

CHAPTER III

MODELS OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

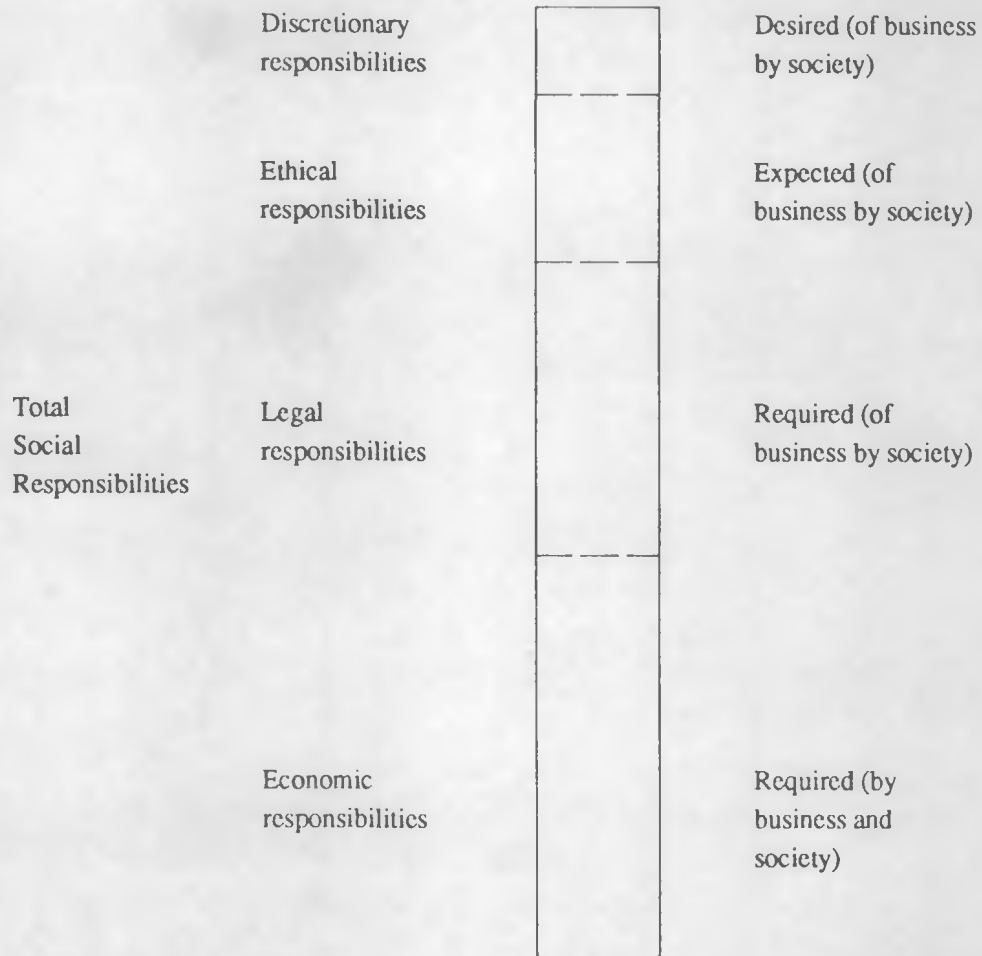
MODELS

1.0 It is clear from Chapters I and II that the evolving nature of societal expectations towards business is fundamentally linked to the wide span of definitions associated with the concept of corporate social responsibility (CSR). At one end of the continuum is the Friedman belief that CSR is concerned primarily with the making of profit.¹ At another point on the same continuum, CSR is perceived as something more than just profit making. Keith Davis has observed that systems thinking is required and notes that : "Businessmen cannot make decisions that are solely economic decisions, because they are inter-related with the whole social system".² A point still further removed from Friedman is the proactive-social responsiveness position taken by S. Prakesh Sethi.³ While the arguments of Friedman and Sethi represent highly divergent views of CSR and tend to be mutually exclusive, the Davis view of CSR is more concilliatory and would generally be more popularly accepted outside the business community.

1.1 The four-part model conceptualized by Carroll and presented in Figure 3.1 is comprehensive and represents an entire range of obligations business has to society: economic, legal, ethical and discretionary.⁴ The Carroll model is not the only one to reject the notion of mutually exclusive CSR components, but it does offer a practical and explicit framework from which to view CSR. What makes the Carroll definitional framework attractive is its ability to illustrate the propotionaal importance of each component. It is actually the proportional value associated with each component relative to the others which defines CSR for a given firm at a point in time.

Figure 3.1

The Four Part Model of Corporate Social Responsibility



Source: Archie B Carroll, "A Three Dimensional Conceptual Model of Corporate Social Performance" *Academy of Management Review*, October 1979, p. 499.

1.2 The economic responsibility illustrates the fact that business has an obligation to be productive and profitable and meet the consumption needs of society. Organizations which fail in their operating decisions or strategic planning - resulting in either inefficiency or ineffectiveness - must be deemed as poor social performers. Likewise, poor judgement, misallocation of resources or excessive risk taking would demonstrate socially irresponsible behaviour. Legal responsibilities suggest that business must be able to fulfill its economic responsibilities within the framework of the law. Ethical responsibilities incorporate the unwritten codes and norms widely held in society and are as well believed to be applicable to business. The discretionary responsibilities are philanthropic or volitional obligations that are "black box" oriented. While society may expect voluntary and humanitarian activity from business, it is frequently left up to business to interpret what form these activities are to take.

1.3 The Carroll definition of CSR is particularly useful when comparing it to the models discussed earlier. It can be seen in Figure 3.2 that over time the social contract between business and society has dramatically changed. Each of the models in the figure parallel one another by demonstrating the escalating importance of the social environment. The social responsibilities of business have clearly become more important. The changing properties of the social contract are best illustrated by the Carroll construct which depicts the time varying proportional values of each of the CSR components. While the economic component remains as the single most important social responsibility, the relative importance once associated with it has diminished. In Phase One, the economic component outweighed the other CSR components combined, but by Phase Three, this was no longer the case. While the portrait presented here requires empirical testing, the evolving CSR definition helps to describe the changing relationship between business and society.

Figure 3.2

The Evolving Nature of Corporate Social Responsibility

Carroll (1981)	Discretionary	Discretionary	Discretionary
	Ethical	Ethical	Ethical
	Legal	Legal	Legal
	Economic	Economic	Economic
	<i>Phase I</i>	<i>Phase II</i>	<i>Phase III</i>
Hay & Gray (1974)	Profit max. late 1880s	Trusteeship 1920–30s	Quality of Life 1970
	<i>Classical Mkt Model</i>	<i>Mgrl. Model</i>	<i>Social Env. Model</i>
Jacoby (1973)	Enterpreneurial & Short-run profit max.	Professional Growth-oriented	Expanded Constituency Long-run profit max.
	<i>Social Obligations:</i>	<i>Social Responsiveness:</i>	<i>Social Responsiveness:</i>
Sethi (1975/1977)	Proscriptive – Exploitive economic & defensive strategy	Prescriptive – Primarily economic. & reactive strat.	Anticipatory & Preventive – Highly proactive social strategy

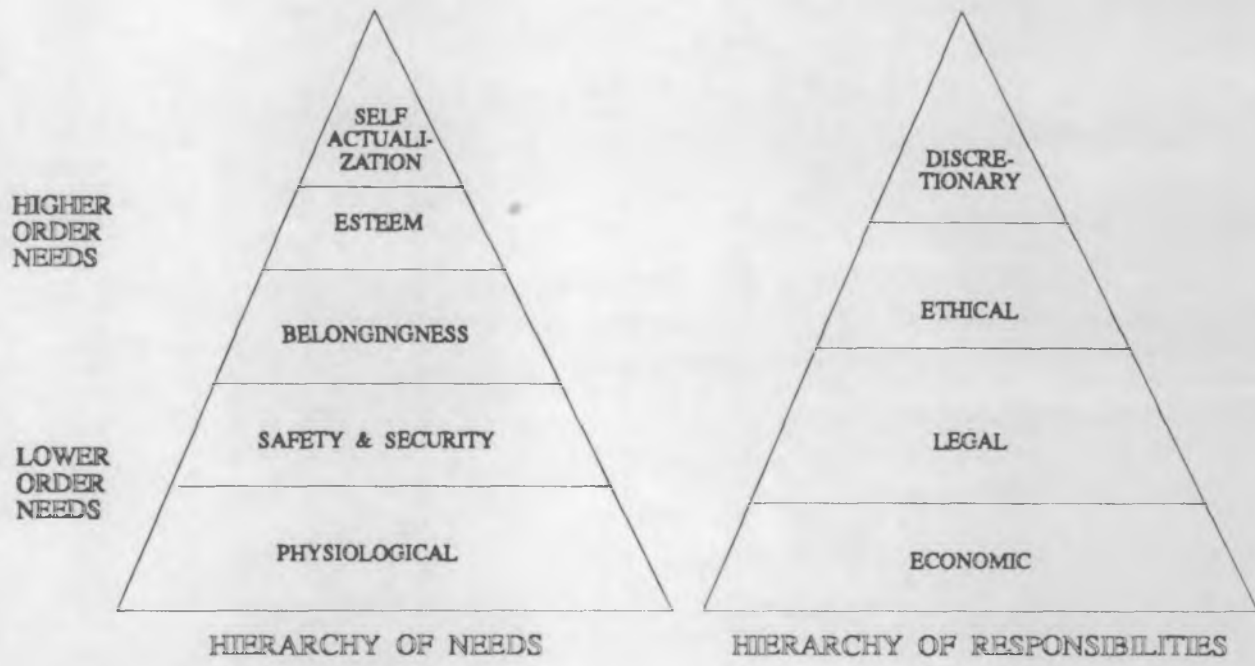
1.4 An additional advantage of the CSR framework offered by Carroll is its ability to relate to some of the more micro properties found in Abraham Maslow's need hierarchy.⁵ The four-part CSR model could be viewed as a societal need hierarchy. As can be seen in Figure 3.3, the constructs of both Maslow and Carroll share common properties. The need hierarchy appears to be as useful in explaining the macro motivations of society as it does the micro motivations of individuals. The motivational notions postulated by Maslow seem to usefully explain the development and growth of civilization.

1.5 A common quality that can also be observed in Fig. 3.3 is that the components of both constructs are more easily identified and defined at the lower-order level than at the higher-order level. The ethical and discretionary responsibilities are less clearly understood than are those which are economic and legal in nature. Also, the boundaries between the various components in both constructs are less clearly identifiable than what one may prefer. Consequently, a problem of construct validity is an inevitable result.

1.6 The constructs found in Figure 3.3 depict CSR through the motivations of society. As a given society becomes more sophisticated and technologically advanced, the lower-order need/responsibilities are less functional in motivating expectations. Instead, higher-order needs become instrumental in the motivating process. For instance, the 19th century social contract between business and society was one which focused on the performance of economic responsibilities. A frontier survival mentality made this possible. By the 1970s the economic needs of society had, for the most part, been fulfilled and other higher-order needs and responsibilities had, in the meantime, risen in importance.

Figure 3.3

A Societal Hierarchy of Needs and Responsibilities



1.7 The framework offered by both Maslow and Carroll provide useful mechanisms by which to view the process of evolving societal motivations. It is important to observe that needs and responsibilities can rise and fall. The motivations of individuals and societies do not simply evolve and ascent to higher-order need levels and remain there permanently.

2.0 RESEARCH FINDINGS IN CSR

2.1 The amount of empirical work in the area of CSR has been gaining momentum but still remains limited and often simplistic in terms of methodology. Abbott and Monsen have recently noted that "the empirical study of corporate social involvement is in an undeveloped state."⁶

2.2 One area of expanding interest is the identification of social responsibilities, behaviours, attitudes and goals of business organizations and their executives. A relatively early study that indirectly touched on this area was that of Guth and Taguiri.⁷ Through a forced-choice questionnaire, they examined the values of executives, research managers, in six specific areas : theoretical, economic, aesthetic, social, political, and religious. While statistical tests were not performed, some surface differences appeared to exist. Executives and research managers had slightly higher economic scores than did the scientists, while the latter had slightly higher social scores. However, all three groups demonstrated a preference for the economic values over the social values.⁸

2.3 Perhaps the key observation to come out of the study is that the values most important to an executive will have a profound impact on CSR. Hopefully, the executive will be aware of this. One of the first studies which actually attempted to identify business responsibilities was performed by the Committee for Economic

Development (C E D) in 1971. This Committee was comprised of primarily businessmen who posed a number of research questions and found an existence of a wide spectrum of responsibilities which essentially cover economic, legal, ethical and philanthropic arenas.⁹

2.4 A relatively early survey of corporations by Eilbirt and Parket found that CSR activities vary by organization size.¹⁰ For instance, in large firms with over \$.250 million in sales, minority hiring was performed by all the firms, but for smaller firms only 62% practiced minority hiring. Much the same pattern holds true for other most frequently performed CSR activities such as ecology, minority training, contributions to education, contributions to the arts, and especially hard-core hiring and training. In fact, out of 15 CSR areas, large firms were in all cases more likely to be involved than small firms.¹¹

2.5 At about the same time, Corson and Steiner did a study for the CED.¹² They asked firms to respond to the original CED list of responsibilities. As a result, the researchers were able to rank order CSR activities performed by these firms. Those activities which especially stand out include : providing equal employment opportunities, contributing financial aid to schools and recruiting the disadvantaged. These findings correlate well with what was also found in the Eilbirt and Parket study.¹³

2.6 Perhaps the most important study in this research area was conducted by Sandra Holmes who examined the perceptions of top executives towards CSR.¹⁴ Holmes surveyed 500 firms randomly selected from 800 firms out of the 1974 Fortune directories. She was able to obtain a 34% response rate. A major finding in this study was the differing CSR response pattern in various industries. While Holmes found the CSR focus to be, to a certain extent, industry specific, the top five of 14 CSR categories were similar for each industry even though the rankings for these five varied.

For instance, charities, provision for equal employment opportunities, and education were top areas of interest to all the industries even though specific rankings varied.¹⁵

2.7 Another interesting finding from the research conducted by Holmes involved the personal CSR opinions of executives and the opinion these executives had of their firm's CSR position in the past, present and future. Holmes provides five statements which a responder must choose from. The statement which dominated all situations was one declaring : "In addition to making a profit, business should help to solve social problems whether or not business helped to create those problems - even if there is probably no short-run or long-run potential".¹⁶ In addition, this category became more popular and accepted over time. While Holmes' research provides evidence of a high CSR attitude in corporations, this needs to be moderated by the fact that her format has a built-in bias because of the social desirability it connotes.

2.8 A study which, to some extent, contrasts with that of Holmes was performed by Abouzeid and Weaver.¹⁷ This study involved a survey of executives in 504 firms in Texas. The firms were divided into seven industrial classifications and respondents were requested to check four of nine possible goals. Abouzeid and Weaver found that the four most important goals across all industrial groups tended to be, in order : financial, growth and expansion, efficient resource utilization, and corporate stability. However, the findings are limited because the sample was derived from one geographic area. Also, the CSR implications are negative but only two of the nine goals could reasonably be considered to have a CSR focus.

2.9 In a study of a slightly different nature, Lyman Ostlund surveyed top management executives and operating executives in regard to their CSR orientations.¹⁸ Ostlund directed his survey at the Fortune 500 and requested the chief executive officers (CEOs) to select ten top executives and ten operating executives for participation. In nearly all cases, the top managers and operating managers demonstrated nearly identical responses to a vast number of CSR issues. Both sets of managers felt it was important and in the long-run interest of business to get directly involved in social issues.¹⁹ Over a wide range of other CSR areas the two managerial groups reflected a very similar orientation.

2.10 It is not surprising to find the various studies flawed. While the use of reputational surveys and the content analysis of annual reports do provide a beginning point, other methods also exist. Two surprising observations are derived from these studies. First, none of the studies elected to use the most definitive and credible financial performance measures - the Return on Assets (ROA or ROI). Secondly, only one study realised the critical importance of adjusting performance on the basis of risk.

2.11 Above studies reflect different degrees of methodological rigor. The two studies employing the most rigor (Abbott and Monsen, and Alexander and Buchholz) found no relationship between CSR and financial performance. However, two studies employing contrasting methodologies found a curvilinear relationship between CSR and financial performance with moderate CSR firms being the best performers. This warrants further attention.

SUMMARY

This chapter highlights the different models of Corporate Social Responsibility. The models propogated by Friedman, Keith Davis, Sethi and Carroll are discussed in brief. The evolving models have also be reviewed. The four-part model constructed by Carroll is found most effective and relevant.

The concern of this chapter was also with the recent research in the CSR area. Many efforts have been directed at identifying the social responsibilities as well as the social responsiveness of business organizations and their executives. However, little has been done in terms of explicitly identifying how corporations actually define their own social responsibilities.

Also related to this research area is the work examining the relationship between CSR and profitability. While this topic has been frequently investigated, numerous methodological flaws persist throughout. It was observed that those studies employing the most methodological rigor failed to support a relationship between CSR and profitability. Both of these problem areas play a prominent role in this study's focus of research.

In the following chapters a detailed description is provided on the methodology and conduct of research used in this study. The logic and the construction of the research instrument is explained and the general data-gathering technique is described.

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