Towards a political economy of corporate social responsibility

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Extended abstract (not for citation)

1. Overview
The debate about corporate social responsibility has a long history and turns on the question of whether firms (or the managers who run them on behalf of shareholders) have responsibilities to society beyond the making of profits that translate to dividends for shareholders (Arlow and Gannon, 1982). As Peattie et al (2001) argue, academic research in the field of corporate social responsibility has been dominated by two distinct approaches: normative (concerned with what firms should or should not do); and descriptive and instrumental (concerned with what firms do and can do).

The older descriptive/instrumental tradition includes most management and social science research, including most 'greening of industry' research. The normative approach has been developed more recently by ethicists and applied philosophers (Brady, 1985; Frederick, 1986; Wood, 1991; Donaldson and Dunfee, 1994; Quinn and Jones, 1995). They argue that instrumental explanations of the behaviour of firms are inadequate because they tend to see *social* behaviour of firms as being primarily the outcome of the operation of 'social controls' imposed on the activities of managers and companies (by regulators and other stakeholders), or because such behaviours converge with higher-level economic goals of the firm (the 'win-win'). Ethicists argue that positive moral values – universal principles such as fairness and justice - pervade all business relationships and actions and must therefore be taken into account in theorising and describing the behaviour of companies, including their social performance.[1] The two traditions have however proven difficult to reconcile (Swanson, 1995 and 1999).

Beyond the norm-based and the instrumental explanations and advocacy for CSR, there exists a third position which rejects the entire premise of 'social' behaviour by companies. This position is most pithily articulated by Milton Friedman who argued that: "...there is one and only one responsibility of business - to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." (Friedman, 1970). Friedman believed that the practical impact of 'social responsibility' must always be to divert management effort away from normal competition, and to impose new and unnecessary costs on the business. This, he argued, was not the function of business managers, but of elected politicians who would ensure that democratically-agreed controls were levied on business activities. In any case, most claims about social responsibility were likely to be fraudulent (businesses remain primarily profit-making organisations), and dangerous because they pandered to a prevailing anti-business, anti-profit culture which carried long-term risks for business (for a contemporary exposition of this position see, Henderson, 2001).

In this paper we draw on current CSR research and make two main arguments. First, that conventional instrumental explanations of corporate social responsibility are inadequate and need to be deepened to move beyond a focus on potential economic advantages to the firm. Instead, we propose an analysis of the drivers for CSR today which emphasises problems of

[1] An interesting semantic schism exists in this literature, with business ethicists employing the terms 'corporate social performance' and 'corporate social responsiveness', in contrast to management theorists who tend to use the term 'corporate social responsibility'. For ethicists the notion of responsibility is itself problematised.

management and co-ordination in firms, strategic behaviour in markets by firms, and changes in the regulatory context within which firms operate. Second, and in a related argument, we want to show that a political-economic analysis can go some way to reconciling the schism that currently exists between instrumental and normative explanations – albeit in a rather different way than business ethicists have suggested.

We begin by summarising some of the key features of the current CSR debate. We then discuss some possible implications of CSR for theories of the firm, highlighting developments in 'stakeholder' theories. Having identified some critical issues in the linked debates about CSR and stakeholder theories, we propose a synthesis.

2. The re-emergence of corporate social responsibility

CSR may be defined as '…operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of a business' (BSR, 2000). This definition draws on Carroll's (1989) hierarchy of business responsibilities – economic, legal, ethical and discretionary. With economic responsibilities being the most important, and discretionary (ie. voluntary donations to charities) the least.

It is widely believed that non-economic responsibilities of corporations have been brought more fully under the spotlight in recent years. There are a range of interconnected and growing academic and business debates – about corporate governance, 'values' in the business organisation, anti-globalisation. In policy debates more emphasis has been placed on voluntary approaches and self-regulation as part of processes of de-regulation in many sectors and policy domains. A greater role has therefore been given to corporations in defining and enacting normative controls on their own activities. This, in turn, has generated functional and cultural changes within business organisations – senior managers with responsibility for implementing corporate governance policies, environmental management systems, corporate social performance reporting and so on. The general perception is therefore that social control of the business organisation is being *reconfigured,* and is perhaps being partly internalised, as a result of a complex bundle of drivers and changed conditions. It is important to recognise that social control of business seems to involve both the exercise of 'negative duties' (the duty not to pollute for instance) imposed from outside the organisation, as well as 'positive duties' (the voluntary adoption of good conditions of service because it is morally right) that are based on beliefs and norms held within the organisation.

These social and economic processes are generating new institutional structures, procedures, behaviours, norms and expectations within and outside business organisations. CSR in practice can be described as having four dimensions:

1. *Establishing norms*: the development of explicit and implicit ethically-based principles that guide business decision-making and influence business processes. Examples include mission, vision and values statements and their implementation through corporate policies and communications.
2. *Building competences*: the development of new functions and capabilities to carry out activities stemming from a reconfigured social control of business. Examples include new operational and planning management functions (policy implementation, target-setting) and new education and training activities.
3. *Monitoring and evaluation*: the collection of new forms of data, their analysis and auditing, and the development of procedures for adapting business processes in response to this information. Examples include collection and analysis of environmental and social performance data.
4. *Transparency and communication*: the development of means for explaining and demonstrating the corporate commitment to ethical, social and environmental standards. In many cases it will not be self-evident, either within a firm or from the outside, whether or not non-economic standards are being met. A firm can employ many different approaches to demonstrate ethical behaviour, but the most effective approach is usually to allow external audit of its own routines and activities. Examples include social audits and real-time observation and surveillance of company activities (the Ben and Jerry's factory tour being one good example).

Beyond the organisation, CSR is also likely to have consequences for the expectations and behaviour of other market actors (principally consumers and investors), other organisations (environmental pressure groups) and for policy makers (in their attitudes to different policy instruments). For this reason a theory of CSR needs to develop a 'systems' view of firms and their relationships with a broad range of both economic and non-economic actors. Typically these actors are now termed 'stakeholders', although uptake of the idea of the stakeholder to capture groups influencing and targeted by CSR has been rather uncritical in much of the more recent literature.

Partly as a response to underlying changes described above, a rapidly proliferating range of advocates has emerged over the past few years in the general domain of CSR. These include academic researchers, non-governmental organisations, governmental regional and international agencies (the European Green Paper and the UN Global Compact, for instance), and industry organisations and companies. This more practically-oriented CSR advocacy has coalesced from disparate settings, including people and organisations working on quite distinct issues including, amongst others, corporate governance, socially-responsible investment, corporate environmental and social reporting, fair trade initiatives and human rights advocates.

While their substantive interests may be differentiated, the basic thrust of their advocacy has been instrumental, rather than moral. That is, advocates have argued for a wide range of potential benefits to the business organisation that flow from behaving in a more socially responsible way. These include: improved financial performance (Preston and O'Bannon, 1997); reduced operating costs; enhanced risk management (Sison, 2000); enhanced brand reputation (Petrick et al, 1999); increased sales and customer loyalty (Brown and Dacin, 1997; Creyer and Ross, 1997; Murray and Vogel, 1997); increased productivity and quality; better retention of staff (Turban and Greening, 1997); reduced regulatory oversight; and improved access to capital.

In their different ways, all of these are 'win win' claims, in that they appear to take as a starting assumption that socially responsible behaviour by firms may lead to contrary outcomes (that is, should have a negative impact on financial performance) or unaffected outcomes (for instance, that reputational capital may not be affected by CSR activities). They also fall within the 'managerialist' tradition of instrumental claims because they are not grounded in normative arguments for socially responsible behaviour – that CSR is the right thing to do because of the ethical principles that may be upheld as a result, or simply out of respect for a firm's stakeholders.

3. Stakeholder theory as 'bridging' theory

We began by describing three traditions relevant to theoretical discussions about CSR: the normative; the descriptive/instrumental; and the neo-classical. Deep cleavages exist between these traditions that reflect differing framing assumptions and analytical perspectives. Since the neo-classical position rejects from first principles the validity of CSR, we set it aside in our analysis here. One aim for theories of CSR would be to seek to bridge between normative and instrumental perspectives.

One set of perspectives proposed within the strategic management literature is the stakeholder theory of the firm (Freeman, 1984; Hill and Jones, 1992; Freeman, 1999; Jones and Wicks, 1999). Stakeholder theories, although representing a rather differentiated and often diffuse literature, have sought to provide a perspective on the workings of the firm that is distinctive from behavioural (Cyert and March, 1963), neoclassical, cooperative game (Aoki, 1984), and contractual (Coase, 1937; Williamson and Winter, 1991) theories of the firm, although it shares common analytical roots with several of these (the rejection of the notion of optimality shared with behavioural approaches, and the notion of firm-as-contract common to transaction cost approaches for instance).

In their review of stakeholder theories, Donaldson and Preston (1995) draw a contrast between two models of the firm. First they describe the standard 'input-output' model of the corporation typical of neoclassical economics in which factors of production are transformed into a product for sale to customers according to well-defined rules that determine rational behaviour (Figure 1). This represents a familiar linear picture of one-directional flows in which the central decision-making and coordinating agent is the firm, and more specifically managers.

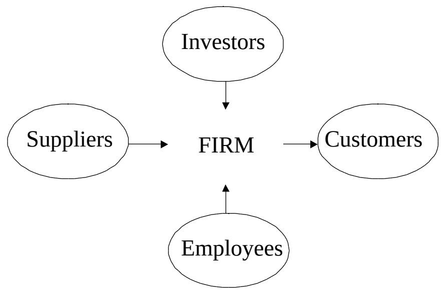

Figure 1: Input-output model of the firm (after Donaldson and Preston, 1995)

Donaldson and Preston contrast this picture with the stakeholder model which holds that, '…all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits and there is no prima facie priority of one set of interests and benefits over another.' (p68, Figure 2). Stakeholders are '…any group or individual who can affect or is affected by the achievement of an organisation's objectives' (Freeman, 1984). In this picture the firm is seen as one among many agents, with multiple two-way exchanges and responsibilities operating across a web of relationships. This model also reflects a novel theory of the firm, namely that '…the purpose of the firm is…to serve as a vehicle for coordinating stakeholder interests.' (Evan and Freeman, 1988). Since none of these interests is assumed to be inherently dominant (as is the case in standard economic theories which see shareholders and customers as the primary interests) organisation-specific, dynamic and multiple trade-offs are negotiated by firms as they seek, through time, to channel, organise and satisfy many stakeholders as efficiently (and fairly) as possible. The set of interests and objectives being pursued by the firm is broadened substantially, and a break is made from the instrumental rationale favoured in economic theories of the firm. Donaldson and Preston argue that there are descriptive, instrumental (Hill and Jones, 1992; Williamson and Winter, 1991) and normative (Wood, 1991; Swanson, 1995; Phillips, 1997) justifications for the stakeholder theories of the firm. It is in this sense that stakeholder theories have come to be seen as providing the conceptual apparatus for bridging between instrumental and normative approaches to corporate social responsibility.

From the perspective of stakeholder theory, CSR is the development of norms, capabilities and routines that enable the firm to conduct and organise bargaining with and between a range of interests outside the firm. The theory can then be seen as making a number of specific claims about stakeholders, their interests and the process of bargaining as they might be influenced by CSR: a) that no specific priority can be accorded to any of the firm's stakeholders; b) that stakeholders compete to realise their interests through the firm; c) that the firm seeks to coordinate these competing interests; and d) that ethical principles such as 'fairness' should be used to judge the performance of CSR policies (rather than relying exclusively instrumental 'win win' justifications).[2]

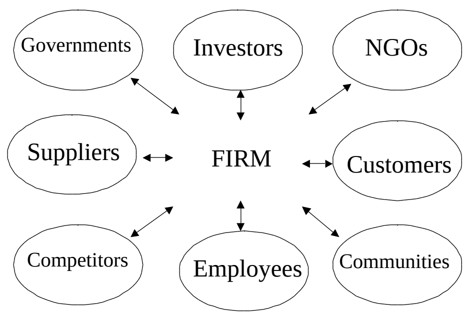

Figure 2: Stakeholder model of the firm (after Donaldson and Preston, 1995)

[2] This latter condition does not apply to more instrumental perspectives such as Hill and Jones (1992).

There are a number of striking consequences of this characterisation of the function of CSR in firms. It undermines, or at least seriously weakens, the assumption that an analysis of CSR stands or falls by its alignment with conventional economic theories of the firm. In this sense it argues that many conventional 'win-win' arguments are simply missing the point. It also broadens the institutional setting within which the firm operates and exercises choices, and the interests that it seeks, or is obliged to, serve. A stakeholder theory permits the use of explicitly normative criteria for appraising a firm's social performance. It opens the possibility of developing a political economy of CSR which is concerned with the problems of coordinating multiple interests and the exercise of both positive and negative normative principles in explaining the behaviour of firms.

4. A critique and possible synthesis

But while certainly useful in developing a theory explaining CSR, stakeholder theory also suffers from a number of weaknesses. From among and range of possible critiques, we want to highlight three: the problem of choice; the problem of focus; and the problem of explanatory power. First, the problem of choice is related to the lack of a coherent set of principles for predicting the behaviour of agents in stakeholder theory. While notions of fairness, efficiency and equilibrium are employed to try to predict the process by which stakeholder-agent[3] bargains are negotiated, it is not clear how these are to be interpreted when considering non-economic relationships. It is unlikely, for instance, that an equilibrium can be found between two incompatible moral principles – precisely the sort of problem which CSR is frequently seeking to respond to. Nor is it clear how contrasting principles like efficiency and fairness should be reconciled.

Second, the problem of focus stems from the paradox that while stakeholder theory is ostensibly concerned with a network of relationships that define a firm and its boundaries (what should the firm be responsible for? is the firm responsible, or are its managers? how far will its shareholders be liable for impacts of the firm's activities?), most theorists have continued resolutely to focus on the firm as the unit of analysis. An effective stakeholder theory, and one which can say something useful about CSR, is likely to need to have a broader perspective, 'unpacking' the firm as a set of relationships, internal and external, stretching across and configuring the firm's boundaries. Such a theory also needs a theoretically-informed picture of the industrial, regulatory, social, economic and cultural context within which the firm operates. Third, both instrumental and normative justifications for stakeholder theory appear to have limited predictive power judging from the behaviour of firms. Clearly predictive power is not the only criterion to apply when judging social and economic theory. The problem for stakeholder theory is that it appears to have very limited capacity to predict (and therefore explain) the social or financial performance of firms[4], nor is there clear evidence that managers do, for instance, exercise a great deal of moral discretion in their relationships with stakeholders.

We propose that a possible resolution of the theoretical problems posed by CSR is to accept the basic framework laid out in stakeholder theory which sees the firm as a nexus of relationships existing within, and being sustained and legitimated by, a broad community of agents. These agents act on and through the firm in pursuit of their interests which are multiple, some economic, some not. The firm itself is decomposed as a series of social, economic and ethical relationships – for instance, between managers and employees. These relationships are set in a broader context of relationships which each of these internal actors has with actors 'external' to the firm. We can therefore see the behaviour of managers and employees as being conditioned not only by the norms and routines of the firm itself, but also influenced to a greater or lesser extent by relationships with actors outside the firm, and the duties and expectations that arise from these relationships. One of the consequences of this characterisation is that it problematises the boundaries of the firm (what is in and what is out? is there a single boundary or are there multiple boundaries?). Firms are seen as arenas of denser social structure and interaction, circumscribed by legal and fiduciary commitments, but nevertheless always located within a much wider set of (more diffuse) relationships that cannot be defined as solely based on economic exchange, competition and co-operation.

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[3] The 'agent' being the firm.

[4] This mirrors the difficulties found in trying to establish the wider competitive benefits of 'win-win' solutions in the industry-environment literature (for reviews see: Klassen and McLaughlin, 1996; Wagner, 1999).

In thinking about the firm as a nexus of relationships, pursuing differentiated interests, we depart from conventional stakeholder theory in arguing that not all these relationships are equally important. To understand the behaviour of the firm we need to give greater weight to some actors (managers and shareholders) than to others. We need not always be concerned with the full panoply of actors who influence or are influenced by the activities of the firm, partly because we would soon suffer the problem of infinite regress. In addition, some types of relationship (principally economic relationships) will much better explain the behaviour of firms, than others (political and ethical, for instance). As a first approximation, it may often be sufficient to consider the firm as a set of economic relationships and dependencies. The point about stakeholder theory is that it permits an extension of the types and forms of relationship that can be accounted for in analysing the firm.

Finally, we need to take account of the dynamics that exist within the networks that constitute the firm. Relationships between actors (internal and external) are seen as being continually in a state of tension, with periodic opportunities for re-negotiation. The greater the mismatch or tension across a relationship, the greater the likelihood that one of the actors will seek re-negotiation. Very stable configurations of relationships will be those across which more limited tension exists, and this will tend to generate more stable institutional settings characterised by shared norms, widely-accepted conventions and routines, well-established boundaries of authority and responsibility, and predictable behaviours.[5] Where greater tension exists across business relationships, a more dynamic picture is likely to result in which norms are challenged, conventions and routines are forced to adapt, established boundaries are called into question and behaviours become less predictable.

5. Developing a political economy of CSR

In applying the conceptual framework outlined above to the problem of CSR in business, we want to advance three specific arguments which borrow from a range of instrumental and more norm-based perspectives: a) that CSR is a response in some firms for a need to assert organisational cohesion and control by 'cultural' means; b) that CSR is a response in more competitive and commoditised markets to new needs for active signalling to the market; and c) that CSR is a means by which firms can engage in the new 'regulatory space'. Each of these new 'needs' arises because of tensions that are being exerted across relationships within and outside firms, none of them primarily 'economic' in nature – hence their definition as 'political-economic'. We briefly outline each of these arguments.

First, CSR relates to a concern of management for internal cohesion and control to create a climate in which efficient transactions are possible. Management theory in the 1980s and 1990s proposed that internal control and effectiveness in large, global and culturally-diverse businesses required a set of 'corporate values' that could be articulated clearly and would shape behaviour of employees within the organisation (Kanter, 1983; Pasmore, 1994). Organisational cohesiveness and management control came to be seen as depending on some common set of 'cultural' or norm-based reference points. This was one way in which the loyalty and commitment of employees could be captured and sustained. These reference points could not normally appeal to the search for business success and profits alone, but usually connect to a set of broader social or ethical values. Some of these were conceived of as universal - what Donaldson and Dunfee (1994) call 'hypernorms' – others were culturally-specific. Corporate social responsibility can then be seen as one way in which firms have sought to build a consistent picture of these 'values' as an ideological system that socialises employees to strategic objectives. It may also substitute for rigid approaches to management control (necessitated by flatter management structures) by helping to bind employees to these corporate goals. Corporate social responsibility is therefore frequently internally-directed, involving a process of internal transparency and accountability of managements to their workforce (and vice versa).

Second, structural and market changes have profoundly influenced the competitive environment in which many firms operate. Greater competition, especially in commoditised markets, has forced businesses to seek new ways of differentiating their products and services (and their 'brand') with the final consumer. The actions that fall under the banner of corporate social responsibility are one way of supporting the construction and defence of

[5] We would reject the notion of an 'optimum' configuration of interests and relationships; each configuration being seen as merely a contingent and temporary settlement of interests that remain inherently in tension.

'corporate reputations' and brand value.[6] This type of signalling to the consumer is also oriented at shareholders. As shareholding has become more distributed, both the intensity and variety of public 'signalling' by corporations has increased. Shareholder value is still primarily defined by the growth in share prices, but a number of other means of signalling to shareholders have been developed. This signalling may be seen as a response by managements seeking to demonstrate management quality and therefore prospects for future share performance, even during periods of weak share performance.[7] Therefore, it can be argued that the greater vulnerability of firms and their managements in more competitive markets has produced a need for new forms of signalling about management performance. Corporate social responsibility, and reporting and other signalling activities associated with them, has been a particularly significant response to this need.

Third, corporate social responsibility may be seen as a response to the changing context of social regulation within which firms operate. The 'statist' model of regulation in which governments - regional, national or local - impose legally enforceable standards on firms is being replaced by a model of social regulation that is more distributed, multilateral and global. New information-rich voluntary and market-based regulatory measures are being developed to complement classical systems of 'command and control' regulation. While national environmental policy styles remain highly specific, the capacity of governments to secure the public interest in the environmental field has been reshaped. Increasing voluntarism, 'partnership' between business and government, and a more influential role for non-governmental organisations are all signs of this process of 'ecological modernisation' (Weale, 1992; Murphy, 2000).

This new context of social regulation has posed serious challenges for business, which has sought to develop new capabilities and relationships, especially with non-state actors, in response. Although firms in many industries have secured greater economic freedoms as a result of the liberalisation and deregulation of markets, in many cases this has been matched by a new set of pressures to demonstrate conformance with social norms and expectations, frequently also (but not solely) through a process of re-regulation. Corporate social responsibility can therefore be seen as a way of 'filling the space' that has been opened in the reshaping of social governance of firms. Paradoxically, many firms now operate in a more difficult and insecure social environment with a wider range of constituencies to relate to and expectations to meet. Formal regulation, while often inflexible and procedurally onerous, presents firms (especially large ones) with clear objectives and a simple set of external relationships to manage. In a more fluid and voluntaristic regulatory context these certainties are replaced by the mobile play of conflicting norms and relationships with 'stakeholders' (Harrison and Freeman, 1999).

6. Conclusion

We have presented an analysis of CSR that is informed by a recent literature in strategic management and business ethics, in particular the stakeholder theory of the firm. CSR is contextualised within a notion of the firm as a nexus of relationships between actors within and outside the firm pursuing economic and other interests. This framework is then used to develop a highly instrumental but norm-based analysis of CSR which we characterise as being a political economic analysis. We make three principal arguments about the re-emergence of CSR as being shaped by a bundle of needs in many firms:

- new needs for internal cultural cohesion and management control;
- new needs to 'signal' about management quality to customers and shareholders; and
- new needs to engage actively in the new context of social regulation of firms.

We conclude that these needs are structural – related to deep-seated shifts in the nature of management control, market competition and the social regulation of firms – and that firm responses to them in the shape of CSR are likely to deepen. However, we believe that these pressures do not operate uniformly across business – large multinational firms in certain sectors are likely to face much more serious challenges across these three dimensions of

[6] The notion of the brand generally requires a broad set of attributes, some of which will be culturally and therefore norm-referenced.
[7] This may be why there is so much corporate interest (FTSE4Good and so on) in the link between CSR and corporate financial performance.

change. We may also predict that where deep tensions operate across business relationships, both within and across the boundaries of firms, the strategic response of the firm will be to proliferate the number of external relationships with its stakeholders (as they come to be defined), and to reconfigure many of its boundaries – economically, socially, legally. Lastly, we predict that as a response to the specific needs for greater transparency (as an adjunct and engine of signalling activity), firms will continue to pay greater attention to new forms of performance measurement and reporting social and environmental.

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