

CHAPTER VIII

CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

- 1.0 The nature of this study was comprehensive. A wide array of issues and problems in the corporate social responsibility (CSR) area was researched. The essential focus was to identify how corporations defined their responsibilities. To accomplish this, a survey was administered to 798 chief executive officers (CEOs) listed in Forbes 1986 Annual Directory.
- 1.1 Before investigating corporate social responsibilities, it was necessary to review the historical context of business and society. The relationship between business and society was depicted as both complex and constantly evolving. To examine this relationship, the notion of a social contract was used.
- 1.2 Through various conceptual models, the changing nature of the social contract was illustrated. It was also argued that society has come to expect more from business today than it did 100 years ago. As a result, the responsibilities of business have changed. This has complicated the tasks of administration and strategic management.
- 1.3 When examining the shifting social expectations towards business, Maslow's micro motivational construct was utilized for more macro purposes. While societal needs have historically evolved to higher-order levels, it was pointed out that this need not be an endless pattern. It was likely that societal needs and motivations were capable of descending as well as ascending the hierarchy. This appeared to be a current phenomenon.

2.0 CHAPTER OVERVIEW

- 2.1 The remainder of the chapter is concerned primarily with study's empirical contributions and attending implications. One of the first and most important research effort involves the development and validation of the survey instrument. Another contribution is the empirical support given to the four-part CSR construct conceptualized by Carroll. In conjunction with this, it will be possible to observe the relative importance each of the CSR components is given by the responding firms. Also of related interest is the discovery of an inverse relationship between the ethical and economic components. Finally, many research issues in CSR are explored, especially the relationship between profitability and CSR.
- 2.2 Once the research findings are presented, a discussion is provided on the research limitations. An effort is also made to describe potentially useful areas of further research. A concluding note is then presented.

3.0 RESEARCH METHODOLOGY

- 3.1 The design and validation of the survey instrument was an important and indispensable part of this study. The basic approach used in the construction of the instrument centered on the Carroll (1979) CSR construct consisting of four components. This construct was viewed as sufficiently comprehensive to enable corporations to define and depict their social responsibilities.
- 3.2 Initially, it appeared to be a relatively easy task to ask the CEOs to describe, through a Likert type scale, how important each CSR component was. However, the subjective and emotionally laden nature of CSR suggested that a Likert type format would produce a significant amount of response bias. It was conceivable that each CSR component would be

- 1.4 The resulting strategic implication is that business organizations may not always need to place a strong emphasis on their non-economic responsibilities. When society's technical core becomes threatened, the social contract is likely to become less socially demanding. Business may instead be expected to intensify its efforts to fulfill economic responsibilities. With societal attention being directed at "reindustrialization" rather than a "quality of life", proactive strategies may come to represent a misallocation of scarce resources.
- 1.5 To facilitate an understanding of the potential response strategies that could be considered, a corporate social performance (CSP) matrix was conceptualized. This two-dimensional matrix reflected a "concern for society" (CS) and a "concern for economic performance" (CEP). Such a contract illustrated a variety of social response strategies a business organization could or actually does use. While the matrix was viewed as one of this study's contributions, it was not entirely original. The matrix represented an extension of earlier, more micro designs in the management literature.
- 1.6 Another preliminary step in this CSR study was a survey of of recent research efforts in CSR. While many efforts have been directed at describing or identifying social responsibilities, little has been done to explicitly discern how corporations view or define their responsibilities.
- 1.7 Perhaps the most interesting research area was concerned with the relationship between profitability and CSR. While this topic has been extensively researched, many contradictory claims were found to exist. In addition, all the studies suffered in their methodology, some more than others. However, those studies employing the most methodological rigor failed to find any relationship to exist between profitability and CSR.

depicted as important even if this was not true. To solve this likely problem of social desirability bias in the response, a forced-choice methodology was employed.

- 3.3 The forced-choice methodology used in the survey requested respondents to allocate upto 10 points to each of 20 sets of CSR statements. All the CSR sets contained four statements, each of which corresponded to one of Carroll's four CSR components. Even though the statements in each of the 20 CSR sets were unique, the respondent was essentially being asked to respond repetitiously to slightly varying CSR situations. In other words, each set was trying to obtain the same basic information.
- 3.4 The first step in developing 80 statements for the forced-choice instrument content validity. To ensure the CSR statements were representative, recent research efforts in CSR were used to generate non-economic statements. These studies had employed a number of CSR statements to which executives responded. Those statements which were responded to most frequently were placed in a CSR pool of statements. The economic statements were more easily derived. Leading financial texts and business publications were used to generate economic statements. Altogether an inventory of 117 statements was developed for the four components. Out of this inventory, each component had its own pool of statements.
- 3.5 The first mailing occurred on June 15, 1987. Altogether the first mailing of June 15 produced 157 participating returns.
- 3.6 The reminders were sent on July 20, 1987, and used only first-class mailing procedures. From this effort, an additional 88 participating returns were obtained.
- 3.7 The two mailings accounted for 245 participating returns for a response rate of 30.2%. Since four responses were completely unusable, only 241 responses played a role in

the data analysis. Four firms also responded late while 42 more indicated that they did not wish to participate in the survey. This brought the total number of responding firms to 291. The response rate was considered to be sufficiently high to conclude the data compiled was representative and ready for analysis.

4.0 EMPIRICAL FINDINGS AND IMPLICATIONS

After analyzing the data, it was possible to determine the relative emphasis given to each of the components, which can be seen as follows :

Economic	= 3.50
Legal	= 2.54
Ethical	= 2.22
Discretionary	= 1.30

Based on these findings, it was possible to not only conclude that the four CSR components existed but that they possessed the approximate weights suggested by the Carroll model. This empirical support is likely to enhance the attractiveness of the model since the theoretical is extended to the practical.

5.0 A SOCIAL PERFORMANCE MATRIX

5.1 An area of prominence in this study involved the partitioning of 241 responding firms into a CSP matrix. To better discriminate between the responding firms, a nine-cell rather than a four-cell matrix was used.

5.2 The first objective concerning the matrix was investigating whether firms scoring high on a concern for society (CS) were different from those scoring low. The same basic question existed in regard to the other matrix dimension, a concern for economic performance (CEP).

5.3 These findings suggested that the instrument was capable of discriminating between firms on the basis of CS and CEP. This made it possible for firms to be partitioned into the various cells of the matrix and for the cells to then represent distinctly different CSR orientations.

5.4 The nine cells were then examined to observe whether statistically significant differences existed between the cells in terms of financial performance or risk characteristics. Although the extremes cells such as 9,1 (high CEP, low CS) and 1,9 (high CS, low CEP) reflected the lowest financial performance whether adjusted or unadjusted, few statistically significant claims could be made.

5.5 While in general, few statistically significant differences could be substantiated concerning the various cells of the CSP matrix, a pattern did emerge. Cells with extreme orientations appeared to be less attractive in profitability and/or risk than cells with more balanced orientations.

6.0 EXAMINING VARIOUS RESEARCH ISSUES

6.1 A large number of research issues in CSR was explored in this study. This study examined/compared the CSR orientation of :

- 1) various industrial groups
- 2) various organizational respondents

this study also examined/compared the CSR orientation of firms on the basis of their :

- 3) visibility
- 4) relative asset size
- 5) unadjusted financial performance
- 6) risk propensities
- 7) adjusted financial performance

In addition, this study examined whether or not firms :

- 8) utilized social forecasting
- 9) believed it was important to integrate social issues into their strategic planning
- 10) possessed a CSR committee on their boards of directors

Research Issue One :

The concern of this issue was in examining whether real CSR differences existed on the basis of firm type. Utilities and retail firms were found to be significantly different from many other firm types. These two firm types displayed, respectively, the highest and lowest CS scores. The latter finding was particularly surprising given the prevailing belief that the closer a business firm is to the final customer, the more likely it will place a premium on being socially responsible.

Research Issue Two :

The second research issue resembled to some extent issue one. This issue was interested in discovering whether particular types of respondents (e.g. CEOs vs Public Affairs Officers) differed in their CS scores. Surprisingly, no statistically significant differences could be substantiated. Even though analysis indicated that public affairs officers and senior line officers possessed the highest and lowest CS scores respectively, no significant differences were found to exist.

Research Issue Three :

The concern of research issue three was whether high visibility firms represented a different CS orientation from less visible firms. Those firms classified as highly visible were found to not only possess a higher CS score from the other firms, but were also significantly different. This would provide support for the notion that the degree of visibility affects how corporations view and respond to

their social responsibilities. A possible implication of this finding is the prospect of a firm behaving in a less socially responsible manner should it believe itself to be insulated from public view. Perhaps visibility plays a significant role in defining the social contract between a business and society.

Research Issue Four :

Research issue four was relatively complex since it focused on the relationship between asset size and a number of dependent variables, including CS. Many statistically significant relationships were observed; however, the correlations were generally very modest. This was particularly true for CS. As a result, it was not concluded that firm size correlated with a firm's social responsibilities. When looking at asset size and total risk it was to be observed that size and total corporate risk shared a statistically significant but mildly negative relationship. It appeared that size to some extent did correlate with the risk characteristics of a firm. The larger the firm the more likely total risk would be less.

Research Issues Five, Six and Seven

The fundamental nature of these research issues was in discerning the relationship of CS with corporate financial performance. Of the various research issues examined, these three represented the most important area of inquiry to the study. In recent years, much has been made of the relationship between corporate profitability and CSR. Many studies have purported the existence of such a relationship. For instance, numerous researchers (and theorists) have argued that socially responsible firms are more profitable and better investments than are less socially responsible firms. Still, others have claimed either the opposite or, more frequently, that no relationship between profitability and social responsibility can be sustained. Unfortunately, many of these studies are severely flawed in their method-

ology. However, those generally displaying the greater methodological rigor did not support the premise that a relationship existed between profitability and CSR.

In exploring this subject matter, an effort was made to avoid the methodological problems associated with the previous studies. Some of these problems pertained to the performance criteria used, the population examined, and the means used to classify a firm as socially responsible or socially irresponsible.

The development of CS scores for each firm - derived through this study's survey instrument - was believed to be a substantial improvement over previous methods used to classify a firm as low or high in CSR.

Another improvement concerned the performance criteria. Since ROA is generally considered to be the ultimate performance measure, both the short-term and long-term ROA were employed. In addition, the ROA was adjusted for risk. Only one previous study had adjusted performance on the basis of corporate risk propensities. While the adjusted ROA was a device specifically designed for use in this study, it was capable of being used to serve other purposes.

The adjusted ROA was essentially derived by dividing the total risk of a corporation (as determined by Value Line) into its ROA. Such a procedure standardizes the ROA which facilitates both intra and inter industry analysis. The logic behind the adjusted ROA reflects the recognized principal in financial theory that riskier firms/investment opportunities require compensating levels of profitability. Otherwise, two equally profitable firms which are not equally risky will not be valued the same. The one with greater risk will be less attractive. Riskier firms are expected to compensate for their risk by being more profitable.

When examining the relationship between CS and financial performance, no statistically significant relationships were found. It did not matter whether the short-term or long-term ROA was used. Nor did it matter whether the ROA was adjusted or unadjusted. No relationships could be found to exist. It was concluded that it was not possible to support the notion of a positive or negative relationship between profitability and social responsibility. However, a statistically significant but very modest and negative relationship was found to exist between CS and total risk. This was similar to an earlier finding concerning cell 1,9 in the CSP matrix. The implication of these results is that it is neither beneficial or harmful for a firm to be socially motivated in fulfilling its responsibilities.

Research Issue Eight :

The focus of this research issue was on social forecasting. Thirty-five percent of the responding firms were discovered to formally use social forecasting. A major area of interest was in determining whether social forecasting firms differed from non-social forecasting firms in regard to CS scores, profitability, and asset size. Through a series of t-tests, social forecasting firms were not found to be significantly different in terms of profitability. However, social forecasting firms did prove to be significantly different in both their CS orientation and in size. Not only did such firms register a higher CS score, they were also larger than the non-social forecasting firms.

Research Issue Nine :

It was interested in discerning, through a Likert type scale, the relative importance corporations placed on integrating social issues into their strategic planning. Only 13% of the responding firms placed little emphasis on this integration, while 49% did believe such integration to be important.

No statistically significant relationship was observed between ISPASI and profitability. However, a statistically significant but modest relationship was found to exist with CS and CEP with the latter relationship being negative.

Research Issue Ten :

The last major research issue investigated the existence of CSR committees on the board of directors. Here an effort was made to assess how many corporations used such a board committee. It was discovered that 25% of the responding firms relied upon a CSR committee. Firms with CSR board committees were then compared to other firms in regard to profitability, CS, and asset size. No statistically significant difference was found to exist between the two types of firms concerning the subject of profitability. However, firms with CSR board committees were discovered to demonstrate a statistically significant difference from other firms in both their CS orientation and asset size. It was clear that such firms not only reflected a higher CS score but were considerably larger.

A Final Research Issue :

One additional issue was examined that did not directly relate to the general CSR area of interest. This issue, labeled STRIMP, was concerned with the role corporations believed strategic planning played in their success. From a Likert type scale respondents were asked how important strategic planning was to the success of their firms over the past five years.

While such a question was expected to lead to a universally strong emphasis given to the importance of strategic planning, it was revealing to learn that nearly a fourth of the responding firms did not agree. These firms believed strategic planning to have played little importance in their success. When examining the relationship between STRIMP and CEP as well as STRIMP and financial performance, no statistically significant conclusions were found.

7.0 LIMITATIONS OF THE STUDY

- 7.1 A number of limitations exist in this study. Perhaps, the foremost limitation is associated with the population surveyed. For instance, the 798 firms surveyed from the Forbes Annual Directory (1986) represents the top 500 firms in sales, profitability, assets and growth. It is very possible that these firms are substantially different from the Fortune 500 which is composed of entirely industrial firms. Consequently the findings may not be generalized to this population.
- 7.2 In addition, most of the firms surveyed are relatively large. As a result, it may not be safe to generalize the findings to other smaller business organizations which collectively, dominate business activity in U.S.A. Similarly the study did not cover firms in India. Another potential limitation concerns the non-respondents. Since 69.8% of the firms sampled chose not to respond in any manner, there is a potential problem in representativeness. For instance, are the non-respondents significantly different from the respondents in regard to the CSR issues examined?
- 7.3 A major limitation may also exist with respect to the nature of the research inquiry. It has been previously acknowledged that the subject of CSR is value laden and emotionally charged. As a result, a certain amount of social desirability bias is likely to be present in the findings despite the use of a forced-choice instrument. In addition, a forced-choice instrument is not without limitations.
- 7.4 There are other limitations on a smaller scale. For instance, the inquiry into the CSR orientation of firms on the basis of visibility posed problems. Firms were classified in terms of visibility through potentially subjective criteria. While corporate visibility is a subject of considerable importance, little has been done to facilitate a descriptive ranking of firms in terms of visibility.

Other limitations are likely to exist. Hopefully they are not too significant. No research effort can avoid limitations. No scientific inquiry in the social sciences can be methodologically perfect. However, this study has attempted to minimize its limitations and in this respect, it is not likely to be much different from its predecessors.

8.0 RECOMMENDATIONS FOR FUTURE RESEARCH

- 8.1 A number of opportunities exist for future research. Through a revised instrument it would be possible to survey different populations in the business community. For instance, the small business organization could be surveyed. In addition, it may be beneficial to survey one specific geographic region or to survey a variety of regions to see if differences exist in their CSR orientations. Certain industries such as the energy related or public utilities could also be more extensively examined for differences in CSR and other areas such as risk. As this study covered USA, perhaps results would be different in India.
- 8.2 As a counterbalance to this study, it would be beneficial to survey various elements or populations in the non-business community in order to see the amount of importance society places on each of the four CSR components. By surveying the non-business community, it would be possible to more explicitly identify the parameters of the social contract's zone of acceptance. Perhaps the social contract as understood by both business and society could be more clearly portrayed.
- 8.3 Another practical endeavour concerns corporate visibility and CSR. Future survey efforts might find it useful to have organizations rank themselves in terms of visibility. It is also possible that a methodology depicting organizational visibility could be developed. Either scenario would improve the prospects of observing the role visibility plays in affecting a firm's attitude toward CSR.

- 8.4 It would also be beneficial to discern whether CSR differences exist between corporate planning staffs and public affairs staffs. This would require sampling more than the director of corporate planning and the director of public affairs and would most likely involve large organizations.
- 8.5 An area of remaining interest concerns the relationship between profitability and CSR. It would be useful to survey small business organizations in order to determine whether such a relationship exists at that level. While such a relationship was not found in this study, this need not be so with smaller business organizations which were earlier observed to be in a better position than larger firms to match the benefits of CSR to the costs.
- 8.6 Finally, it may even be practical to survey the same population in five years in order to observe the evolving nature of the social contract. Through such future surveys it would be possible to view and study the changing amount of importance placed on each of the CSR components.

9.0 CONCLUDING REMARKS

- 9.1 Because of its phantasmagoric properties, corporate social responsibility is not an easy subject to study. Besides being difficult to define, it represents an emotionally charged phenomenon. This complicates the task of empirical investigation. Are CSR findings real or imagined?
- 9.2 A few years ago there was some expectation that the social forecasting area would grow in prominence. Instead, recent findings suggest it may have declined. Perhaps, the same will be true for the more encompassing subject of CSR. The future prospects of research in the CSR area do seem uncertain. This is not due to an overabundance of research efforts in CSR. Many problems and issues require initial or additional investigation. Instead there appears to be

a shifting mood in the importance attributed to CSR in both academia and the broader context of society. However, do such developments represent a long-term trend or a temporary aberration? The latter is more likely given the volatility and complexity of businesses' external environment.

9.3 This study's research instrument and findings offer new research opportunities which are relevant not just for the esoteric purposes of academicians but for practitioners. Should these opportunities not interest others, this researcher will persist in exploring them. The interface between business and society is not likely to ever be perfectly harmonious or fully understood.