim (2001) conjecture that empirical tests of the relation between CSR and firm
performance should disaggregate CSR activities into those that are strategic (stakeholder management) and those that are altruistic (social issue participation). Based on estimation of a disaggregated model, they report that there is a positive relation between firm performance (measured using market value added) and strategic CSR and a negative relation between altruistic CSR and firm performance.

McWilliams and Siegel (2001) provide a framework for analyzing CSR within the context of the theory of the firm. Based on this framework, they develop hypotheses regarding the provision of CSR attributes across industries and market structures. They hypothesize that ‘the provision of CSR will depend on R&D spending, advertising intensity, the extent of product differentiation, the percentage of government sales, consumer income, the tightness of the labor market, and the stage of the industry life cycle’ (2001, p. 125). All of these should be tested empirically to see if the results support the hypotheses.

McWilliams and Siegel conclude that ‘there is some level of CSR that will maximize profits while satisfying the demand for CSR from multiple stakeholders. The ideal level of CSR can be determined by cost-benefit analysis’ (2001, p. 125). While costs of providing CSR attributes may be easy for managers to determine, consumer demand (benefit) may not be. Consumer demand for CSR could be difficult to
measure because CSR attributes are among many attributes of a product.

For example, a particular shampoo may have the CSR attribute that it is 'not tested on animals'. But, it also has a particular scent, color, consistency, and package. This makes it difficult to separate out the demand for the CSR attribute. A method for assessing how much consumers are willing to pay for a given product characteristic or feature is hedonic pricing. Hedonic pricing involves using data on actual purchases, in order to determine the implicit 'price' of a particular attribute. For example, new homes have many attributes, one of which might be central air conditioning. Examining a large number of new home sales, with and without central air conditioning, but holding other attributes constant, it would be possible to determine how much consumers are willing to pay for the central air conditioning. Similarly, to determine the 'demand' for 'not tested on animals', researchers can compare sale data on many shampoos, with and without the CSR attribute and can determine how much consumers will pay for that attribute. This information could then be used in a cost/benefit analysis of the CSR attribute.

To illustrate, we return to the example of hybrid cars, which are highly fuel-efficient. Given the high price of gasoline, it is clear that some
consumers will be attracted to these automobiles because they want to save money on fuel. Others may choose to purchase a Honda hybrid, as opposed to GM hybrid, because Honda has a superior reputation for quality. Still others are willing to pay a price premium for the hybrid car, strictly because the social characteristic of less pollution is ‘valuable’ to them. The beauty of the hedonic method is that it allows us to tease out the value to the consumer of each of these three factors (fuel efficiency, quality differential, and the social characteristic of less pollution).

Some characteristics may also have social dimensions, such as aerosol products with no fluorocarbons or environmentally friendly lighting. A major advantage of hedonics, relative to other methods (e.g. focus groups), is that it is based on observed, not hypothetical data. Hedonics have been used by government agencies and other researchers to ‘price’ individual attributes of computers, autos, housing, land, and dowries. They are also increasingly being used for more abstract ‘non-market environmental goods’, such as views, clean air, and open space. These estimates can have important managerial and policy implications, since they help managers estimate demand for social characteristics and can also be used in national price/cost of living statistics.
The theoretical and empirical issues discussed above provide an important foundation for understanding the contributions of the articles in this special issue.

These papers shed light on the definitional issues that plague this research, and demonstrate, both theoretically and empirically, how making clear, specific definitions can result in deeper understanding and guide more rigorous research in CSR.

The article by Alfie Marcus and Marc Anderson (2006) poses an interesting research question, especially in light of our previous discussion of the strategic implications of CSR. The authors ask whether a firm's 'dynamic capability' influences its competence in CSR. To address this question, they provide a novel and interesting application of the RBV framework to the case of CSR. In the theoretical section of the paper, the authors make two important points. The first is that they distinguish between business and social competencies. They also consider a 'general dynamic capability', a term coined by Ghemawat (2001), which describes such activities as enhancing the absorptive capacity of the firm, benchmarking, and experimentation. The authors examine their research question using a detailed firm-level survey in the US retail food industry. Specifically, they surveyed 806 grocery stores/chains with operations in North America as of...
1997. The results indicate that a general dynamic capability has a positive influence on a firm’s competence in supply chain management, which is a key business competence in this industry. However, a general dynamic capability does not appear to have any influence on a firm’s competence in environmental management, which is a key ‘social’ competence in this industry. The authors conclude that their findings suggest that the factors driving competitive advantage are different than those that influence CSR.

Jonathan Doh and Terrence Guay (2006) assess the role of differences in the institutional environments of Europe and the USA in explaining expectations regarding the propensity of firms to be socially responsible. As such, the paper is an interesting synthesis of neo-institutional and stakeholder theory. It is a qualitative analysis, consisting of three case studies. Specifically, the authors assess the roles that US and European non-governmental organizations (NGOs) have played in influencing CSR policies in three areas: the trade and regulation of genetically modified organisms (GMOs), pharmaceutical pricing and distribution policies, and international environmental agreements such as the Kyoto Protocol Treaty.

The case studies reveal the role of institutional differences in these two regions in influencing government policy, corporate strategy and NGO
activism related to CSR. Specifically, the authors find that these factors play an important role in determining how CSR is perceived and implemented in the USA and Europe. A key implication of the Doh and Guay study is that any cross-country comparison of the propensity of firms to engage in CSR should take into account these institutional differences. In the next article, Bryan Husted and José de Jesus Salazar pose another interesting research question: is it better for firms to act strategically with respect to CSR than to be coerced into making such investments? More generally, the authors analyze the conditions under which firms can maximize profit and enhance social performance. As such, they take the theory of the firm perspective on CSR seriously, since they conduct a cost/benefit analysis of social responsibility.

This technique was proposed by McWilliams and Siegel (2001). Husted and De Jesus Salazar model this cost/benefit analysis under three scenarios concerning the firm’s desire to engage in CSR: altruism, ‘coerced egoism’, and the strategic use of CSR. Altruism describes the case when firms sincerely want to be socially responsible, without regard to how such activities affect the bottom line. Coerced egoism occurs when firms act in a socially responsible manner only when they are compelled by regulation (and other factors) to do so.
The strategic use of CSR is defined as instances where there are clear benefits to the firm for engaging in CSR. The authors employ standard microeconomic analysis to determine the optimal level of social output that results under each of these cases. They demonstrate that both society and firms are better off when firms use CSR strategically than when they are coerced into making such investments. This is a conclusion that would make Adam Smith smile.

Duane Windsor (2006) examines different perspectives on CSR. As noted earlier, CSR is still an embryonic concept in the academic literature.

Windsor’s essay is a tour-de-force on the evolution on three opposing perspectives on CSR: economic, philosophical, and global corporate citizenship. As he defines it, the economic viewpoint focuses on the firm’s ability to use CSR as a tool to create wealth, implies minimal government intervention to promote CSR, and advocates that the firm adopt prevailing business ethics. On the other hand, the philosophical perspective results in moral reflection on CSR and should lead to higher levels of CSR and other forms of altruism. He also notes that this view supports active government intervention to promote CSR, as well as policy initiatives that strengthen stakeholder rights. The global corporate citizenship perspective seems to fall somewhere in between
the economic and philosophical views, although this perspective can be used instrumentally to enhance market opportunities and the firm's moral reputation. The author concludes by discussing the implications of each of these perspectives for CSR scholarship. Andy Lockett, Jeremy Moon, and Wayne Visser (2006), which assesses the status of CSR research in the management literature. Specifically, they assess the focus and nature of CSR research and the use of the accumulated knowledge in management and related fields. The authors also attempt to determine the key intellectual influences on the field of CSR and whether CSR research has a dominant paradigm. Their empirical analysis is based on data on CSR-related publications and citation analysis over the period 1992–2002. The authors identified CSR-related article in the following journals: Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Journal of Management, Organization Science, Strategic Management Journal, Journal of Management Studies, Harvard Business Review, Sloan Management Review, and California Management Review. They analyzed both the articles cited in these CSR-related papers and the citations that CSR-related articles generated in other journals.
They found that the ‘field’ is in a ‘continuing state of emergence’, a term coined by Thomas Kuhn (1962). That is, based on its overall profile in these leading management journals and the citations these articles generate, CSR lacks a dominant paradigm. This is an obvious call to action for concerned researchers.5

**The UN Global Compact & CSR**

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principle in the areas of human rights, labor, environment and anti-corruption. By doing so, business, as a primary agent driving globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.

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5 April 2004 University of Illinois at Chicago/International Centre for Corporate Social Responsibility Workshop on Corporate Social Responsibility, Ann Buchholtz, Steve Floyd, Mark Shanley, and Mike Wright for their insightful comments on a previous version of this paper. The second author also gratefully acknowledges financial support from the School of Humanities and Social Sciences and the Lally School of Management and Technology at Rensselaer Polytechnic Institute. The United Way is a global network of non-profit, philanthropic organizations. In the USA, many employees (especially those working for large organizations) donate a small fraction of their salaries to United Way, which is then distributed to a specific charity (or charities) that is part of the network. 16 A. McWilliams et al. Blackwell Publishing Ltd 2006
Never before have the objectives of the international community and the business world been so aligned. Common goals, such as building markets, combating corruption, safeguarding the environment and ensuring social inclusion, have resulted in unprecedented partnerships and openness among business, government, civil society, labor and the United Nations. Many businesses recognize the need to collaborate with international actors in the current global context where social, political and economic challenges (and opportunities) – whether occurring at home or in other regions – affect companies as never before.

This ever-increasing understanding is reflected in the growth of the Global Compact, which today stands as the largest corporate citizenship and sustainability initiative in the world -- with over 4700 corporate participants and stakeholders from over 130 countries.

The Global Compact is a leadership platform, endorsed by Chief Executive Officers, and offering a unique strategic platform for participants to advance their commitments to sustainability and corporate citizenship. Structured as a public-private initiative, the Global Compact is policy framework for the development, implementation, and disclosure of sustainability principles and

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6 http://www.unglobalcompact.org/AboutTheGC/index.html
practices and offering participants a wide spectrum of specialized work streams, management tools and resources, and topical programs and projects -- all designed to help advance sustainable business models and markets in order to contribute to the initiative's overarching mission of helping to build a more sustainable and inclusive global economy.

The UN Global Compact has two objectives:

1. Mainstream the ten principles in business activities around the world

2. Catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs)

With these twin and complementary objectives in mind, the Global Compact has shaped an initiative that provides collaborative solutions to the most fundamental challenges facing both business and society. The Global Compact seeks to combine the best properties of the UN, such as moral authority and convening power, with the private sector’s solution-finding strengths, and the expertise and capacities of a range of key stakeholders. The initiative is global and local; private and public; voluntary yet accountable. The Global Compact’s has a unique constellation of participants and stakeholders -- bringing companies together with governments, civil society, labor, the United Nations, and other key interests.
The benefits of engagement include the following:

- Adopting an established and globally recognized policy framework for the development, implementation, and disclosure of environmental, social, governance policies and practices. ⁷
- Sharing best and emerging practices to advance practical solutions and strategies to common challenges.
- Advancing sustainability solutions in partnership with a range of stakeholders, including UN agencies, governments, civil society, labour, and other non-business interests.
- Linking business units and subsidiaries across the value chain with the Global Compact's Local Networks around the world -- many of these in developing and emerging markets.
- Accessing the United Nations' extensive knowledge of and experience with sustainability and development issues.
- Utilizing UN Global Compact management tools and resources, and the opportunity to engage in specialized work streams in the environmental, social and governance realms.

In summary, the Global Compact exists to assist the private sector in the management of increasingly complex risks and opportunities in the environmental, social and governance realms. By partnering with

⁷ ibid unglobalcompact.org
companies in this way, and leveraging the expertise and capacities of a range of other stakeholders, the Global Compact seeks to embed markets and societies with universal principles and values for the benefit of all.\textsuperscript{8}

\section*{GOVERNMENT AND CSR}

The 2005 OECD Forum Week in Paris included CSR on its agenda. Later in the year, the UK EU presidency also convened a special conference on CSR. Events such as these raise the question whether government should have a role in the future evolution of CSR, and whether business, labour and NGOs should care if governments take an interest in the issue.

The answer to both questions is yes.

By definition, the concept of corporate social responsibility involves the voluntary acts of the business sector - outside the realm of government regulation - to improve their own sustainability and that of the world they operate in. So what is the case for government engagement, and what is its optimal role?

Ironically, government itself is largely responsible for the emergence of the CSR concept. As far back as the 1992 Earth Summit, \textsuperscript{8} ibid, unglobalcompact.org
governments defined and endorsed "responsible entrepreneurship". At the UN World Summit on Sustainable Development in 2002, for example, they undertook to encourage business to "improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues".

In short, governments have both identified the issue and committed to playing an active role, which some are already doing at the national level. Most governments see CSR as a tool to advance towards internationally agreed goals through non-mandated action. Privately, officials regularly hint that if voluntary instruments do not work, mandatory approaches will become necessary.

Recognizing this window of opportunity, the business community has largely taken the lead in developing many of the hundreds of CSR norms and codes of conduct that now exist. To judge by the flourishing of sustainability reporting, CSR conferences and advertisements vaunting societal sensitivities and contributions, the concept is moving from fringe to de rigueur, at least among the big players.

However, if the voluntary actions by business to improve their impact on society are to be more systematically encouraged - and taken
seriously - by the thousands of companies that have limited awareness or interest in CSR issues, at least three areas of weakness require urgent attention by policy makers.⁹

1. Define and refine

Like the term "ethical", there is no generally agreed definition concept of "corporate social responsibility". Nor is there likely to be one, given continuing differences about whether business has any responsibilities beyond its shareholders. At the end of the day, a company’s response to society’s expectations will be framed by a variety of factors, including where it operates, what its products or services are, and what it assesses its risks are.

While not intending to enter this moral minefield, industrialized nations have nonetheless outlined their own vision of what constitutes good corporate behavior in the OECD Guidelines for Multinational Enterprises (MNEs). With a view to heading off debate and confusion about what CSR is, it would be generally beneficial if the OECD Guidelines were more widely accepted as providing a working definition.

⁹ A former Australian diplomat to the OECD, Paul Hohnen is a consultant on sustainable development and CSR policy issues. paul@hohnen.net
http://www.ethicalcorp.com/content.asp?ContentID=3657 Ethical Corporation Magazine
The OECD MNE Guidelines, which were developed jointly with business, labor and NGOs, have the advantage of providing a common platform for use and eventual revision. If OECD governments were more pro-active in profiling the Guidelines within their own jurisdictions, and encouraged non-OECD states to embrace them, formally or informally, they would be helping to give CSR the consistent and practical operating framework it currently lacks.

2. Monitor and measure

The business lexicon is peppered with adages such as "what gets measured gets done" and "you can't manage what you don't measure". And for good reason. The metrics of performance are vital to assessing the costs and benefits of specific strategies. In the same way, investments in CSR activities - whether in the form of traditional philanthropy or modern partnership-based initiatives - should be monitored and measured, and the results made public.\(^{10}\)

While few would currently argue that governments should get engaged in the monitoring and measurement of CSR behavior, there are good reasons why they should stimulate an environment where this occurs. If governments want CSR to be a useful complementary tool to regulation, they (and the public) will want evidence that it works. By

\(^{10}\) ibid, Paul Hohnen Ethical Corporation Magazine
encouraging and supporting voluntary public reporting of sustainability performance, and supporting the multi-stakeholder organizations that enable reporting and dialogue about CSR performance, governments can advance measurable progress towards the goals they have set. Down the road, governments may wish also to take CSR performance into account in rewarding progressive businesses through tools such as preferred procurement, export credits and other national policy incentives. To distinguish between the leaders and the laggards, transparent and credible performance data will be vital.

3. Strengthen and align existing tools

A globalize world needs globally recognized standards and approaches, with sufficient flexibility to respond to different levels of development and different approaches. Just as international accounting standards are helpful in promoting understanding and consistency, there is value in having broad agreement on the goals and ethics of the international community.¹¹

But, for too many businesses and organizations, the implications of the many international treaties and declarations on environmental, human rights and labor issues over the last decades remain a matter of

¹¹ ibid, Paul Hohnen Ethical Corporation Magazine
confusion. While agreements like the Kyoto Protocol have clear implications (less carbon dioxide good, more carbon dioxide bad), there is precious little practical official guidance on how to promote sustainable development, or how to be a responsible organization.

Just take the leading internationally agreed CSR norms and standards. How do the OECD MNE Guidelines relate to the UN Global Compact principles, the ILO Tripartite Declaration, and the draft UN Human Rights Norms? Not to mention the UN Millennium Development Goals and the many other UN treaties and declarations where a strong and constructive contribution from business is essential if progress is to be made.

Here, too, governments have a crucial role to play. By implementing global commitments in national legislation, and supporting initiatives that help define, link and operationalize these various initiatives, governments would be going a long way to helping civil society respond to internationally-agreed expectations.

Voluntary initiatives will never replace regulation as the engine of change. But they can provide an innovative, flexible and low-cost
means for business to assess and respond to changing societal expectations.¹²

In this light, it would be tragic if officially-endorsed voluntary instruments lost the credibility and support they deserve though lack of attention and nurture from the sector that will benefit most from their success: government.

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¹² ibid, Paul Hohnen Ethical Corporation Magazine
REFERENCES OF CHAPTER II


Selected empirical papers on CSR Author(s) Methodology Nature of CSR Key results event/action

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