CORPORATE SOCIAL RESPONSIBILITY BOUNDARIES

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Corporate social responsibility boundaries

Companies face a dilemma between what society as a whole requests and the necessity of being economically efficient and creating value for all stakeholders (Charreaux & Desbrières, 2001). Subsequently, it could be wondered which companies undertake CSR actions and to what extent companies are legitimate to take a major role regarding societal and environmental issues. The aim of this paper is to provide a theoretical insight on the renewal of the reflection on the missions of companies within a given society. This will lead me to address the legitimacy of companies in creating a *green* world under the constraint of maintaining democratic structures (see Habermas, 2002).

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Introduction

The first and main difficulty with corporate social responsibility is its definition. Many definitions have been given and yet a consensus is far from being reached. In fact, corporate social responsibility is a concept large and multiform that can only be held through a broad definition linked to its purpose. Considering our enterprise which is to give some answers to how ones become socially responsible, we need to suggest a definition of corporate social responsibility that encompasses social, environmental and societal issues and that underlines the links between corporations and society as a whole. In this perspective, *Corporate Social Responsibility* (CSR) is defined as ***corporate processes that aim at improving - or not worsening – corporation's impacts on society***. The following examples identified by Backman (1975) give an illustration of this definition: "employment of minority groups, reduction in pollution, greater participation in programs to improve the community, improved medical care, improved industrial health and safety—these and other programs designed to improve the quality of life are covered by the broad umbrella of social responsibility".

Instead of 'Corporate Social Responsibility' the terms corporate "public responsibility" – preferred by Preston and Post (1975) – could have been used to stress the "importance of the public policy process" and to emphasize "the functions of organizational management within the specific context of public life". Apart from the fact that 'corporate social responsibility' is commonly used in the contrary of 'corporate public responsibility', our argument is that links between organizations and public life are a mean for companies to undertake social issues in a legitimate way. However, the 'corporate public responsibility' terms may have helped going towards the needed enlargement of the definition of CSR by underlying the company's impact on public policy. In fact, "Corporate responsibility should be about more than going "beyond compliance"; it must also include efforts to raise compliance standards" (Vogel, 2005).

The early definitions given about CSR in the sixties were generic and inclusive (Carroll, 1999), and particularly relevant to our perspective too. The following definitions especially support our view of CSR (emphases added). According to Frederick (1960), social responsibility implies "a ***public posture*** toward society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms". McGuire's in 1963 emphasized that "business must act "justly," as a ***proper citizen*** should". To put it in a different way, "social responsibility in business is the pursuit of socioeconomic goals through the elaboration of *social norms* in ***prescribed business roles***", that is to say that "business takes place within a ***socio-cultural system*** that outlines through *norms and business roles* particular ways of responding to particular situations and sets out in some detail the prescribed ways of conducting business affairs" (Johnson, 1971). In 1971, the Committee for Economic Development (CED) went further by observing that "business functions by ***public consent*** and its basic purpose is to serve constructively the needs of society—to the satisfaction of society". Some of the posterior CSR definitions – more specific – continue to highlight the sway of society on organizations. In this perspective, Carroll (1979) considered that "the social responsibility of business encompasses the economic, legal, ethical, and discretionary ***expectations that society has of organizations*** at a given point in time".

Stressing the connections between corporation and society leads to the following question: why some companies act in a socially responsible way and others not? The numbers of companies that go beyond what is legally required is very surprising and raise the point of corporations' role regarding to social, environmental and societal issues. On the other side, news about companies bypassing rules or not doing their best to protect the society keep making the headlines and may initiate changes in companies' policy. Nike who was regularly pointed out for its suppliers' policy finally did report about it in its 2004 company report. Last summer, Mattel had some trouble with its production made in China that did not respect all legal criteria. It can be expected some changes in Mattel's policies to avoid this kind of publicity.

In this paper, it is argued that because of international competition, policy makers rule to improve environmental, social and societal issues only when it becomes really necessary, and companies primo act in a socially responsible way only if necessary too. Furthermore, it is argued that to be legitimate in social actions they undertake privately, companies should go a corporate politicalization process.

I. A globalized puzzle: policy makers rule when it becomes really necessary

The neo-classical theory viewed the economy as composed of companies that can not have an impact on market price and did not value the importance of private property. But, at the beginning of the XXth century, in many Western countries, capital became more and more concentrated and this vested a relatively small number of companies with enormous power. As these companies grew, stocks became dispersed among a large number of shareholders, and concerns were raised regarding shareholders' lack of control on their companies and besides managers' lack of accountability to society in general (Berle & Means, 1932). Today, major questions remains about who is in charge of controlling companies, what kind of controls could be sufficiently efficient to prevent from tragedies or ecocatastrophe, and to what extent companies could improve society welfare.

A premier answer is about policy makers and public policy that establish the minimal standards on corporate social responsibility. Government regulation is essential: policy makers are the most legitimate to administrate society and 'hard law' is the only certain way to comply every one with new requirements. This observation needs to be link with two other facts. Firstly, government regulation is per se geographically limited. Secondly, companies greatly influence 'hard law' – in positive and negative ways in particular by lobbying. Hence, for having a worldwide impact, politics need either to be coordinated at a world scale (this would certainly not happen before a long time), or to be coordinated (through a democratic process) with companies and the general public. Companies act upon regulations of their own government and sometimes, if public policies do not enough benefit themselves, they go for more convenient regulations in another state. Globalization make things difficult for policy makers as companies could – to a certain extent – choose between one system and another. In that context, regulators are more and more concerned about economic consequences of their choices and they generally do not want to put more economic pressure on companies to progress in environmental or social issues. In fact, social pressures often appear to be a powerful factor for policy makers to take decisions that go towards stricter regulations (see figure 1). Public demonstrations, private protestations, and especially media exposure regularly put politics in a position where they have to react and to take decisions that go towards stricter regulations. In fact, necessity is largely the first policy-makers' motive for enacting a law that is far from being widely accepted, especially by businesses' managers that often considered it as burdensome. In this perspective, *necessity* is define as ***unavoidable needs that require to be filled for avoiding negative consequences that would be greater if anything was done.***

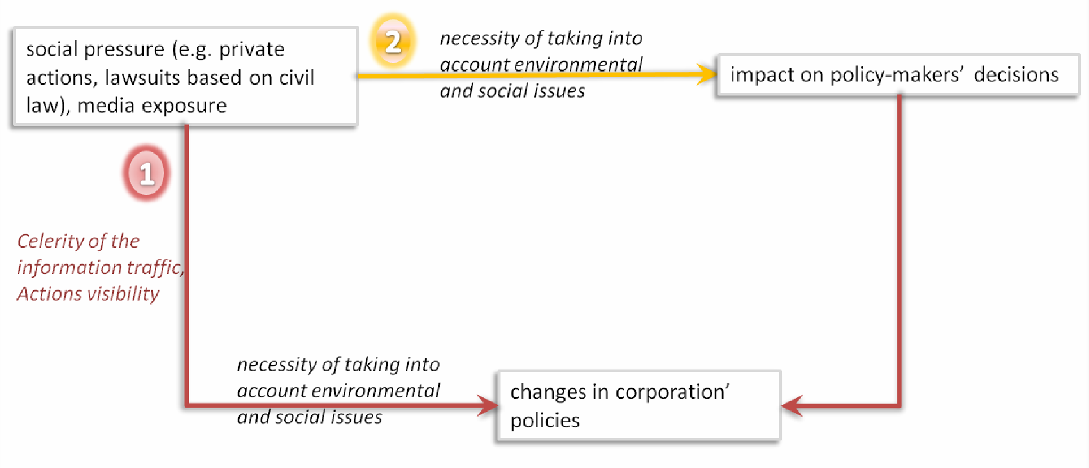


Figure 1: Current practical ways that lead to the adoption of CSR policies

Even if public policy is indubitably the ground for defining companies' requirement, in many cases, they only accept to rule on environmental and social issues when social and media pressures are so significant that they do not have any other choice.

Many companies often begin to change under social pressures before regulations take place. In fact, it has been demonstrated that even if regulations matter a great deal, social pressures appear to be a powerful factor to make companies' policies change too and to prod some firms further beyond compliance than others (Kagan & al., 2003).

II. Companies primo act in a socially responsible way only if necessary

Some companies do not only comply with regulations. A number of them go beyond regulations in terms of CSR actions undertaken. Why those firms assume to be socially responsible? On corporate social responsibility issues, companies face a dilemma between what society as a whole could requests and the necessity of being increasingly efficient for their shareholders, for their customers – increasingly attentive to prices, and for their employees – watchful to salary levels on the job market. In this environment, companies may undertake environmental and social actions for one of the following three reasons:

- firstly, because they have to: regulations enforcement make them change;
- secondly, because they should: lowering the risk exposure is a key role of top management;
- thirdly, because they want to: CSR represents a strategic opportunity to them.

In most cases, companies change their environmental or social policies because one of the two first reasons. Less often, companies consider CSR as a strategic opportunity for them beyond any regulation requirement or reputation risk.

In short, the three reasons mentioned above could be summarized by telling that corporations only change if it is *necessary*. Today, this necessity is broadly due by what DiMaggio and Powell (1983) have called *coercive isomorphism* (see figure 1). According to them, coercive isomorphism is a powerful way to make organizations change. “Coercive isomorphism results from both formal and informal pressures exerted on organizations (…) by cultural expectations in the society within which organizations function. Such pressures may be felt as force, as persuasion, or as invitations to join in collusion.” But, “the fact that these changes may be largely ceremonial does not mean they are inconsequential.” Under coercive isomorphism, organizations increasingly tend to evaluate their corporate social strategy to communicate about their Corporate Social Performance (CSP) and gradually care for social, environmental and societal issues.

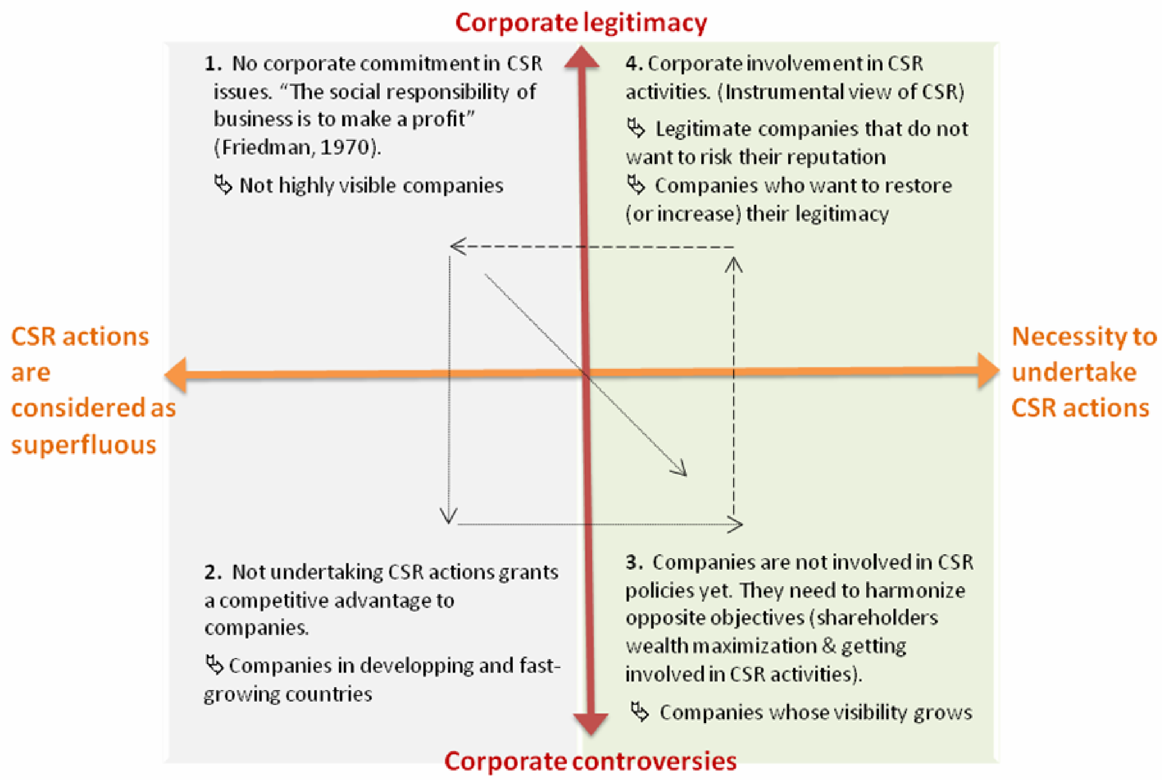
When regulations do not go far enough according to what is collectively expected, then companies would sometimes stand in for states’ role with civil regulation (else called “soft law”) or by ratifying treaty that their country did not as happened with the Kyoto treaty. They would do so, because they estimate that the constraints implied by their choices economically worth less than the risk of not doing it. Whereas the major problem with soft law remains its enforcement, its major advantages are tailor-made measures and sometimes its reactivity.

We argue that the revival of CSR during the last decade is linked with the increase of the *necessity* of being socially responsible that is due a certain number of reasons. The main reason is that not being socially responsible at all is becoming more and more risky for ones corporation’s image. The public awareness of such issues as climate change is greater and greater. Furthermore, as the information goes faster and faster, risks for companies to fastly deteriorate their image they built during years increase. Although companies try to better manage their communication, they take on more corporate social responsibilities.

III. Legitimate companies do not necessarily need to be socially responsible

From the traditional view that corporations are owned by shareholders (Berle & Means, 1932), it has regularly been deduced that the only goal of corporations is to make profit. However, a crisis of ***legitimacy*** (Laufer & Paradeise, 1990[1] ; Habermas, 2001) has redefined the role organizations and especially of multinational and globalized companies. The shareholders maximisation wealth paradigm and the legitimacy of instrumental rationality are increasingly open to discussion. *Legitimacy* is defined here as ***undisputed credibility***. We argue that, commonly, companies need to go through a crisis of legitimacy to undertake and communicate about social actions. To recap, our point is that the fact that companies act in a socially responsible way or not could be considered as resulting from two dimensions: corporate legitimacy beyond social considerations and the estimated necessity by society to undertake CSR actions (see figure 2[2]).

Figure 2. Level of CSR as the result of two major dimensions: corporate legitimacy and social necessity



[1] According to R. Laufer and C. Paradeise, there are numerous indicators that a crisis of legitimacy exists. "Among them, for example, numerous protest movements against private enterprise (consumer defense associations, the ecological movement, plans for business reform, etc.) and administration. Another indication is the outpouring of writings that speak explicitly of legitimacy, in particular the works of Jurgen Habermas (*1988, 1990*) on the "problems of legitimation in late capitalism". (Laufer & Paradeise, 1990)

[2] The arrows on the graph are - according to us - the more commonly ways and directions that companies are following to go from one state to another. However, examples of companies going from any state to another can be identified. This scheme is not thought as an improvement process.

(1) High corporate legitimacy & CSR actions are considered as superfluous

Companies hold their legitimacy because they sale products people need or want, they offer jobs, and they make profit. CSR actions are not expected by society. A minor part of society could eventually have CSR claims but they do not affect the corporate legitimacy. As reported by David Vogel (2005), many protests and boycotts do generally not affect sales and in fine have negligible financial impact.

This situation corresponds to the model pictured by the free market economist Milton Friedman (1970). According to his view, "the social responsibility of business is to make a profit". Hence, "there is one and only one social responsibility of business – to use it resources and engage in activities designed to increase its 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."

Today, many companies are at this state, mostly the ones not highly visible as firms that sell only intermediate goods or generic goods. They are generally considered legitimate in the market if they do useful products and if they respect their business commitments. They have no commit themselves into CSR activities and if they were doing so, it would be considered as a waste of money.

(2) Low corporate legitimacy & CSR actions are considered as superfluous

Companies at this state are under a certain number of public controversies but getting involved in CSR actions would make them losing a great cost competitive advantage. These companies are mostly established in developing or fast-growing countries. CSR activities are usually considered as superfluous: they are not considered as essential as being not too demanding towards companies enables to get higher employment rates.

Most public controversies come from other countries. Some firms supply companies that are established in countries where those controversies are. In this case, CSR actions are sometimes better considered. Nevertheless, the CSR actions that are primarily undertaken are the ones that imply the lower cost as requiring to the workforce to be above eighteen.

(3) Low corporate legitimacy & necessity to undertake CSR actions

Companies whose legitimacy diminishes are much more vulnerable to corporate controversies. Among other things, corporate legitimacy can be undermined when companies are more visible and thus subject to more careful attention. For instance, companies making the headlines due to irresponsible actions could sometimes see their legitimacy spoiled and getting involved in CSR actions would be one way (unfortunately through others) to go out of the crisis of legitimacy they go through.

For companies, this state is problematic as it is the result of two conflicting views. In one hand, the common view that companies' goal is to maximize shareholders' wealth leads to a conception of corporate responsibility very near the Machiavellianism view "the ends justify the means". In the other hand, stakeholder theories (which keep enlarging and getting more influent) consider that companies have a very high level of responsibility towards a large number of actors. Companies at this state are vulnerable because they are going through a crisis of legitimacy and hence are subject to many controversies concerning their activities meanwhile their stakeholders and more largely society consider these companies have to get involved in CSR policies. One interesting thing that happens here is that in most cases companies do not choose between one of these two views, as the primary view is able to endogenize critics (Boltanski & Chiapello, 2007) and hence to pursue its main goal – that is shareholders maximization wealth – while integrating subsidiarily the other ones. That is probably the main explanation of why so many companies choose to get involve in CSR activities (going from state 3 to 4) but keep CSR at the margin of their business. Being involved in CSR only to a very limited extent enables them to remain within the same paradigm of profit maximization. Unfortunately, these considerations result in an instrumental view of CSR.

(4) High corporate legitimacy & necessity to undertake CSR actions

In this state, companies choose to get involve in CSR activities. Two main situations could be identified. In the first one, companies get involve in CSR actions because they are very legitimate and they do want to take the risk to deteriorate their corporate legitimacy. In this case (where companies go from state 1 to state 4), they get involve in CSR activities by prevention, for protecting their legitimacy. The second situation identified is companies that get involve in CSR actions for restoring a weakened legitimacy. They choose to comply with society expectations because they strategically need it.

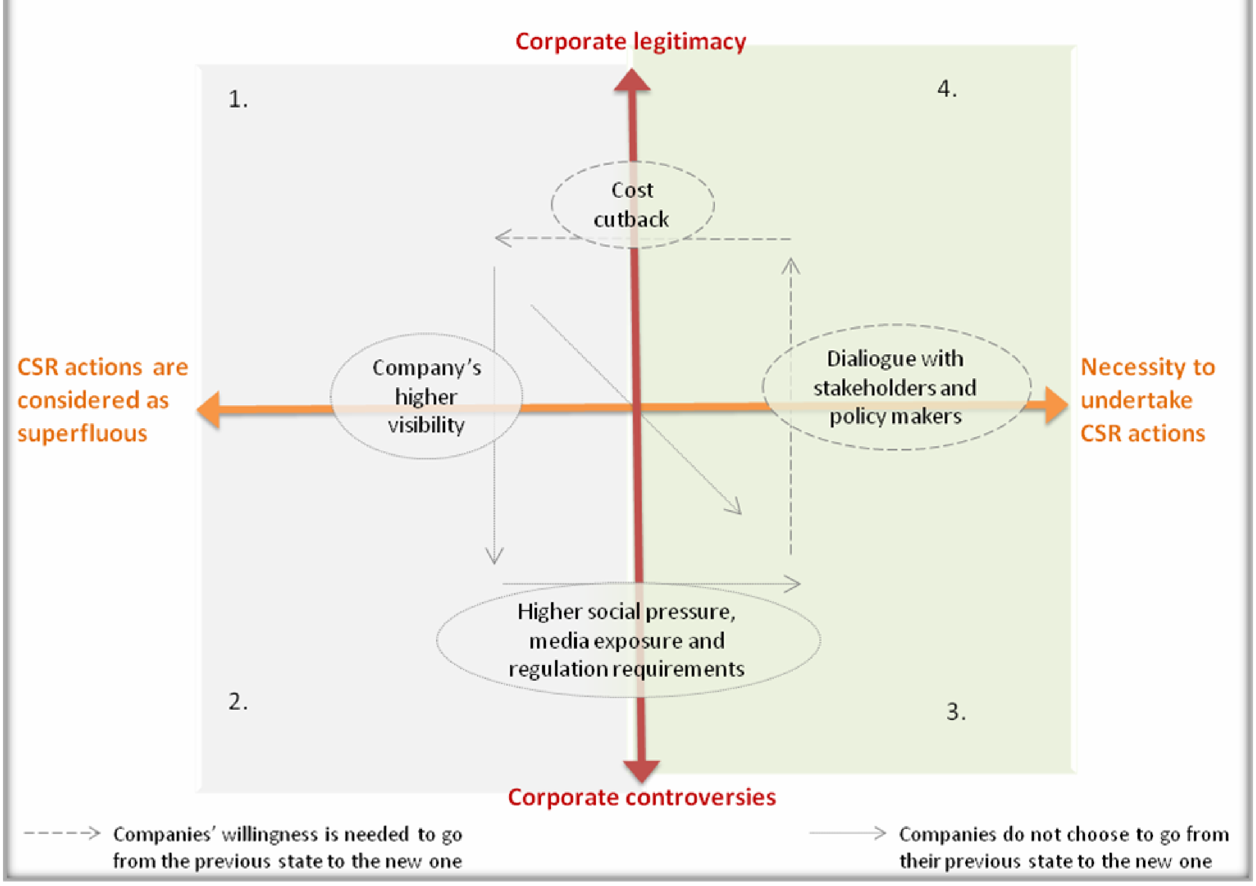
In these two cases, corporate involvement in CSR results from an instrumental reasoning. It is rare that companies undertake major (or even minor) CSR actions without considering the concept of profitability.

Our argument that CSR level is contingent on corporate legitimacy and social necessity needs to be understood in a dynamic way too. This would explain how companies go from one state to another. More essentially, this would provide some answers to the question of how companies should get involve in CSR. The kinds of social or environmental actions that companies should undertake remain an essential problematic both for companies and policy makers.

IV. How companies could have legitimacy in their actions they undertake privately? A corporate politicalization process

The most interesting corporate evolution is how companies should get involve in CSR at the first place. Nevertheless, other changes are worth being explained in order to understand how companies come to think that they should undertake CSR actions or how one day they choose to take back from their commitments (see figure 3).

Figure 3. How companies go from one state to another



Depending on cases, to go from some states to another, companies' willingness is needed whereas sometimes companies undergo the changes.

From state 1 to state 2, companies commonly suffer this change because they become more visible. Higher visibility is due to a certain number of reasons. For instance, one sector become of interest for the general public, one company is linked with the current headlines, some companies are considered as a group for the general public and this group becomes visible. As they suffer from a breach of credibility, most companies would not remain during a long period of time in state 2

From state 2 to state 3, CSR expectations from the society increase, the regulations requirement get stricter and the media exposure intensify. When companies get to state 3, they do not have any other choice that either getting involved in CSR activities or regaining through any other way their legitimacy. Advertizing is often as if not more powerful than CSR investment to become again legitimate.

Once companies have the reputation to be socially responsible, it is hard to return to a situation where they are legitimate without investing any more in CSR (that is to say from state 4 to 3). This could happen during a period of recession or more specifically during a period economically hard for a sector of industry.

When going from state 3 to state 4, companies choose to regain their legitimacy by getting involved in CSR activities. The fundamental question is about knowing how companies could legitimately undertake CSR actions in domains that are primarily ones of public policy.

Companies could no longer be considered as a-political actors (Scherer & Palazzo, 2007). As long as their actions have impact on society they are living in, they should have an assumed political role.

It could be said that many companies already have a political role through lobbying. However, lobbying is a private process and not a public one. Corporate social activities need to be undertaken through a public debate with politics and with society. In a democratic perspective, political legitimacy could result of either the output of elections or the discursive quality of the decision-making process (Gutmann & Thompson, 2004). In this last case, corporations by taking into account contradictory opinions about its activities might be able to identify the key decisions that they should made on environmental and social issues.

Conclusion

It could be argued that some companies commit themselves in CSR activities without any necessity or before any necessity. This might be true, but these are at the margin cases. In the large majority of the observed examples, companies need to go both through a crisis of legitimacy and feel a real necessity to undertake CSR actions for beginning to commit themselves in CSR policies.

The legitimacy of one company might eventually be very simplistically approximated to sales but CSR necessity – that is to say 'unavoidable needs that require to be filled for avoiding negative consequences that would be greater if anything was done' – might be in many situations much harder to evaluate. Appraisals of the necessity to undertake CSR actions may be dependent on the character of corporate management. Kagan, Gunningham, and Thornton (2003) showed some evidence that managers' dispositions are one of most powerful factors to explain that some firms go beyond compliance and others not. Hence, in many borderline cases where it is not straightforward in which 'states' companies are, management sensitivity will be the final determinant to commit companies in CSR activities in the first place and then to determine the extent of companies' commitments.

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