CSR THEORETICAL BACKGROUND

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Different theories concerning the purpose of corporations define the relations and responsibilities a company has with participants in its economic activities and with regulator. The CSR theoretical backround can be subdivided into early theoteical views, CSR models, the societal dimension of strategic management and an overview of the different perspectives.

Early theoretical views

As early as 1916, J. M. Clark emphasised the importance of transparency in business dealings, writing in the Journal of Political Economy :"if men are responsible for the known results of their actions, business responsibilities must include the known results of business dealings, whether these have been recognised by law or not".

In the early 1930s, Professor Theodore Kreps introduced the subject of Business and Social Welfare to Stanford and used the term "social audit" for the first time in relation to companies reporting on their social responsibilities.

Peter Drucker argued in 1942 that companies have a social dimension as well as an economic purpose in his second book "The Future of Industrial Man" which addressed primarily responsibility and preservation of freedom.

Corporate social responsibilities were defined in 1953 by Bowen [1][1] as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are *desirable in terms of the objectives and values of our society*." At the time, corporate social obligation was linked to the power that business holds in society. This point was stressed by K Davis who in 1960 [2][2] described business social responsibilities as "the businessman's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest… which need to be commensurate with the company's social power."

The earliest reference addressing specifically social auditing was around the early 1960s in a book by G Goyder called "The Responsible Company". Goyder referred to various activities in the mid and late 1950s and suggested that social audit could provide a management tool and could offer *stakeholders a platform for challenging and influencing companies.*

Opposition to the notion that companies have social responsibilities has been prevalent on the grounds that it will divert attention form the primary economic objectives. In 1962 Milton Friedman stated that "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible"[3][3].

A balanced view of CSR is expressed by D Voge in "The Market for Virtue: The Potential and Limits of Corporate Social Responsibility"[4][4] suggesting that CSR is not a precondition for business success but a dimension of corporate strategy: "Just as firms that spend more on marketing are not necessarily more profitable than those that spend less, there is no reason to expect more responsible firms to outperform less responsible ones. In other words, the risks associated with CSR are not different from those associated with any other business strategy; sometimes investments in CSR make business sense and sometimes they do not." Voge also highlights that "Surveys of the world's top brands rarely cite CSR as an issue associated with a given brand. And companies that make most-admired lists do so by virtue of other factors--financial performance, customer satisfaction, innovation, and so on."

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Early social responsibility models

Early theoretical work specifically addressing corporate social responsibilities is represented by Sethi (1975)[5][5] who developed a three tier model for classifying corporate behaviour which he labelled "corporate social performance". The three states of corporate behaviour are based on:

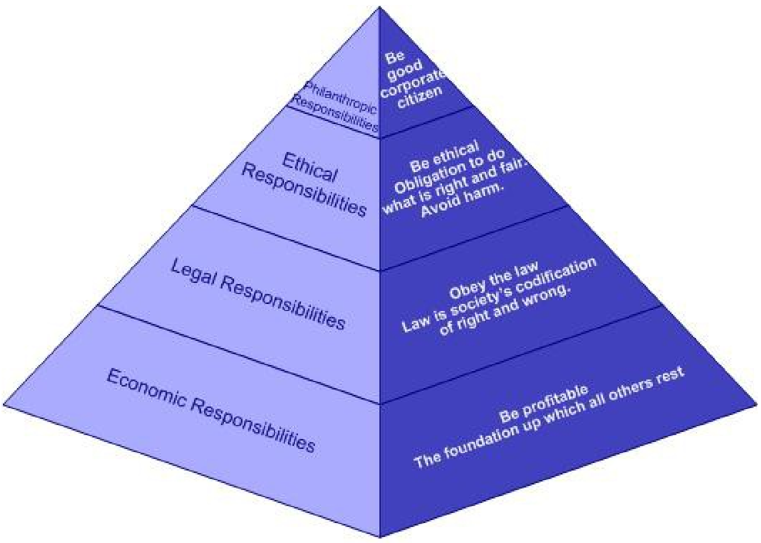
a) social obligation (response to legal and market constraints);
b) social responsibility (addressing societal norms, values and expectations of performance);
c) social responsiveness (anticipatory and preventive adaptation to social needs).

Sethi's second tier requires that a company moves beyond compliance and recognises and addresses societal expectations. The third tier requires that a company develops the competence to engage effectively with stakeholders and take proactive measures on their issues and concerns. Sethi also emphasised the cultural and temporal dependencies of corporate responsibilities and the importance of stable management systems and standard classifications to facilitate measurement of progress and comparative analysis.

Building on Sethi's model Carroll (1979) [6][6] proposed a model that contains the following four categories of corporate responsibility in decreasing order of importance:

a) Economic -be profitable;
b) Legal - obey the law;
c) Ethical- do what is right and fair and avoid harm;
d) Discretional / philanthropic- be a good corporate citizen.

The four classes of responsibility are seen to reflect the evolution of *business and society interaction* in the United States. According to Carroll "the history of business suggests an early emphasis on the economic and then legal aspects and a later concern for the ethical and discretionary aspects". Economic obligations are therefore seen to be tempered by ethical responsibilities or social expectations and norms. Discretionary responsibilities go beyond ethical responsibilities and include philanthropic measures such as corporate sponsored programs for disadvantaged workers.



Carroll's CSR Pyramid

In 1991, Carroll presented his CSR model as a pyramid and suggested that, although the components are not mutually exclusive, it "helps the manager to see that the different types of obligations are in constant tension with one another".

The model has been validated[7][7] by a number of studies.
Aupperle, Hatfield & Carroll (1985; 1983) performed the first empirical test of the four tier CSR model by surveying 241 Forbes 500 listed CEOs using 171 statements about CSR. The statistical analysis confirmed that there are four empirically interrelated but conceptually independent components of CSR and provided tentative support to the relative weightings assigned by Carroll to each of the four

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components.

Pinkston & Carroll (1994) performed a similar survey among top managers in 591 U.S. subsidiaries of multinational chemical companies with headquarters in England, France, Germany, Japan, Sweden, Switzerland and the U.S. Aggregate findings once again confirmed Carroll's four tier weighted model but interestingly showed Germany and Sweden to be exceptions, where legal responsibilities were ranked the highest priority followed by economic, ethical, and philanthropic aspects respectively.
Comparison with the Aupperle, Hatfield & Carroll's (1985) findings also showed that in the intervening ten years the gap in the relative importance between economic and legal responsibilities had decreased, while the importance of ethical responsibilities appeared to be increasing and that of philanthropic responsibilities to be decreasing (Pinkston & Carroll, 1996).

The societal dimension of strategic management

Around the time Carroll published his CSR model in 1979, the *societal dimension of strategic management* was explored by Igor Ansoff in "The Changing Shape of the Strategic Problem"[8][8]. He proposed that an "enterprise strategy", describing the interaction of a firm with its environment, should be added to the corporate, business and functional levels of strategic management.
According to Ansoff, enterprise strategy was needed in order to enhance a company's *societal legitimacy* and to address new variables in strategic management such as "new consumer attitudes, new dimensions of social control and above all, a *questioning of the firm's role in society*". These ideas are today at the heart of stakeholder approaches to strategic management.

The stakeholder theory, emphasising a broad set of social responsibilities for business was established by R Freeman in 1984 through the ground breaking work published in his book "Strategic management: A stakeholder approach"[9][9] which effectively established the field of *Business & Society*. Freeman defined stakeholders as "any group or individual who is affected by or can affect the achievement of an organisation's objectives".

According to Freeman, the use of the term stakeholder grew out of the pioneering ideas at Stanford Research Institute (now SRI International) in the 1960's which were further developed through the work of Igor Ansoff and others. The basic SRI concept was that "managers needed to understand the concerns of shareholders, employees, customers, suppliers, lenders and society, in order to develop *objectives that stakeholders would support*. This support was necessary for long term success. Therefore, management should actively explore its relationships with all stakeholders in order to develop business strategies."

Stakeholder management approaches can be very different in practice, spanning from *instrumental approaches* which use stakeholder relationships strictly as an instrument to maximise profit to *intrinsic approaches* where fundamental principles guide how a company does business particularly with respect to how stakeholders are treated[10][10].

Overview of theoretical perspectives

A summary of the theoretical streams described above is presented in the following diagram.

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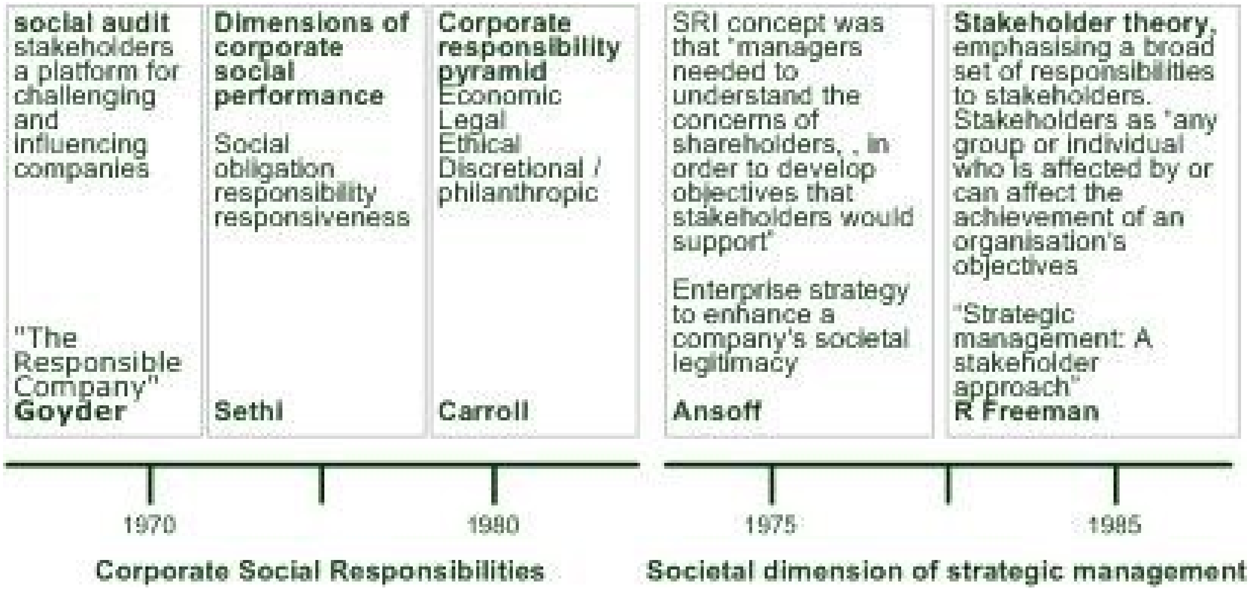

The two main streams represent the CSR perspective emphasising ethical issues and social audit and the stakeholder approach representing the social dimension of strategic management. It should be noted that sustainability did not feature in corporate responsibilities issues but is related to environmental economics established to address environment a scarce resource and to ensure that the costs and the benefits of environmental measures are well balanced.

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[17][7] Pinkston, T. S., & Carroll, A. B. 1996. A Retrospective Examination of CSR Orientations: Have They Changed? Journal of Business Ethics, 15(2).
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