

CORPORATE SOCIAL RESPONSIBILITY: FUTURE RESEARCH DIRECTIONS

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Abstract

This paper presents Corporate Social Responsibility (CSR) within the matrix of other regulatory concepts voluntary or legalistic, such as Corporate Governance, Business Ethics and others that focus on appropriate managerial behavior. It further suggests that this nascent construct, to become a viable operational concept worth pursuing with diligence in a developing country, rather than become a cover up for the negative consequences of capitalist pursuit of profit, must be contextualized. The paper also presents the normative, instrumental and empirical approaches to the subject and suggests that only when we are clear on the approaches should we draw up the research agenda. The paper further suggests that the focal point of any enlightened assessment in the area of CSR in a developing country should be the stakeholders. Research is necessary, among other areas to understand where the stakeholders in the form of public opinion and not mass opinion stand on the issues, what the priorities are, what the role of the government should be and who should be finally responsible.

Keywords: Corporate Social Responsibility, Business Ethics, Corporate Social Behavior, Corporate Governance, Stakeholder Theory, Public Opinion

1. Introduction

The world according to business pundits has been in the grips of financial crisis of a proportion comparable to the great depression of the 1930s. Comparisons aside, a single fact seems to have become the focus of the debate and that is a Corporation's Social Responsible behavior or Corporate Social Responsibility (CSR) where CSR is an overlapping constituent component of

latest thinking in business ethics, corporate governance, and stakeholders' theory (Hopkins 2006; Hess 2001).

Emanating from this concern, this paper will primarily focus on trying to identify the conceptualization of CSR inherent in the literature and to determine the venues that can be pursued as possible future research agenda in the context of business environment of a developing economy such as Pakistan. Contextualizing the issue is necessary, as success of an enterprise depends on its interaction with its environment; as different environments hold different expectations (Hofstede, et al. 2002).

The issue of CSR itself is contentious in many ways and needs to be approached with due diligence, especially if the intention is to make it more than mere rhetoric. Consider the following: There was an article published by Milton Friedman (1970), a strong voice for the freedom of capitalist enterprise and capitalism on September 13, 1970 in The New York Times Magazine where he criticized the 'doctrine of social responsibility' as a "fundamentally subversive doctrine in a free society". His argument, which is reproduced here briefly, was targeted at corporate executives. According to him, the goal of shareholders is to maximize their wealth and the corporate executive is tasked by them (shareholders/ owners) to do just that. The executive being their employee has a direct responsibility to his shareholders to maximize their wealth and therefore, any diversion of resources of the firm in pursuit of other goals such as being 'socially responsible' would actually "mean that the executive will have to act in some way that is not in the interest of his employers" (Friedman, 1970, pp 2). An editorial and an 18 page article "Good Company" (Crook, 2005) published in the 'Economist' on January 22, 2005 supported Friedman and had the following to say:

"The proper guardians of the public interest are the government.....The proper business of business is business. No apology required" (Economist, 2005, p 16)

On the other hand, unlike Friedman (1970), Berle & Means (1932) strongly supported a stakeholder view, advocating that since shareholders had adopted a passive ownership role, the real contributors to firm were the stakeholders and thus stakeholder value was of greater importance. The Vienot Report (1995) went a step further to state that firms should encompass the wider objective of "social interest", other than only focusing on shareholders, employees and other firm-specific stakeholders.

The contentious nature of CSR as a paradigm does not end with Friedman (1970) or Berle & Means (1932), and results from differences of meaning associated with 'Social Responsible Behavior' and the interpretation of the responsibility of the manager in terms of maximizing shareholders' wealth. This debate has further extended to the issue: whether the firm even benefits from the application of 'Corporate Socially Responsible Behavior'? This controversial aspect of the relationship between CSR and performance grows from the managerial viewpoint of the benefits or otherwise of investing in promoting CSR (Alexander and Buchholz, 1978; Ullman, 1985; Wokutch and Spencer, 1987). For example McWilliams and Siegel (2000) find a neutral relationship between financial performance of the firm and CSR activities. While Waddock and Graves (1997) as well as Waddock, Bodwell and Graves (2002) find a positive relationship, Wright and Ferris (1997) indicate a negative relationship.

Further, evidence suggests that all the diverse activities of CSR focus almost entirely on the level of *idea* (Senser, 2007) and not much has been achieved by way of results in terms of even improving labor standards. This was reported by Sloan Management School Research team using Nike data from internal audits of 800 Nike suppliers spread in 51 countries (Senser, 2007). The report is just one among many.

It is perhaps, because of the controversial nature of the CSR theory that some researchers find only a few managers allocating additional resources beyond the legal limits established by law, in response to heightened stakeholders' interest in CSR (Donaldson and Preston, 1995; Mitchell et al. 1997). On the other hand, some authors find many managers avoid attempts to satisfy demand for CSR in terms of exceeding what is deemed legal as they believe this is inconsistent with the principle of profit maximization and contrary to the interest of shareholders (McWilliams and Siegel 2001; Friedman 1970).

In an attempt to develop a clearer understanding of the concept of CSR, this paper initially studies the possible approaches to the area of research in CSR and suggests that only with a clear understanding of the research approaches and an effective research agenda, future research direction in CSR could be developed. It also proposes that the concept of CSR needs to be contextualized to allow for development of an operational working definition of CSR that could be practicably implemented. In this context such an operational definition of CSR could enable the implementation of the CSR concept in developing countries, using Pakistan as a case in point.

The questions that need to be addressed in the context of the business environment of a developing country, therefore, are:

- i. What are the perspectives that are relevant to the concept of CSR?
- ii. Does CSR benefit firm performance or the business community?
- iii. What are the research directions that may be undertaken in context of a developing country such as Pakistan.

In order to achieve this end, the paper shall first explicate the various forms that academicians and practitioners use while approaching the subject of CSR in the way that propositions are put forward and then formulated into policies (normative) without being tested for their efficacy; or alternatively, developed into testable hypothesis (instrumental) for further empirical research (descriptive), which are then formulated into actionable policies. Next, the paper shall attempt to very briefly describe various aspects of the responsibility of managers and corporations in its various manifestations as part of the moral management of business. In this section, the paper shall limit itself to describing briefly Business Ethics, Corporate Governance and its associated Agency Problem, and finally the paper shall look at the issues that surround the concept of CSR and focus on a theory of Stakeholders as the key to future research area in the field, culminating in suggestion for research in developing countries.

2. Perspectives

As mentioned earlier, the issue of CSR is intertwined with other conceptual structures namely corporate governance, business ethics and the stakeholders' theory (see for example McWilliams and Siegel, 2001; Hess 2001; Friedman, 1970). Each takes a look from a specific angle at the overall question of what makes a socially responsible corporation or what makes an organization or manager responsible? We need to note at the very outset, the distinction between an inanimate corporation and an animate manager with knowledge, functions and motives. This is germane to our discussion on future research directions.

2.1 The Normative

Philosophers and theorists who are concerned with business and society normally, seek normative dimensions of behavior in terms of 'what should be' rather than 'what is', thus centering on moral judgment. In other words, 'normative' is more concerned with interpreting

the functions of and guidelines for corporate and human action including moral or philosophical (Donaldson and Preston 1995; Treviño and Weaver, 1994). Plato's treatise, '*The Republic*' is one such philosophical undertaking. Normative models play a very significant role in developing social thought and theory but per se may not be acceptable to the management of business.

2.2 The Instrumental

This approach by definition involves the if/then statement (Jones and Wick 1999). It suggests that if an organization wants to be effective, it will pay attention to only those relationships that can affect the achievement of corporate purpose as well as or better than competitors (Donaldson and Preston, 1995) and is considered 'pragmatic' (Freeman, 1984,).

2.3 Descriptive and Empirical

Descriptive and empirical approach applies a framework of empirical evidence and uses theory to describe, sometimes explain, and predict, specific corporate characteristics and behaviors (Donaldson and Preston, 1995; Treviño and Weaver, 1994) that are subject to intervention or influence (Swanson 1999; Treviño and Weaver, 1994).

In summary, therefore, philosophical underpinnings in delineating various aspects of corporate behavior whether it is CSR, corporate governance, agency issues or stakeholders vs shareholders value, results in a necessary dilemma of integration and blending of the factual and the moral prescription (Swanson 1999).

3. Theoretical Frameworks in the Area of Morals Management

A brief review of the various dimensions and theoretical frameworks of what could be termed as the Moral Management in Businesses is necessary before moving on to suggest the future direction for research.

3.1 Business Ethics

Business Ethics, which is synonymously used with Corporate Ethics is concerned with ethical principles and moral or ethical problems faced by the corporations. Ethics is referred to mean the 'right way' as defined in Philosophy. Business ethics, therefore, will mean 'the right way to

do business.’ Morality on the other hand refers to the normative ethics aimed primarily at the managers and suggests the way a manager must act. Beauchamp and Childress (1999) define ethical theory ‘as a framework within which agents can reflect on the acceptance of their actions and can evaluate moral judgments and moral character’ (p 44). This claims a very broad path for ethics, including social morality or values (including questions of fairness and justice), and involves the development of a checklist of criteria by which managers routinely should evaluate potential decisions along the moral dimension (Etzioni 1975, p 356). It is further proposed that practically all managerial decisions have moral implications and it follows that there is a need to first develop an enhanced sensitivity to the moral dimension within organizations.

The issue that seems to beset this area is well articulated by Brady and Dunn (1995) where they suggest that “the feeling one gets from literature is that a theoretical ‘free-for-all’ where eclecticism seems to dominate the need for focus and the securing of a common foundation” (p. 385). The reason for this feeling largely grows out of the various perspectives that have been used by several authors to study this area including but not limited to, ‘egoism, virtue theory, theories of justice, theories of right, universalism, ethical relativism, an ethics of caring and so on’ (p 385).

This is understandable as human beings are complex entities and no single theory will suffice in developing a clear understanding of the moral dimensions faced in a business setting. This is especially true, as a world wide survey of business ethics by Enderle (1997) reported significant country differences. Other studies have supported these findings. Therefore, before exploring the CSR possibilities, it is important to develop an appropriate focus in terms of the specific areas of interest that are relevant to the business environment and operationalise the same. This raises major concerns, which need to be addressed:

- i. How is business ethics perceived by business community in the relevant environment – is it acceptable and perceived as beneficial
- ii. Which areas of business ethics are relevant to the business environment
- iii. How can business ethics be made practical

3.2 Corporate Governance

An area of interest, which grew around 1990 is more related to the form of Financialised Capitalism that we witness in the west especially in the US and UK (Erturk et al. 2004). It really deals with the ways in which the suppliers of finance assure themselves of a fair return on their investment (Shleifer and Vishny 1997) and is directly related to the Agency Problem in the area of corporate management. In other words it intends to address the concern of appropriation of funds by the managers to the detriment of the shareholders and financial creditors, where Jensen & Meckling (1976) considered the two sides of the agency relationship as between the shareholder and the manager and between firm and financial creditors. As suggested by many researchers in the past (see e.g. Baumol 1959, Marris, 1964; Jensen, 1986 etc) and the widespread cry that has been raised in the present times following the financial crisis witnessed in USA, the greater costs are incurred when managers have an interest in expanding the firm beyond what is rational and desirable (Shleifer and Vishny, 1997). This has led to the theme that such managers require regulations and need monitoring, thereby decreasing the costs associated with agency conflict (Fama 1980) and to ensure that they do not expropriate funds through risky projects. Corporate governance, therefore, in the opinion of this paper is directly related to the shareholders interests and how they control the behavior of the managers whom they have entrusted with their funds.

3.3 Corporate Social Responsibility

As pointed out earlier, a key debate within the academia and society relates to CSR. The debate not only centers around what is meant by CSR (Wan-Jan, 2006) but also on whether CSR is being proposed as a soothing ointment to the perverse social and environmental effects caused by capitalism with no real mitigating effect on them (Utting, 2007). Some, such as Williamson (1984,1985), minimized the role of CSR when he proposed that stakeholders were adequately protected by their contracts, but that the shareholders were at higher risk and, therefore, the firm needed to protect their interests adequately. It is also suggested by Weaver, Trevino and Cochran (1999), who opine that most of the time organizations do not integrate CSR into their culture but keep CSR in position, in a 'decoupled' form, which can be disconnected from everyday workings whenever pressures build. This can occur where demands for institutional legitimacy

appear to conflict with other organization goals such as profit maximization or shareholders' wealth (Senser, 2007; Meyers and Rowan, 1977).

Given the criticism and support for CSR (see e.g. Hopkins, 2006; Wan-Jan, 2006; Fitch, 1975;) and whether CSR activities result in improving organizational performance (Waddock and Graves, 1997) the controversial nature of the topic becomes evident. Waddock and Graves 1997, have listed a number of empirical research articles which demonstrates controversial evidence to the positive, negative or neutral affects of CSR on firms performance. This in turn reflects the current state of theory development. To explain the first one we draw reference to Kitchin (2002) who states:

“One moment CSR seems to mean the engagement of the NGOs, the next it is all about charitable donations, and 5 minutes later it seems to mean the ethical treatment of employees. One minute the NGOs are calling the shot, the next the accountants are in on the act selling reputation assurance”.

In line with the above ambiguity, especially of responsibility for the CSR, Wan-Jan (2006) also refers to different authors proposing different explanations to what CSR is. For example, he suggests that CSR is an excellent tool to market the firm (Lantos 2001) and brand (Lewis 2003) and should be led by marketers. According to him again, some authors have argued that firms should be socially responsible because that is the right way to behave (Novak 1996; Trevino and Nelson, 1999), where 'ethics' broadly relates to what is deemed right or wrong, while 'morality' is concerned with normative ethics. Finally, it should be noted that CSR presently consists of a number of free standing and competing ideas that have not been sufficiently integrated into a broad accepted and robust theory (Wood, 1991). Similarly, according to Hopkins (2006) the concept is still developing and has not yet reached the maturity stage.

The focus of the paper relates to CSR and its future research direction and the above sections have attempted to set CSR within a matrix of other theoretical concepts that have been attended to by various researchers and policy makers. We focus more on the issues that confront the CSR and its applicability.

4. Issues

At the outset it has been stated that future research direction in CSR could only be achieved with an effective research agenda of the possible paths to be pursued and the questions to be addressed. Further, it is emphasized that the concept of CSR needs to be contextualized, i.e. understood within the context of the country of application, if an operational and workable definition of CSR is to be developed. Such an operational definition of CSR would then enable the implementation of this concept generally, and specifically in developing countries, such as Pakistan. This section of the paper thus attempts to address these two important issues and develop propositions toward effective research in the area of CSR in a developing country such as Pakistan.

The first issue that needs to be addressed with regard to the business environment of a developing country is: a) to assess the meaning of CSR and its connotations for the business community and public; b) to establish their acceptability of the CSR concept; and c) to evaluate their understanding of the benefits to be derived from CSR. This would provide the basis for a workable definition, allowing for successful implementation of the CSR concept. For example, if socially responsible behavior is seen as a gimmick for increasing profits and market share, then the spirit of CSR is defeated. However, if purpose of CSR is understood in its true spirit i.e. it is undertaken for the betterment of society/community, which would also result in the welfare of the Corporation, then CSR could not fail and a workable definition would be developed.

Proposition 1. Without understanding the various connotations of CSR – acceptability and benefits to be derived – as perceived by the community, we cannot develop a definition of CSR that will work.

The thesis of this paper is that without an agreed working definition any attempt to focus activities will flounder, as is evident from practical examples of CSR in action found in literature. Most authors have been attempting to provide a definition that can be universally accepted even today in the developed world (see e.g. Hopkins 2006; Wan-Jan 2006; Economist, 2005; Hopkins 2003; Carroll, 1991; Friedman, 1970, Baumol, 1959 etc), which suggests that work undertaken in this field has not reached maturity. Further implications of this lack of an

acceptable definition can be that whatever activities are undertaken by businesses could be considered sufficient or insufficient depending on the definition rendered and applied. This obviously, creates further skepticism amongst managers who are the true agents of any undertaking in the field of CSR. Given the preceding discussion, it is safe to suggest that CSR is an emerging topic in the area of strategic management of business enterprise. In countries such as France, Germany and Japan the inclination of businesses are more toward “growth, longevity and secure employment relationship with profitability being more an instrument than the ultimate goal” (Tirole, 2001, pp. 4). Therefore, before accepting a definition the ethos of the country should be considered as the most important ingredient. We use ‘ethos’ here to mean customs, habits and character.

Proposition 2. Without a workable definition of CSR that is acceptable to organizations and the public of interest, any attempt to implement it will be met with skepticism and cynicism resulting in businesses paying only lip service (Crook, 2005) to a good idea.

The third issue that will confront all who are interested in the effective application of the CSR concept is to determine the nature of being CSR oriented. In other words what would constitute Corporate Social Responsible behavior? The decision as to what should be done if problems are identified and which problem should be tackled first and which problems should be ignored, is difficult to say the least (Fitch 1975). Should we take an organization to be acting socially responsible if the organization is meeting the minimum legal requirements? For example, are the cigarette-manufacturing companies, who comply by labeling their packets with ‘HEALTH WARNING’ in compliance with the law, or are they practicing CSR? Or should voluntary behavior in pursuit of general good and acting ‘pro bono publico’ be considered as CSR? Further, as Swanson (1999) asks, are we talking of what the corporation should not do (moral restraint) or what the corporation should do (moral responsiveness)?

Proposition 3. Without clearly establishing the constituent behavior of CSR it will very difficult if not impossible to encourage firms to act voluntarily in a social responsible manner

The fourth issue that needs to be addressed is, what are the activities of CSR within the context of a developing country such as Pakistan and what priorities need to be assigned to these activities? A number of studies referred to above and one of the most relevant being that of Hofstede (2002) suggests that culture variations induce variations in the goals that managers think are appropriate and worthy of pursuit. This is also true of what will be considered as the correct focus of CSR. It is reasonable to say that to reach this consensus if not generally then regionally in the context of Pakistan; public opinion becomes the most relevant. However, public opinion should be differentiated from mass opinion. In the present case we propose that public opinion is related to the opinion of publics, which are affected and have interest in the CSR activities. That is to say, they arise in issue oriented situations (Grunig, 1979) and organizations may have different publics for different issues. This would mean that we need to first identify the relevant stakeholders and then research what they believe to be the priorities. Unfortunately this presumes an aware and articulate public. Perhaps in the case of a developing country such an attempt requires securing an initial ground in the struggle to develop CSR behavior by creating relevant awareness, which leads us to the following proposition and the next issue

Proposition 4. Without establishing the stakeholders and the relevant publics it is very difficult to focus on specific and relevant activities. It is further proposed that identifying the stakeholders and relevant publics will also enable formalism, which will explicate ethical customs and establish tradition of social control relevant to the country.

The fifth issue, which needs to be addressed, is the allocation of responsibilities among the various stakeholders including the public, the government and the corporation. Generally, the government is tasked with creating awareness amongst the publics, while within the corporation defining the responsibilities is also significant. An important question that requires to be answered is, whether the corporations have a role in identifying the social problems; and if so, what is that role? It will be more practical to understand and appreciate that organizations need to search for ways to increase profits by applying their expertise to the solution of social problems. This behavior should not be criticized as it needs to be understood that the firms do have an economic responsibility along with the legal and ethical responsibility. There is no doubt that voluntary contribution to the social good by the corporation, in the form of absorbing all the

social cost, would be considered the ideal level of Corporate Social Behavior worthy of achievement. However, expecting firms to price themselves out of the markets based on this ideal would not be considered rational because one social responsible behavior of a firm is also to create employment opportunity within the community.

Proposition 5a. It is proposed that once the desired activities are noted by the firms, they need to establish the desired state that the firms want to reach by specifying a level of future performance, which should be established by benchmarking other people or organizations as well as creating awareness within the firm to modify behavior in line with the goal.

Proposition 5b. It is also proposed that without due support from the government in the form of establishing some incentives and schemes and the top management's conviction of voluntary approach, any progress on CSR will be difficult. On the other hand resorting to law to enforce CSR behavior will not be in the spirit of CSR but will rather become compliance of legal requirement, which in turn will always be minimally met and normally glossed over.

There is a need to address the issue of a link between the CSR activities and financial performance of the firm. There is intuitive appeal in the contention that CSR focused activities can be vital to strategy in terms of addressing environmental concerns (Prahalad and Hamel 1994); in developing customer loyalty (Wan-Jan, 2006); brand equity (Lewis, 2003), and as a marketing tool for the company (Lantos, 2001), which in turn can help develop competitive advantage with its positive impact on firms' performance (Creyer and Ross, 1997). Despite this, the linkage between CSR activities, which can be measured through Corporate Social Performance (Graves and Waddock, 1994) and financial performance in particular, is still not clear. The issue of uncertainty, most probably, results from CSR being a multidimensional construct with behaviors that range across a wide variety of inputs, internal behavior processes and outputs (Waddock and Graves, 1997).

Proposition 6. *It is proposed that where clear implications of performance impacts of CSR activities cannot be established, it will be difficult to induce voluntariness in undertaking CSR activities by the management of corporations.*

Finally, it is important to be able to measure and assess how effective the CSR activities have been through the stakeholder response. If the CSR of firms is not being effective because of poor implementation or misunderstanding of the concept, or weak definition of CSR or any other factors, then this needs to be reviewed and rectified and it may also lead to reformulation of the CSR definition.

Proposition 7. It is proposed that without a clear identification of the measures to assess the success of CSR, the CSR concept may become stagnated without any space for improvement and change.

5. Discussion

In this paper we have attempted to raise some questions which are of interest, and hopefully will be useful to further the cause of CSR in a developing economy such as Pakistan. The normative and the empirical approaches have to integrate and converge in the form of research agenda where the focal point has to be the stakeholders. Stakeholders' theory has been presented as an alternative to shareholders theory where the welfare of the society through the interests of the stakeholders suggests a counterpoint to the profit maximization motive of the firm. It is rational to further suggest that if CSR has to become a voluntary movement then awareness amongst the stakeholders, represented by public opinion, has to be developed, which should be the responsibility of the government. One must also be cognizant of the fact that allocation of scarce resource is a critical decision making area, which will be facilitated if some form of link between the CSR activities and firms' performance is established. Therefore, the future research efforts should lie in discovering the prioritized social problems that need to be tackled and in establishing a link between CSR activities in these areas with organizational performance, which will only result from an aware and conscious public.

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