CORPORATE SOCIAL RESPONSIBILITY:
ADDRESSING UNCERTAINTY IN THE BUSINESS CASE

A Thesis Submitted to the College of Graduate Studies and Research
In Partial Fulfillment of the Requirements
For the Degree of Master of Arts
In the Department of Political Studies
University of Saskatchewan
Saskatoon, Canada

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ABSTRACT

The notion that corporations would voluntarily devote resources to serve non-shareholder interests seems to contradict the purpose of commerce. Yet, corporate social responsibility ranks among the most prominent aspects of contemporary capitalism, reaching – in the words of one author – a point of nearly universal adoption among businesses.

Over four decades of empirical testing has provided no incontrovertible evidence to support the belief that businesses benefit, even in the long run, from responsible behaviour. Peculiarly, then, it appears that corporations are defying the logic of competitive markets by investing in CSR en masse without an established business case for doing so. Inspiring the work is a research question rooted in the observation of a counter-intuitive: if not profit, in every circumstance, what is turning the attention of nearly every major corporation away from their bottom line and towards social interests?

The thesis explores what other factors may lay behind the business community’s curious adoption of CSR, including a new hypothesis that corporate leaders may be diverging from the normative ideal of rational choice and following boundedly-rational patterns of behaviour. It argues that CSR is a form of risk-averse corporate behaviour from a private sector that has seen tremendous growth and gain since the end of the Second World War.
ACKNOWLEDGMENTS

With gracious thanks to professors Joel Bruneau, Kalowatie Deonandan, Hans Michelmann, and Neil Hibbert for their commitment to my success as a graduate student, and particularly for their efforts in review of this work.

In addition, I must extend a particular note of gratitude to my supervisor, Dr. Joe Garcea, for his early and ongoing support. While there certainly existed any number of matters more deserving of attention than this thesis, I am grateful to have been a priority.
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LIST OF NON-STANDARD ABBREVIATIONS

CFP – corporate financial performance
CSP – corporate social performance
CSR – corporate social responsibility
SRI – socially responsible investing
Chapter 1: Introduction

1.1 What is Corporate Social Responsibility?

The practices of business that characterise contemporary western capitalism are neither timeless nor random. Today, the notion that private firms have responsibilities beyond a singular mission to profit for their owners’ sake is deeply ingrained in the ethos of capitalism, to the point of “universal adoption” by the business community (Preston and Sapienza, 1990: 362). This was not always the case, however. At the turn of the 20th century, Social Darwinism prevailed as the driving paradigm of commercial production. Far from the ‘caring corporations’ in their modern incarnation, firms were more apt to resemble the “dark Satanic mills” of William Blake’s grisly portrayal. Incrementally, the norms and practices of enterprise changed as the corporate social responsibility movement emerged, challenging businesses to be cognizant of their role in society.

Defining “corporate social responsibility” in such a way that is robust enough to apply in all time periods of the CSR movement while remaining substantive enough to be useful is not a straightforward task. Despite a well-established canon of CSR literature, authors have failed to agree on a singular, consistent definition. One survey identified no less than 37 different definitions of CSR in business and academic usage over the years (Dahlsrud, 2008). Analysing these definitions by their component parts, the most common dimensions included a stakeholder dimension (88%), a social dimension (88%), an economic dimension (86%), a voluntariness dimension (80%), and an environmental dimension (59%). Given the task of this paper is to analyze the CSR movement over time, it would be inappropriate to adopt one definition to the exclusion of others. Nonetheless, these dimensions offer some insight into which social responsibilities academics and business leaders believe the term CSR entails.

Methodologically, lacking a precise definition will not stand in the way of the present research task. On the contrary, CSR has been designated an “essentially contested concept,” as per Gallie’s construct (1956), and the acknowledgement that there are numerous valid conceptions of CSR has benefitted the field by allowing discussions to remain open throughout the years (Okoye, 2009). For the purpose of this study, then, consistency is not established through a strict
definition, but rather by adopting and working within the parameters of the canon itself (Carroll, 1999). This is consistent with Okoye’s recommendation that, lacking agreement on a definition, the process of ensuring arguments relate to the same concept is that they address the “core” of CSR, found “in attempts to address various issues which arise out of the dynamic relationship between corporations and society over time” (2009: 623). However, in order to place reasonable limits on the work of the thesis, the work will confine itself to the experience of major private sector businesses, looking at the movement in its incarnation within management circles (Carroll, 1999; Lee, 2008). The one definitional constraint the thesis will impose is an emphasis on voluntariness, as this is where the apparent conflict between shareholder and non-shareholder interests is most acute.

1.2 Purpose of Thesis

The notion of corporate social responsibility appears, on the surface, to be a paradox. As many have observed, to suggest an organisation designed for competitive, private gain should or is even capable of serving the public interest appears to run counter to the very rationale of corporations (Friedman, 1962; Friedman, 1970; Henderson, 2001; Henderson, 2009; Levitt, 1958). In spite of this, CSR has grown to become a dominant tenet of contemporary management.

Some have argued CSR has emerged because it is good for business overall, making it a rational and market-driven phenomenon (Cochran and Wood, 1984; Zadek, 2000). To some extent, this holds true. In certain instances, such as human resource management, developments from the CSR subfield have been shown to boost employee productivity (Berman et al., 1999; Grant et al., 2008; Thomas and Ely, 1996). Similarly, in niche markets like fair trade products, a positive social record is a crucial marketing tool (Castaldo et al., 2009; Nicholls, 2002). The applicability of this reasoning, however, is limited. Beginning in the early 1970s, researchers began investigating the link between CSR and firm financial performance. A meta-analysis of empirical studies revealed mixed results, with roughly half showing a positive correlation, many revealing non-significant or inconclusive relationships, and several showing CSR was harmful to the bottom line (Margolis and Walsh, 2003). Furthermore, as Post et al. note, the studies are
subject to “serious criticisms about data reliability and completeness, time period of coverage, statistical methodology, and interpretation of results,” leading them to caution that “the safest generalization from [the studies] is that the empirical evidence on this matter is somewhat unreliable and the results mixed” (2002: 28). Moreover, persuasive critiques have been leveled against the cost-effectiveness of CSR initiatives. Even where CSR investments are thought to produce some benefit, other research suggests the initiatives fail to cover the opportunity cost of not being socially responsible. In aforementioned CSR strongholds of HR management and fair trade goods, for example, studies exist that conclude a CSR-approach to employee relations is of no benefit to its bottom line (Schreck, 2011), and that the majority of consumers are not willing to pay premiums for fair trade goods (De Pelsmacker et al., 2006).

The outstanding problem for the enlightened self-interest camp is that the link between CSR and bottom line financial performance remains, at best, unclear. To this day, researchers are unable to determine if the marginal benefit of CSR exceeds its marginal cost (Becchetti, 2008; Griffin and Mahon, 1997; McWilliams and Siegel, 2000; McWilliams et al., 2006). As such, attributing the tremendous growth in CSR to enlightened self-interest is insufficient (Keim, 1978). A different line of reasoning to account for CSR is known as “social licence theory.” In short, this theory, drawn from political economy, suggests that corporations act responsibly in order to gain the public and legal legitimacy they need to operate. It stresses the potential of CSR as a means of deterring governmental regulatory interference in the activity of business. This theory currently boasts many prominent advocates (Carroll et al., 2012; Gjolberg, 2009; May et al., 2007) but can be found much earlier in the literature (Eels, 1956; Young, 1927).

Yet social licence theory is susceptible to the same weakness as the enlightened self-interest model in that it cannot prove CSR is optimal behaviour for corporations. Ultimately, to be consistent with a utility-maximising theory of behaviour, firms which invest in CSR must realise long-term benefits that outweigh the investment cost. This is true whether CSR is undertaken to boost employee productivity or to avoid government interference. Yet any perspective on CSR based in strict rational choice cannot overcome the fact that the empirical link between social and
financial performance remains unproven. Rational choice models necessarily entail optimisation, a fact which, in this case, is lacking.

The central task of this thesis is to offer a compelling theory to explain the existence and prevalence of corporate social responsibility. It will do so by augmenting the strict profit-maximisation model for corporate behaviour with Prospect Theory and other insights from the boundedly-rational research tradition to create a fuller explanation for why the corporate sector has taken up the banner of CSR in the face of inconclusive evidence on its ultimate profitability. Acknowledging that scholars have made a number of useful, if incomplete, contributions to explain the causal factors behind the rise of CSR (Frederick, 2006; Vogel, 2005), a market-based framework will organize the research of previous authors into a conceptual tool to analyse the progression of the CSR movement. This framework will then be modified by Prospect Theory in order to avoid the optimisation pitfall while still acknowledging the legitimate place of CSR in commerce.

1.3 Importance of Thesis

This thesis will offer a novel hypothesis to explain why firms engage in social responsibility initiatives. Doing so will fill a major gap in the literature, as analyses based in rational choice models cannot adequately account for the movement, leaving many scholars puzzled by a multitude of contradictory studies (Campbell, 2007; Margolis and Walsh, 2003: 273 – 278). Furthermore, if the case is made persuasively that corporate social responsibility is better explained by including the findings of Prospect Theory than by conventional assumptions of profit-seeking alone, it should challenge business leaders and academics to re-think the motivations behind CSR.

1.4 Analytic Framework

Fundamentally, CSR is a method of doing business. The task of CSR proponents has been to convince multitudes of firms and individuals within firms that CSR is desirable. As such, the thesis will seek to understand it as a market phenomenon. Accordingly, this study will adopt an analytical framework appropriate to the study of markets.
The first analytic portion of the thesis will examine the phenomenon from a business’s point of view. Adopting a framework that characterises the study of markets, it will identify incentive structures that have developed since the 1950s to explain why corporations have adopted CSR in the manner they have. The state of CSR at any point in time will be portrayed, for conceptual purposes, as an equilibrium between forces of supply and demand. A supply and demand framework has been used by McWilliams and Siegel (2001) to explain the rise of CSR. Though the various factors at play and the interchange between these factors will be modeled quite differently, the insights of McWilliams and Siegel will serve as a starting point for the model developed throughout this thesis to help readers conceptualise supply and demand in the CSR context.

The primary point of departure from McWilliams and Siegel’s model is that, where the previous study accepts a rational choice foundation, this thesis utilises a market theory that acknowledges that decision makers are not perfectly rational. The foundational cognitive theory on which the thesis will rely is Prospect Theory (Kahneman and Tversky, 1979; Tversky and Kahneman 1981), which speaks to the way agents react to conditions of uncertainty. Its major finding suggests that people are prone to be risk-averse when facing gains, and risk-seeking when facing losses - as an illustration, one is tempted to picture a gambler who, facing a given set of odds at a slot machine, is willing to bet an extra dollar when chasing losses, yet reluctant to bet an extra dollar when the night has proven especially fruitful.

The basic postulation of Prospect Theory has been expanded by political scientists to explain divergences from path-dependent behaviour. Weyland (2008) provides particularly useful explanations of how Prospect Theory can impact supply and demand factors, and it is for this reason that his work is cited frequently.

These theories should hold the key to understanding (1) why businesses are willing to devote private resources for social gains, and (2) why CSR emerges when it does. My hypothesis, in this regard, is that corporate social responsibility is a form of risk-averse corporate behaviour, the result of substantial private-sector growth and gain since the Second World War. It will begin by putting the progression of CSR into its historical context, in which the most important factor in
recent history is the growth of neoliberalism (Panitch and Gindin, 2004). It will be argued that the increasing power and potential of corporations during this time (Nace, 2005) has put the business community in a “frame of gains,” thus inclining them to risk-averse behaviour. The thesis will argue that this risk-aversion has inclined corporations towards CSR, thus explaining both the timing of CSR’s emergence and the willingness of businesses to devote resources to social initiatives despite lingering questions about its financial rationale.

1.5 Overview of Chapters

Chapter 2 offers an observational account of the corporate social responsibility movement, tracking CSR’s progression from the earliest attempts at workers’ rights in the Industrial Revolution to its modern incarnation as a fully routinised, integrated practice of business. It establishes the trends in the movement that subsequent chapters will answer – namely, that the CSR movement has increased with time, and that the rate of that increase is, itself, increasing.

Chapter 3 begins the theorisation on CSR by establishing that demand-side factors exist that incentivise businesses to become socially responsible. To aid in the conceptualisation of the demand side, the chapter identifies and explains a number of demand-side factors. These include:

- Changes in consumer tastes and preferences,
- Changes in investor interests, and
- Changes in the ethos of management.

Notably, given that the focus of the thesis and the model under development is on the voluntary actions of firms, government actions will not be considered among supply or demand factors. This exemption is given a fuller consideration in chapter 3.

Chapter 4 gives consideration to the supply side of change. In this thesis, it is argued that the relevant supply-side factor was the development of the business case for CSR. The supply side of the framework recognises that in competitive markets, companies cannot effectively pursue CSR without a viable business case for doing so. Supply-side analysis in this thesis will focus on the importance of research in the 1980s and 1990s to operationalise CSR, arguing that the
literature of this period – especially studies into the potential benefits of CSR – gave socially-conscious corporations the business case they needed to undertake CSR investments. Accordingly, it will be argued that the development of the business case is the relevant supply-side factor.

Chapter 5 concludes the development of the thesis’s new model by applying the insights of Prospect Theory theories to the supply and demand-sides of the framework. It begins by critiquing the rational choice approach to explaining the CSR movement, including social licence theory. It will then set out the major postulates of Prospect Theory, including the behaviour expected of decision makers in a “frame of gains.” The final section of the chapter will provide a review of the growth and gains of the American corporation, thereby matching theory to the pattern observed in chapter 2.

1.6 Information Sources

The information for this thesis is derived from the extant secondary literature contained in peer-reviewed journals, scholarly books and professional publications. The thesis is based on an extensive and detailed review of the theoretical and empirical components of literature. Existing empirical and descriptive case studies will be interpreted through the lens of the supply and demand framework as informed by the bounded-rationality perspective of decision making to produce a novel contribution to CSR literature. Doing so, it will be possible to give an accurate and compelling theorisation of CSR that accounts for the corporate social responsibility movement.
Chapter 2 – A Timeline of Corporate Social Responsibility and Performance

2.1 Introduction

The purpose of this chapter is to offer a timeline of the social responsibility movement. It begins by exploring the link between business and society in the mid-20th century to establish that the emergence of CSR was a change from previous methods of doing business. By reviewing the status of the movement year-by-year since its emergence, especially the dominant trends in CSR discourse and the socially responsible actions of firms, the chapter tracks the “outward growth” of CSR (Lee, 2008: 53) and offers a timeline of CSR’s evolution from its genesis to present day. Within the broader thesis, this chapter offers the observational data that will be analysed in subsequent chapters to develop a hypothesis for explaining the particular trend line established here. That trend line will be summarised into two key findings to be referenced throughout the paper, namely that CSR has increased over time, and the pace at which that increase is occurring is increasing unto itself.

2.2 Antecedents of CSR

Before the First World War, little occurred in thought or deed within the business community that could be categorised under the term corporate social responsibility. At the turn of the twentieth century, the business environment still more closely resembled a Dickensian picture of the Industrial Revolution than its modern incarnation. Nonetheless, socially responsible behaviour was occurring. However, where it occurred, the behaviour was taking place at the level of the individual, and class, rather than being corporately organised as it is today (Cochran, 2007: 450). At the forefront of this exercise were the great philanthropists, the wealthy families and business owners who used the profits of enterprise to better society in their image. Steel magnate Andrew Carnegie emerged as the poster boy of the movement, advocating – as did many of his contemporaries – the notion of ‘wealth as a trust.’ At his retirement in 1899, Carnegie published *The Gospel of Wealth*, which laid out the tenets of ‘wealth as a trust’ and popularised the notion across class barriers. In it, he wrote of the duties belonging to men of wealth, including:
to set an example of modest, unostentatious living, shunning display or extravagance; to provide moderately for the legitimate wants of those dependent upon him; and after doing so, to consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community.

(Carnegie, 1899: 657)

Through benefactions to the arts, education, and scientific research, Carnegie donated over $350 million in his lifetime (New York Times, 1919). While a generous patron, he consistently rejected the idea that redistribution should be operationalised into his company through higher wages, which he saw as a violation of competitive enterprise. As he told a New York audience in 1892, “the wealth gathered into one great stream is capable of doing more public good than if it had remained scattered in the hands of thousands, probably to be frittered away” (Soskis, 2010: 6).

Carnegie was not alone in his munificence. Between 1855 and 1934, oil pioneer John D. Rockefeller gifted over $530 million through various foundations and institutions, primarily to support education, research, and religious organisations (New York Times, 1937). This cast would be joined by other prominent businessmen and philanthropists, including George Easton, J.P. Morgan, Nathan Straus, and William Volker. Many wealthy people, of course, gave little to philanthropy (Curti, 1958: 424). While corporations had yet to enter the picture per se, it was understood that the fruits of corporate action should be used to benefit the community. However, where corporate profits or power were being used for social objectives, these tools were first transmitted to individual company owners, who understood their efforts as personal rather than business-aligned.

The few instances of genuine, corporately-pursued social objectives that did occur tended to be grand and isolated. Unlike the contemporary notion of business working in a sustainable, symbiotic relationship with its community, these efforts were often the attempts of wealthy

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1 $4.7 billion, inflated to a 2013 equivalent from a 1919 base year.
2 $7.2 billion, inflated to a 2013 equivalent from a 1929 base year.
industrialists to use their means to create a new and better society, under a vision set by the industrialist himself. Given the “little administrative bureaucracy separating business firms from the individuals who founded them and controlled their funds,” these corporate projects were little more than thinly veiled acts of paternalism (Soskis, 2010: 6). In the factory town of Bournville, established in 1878, George and Richard Cadbury financed a new village to allow their labourers an escape from the moral dangers of industrial city life. The town was micromanaged by the brothers, who built the town to reflect the social and business ethics of the Quakers. While it lasted, Bournville was a fairly successful attempt in 19th century CSR, with medical coverage, pensions, and education for employees, and major innovations in industrial relations (Katsoulakos et al., 2004). However, the brothers’ desire to be both “fathers and bosses,” combined with the difficulty of maintaining superior working conditions in bearish economic times, eventually made the Bournville experiment unsustainable (Dellheim, 1987: 41). Similar attempts were made in Saltaire and Port Sunlight, in the UK, each with similar results (Smith, 2003). The attempts were imperfect, the major weakness being that both the social problems under consideration and their remedies were defined by the employer without true recognition of the needs of others (Heald, 1957: 377).

These endeavours were inchoate attempts at realising a more conscientious variety of industrial production. Influential thinkers, particularly in Britain, were troubled by the social ills that accompanied urban factory life, and sought means to remedy its injurious effects on workers and communities. Robert Owen, who himself operated the utopian company town of New Lanark, was one of the first and most notable proponents of such an arrangement. Owen sought social controls over newly emerging forces of manufactory production, hoping to better the conditions of the working class by implementing a host of employment standards including a ban on workers under ten, a maximum workday of ten-and-a-half hours, and breaks for meals and the instruction of children (Cole, 1930). Though he was roundly opposed by other owners, Owen believed these reforms could be in the interest of business, and would certainly benefit society overall. As he wrote:

The employer cannot be injured being obliged so to act towards his labourers as, for the interest of the country, he should act. Since the general introduction of expensive
machinery, human nature has been forced far beyond its average strength; and much, very much private misery and public injury are the consequences.

(Owen, 1817: 15-16)

Owen’s voice was one in a chorus of those in Britain who protested the state of industrialisation, raising questions about the responsibilities of business that would spill over into America and the next century.

In terms more customary with contemporary CSR, certain firms were undertaking small endeavours to benefit their communities. Generally, the projects were singular in nature rather than being lasting commitments, and were not institutionalised into the firm’s method of business. As such, the projects were philanthropic in nature, and with only cursory consideration given to whether the projects would benefit company performance. As one example, start-up pharmaceutical firm Johnson & Johnson began its tradition of disaster assistance in 1900, when the deadliest hurricane in US history wiped out the city of Galveston, Texas (Sharp, 2011). Having lost its pharmacies in the storm, J&J replaced its company’s goods at no cost. It repeated its gesture six years later, donating supplies to San Francisco following the Great Earthquake of 1906. Acts like these were more rare than common, however. In 1929, private philanthropic gifts in the United States totalled $2.2 billion. Of this, $32 million came directly through businesses (Dickinson, 1970: 9). As a different yardstick, in the same year, only 22% of donations to organised human welfare services were coming from corporations (Williams and Croxton, 1930). Moreover, these contributions were the result of a few, highly concentrated donations, rather than widespread corporate giving. The majority of these donations came from manufacturers, with donations located in cities in which they carried on important manufacturing. As a rule, charitable organisations relied on individuals, rather than businesses, for support. The one exception was the YMCA, who, in 1904, became the first association to systematically solicit donations from corporations rather than individuals (Williams and Croxkely, 1930: 52; Soskis, 2010: 12). In the early days of the organisation, railroad firms bankrolled approximately 60% of YMCA operating budgets across the country, with employee

3 $30 billion, inflated to a 2013 equivalent
4 $435 million, inflated to a 2013 equivalent
and labour contributions making up the remainder - several million dollars in total (Williams and Croxley, 1930: 50–52).

Unlike today, these acts of generosity were occurring without a sustained or developed discussion on the ethics of corporation giving. Slowly, and in isolated occurrences, farsighted individuals within the business community began to expand the discussion of morality and economics. Where previously this topic had focused almost exclusively on the responsibilities of individuals, social observers now turned their attention to the conduct of business itself. Writing in 1916, Columbia Professor J.M. Clark criticised the state of capitalism as the “economics of irresponsibility,” unappreciative of the way it “separat[ed] business sharply off from the rest of life” (218). Rejecting state intervention as heavy-handed and charity as ineffective, he instead called for a new spirit of business ethics that expanded Carnegie’s notion of wealth as stewardship and entreated businessmen to be conscious of their impact on others. In his essay, he writes:

> With the idea generally accepted that “wealth is a trust” the next order of development is a gradually broadening revelation of how far the trusteeship extends. It most surely extends to the earning of the wealth as well as the spending of it. It extends to a sincere effort to make labor conditions as nearly right as possible in plants from which one draws dividends, and conditions of competition as fair and free from waste as they can be made.

(Clark, 1916: 227-28)

However, the responsibilities that advocates like Professor Clark had in mind were not the same as those that exist in modern CSR manuals. A decade later, in his book *Social Control of Business*, Professor Clark clarified his vision of socially responsible business behaviour. While Clark’s inquires share a thematic similarity to the modern notion of CSR, namely the conflict between private gain and collective good, the primary impact with which Clark was concerned was on the wealth-generating potential of the market itself. Drawing on the science of classical economics, Clark’s ideal was a system of free enterprise that bore the fruits of competition and efficiency. His primary concern was to understand the rights of individuals to profit by distorting market conditions – by fixing prices, for example - versus the rights of the collective to
interfere and demand competition. He wrote of the divergent opinions on the nature of business, considering:

One group, a growing one, says quite simply and directly that the essential nature of private business is to pursue private gain and not humanitarian service or even efficient production. Any elements of efficient service which find their way into business are perversions of its true profit-seeking nature and are there in spite of it rather than because of it . . . Still more people hold exactly the opposite view, that the essential nature of business is to promote productive efficiency, and that undue profits, scamped quality, or other predatory symptoms are exceptions to its true nature.

(Clark, 1926: 34-35)

Coming down on the latter side, he argued for a measured social control over business, in order to protect the wealth-generating potential of the free market. While Clark’s analysis did include cursory suggestions that businesses ought to be mindful of negative externalities, at the time, even the most ambitious proponents of CSR had yet to imagine business as much more than vehicles for profit.

As a sign of the times, Lee (2008) recalls the experience of Henry Ford in 1917 when the automaker was forced to defend his decision to use accumulated profits to expand plants and slash prices in order to “give employment, and send out the car where people can use it.” As Lee notes, “Ford’s notion of business as a service to society was . . . derided by the shareholders,” and the defeated titan was compelled to pay out maximum dividends (2008: 54).

During the 1930s and 1940s, literature began to emerge that explored the social responsibilities of business in more depth – although the discussion remained confined to a small group of academics (Cochran, 2007: 454). Charles Barnard’s *The Functions of the Executive* (1938) was an early attempt to consider leadership from a social perspective. Celebrated as “the first paradigmatic statement of the management discipline,” it set out the basis for effective functioning within organisations (Bedeian and Wren, 2001: 222). In its final chapter on “The Nature of Executive Responsibility,” Barnard argues morality is crucial to good leadership, stating “organizations endure . . . in proportion to the breadth of the morality by which they are governed” (1938: 258-284).
It was not long before the corporate form emerged as the chief subject of attention. The earliest inquiries into the modern subject of CSR began, more specifically, with considerations on managerial responsibility. In one famous exchange through a series of articles in the *Harvard Law Review*, professors Adolf Berle of Columbia University and E. Merrick Dodd of Harvard traded legal and ethical arguments over the nature of a firm. Berle gave the standard interpretation of a corporation, arguing that “all powers granted to a corporation or the management of a corporation . . . are necessarily and at all times exercisable only for the ratable benefit of all the shareholders as their interest appears” (1931: 1049). Dodd, on the other hand, observed that “the attitude of law and public opinion toward business was changing” and managers should also take the interests of the public into account (1932: 1163). Thus began the academic debate over the legality of sacrificing profits in the public interest (Reinhardt et al., 2008). Interestingly, in his 1954 book *The 20th Century Capitalist Revolution*, Berle conceded his side of the argument, acknowledging that “the argument has been settled (at least for the time being) squarely in favor of Professor Dodd’s contention” (Berle, 1954: 169).

However, where the notion of social responsibility existed, the criteria for fulfilling it differed widely from those that comprise the contemporary notion of CSR. Among the first advocates of CSR was Wallace B. Donham, dean of the Harvard Business School. Writing in the wake of the Stock Market Crash of 1929, he wrote to management colleagues in the *Harvard Business Review*: “our desire is, and should be, to accomplish as many socially sound objectives as possible through the mechanism of efficient business, with resulting greater progress . . . it is necessary, therefore, to analyze to what degree business can give security and still maintain its efficiency” (1931: 62). Even by forward-thinking businessmen such as Donham, private enterprise had yet to be imagined as more than a vehicle for wealth creation. Accordingly, the responsibilities they proposed derived from this understanding.

One of the first surveys of CSR activity was Theodore Kreps’s 1940 report to Congress, *Measurement of the Social Performance of Business*. In it, he wrote that “business is not merely nor even in the first instance a struggle of individuals for wealth” but rather “the community engaged in getting its daily bread,” and as such, “that which businessmen do must be guided not
by that which serves their particular interest but by that which serves the interest of the community” (1). Although Kreps appears to use 21st century CSR rhetoric, his benchmark for ‘serving the interest of the community’ is not the same, and would not satisfy a contemporary CSR proponent. The social objectives he puts forward are purely economic in nature: maximum production of goods and services, maximum consumption, maximum pay rolls, minimum cost, maximum employment, and full utilization of capacity (Kreps, 1940: 3). When auditing industries for their relative social contribution, his reasoning was that “industries which increased their production over the base year are regarded as industries that have rendered increasing services to the public while industries that have decreased their production are regarded as industries that have not increased their services to the public” (Kreps, 1940: 43) and the maximum social contribution was made by the industry “which increased its employment the most throughout the period” (Kreps, 1940: 46). These objectives, by today’s standards, are well outside the conventional thinking of CSR proponents.

In fact, the most common argument of CSR’s opponents is that the sole responsibility of business is wealth creation and market efficiency (Henderson, 2001; Henderson, 2009; Karnani, 2010). These comments, like Clark’s, prove an interesting point of contrast against the focus of CSR today, a sign of how much progress the movement has achieved and why it is proves difficult for authors to develop any singular, uniformly applicable definition of corporate social responsibility.

Corporate activities that reflected CSR in its 21st-century form remained limited. In 1936, the first year that corporations were allowed to claim a charitable deduction on their federal tax return, and therefore the first year for which IRS-supplied data exists, corporations’ total contributions to non-profit agencies totalled only $30 million5 on a net pre-tax income of $7.8 billion6 – a rate of less than 0.4%. In fact, with one notable exception in 1945, corporate contributions averaged well below the 1% mark until the 1960s. U.S. Treasury Department figures of formal monetary gifts, as reproduced in Heald (1970: 259) are included below in Table

---

5 $505 million, inflated to a 2013 equivalent
6 $131 billion, inflated to a 2013 equivalent
1, consistent with figures reported elsewhere (Harris and Klepper, 1976: 5; Troy, 1982: 1). They reveal that while the business community began investing incrementally more in CSR year over year, overall contributions remained limited. As Heald cautions: “For the sake of perspective it is important to remember what an extremely small share of the objectives and activities of American business – less than two per cent in all probability – philanthropy represented” (1970: 269).

**Table 1 – Corporate Philanthropic Activity, 1936 – 1960 (in millions, USD)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit</th>
<th>Contribution Amount</th>
<th>% of Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1936</td>
<td>7,771</td>
<td>30</td>
<td>0.39</td>
</tr>
<tr>
<td>1937</td>
<td>7,830</td>
<td>33</td>
<td>0.42</td>
</tr>
<tr>
<td>1938</td>
<td>4,131</td>
<td>27</td>
<td>0.66</td>
</tr>
<tr>
<td>1939</td>
<td>7,178</td>
<td>31</td>
<td>0.43</td>
</tr>
<tr>
<td>1940</td>
<td>9,348</td>
<td>38</td>
<td>0.41</td>
</tr>
<tr>
<td>1941</td>
<td>16,675</td>
<td>58</td>
<td>0.35</td>
</tr>
<tr>
<td>1942</td>
<td>23,389</td>
<td>98</td>
<td>0.42</td>
</tr>
<tr>
<td>1943</td>
<td>28,126</td>
<td>159</td>
<td>0.57</td>
</tr>
<tr>
<td>1944</td>
<td>26,547</td>
<td>234</td>
<td>0.88</td>
</tr>
<tr>
<td>1945</td>
<td>21,345</td>
<td>266</td>
<td>1.24</td>
</tr>
<tr>
<td>1946</td>
<td>25,399</td>
<td>214</td>
<td>0.84</td>
</tr>
<tr>
<td>1947</td>
<td>31,615</td>
<td>241</td>
<td>0.76</td>
</tr>
<tr>
<td>1948</td>
<td>34,588</td>
<td>239</td>
<td>0.69</td>
</tr>
<tr>
<td>1949</td>
<td>28,387</td>
<td>223</td>
<td>0.78</td>
</tr>
<tr>
<td>1950</td>
<td>42,613</td>
<td>252</td>
<td>0.50</td>
</tr>
<tr>
<td>1951</td>
<td>43,495</td>
<td>341</td>
<td>0.78</td>
</tr>
<tr>
<td>1952</td>
<td>38,735</td>
<td>399</td>
<td>1.03</td>
</tr>
<tr>
<td>1953</td>
<td>39,801</td>
<td>495</td>
<td>1.24</td>
</tr>
<tr>
<td>1954</td>
<td>36,538</td>
<td>311</td>
<td>0.85</td>
</tr>
<tr>
<td>1955</td>
<td>47,949</td>
<td>415</td>
<td>0.87</td>
</tr>
<tr>
<td>1956</td>
<td>47,413</td>
<td>418</td>
<td>0.88</td>
</tr>
<tr>
<td>1957</td>
<td>45,073</td>
<td>417</td>
<td>0.93</td>
</tr>
<tr>
<td>1958</td>
<td>39,224</td>
<td>395</td>
<td>1.01</td>
</tr>
<tr>
<td>1959</td>
<td>47,655</td>
<td>482</td>
<td>1.01</td>
</tr>
<tr>
<td>1960</td>
<td>44,499</td>
<td>482</td>
<td>1.08</td>
</tr>
</tbody>
</table>
2.3 Birth of the Modern Movement

The primary focus of the 1950s was the debate over corporations’ responsibilities to society, with “scant discussion” of profitability or reciprocal benefits (Carroll and Shabana, 2010: 87). In the CSR timeline, it has been agreed (Carroll, 1999: 270; Carroll, 2008: 25; Lee, 2008: 56; Melé, 2008: 50; Moura-Leite and Padgett, 2011; Okoye, 2009: 613; Wartick and Cochran, 1985: 759) that the modern movement began when the Father of CSR, Howard Bowen, published *Social Responsibilities of the Businessman* in 1953. In it, he asked the pivotal question, “what responsibilities to society may businessmen reasonably be expected to assume?” (xi). Bowen focused on the “macro-social institutions for promoting CSR” and advocated for social responsiveness as “a complementary and corrective measure for some social failures inherent in [a] laissez-faire economy” (Lee, 2008: 55-56). Bowen appears to have marked a turning point in the CSR discussion when the notion of “social responsibility” solidified in its modern incarnation and came to entail motives other than profit. As noted earlier, considerations by Clark and Kreps saw fulfillment of profit and market efficiency as the most important piece of private sector social responsibility.

Morrell Heald’s article “Management’s Responsibility to Society: The Growth of an Idea” makes a similar observation to Dodd before him, namely that “a prominent aspect of the new capitalism, according to businessmen and nonbusinessmen alike, is the emergence of a corporate conscience, a recognition on the part of management of an obligation to the society it serves not only for maximum economic performance but for humane and constructive social policies as well” (1957: 375). Of particular importance to the present task of observing the movement, Heald at this time identified a shift from a model of personal philanthropy, as espoused by Carnegie and Rockefeller, to a model of corporate responsibility. As an empirical measure, Eels (1956: ix) reported that corporate philanthropic contributions had notably increased from decades prior, up to roughly half a billion dollars – though this is a generous rounding-up of the $418 million reported in Table 1. The distribution of these corporate contributions favoured social welfare (40%), education (31%), and medicine (11%), and virtually ignored cultural (3%) or international (0.3%) causes (Watson, 1958).
The period was highlighted by a rapidly evolving conceptualisation of CSR (Moura-Leite and Padgett, 2011). Like Bowen, these works focused on normative and “macro-social” elements, discussing if and why a business should consider responsibilities beyond profit (Lee, 2008). By Frederick’s account (2006: 16-19), discussions revolved around five major themes: (1) to whom managers were trustees, whether simply for shareholders or for the public; (2) the relevance of Christian ethics in business; (3) the need to offset rising corporate power with equally strong, countervailing government and civil society actors; (4) fears of totalitarianism, whether from concentrated business power or from other actors designed to check corporate power, such as the government; and (5) reformations of capitalism, calling for modifications to the institutions of capitalism to make the system more responsible. Critics and proponents of CSR could be found in each category. Yet despite the small multiplicity of topics under discussion, Lee suggests little constructive dialogue occurred between advocates and opponents of CSR. Claims were restated on each side without earning consensus. As he explains, “the primary cause of such intellectual stalemate over CSR was because their underlying assumptions about firms, economic behavior of corporate managers and CSR were radically different, and neither side was willing to consider the question from alternative perspectives” (Lee, 2008: 57). However divided the field, each side was making progress in developing their arguments and conceptualizations.

One landmark contributor was Keith Davis, who argued that the “social responsibilities of businessmen need to be commensurate with their social power” (1960: 71). He warned that if businesses failed to take on these responsibilities, government, labour, and other civil society actors would rise to greater prominence and threaten business interests. As he summarises, “social responsibility will tend to equate with social power, which means that avoidance of responsibilities as they develop will lead to loss of business power” (1960: 70).

Not everyone agreed that more responsibility, especially to enable more corporate power, was necessarily a positive development. Many held the opinion that swelling private sector power was dangerous and, in the sense that it lacked accountability checks outside of the ownership bond, undemocratic. Businessmen had not acquired a reputation for benevolence – rather, the prevailing view was that “what management takes into account is what management decides
takes into account, and however responsible management policy is... it is responsible only in
terms of the goals, values, and knowledge of management. No direct responsibility, made
effective by formal and functioning machinery of control, exists. No matter how responsible
managers strive to be, they remain in the fundamental sense irresponsible oligarchs” (Kaysen,
1957: 316).

In this vein, the most influential work in opposition to CSR was Theodore Levitt’s paper “The
Dangers of Social Responsibility” in the Harvard Business Review (1958). Among the chorus of
criticisms CSR faced and would face throughout the years, Levitt’s critique remains fairly
unique. Unlike those, like Adolf Berle or Benjamin Selekman (1959), who decried CSR as an
unnecessary expansion of corporations’ role, Levitt warned that allowing businesses to take on
social responsibilities would distort the balance of power between agents in a plural democratic
system and lead to a monolithic, unchallengeable business sector. He foresaw the corporate
sector becoming a “twentieth-century equivalent of the medieval Church... ministering to the
whole man and molding him and society in the image of the corporation’s narrow ambitions and
its essentially unsocial needs” (44). As he argued, allowing corporations to take on a role outside
of profit and wealth generation would allow them too much influence, upsetting the balance
between the major economic players which he identified as government, business, labour, and
agriculture. He encouraged businesses and the public to be content with profit as the sole
corporate motive, leaving other actors to tend to the rest of society’s interests. As he concludes,
“business should recognize what government’s functions are and let it go at that, stopping only to
fight government where government directly intrudes itself into business. It should let
government take care of the general welfare so that business can take care of the more material
aspects of welfare” (49). As a sign of his article’s impact, the editors of the Review added a
preface stating the subject of social responsibility “is too important to leave anything to doubt or
take anything for granted” and that Levitt’s point of view “deserves full attention” (43).

Surpassing Levitt among the ranks of critics, University of Chicago economist Milton Friedman
would become the permanent flag bearer of opposition with the publication of Capitalism and
Freedom in 1962, a work that would gain near-sacred text status among those antagonistic to
CSR. Friedman portrayed CSR as a “fundamental misconception of the character and nature of a free economy” and warned, in stark terms, that “few trends would 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” (133).

While many outstanding questions remained on CSR in practice, including if undertakings in CSR outweighed their costs or, more commonly, if being socially responsible even entailed something other than profit-maximisation, evidence suggests that CSR advocates were winning the foundational battles. In a 1961 survey of managers, 5/6 agreed that it is unethical “for corporation executives to act in the interest of shareholders alone, and not also in the interest of employees and consumers” (Baumhart, 1961: 10). Interestingly, this 5/6 proportion would hold constant over the years, with a 1987 resurvey reporting approximately the same response to the question (Becker and Fritzsche, 1987). Despite this accommodating attitude among managers, CSR activity was still limited, with little occurring in practice (Ackerman, 1973). It was, as aptly described, CSR’s “pre-phase” (Katsoulakos et al., 2004), remaining an academic rather than tangible movement (Carroll, 2008: 26; Carroll and Shabana, 2010: 87).

The debates started in the early 1950s continued throughout the 1970s, with proponents and opponents trading blows over old ground. Davis reinforced his arguments on the link between power and responsibility (1967; 1973) while Milton Friedman doubled down on principal-agent ethics to convince the business community and public that corporations have a sole duty to their shareholders (1970). While deep-rooted hesitations on CSR would remain until the end of the decade (Lyndberg, 2005), opinions were shifting toward a more expansive view of companies’ social responsibilities. Between 1970 and 1975, a study by Holmes (1976: 36) reported that business executives responded slightly more positively to statements supporting CSR in 1975 than they did in 1970, especially in the all-important circumstances that, firstly, “there is probably no short-run or long-run profit potential” (31 to 47%), or secondly, “though doing so may reduce short-run profits and no long-run profits are possible” (8 to 13%). Yet, by 1975, most major U.S. corporations were engaged in some type of corporate social activity (Eilbirt and Parket, 1975: 9). The most common activities were social in nature, including contributions to
education (86% of firms), ecological conservation (78%), and minority hiring (78%). In contrast, consumer protections including truthful advertising (42%), warranties (32%), and consumer-oriented label changes (24%) remained largely ignored.

While an aggregate picture of CSR activity is hard to find, which itself speaks to the infancy of the movement, empirical snapshots do exist. Limited to the food industry, Bowman and Haire (1975) counted the number of lines in annual reports devoted to CSR as a “surrogate measure for actual activities” (49). The average space was 3.63% of the report, with only 10% of companies devoting nothing to the topic. The most frequently mentioned items were environmental protections, affirmative action and minority accommodation, and philanthropy.

A much broader content analysis was undertaken by Abbot and Monsen (1979) who studied the annual reports of all Fortune 500 companies. This is said to present the most consistent data available for its time (Anderson and Frankle, 1980: 470). In comparison with Bowman and Haire, which gave an indication of the intensity of CSR disclosure overall, Abbot and Monsen’s study uses a simple dichotomy to indicate whether a particular content area was mentioned. The results (505), abridged below into Table 2, reveal fairly low uptake among businesses, though the content areas are consistent with Holmes (1976) Bowman and Haire (1975).

These trends – a general opinion that business ought to be socially responsible, yet cautious investment into CSR in practice – would continue until the break of the 1990s.
Table 2 – Content Areas of CSR Disclosures, by % of Fortune 500 firms

<table>
<thead>
<tr>
<th>Issue Area</th>
<th>1973</th>
<th>1974</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environmental</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pollution control</td>
<td>32.5</td>
<td>35.8</td>
</tr>
<tr>
<td>Recycling of waste</td>
<td>7.3</td>
<td>15.9</td>
</tr>
<tr>
<td><strong>Equal Opportunity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minority employment</td>
<td>17.7</td>
<td>15.9</td>
</tr>
<tr>
<td>Minority advancement</td>
<td>-</td>
<td>12.3</td>
</tr>
<tr>
<td>Employment of women</td>
<td>14.3</td>
<td>14.1</td>
</tr>
<tr>
<td>Advancement of women</td>
<td>-</td>
<td>12.9</td>
</tr>
<tr>
<td><strong>Personnel</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee health and safety</td>
<td>-</td>
<td>13.3</td>
</tr>
<tr>
<td>Training</td>
<td>13.3</td>
<td>16.1</td>
</tr>
<tr>
<td><strong>Community Involvement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community activities</td>
<td>14.3</td>
<td>18.3</td>
</tr>
<tr>
<td>Public health</td>
<td>4.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Education or the arts</td>
<td>12.9</td>
<td>15.9</td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety</td>
<td>1.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Quality</td>
<td>1.2</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>9.7</td>
<td>5.6</td>
</tr>
</tbody>
</table>

2.3 CSR as Mainstream Business Practice

With the dawn of a new decade, the movement changed rapidly and the “pre-CSR phase” gave way to the “initiation phase” (Katsoulakos et al., 2004). Over the course of the decade, CSR would shift from a debate among elites to a common business practice. Lee notes “by the late 1990s, the idea of CSR became almost universally sanctioned and promoted by all constituents in society” including businesses and consumers (2008: 53). The subjects of attention for CSR initiatives were also broadening, with employees, the environment, consumers, and community projects receiving the most focus (Morf et al., 2013: 100). These topics stand in stark contrast to the inquiries of Clark (1916) and Kreps (1940), who, one will recall, extended the social responsibilities of business little further than wealth creation.
Charitable giving by corporations was up to $7.5 billion by 1995 (Wulfson, 2001: 137). Unlike decades prior, corporate giving was now done with some sense of predetermined strategy, with companies looking for organisations and causes at least loosely related to their area of business (Mullen, 1997). Direct cash contributions remained the most prevalent method of philanthropy, used by 95% of corporations. However, in-kind (66%) and product (53%) donations also gained prominence (Mullen, 1997: 46). In fact, the year’s top corporate giver – software manufacturer Mentor Graphics Corp. – gave all but $200,000 of over $100 million in contributions in the form of computer software to colleges and universities. Similarly, over a three year period between 1995 to 1998, software giant Microsoft would give away over $103 million in software, licences, and grants (Wulfson, 2001: 137). Cause-related marketing, in which companies commonly tie and jointly promote the sale of a product with philanthropic support for a charitable organisation, became another popular method. Breast cancer research was a notable beneficiary, beginning successful partnerships with BMW, Buick, Ford, and Avon (Wulfson, 2001: 142). Even major public works projects have been financed through cause-related marketing, the most interesting being the restoration of the Statue of Liberty through a campaign by American Express (Papasolomou, 2008).

Socially responsible investment, variously defined, which was first attempted in the 1970s (Katsoulakos et al., 2004), became a major force in the universe of managed assets. One optimistic estimate suggested SRI represented as much as 20% of personal and institutional investment in the mid-1990s (Lewis and Webley, 1994: 171). Figures from the Social Investment Forum (SIF 2006) put the total value of socially responsible investing assets at $639 billion in 1995. This total would increase to $2.16 trillion by 2003, and $2.29 trillion by 2005 – an increase of more than 258% over ten years. By Forum estimations, this represents a more reasonable, yet still impressive proportion of 9.4% of managed assets.

As the new millennium dawned, firms were quickly mainstreaming CSR as a component of their business. As evidence of its development, Lee cites a study by Boli and Hartsuiker (2001) that reveals between the late 1970s and the late 1990s, the number of Fortune 500 firms that

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7 $11.5 billion, inflated to a 2013 equivalent
mentioned CSR in their annual reports increased from “less than half” to “close to 90%” (found in Lee, 2008: 54) – a significant increase on the yardstick from aforementioned studies. Another gauge comes from the reporting of FTSE4Good Index Series, indices that measure the performance of firms who meet high CSR standards. In 2003, companies being added to the indices outnumbered those being de-listed by a ratio of 2.6:1, indicating businesses were newly adopting CSR at a high rate (Strugatch, 2011: 47). A survey by Welford (2004: 48-50) sheds light how these firms were practicing and prioritising CSR. Firstly, his results indicate “internal” aspects of CSR, such as non-discrimination, equal opportunity, fair wages, and collective bargaining procedures, were well developed, with written policies among a substantial majority of firms. More variance was found with respect to “external” aspects. Attention to ethical behaviour along company supply chains was common, including inspections of suppliers’ health, safety, and environmental performances, restrictions on child labour, and, to a lesser extent, policies on labour standards in developing countries. Conversely, few firms engaged in CSR were practicing fair trade or had commitments to protect “human rights” within their sphere of influence.

Importantly, corporations were now incorporating CSR into their core business functions. CSR was pursued strategically and methodically, following industry best practices (Saiaia et al., 2003). White reports the period was characterised “by the idea of seamlessness … ending [CSR’s] isolation as a useful but dispensable add-on to “real” business activities” (2005: 6). Rather than isolated in gifts of philanthropy, as it was in its early years, CSR was now aligned with business objectives and company strategy, integrated across departments, and embedded throughout company policies and systems. As other practices more in-line with firms’ core business functions began to take prominence, the role of conventional philanthropy was diminished. By 2002, while corporate contributions still totaled approximately $9 billion, this represented only a 1.3% share of pre-tax profits, down from a high of 2% in 1984 (Muirhead et al., 2002). Instead, as the Conference Board reported in its snapshot piece Corporate Citizenship in the New Century, corporations were moving to more strategic methods of involvement. The relative decrease in philanthropy “[did] not reflect a diminished corporate commitment to community involvement, but a reorientation of strategic philanthropic resources toward corporate activities
that are not tallied in the contributions budget” (Muirhead et al., 2002: 33). Managers reported their top CSR priorities were on employee health and safety, sustainability, equal opportunities, and globalizing their involvement. Many companies – 58% of the 700 studied by the Conference Board – had a structured program to do so, including engagement tools with employees, local communities, and other parties with an interest in the business.

The Great Recession had a mixed impact on firms’ commitment to CSR. A random sample of firms on the Fortune 500 list found that CSR projects decreased significantly with the onset of the financial crisis in 2008 (Karaibrahimoglu, 2010), with budgets for philanthropic endeavours being particularly impacted (Stugatch, 2011: 45; Visser and Tolhurst, 2010: ch. 57). Yet many projects continued despite the bearish economic climate, primarily those that were already embedded into corporations’ routine business practices. Ellis and Bastin (2011) suggest the recession-proof nature of CSR may be a function of the way it has been operationalised in the new millennium, as much of CSR is now practiced through ethical methods of conducting business. While philanthropic contributions can be altered rather quickly between fiscal years, other investments are less flexible, such as a supply chains that have implemented minimum labour standards, factories that have installed emission control mechanisms, or ethically-marketed brands like Green Mountain Coffee that rely on CSR as marketing tool. Reports suggest many CSR investments remained intact throughout the recession as companies looked to maintain aspects of their business (Gohier, 2010; Haanes et al., 2011; Lacy et al., 2010).

At present, CSR stands as a fully integrated component of contemporary management in use by nearly every major corporation. KPMG (2013) notes that 86% of companies currently report on CSR, with these reports almost universally adopting international standards set by the Global Reporting Initiative. A number of these, including reports by Ford, Hewlett-Packard, and Cisco, score 90/100 or better for quality. Today, among Fortune 500 companies, the CSR agenda is dominated by two issues: environmental sustainability, particularly waste management, pollution control, and responsible resource use; and community involvement, including social investments to help disadvantaged members of society improve their quality of life (Smith and Alexander, 2013).
2.4 Conclusion

Scholars have agreed that the modern CSR movement began in the 1950s. Previous to this, both instances and discussions of corporately-enacted social responsibility initiatives were rare. Dialogue, rather than action, prevailed for the first forty years of the movement. The exception to this was philanthropy. The array of donors and beneficiaries, however, was fairly haphazard. Many firms did not practice CSR, while recipients were generally ‘good causes’ rather than necessarily organisations related to benefactors’ business interests. Academics had not yet imagined that corporations could serve interests apart from private wealth generation. Rather, CSR debates centered on how wealth was to be created – for example, the ethics of anti-competitive behaviour.

Over the decades, interest in CSR slowly increased. In the 1990s, corporations began giving serious attention to their social responsibilities and began incorporating it into their business operations. Quickly, CSR expanded to become a nearly universal practice of commerce. In addition to generating profits for shareholders, corporations were serving the needs of other interested parties by, for example, investing in community projects, or implementing anti-discrimination policies. At present, most major companies practice and report on their corporate social responsibility initiatives.

With respect to trends, the following is, succinctly, observed:

(1) Firms’ practice of CSR has increased with time (the first derivative is positive); and
(2) Firms’ uptake of CSR has increased with time at an increasing rate (the second derivative is positive).

As to the future of CSR, Carroll (2012) predicts three possible outcomes. The first echoes White (2005) in predicting its demise. In the “fad-and-fade” scenario, a major global downturn forces businesses to revert to economic survival, and “CSR, once viewed as irreversibly destined to become integral to corporate strategy, management and governance, [proves] to be fragile and transient” (White, 2005: 1). This is, purportedly, the least likely. Carroll’s optimistic vision is for a worldwide transformation of business practice, where a new paradigm based in CSR
conclusively replaces shareholder value theory. This is also viewed as less than probable. Rather, the expected and most probable scenario is simply that the CSR movement carries on, with incremental progress along the lines of the trends observed thus far. The three chapters to follow analyse the factors at play behind CSR’s growth, which should shed light on its yet unknown future.
Chapter 3 – The Demand Side of Change

3.1 Introduction

With an observational account of the movement in place, the remainder of the thesis will seek to understand and explain the growth of CSR observed in chapter 2. This chapter lays the first building block of the hypothesis with the proposition that demand-side pressures exist that incentivise businesses to act in socially responsible ways. While a seemingly uncontroversial claim, it is a crucial component of the market framework that this thesis puts forward to account for CSR. This chapter will unpack several of the major demand-side pressures to which businesses respond. The objective is not to compare or weigh the various factors against each other in a way that regression analysis might. Here, the purpose is to establish that demand-side pressures exist, and to that end, discuss and provide examples of a number of these factors in order to make the concept clearer.

Businesses make decisions on a case-by-case basis, so the specific factors will vary. Yet common to the business community as a whole is the existence of demand-side pressures. Therefore, readers should be mindful that the purpose of the chapter is simply to make clear the concept of demand-side pressures, while offering several examples to assist in this task and invite the possibility of further research to determine the relative importance of each. Moreover, as chapter 5 raises serious questions about the correctness in assuming rational motivations for CSR, it is more appropriate to consider these demand-side factors as general incentives towards CSR, rather than factors that opened up or secured markets of a particular, quantifiable size for any firms.

3.2 Modeling the Demand Side

In this thesis, demand is conceptualised as the existence of incentives that invite and encourage firms to act in socially responsible ways. To a certain extent, there are precedents for this type of analysis. McWilliams and Siegel (2001) use a supply-and-demand framework that offers a starting point for how to model the demand side, though their purpose is to theorise about CSR at a point in time, rather than over time. Nonetheless, for the purpose of this chapter, they establish
two important methodological insights: firstly, that CSR is a “market response that can be captured within a standard economic framework,” and, following from this, that the ‘quantity’ of CSR that businesses provide can be interpreted “as an effort to adapt to new environmental expectations” (Schreck, 2011: 169). They also categorise CSR under the two headings of “consumer demand” and “demand from other stakeholders.” In similar fashion, this thesis will also organise the content by stakeholder group - though this should not suggest the motivations given for each group are constrained to them alone.

Readers may be more familiar with conventional institutionalism as a form of demand-side analysis. Institutionalism predominantly sees change as a result of shifts or shocks to the external environment that affect the accretion, distribution, and allocation of resources (Hall and Taylor, 1996). Similarly, demand-side change in this thesis sees the environment of business changing, which encourages firms to change their own behaviour. Vogel’s (2005) analysis takes a similar approach, conceptualizing the CSR movement as discrete and quantifiable “markets for virtue” – circumstances in which acting socially responsible has the potential to pay off. However, chapters 4 and 5 extend the thesis’s analysis further than conventional institutionalism. This is one reason that the overall analytic framework is identified as supply-and-demand rather than simply institutional.

The following discussion illustrates a number of the most important demand-side factors that have emerged over time to incentivise socially responsible behaviour.

3.3 Demand-Side Factors

When it comes to encouraging change from business, no group is more influential than consumers. Consumers are the ultimate masters of the marketplace, enforcing their desires through the unmatchable force of consumer spending. As management guru Peter Drucker wrote:

*It is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or for a service, converts economic resources into wealth, things into goods. What the business thinks it produces is not of first importance – especially not the future of the business and to its success. What the*
customer thinks he is buying, what he considers ‘value’, is decisive – it determines what a business is, what it produces and whether it will prosper.

(Drucker, 1955: 37)

Each individual in society is a consumer of some things and a potential consumer of others. At the macro level, consumer demand is the aggregate of individuals satisfying the economic component of their interests. Accordingly, it comes as no surprise that as values and preferences have changed over the years, so has society’s purchasing decisions.

Moral reasoning, as distinct from purely rational influences such as price, has been shown to affect the buying behaviour of consumers (Thogersen, 1999). While it is doubtful that CSR attributes outweigh price concerns among most consumers, or even that consumers are knowledgeable enough to evaluate the CSR performance of firms, studies suggest that consumers are, at the least, intendedly responsive to CSR performance (Mohr and Webb, 2005; Pickett-Baker and Ozaki, 2008; Pomering and Dolnicar, 2009). This encourages firms to meet consumer expectations of responsible corporate behaviour.

In the time period under which CSR has emerged, the values of consumers have become more progressive, which has put pressure on corporations to share these values (Tomer, 1994). Important social movements, especially the black (sic) movement, the ecology and environmental movement, the women’s liberation and feminism movements, and the anti-war and anti-militarist movements (Frederick, 2006: 25-29), profoundly challenged corporations to reflect on the social constructs underlying their business practices (Carroll, 2008: 29). The associated riots in Watts, Detroit, and Newark in the late 1960s are often cited as examples of social demands that pushed businesses into CSR projects (Elkins, 1977: 129; Wells, 2002: 92). Corporations learned “to adjust to these social expectations” and changed their behaviour in response (Frederick, 2006: 5). There are times when the effect of consumer pressure is quite visible. Niche ethical markets, like fair trade coffee, are the result of consumers with particular convictions creating demand for a product that caters to their sense of justice. What began as a small crusade from progressive-minded trade organisations has now become a market with over $2 billion in annual sales (Raynolds, 2009). These markets make the concept of consumer pressure easy to grasp.
Many of these social interests, levied broadly by consumers, have been routinised into non-governmental organisations. As Cochran writes, the 1960s and early 1970s “swept… social movements together, permanently changing the business environment in America and the world by ushering in an era of activist groups and NGOs that are concerned about businesses and business practices, and which today often attempt to focus media attention on business practices they consider to be unethical or irresponsible” (2007: 449). NGOs have amplified the pressure of particular interests, encouraging companies to match the NGO’s expectations. These organisations apply pressure by bringing public attention to certain corporate practices, appealing to firms to change their behaviour, and, if necessary, organising collective action against them (Campbell, 2006: 931). Studies analysing the effectiveness of activism on corporate behaviour show NGOs to be quite influential in promoting socially responsible behaviour (Doh and Guay, 2006; Reinhardt et al., 2008: 229).

The changing social values that affected consumers and spawned a rise in NGOs extended, also, to shareholders. Socially responsible investing (SRI), discussed in chapter 2, also has its origins in the social movements of the 1960s. Among its earliest incarnations was the South African divestment campaign and the boycott of firms doing business with the apartheid regime (Cochran, 2007: 451). As particular issues arose that raised the social awareness of investors, such as environmental concern, civil rights, and nuclear energy, funds were created “with the explicit intention to meet the demand for incorporating ethical criteria in the investment process” (Bauer et al., 2005: 1752). Today, social investment options contain a full range of financial instruments, reflecting the desire of investors to support (or avoid) particular causes. The Forum for Sustainable and Responsible Investment (2012) reports that, with 622 investment vehicles in the United States, investment options that screen companies to meet social criteria are the most prominent – they highlight, as an example, allowing investors to avoid putting money into the Sudan. The desire to invest in climate-friendly companies is also strong, with 551 investment vehicles, while product-specific criteria, such as restrictions on investing in alcohol or tobacco production, exist on 390 investment vehicles. Reflecting on these funds, there exists some evidence to suggest the investment market values social responsibility, at least to the extent that SRI vehicles continue to gain in prominence and asset size despite underperforming their non-
screened counterparts (Cortez et al., 2011; Lee et al., 2010). After all, some investors believe social investment to be, simply, the right thing to do (Carroll and Shabana, 2010: 92). In addition to making specific investments, shareholders have also sought change from within. Shareholders in publicly-traded corporations have been bringing resolutions to the floor at general meetings, encouraging their boards to adopt more socially responsible practices. Even where these initiatives are defeated, they do influence company policies (Reinhardt et al., 2008: 231). As the most important stakeholder group in principal-agent terms, at least normatively (Friedman, 1970), investors and shareholders are creating demand-side pressures for companies to adopt CSR.

As a group unto themselves on the ‘agent’ side, the ethical orientation of managers can also motivate companies to become more socially responsible. As chapter 2 outlines, the CSR movement began long before the vast social changes of the 1960s. The debate over CSR began within the business community itself when prominent businessmen like Dodd and Bowen challenged their peers to rethink the principles of commerce. Then, in Levitt’s words, “what started out as the sincere personal viewpoints of a few selfless businessmen became the prevailing vogue for them all” (1958: 41). While there are many factors currently at play in the practice of CSR, the impetus for the modern movement came from managers.

It is clear that the ethos of business itself has changed significantly since the turn of the 20th century. Carroll et al. (2012), for example, discuss the role Social Darwinism played in justifying egoistic commercial behaviour, providing a moral basis for the ruthless treatment of labourers and, on the flip side, the massive and concentrated accumulation of profit among business owners. The same lens was applied by Ashley Montagu, who wrote that evolutionists “[Charles] Darwin and [Herbert] Spencer gave the industrialists of the nineteenth century a cosmic sanction for free competition” (1952: 33). Montagu quotes one businessman as saying: “You can’t make the world all planned and soft. The strongest and best survive – that’s the law of nature after all – always has been and always will be” (1952: 112). While modern capitalists still see the virtue in competition, it is no longer appropriate to extend “the survival of the fittest” to justify, for example, wage discrimination based on race or sex. Managers reflect on and have
been influenced by the same changes in ethical norms that impacted other stakeholders. Keith Davis believed that managers’ deeply-held attitudes toward questions of justice adapted alongside society, and were therefore different in 1967 than they were in decades prior: “the businessman shares the attitudes and values of society just as he did a century ago and reflects today’s attitudes of more responsible conduct in his actions” (48). Often times, the source of the demand for change was internal to managers themselves. “Some corporate executives obviously do treat social activity as an ethical imperative,” wrote Elkins. “They feel that they are responding to “higher” moral principles and exhibit a missionary zeal in directing corporate activities to socially oriented ends” (1977: 129). It has been widely observed that managers, based on their own interests in doing so, can be a driver of CSR within an organisation (Hemingway and Maclagan, 2004).

Apart from the impact of normative or social change, managers may have completely different reasons for pursuing CSR. Elkins (1977) suggests “managerial self-interest” may be a source of demand-side pressure, especially in explaining the occurrence of CSR where there is seemingly no benefit to the business. In short, he proposes that managers may use corporate funds on community and social projects to attain higher-level satisfactions, in a Maslowian sense. In Elkin’s words, “publicity, recognition, fame, respectability, and the like may be goals for the corporate executive who has plenty of personal resources” (1977: 132). Further theorising on CSR would support Elkin’s managerial self-interest model, including the depiction of corporate behaviour as subject to a hierarchy of needs with CSR at its peak (Tuzzolino and Armandi, 1981). This form of self-interest, exactly the type that Friedman (1970) discouraged, is another potential source of demand-side pressure.

These examples are not meant to be exhaustive. Other groups, such as employees, for example, have been influential in making companies respond to their interests (McWilliams and Siegel, 2001: 122). Similarly, the chapter has purposely sidestepped discussion of government’s role in pressuring socially responsible behaviour. There is wide agreement that public institutional frameworks do affect CSR (Campbell, 2007; Gjolberg, 2009; Kagan et al., 2003; Steurer, 2010). Yet including the potential effects of legislation and regulation in this discussion raises
complicated definitional questions on “voluntariness” which is an essential component of CSR (Carroll, 1979). Conflating compliance-oriented business practices, such as minimum wages or labour standards, with voluntary measures like philanthropy skews the research intent considerably, as the thesis is interested in what motivates businesses to voluntarily serve the interests of non-shareholders. Moreover, it distorts the analytic framework beyond repair, as pressures to act socially responsible based in coercion, as per government orders, are not incentives as this chapter constructs them, nor does the mechanism of supply function properly if firms are forced to act in a prescribed manner. While not discounting the potential for governments to encourage socially responsible behaviour, the role of government is outside the scope of this thesis.

3.4 Conclusion

As stated at the outset, the objective of this chapter was to establish a starting point in the thesis’s hypothesis by claiming demand-side pressures exist that incentivise businesses to act in socially responsible ways. Many of the potential sources of this pressure have been discussed to elucidate what might be categorised as a demand-side factor. Yet these pressures alone are not enough to account for – or importantly, cause – the observed change in corporate behaviour. Stated differently, in an attack on those who would propose a purely institutional analysis, it would be wrong to believe a problem necessitates a solution (Weyland, 2008). A change in society’s values does not mean businesses are capable of responding, especially in the short term. Chapter 4 will add the second (yet not final) piece of the hypothesis by introducing the supply-side factors that have fostered CSR and speak to a firm’s ability to respond to demands for more socially responsible behaviour.
Chapter 4 – The Business Case as the Supply-Side Factor

4.1 Introduction

In the previous chapter, it was established that demand-side factors exist that create incentives for firms to become more socially responsible. This chapter focuses on the supply-side factors related to the willingness and ability of businesses to respond to those incentives and provide the socially responsible goods and services that consumers, investors, and other civil society actors desire. This chapter postulates that the key causal factor that drives the decisions and behaviour of corporate officials is information on the operationalisation of CSR. More specifically, it postulates that such information provides managers with the understanding and guidance they need to make their companies more socially responsible. In proffering and explaining that postulation, this chapter adapts Weyland’s (2008) insights on boundedly-rational change and applies it to the study of CSR.

4.2 Modeling the Supply Side

In McWilliams and Siegel’s (2001) supply and demand framework, supply is primarily modeled as the firm’s ability to access and utilise assets in order to provide CSR goods and services. The rudimentary observation is made that “firms must devote resources to satisfy the demand for CSR… thus, we assume that firms use CSR-related capital (land and equipment), labour, materials, and purchased services to generate output” (2001: 122). Certainly, this is true, and resources are required to pursue CSR initiatives. As they illustrate, “pollution abatement to achieve an environmental standard beyond that required by law will require the purchase of additional equipment. Similarly, office space, supplies, computers, telephones, and other communications equipment may be devoted to CSR” (2001: 122). Yet this is hardly an exhaustive list of what firms require. When this limited conception of the supply side is paired against the pattern of corporate social performance observed in chapter two, the logical outcome is that the cost of CSR was prohibitive to all but a few firms until the 1990s, when costs fell immensely and allowed nearly all businesses to undertake initiatives of social responsibility. This is, in short, unlikely. A drop of this sort would occur during periods of economic recession,
according to theory, though the macroeconomic trend since the industrial revolution has been of increasing employment, investment, and production. Lacking evidence of such a plunge in the real price of labour, capital, and other inputs, the notion that businesses were too impoverished to avoid pollution or employment discrimination is not persuasive in itself.

Impairing McWilliams and Siegel’s approach is an assumption that businesses have options readily available that simply await implementation by inputting resources. This assumption is embedded in the microfoundation of rational choice models, which assume decision makers are perfectly knowledgeable about potential decisions and that the search among options is cost-free. Yet the boundedly-rational tradition recognises that the ideal of the *homo economicus* is empirically false (McFadden, 1999; Simon, 1955; Thaler, 2000) and organizations are constrained in their ability to maximise utility by the cost of accessing and processing information (Lindblom, 1959; Lindblom, 1979; Simon, 1979).

With access to less than perfect information, it is far from certain that decision makers have the capability to respond to change in an optimal manner. Rather, decision makers are constrained to make decisions by considering only a small set of all possible alternatives, those that are feasible and within their capacity to identify and understand. As Weyland explains, “expertise and technical capacity, besides sheer creativity, are necessary ingredients for significant institutional change… change only occurs if there is also [in addition to demand] a supply of promising and feasible proposals” (2008: 289). Applied to the markets in which CSR-related businesses operate, these “feasible proposals” are the business cases for CSR. It is not sufficient that demand creates incentives for firms to be socially responsible, businesses also require information and instruction in order to know how to act socially responsible in practice. The relevant supply factor was not the availability of physical assets, it was the knowledge required to provide socially responsible goods and services without misusing resources and putting the firm’s competitive position in jeopardy.

Theoretically, the development of the business case represents a fall in the opportunity cost of CSR. Properly defined, opportunity cost is the effect of foregoing the best possible alternative to a given action. When discussing a possible CSR investment with a given cost, the best
alternative to the project would be to simply disperse those funds as dividends. At the least, this is the trade-off painted by Friedman (1970), who suggests CSR simply diverts funds away from shareholders. Under Friedman’s perspective, it is difficult to justify CSR projects, as shareholders would presumably prefer to directly receive any funds earmarked for CSR. Funds spent on CSR seem wasted, making the opportunity cost equivalent to the full cost of CSR. However, once research emerged that helped managers to understand the potential benefits of CSR and recommended how to operationalise it effectively, a better justification existed for allocating resources to make companies more socially responsible. With the development of the business case for CSR, interested managers could argue that shareholders were giving up much less, as the firm was realising benefits from their CSR investments. Thus, research into the business case causes the opportunity cost of CSR to fall.

For clarity, an example is given below, wherein a manager is considering a $100 investment in a community project. Before the operational literature develops, this seems like a pure donation on the shareholder’s part, as any discretionary funds could simply have been directed into dividends. In contrast, after the operational literature develops, there is reason to believe the $100 investment will lead to a boost of $60 in extra sales, diminishing the shareholder’s sacrifice.

**Table 3 – A CSR Investment Example**

<table>
<thead>
<tr>
<th>Before Operational Literature</th>
<th>Option A: $100 Donation to Community Project</th>
<th>Option B: $100 Dispersal through Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal Cost</td>
<td>Marginal Revenue</td>
<td>Opportunity Cost of Option A</td>
</tr>
<tr>
<td>$100</td>
<td>0</td>
<td>$100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>After Operational Literature</th>
<th>Option A: $100 Donation to Community Project</th>
<th>Option B: $100 Dispersal through Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal Cost</td>
<td>Marginal Revenue</td>
<td>Opportunity Cost of Option A</td>
</tr>
<tr>
<td>$100</td>
<td>$60</td>
<td>$40</td>
</tr>
</tbody>
</table>
Therefore, not only does the argument of this chapter – regarding the importance of supply-side elements in the emergence and practice of CSR – fit with the observed history of the movement, it also has a valid foundation in economic theory to explain its causal role.

4.3 The Necessity of the Business Case

In 1975, business professor Lee Preston surveyed the breadth of the literature on corporate social responsibility and pointedly remarked, “why is this literature so bad?” (446). Plenty of normative work existed that called on managers to be more socially responsible and move beyond a pure profit motive (Barnard, 1938; Bowen, 1953; Dodd, 1932; Davis, 1960; Davis, 1967). Yet in terms of practicable insights as to how leaders interested in CSR were to make their companies more socially responsible, little to no work existed to guide managers. In his article, Preston chided researchers to reinforce their appeals for social responsibility with direction on how it ought to be done. “We have just begun to acknowledge that society at large might be interested in performance features of the economic system other than the amount of total current output and its distribution. Thus, it appears that we need to move on to a rather different, and substantially expanded, conception of both the corporation and society if we are to make significant analytical or practical progress” (1975: 446). Pundits shared Preston’s lament. “Corporate social activity is a positive phenomenon,” Arthur Elkins wrote in 1977 (132, emphasis added). “It is time to move away from the relatively soft normative – almost sermonizing – approach to the generation of positive knowledge of the real motivating factors involved in that ongoing phenomenon” (132).

The implications for CSR’s implementation were considerable. Most middle management, able to forecast the cost of CSR but unable to put a figure on its vaguely-promised benefits, shied away from instigating it (Lee, 2008: 55). An investigation by Ackerman (1973) revealed that even when CSR was pushed by top executives, subordinate managers responsible for putting CSR into action were hesitant to devote resources toward it. This is because, as Ackerman noted, it was “doubtful that a manager who has met his (sic) economic targets [would] be criticised, let alone severely punished, for failure to perform adequately in the area of social concern” (Ackerman, 1973: 94).
It was not enough that normative claims were being made on managers to act more socially responsible, research was needed to instruct managers on how to pursue CSR in a financially responsible way. Middle managers, executives, and boards along the corporate governance chain need to be able to justify that their CSR projects are commercially viable and fit company goals (Carroll and Shabana, 2010: 92). This is not only to ensure the company’s success, but also to ensure that CSR would not adversely impact the broader social agenda. To date, corporations had a well-defined role in society as wealth-creators. Without evidence to the contrary, many executives believed CSR would harm the bottom line performance of firms, thereby compromising the efficiency of markets and calling into question whether CSR was, indeed, in society’s overall interest (Powlinson, 1950). This cast into doubt even the normative case for CSR. In order to respond to demand, business leaders required two sorts of knowledge: instruction as to how to exercise CSR and operationalise normative claims into tangible, measureable business practices; and evidence that acting socially responsible was also financially responsible, such that doing so would not jeopardise the interests of its shareholders. These two components, together, comprise the business case for CSR.

4.4 Development of the Business Case

As early as 1956, Eels noted that companies inclined towards CSR were showing an interest in “finding a technique” to pursue it (ix). Yet it was not as if managers were without any rationale for CSR before the 1990s, it was simply that the business case was too underdeveloped to provide direction or support.

Before researchers began to respond to Preston’s (1975) call for more positive knowledge on CSR, the business case primarily rested on the claim that CSR could limit interference in the conduct of business (Salzmann et al., 2005: 27). Advocates of CSR like Davis (1960; 1967; 1973), discussed in chapter 2, put forward pragmatic arguments that responsible business practices could forfend interference from government and labour and preserve private sector autonomy. Yet Davis’s claims were unfalsifiable, incalculable, and supported more by assertion than evidence. Spector says much the same, noting that Davis “addressed the criticism that social responsibility would detract from the business of business by offering assurance . . . based
on little but his own assertion” (2008: 329). At the time, the arguments did not possess the rigor necessary to persuade business leaders of their legitimacy.

The other case for CSR relied on “enlightened self-interest,” suggesting businesses benefitted, in some form, from social responsibility in a manner that exceeded its costs (Watson, 1958). It too lacked full development, suffering from a lack of evidence that kept it from overcoming managers’ hesitations on CSR. One well-read contribution to the enlightened self-interest model came in a volume by the Committee for Economic Development, *A New Rationale for Corporate Policy* (1970). Despite being the most authoritative and popular exposition on enlightened self-interest of its time, it too was subject to criticism. Its vulnerabilities highlight how deficient the enlightened self-interest model was, even in the 1970s.

The article by William Baumol, “Enlightened Self-Interest and Corporate Philanthropy,” is characteristic of many pieces, especially in its tendency to make its case out of generalizations rather than firm-level insights or empiricism. He writes:

> Self-interest is indeed served by corporate contributions. The company pays a high price for operating in a region where education is poor, where living conditions are deplorable, where health is poorly protected, where property is unsafe, and where cultural activity is all but dead. As it grows clearer to stockholders and others immediately concerned that these circumstances are all more expensive than corporate giving, the rationality of business philanthropy must become obvious.

(Baumol, 1970: 19)

Such macro-level conjectures, found in the writings of some advocates of CSR, do little to make “obvious” to an individual business that their social contributions would cause return benefits. Wallich and McGowan made the link clearer in a corresponding piece in the CED volume. They asserted that the link between social and financial performance came in the form of the diversified stock portfolio. Typical investors hold shares in many companies, they argued, which meant that activities which benefitted the firm at society’s expense was not in the shareholder’s interest as impoverishing the public would only diminish the returns on other assets. This justified taking social costs and benefits into account, because:
Once it is recognized that corporations are not usually owned by a group of investors who own shares in only one corporation, but by individuals who as a group typically own shares in a very large number of corporations, the whole concept of stakeholder interest becomes extremely fuzzy... the adoption of a policy of including all returns appropriable through the market system will enable investors to reach higher welfare levels than they would if corporations adhered to a narrower approach to evaluation of returns.

(Wallich and McGowan 1970, 55)

Despite the article’s popularity, it failed to provide a solid foundation for CSR. As Baumol wrote in the very same volume, the public good problem had yet to be overcome. He highlights this by way of example: “A grant to an educational institution, even if it is restricted – say, to a chemistry department – does not guarantee that the increased supply of chemists will flow exclusively to the donor. More trained individuals will also become available to other companies, including perhaps the direct competitors of the donor firm” (1970: 15-16).

Even to businesspeople personally inclined towards CSR, these were not strong enough justifications to divert firm resources away from established, shareholder-oriented practices. As Heald writes, these managers “recognized the difficulty they faced in justifying to themselves and their shareholders [CSR initiatives] which, at first glance, seemed remote from the direct interests of profit making-concerns” (1970: 213). He further notes that “even when a strong case could be made, there were difficulties; the dollar return for such expenditures could seldom be demonstrated with any precision. Sometimes the arguments used to demonstrate fiscal responsibility stretched the bounds of credibility” (1970: 303). The ability to respond persuasively to questions on the practice of CSR was the relevant obstacle, not, as McWilliams and Siegel (2001) suggest, a lack of available resources. Therefore, “it would become the responsibility of scholars to provide the evidence that the enactment of business responsibilities and the performance of the business were indeed compatible” (Spector, 2008: 329). Corporations needed well-documented, firm-level research to instruct them on how to enact CSR, something that was not readily or extensively available in the literature at that time.

The response to Preston’s (1975) call would come from Archie Carroll in 1979. He addressed the need to develop CSR into a quantifiable and practicable concept by developing the notion of
corporate social performance (CSP), defined as an operationalisation of the CSR construct (Rowley and Berman, 2000: 397). He provided a four-part model, encompassing economic, legal, ethical, and discretionary/philanthropic obligations, which greatly assisted businesses to clarify the demands being placed upon them (Carroll, 1979). This model would be extended and improved upon by Carroll (1983), Wartick and Cochran (1985), Aupperle et al (1985), and Wood (1991), among others.

Yet CSP was only one among a number of developments in operationalizing CSR. Worthy to be singled out for mention is R. Edward Freeman’s *Strategic Management: A Stakeholder Approach* (1984) that formally introduced the notion of stakeholder theory, and, importantly, brought it to the attention of businesspeople. Opposing the conventional view that shareholders are the only group to whom managers are responsible, stakeholder theory argued a company functions better by serving the needs of many groups, its ‘stakeholders,’ including customers and employees (1984: 44). This gave corporations a new way to conceptualise their social obligations. Rather than trying to serve a plethora of normative claims to be good, they could now respond to concrete claims from stakeholders. In contemporary terms, stakeholder theory is the prevailing CSR model, having undergone frequent refinements (Donaldson and Preston, 1995; Freeman, 1994; Gibson, 2012; Jensen, 2001).

Today, as Steurer says nicely, “managers do not think or act in terms of concepts such as responsibility or integration. If managers think of CSR, they focus on the claims of particular stakeholders” (2010: 53). Yet before 1984, this was not a common concept in the business world. Its formalization proved invaluable as a conceptual tool to guide managers. While economic analysis was not an important component of CSR debates until the 1970s, it would predominate in the 1980s and beyond (Wells, 2002: 109). Broadly speaking, the 1980s would also bring more attempts to measure the conduct of CSR, as well as further theoretical development of the notion of CSP (Carroll, 1999). These works would progress the literature toward the type of information needed, at the firm level, by businesses. For example, that inclusive employment practices can improve employee satisfaction while allowing organisations to reach a larger customer base (Robinson and Dechant, 1997; Thomas and Ely, 1996); that good
relationships with employees as a stakeholder group can reduce turnover, increase worker commitment and effort, and boost productivity (Berman et al., 1999: 489); that a stakeholder orientation can benefit an organisation through improved organisational commitment (Grant et al., 2008) and a friendlier external environment, including increased consumer trust (Pivato et al., 2008); that organisations that exhibit strong moral practices will, through a process of self-selection, build a workforce with strong moral values (Lee and Mitchell, 1994), diminishing the severity and frequency of opportunistic employee behaviour; that strategic philanthropy can differentiate a business from its competitors (Porter and Kramer, 2006); and that CSR can be used to defend the reputation of a businesses in times of trouble (Zadek, 2000: 14). For the sake of conciseness, a brief listing of influential works is included below in Table 4, along with the authors’ major findings and recommendations.

**Table 4 – Major Contributions to the Operationalization of CSR**

<table>
<thead>
<tr>
<th>Year</th>
<th>Author</th>
<th>Contribution</th>
</tr>
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<tbody>
<tr>
<td>1981</td>
<td>Tuzzolino and Armandi</td>
<td>Needs hierarchy for firms</td>
</tr>
<tr>
<td>1982</td>
<td>Peters and Waterman</td>
<td>Relationship of CSR to core business</td>
</tr>
<tr>
<td>1985</td>
<td>Wartick and Cochran</td>
<td>Development of CSP</td>
</tr>
<tr>
<td>1991</td>
<td>Wood</td>
<td>Development of CSP</td>
</tr>
<tr>
<td>1995</td>
<td>Clarkson</td>
<td>Application of stakeholder theory</td>
</tr>
<tr>
<td>1995</td>
<td>Jones</td>
<td>Application of stakeholder theory</td>
</tr>
<tr>
<td>1999</td>
<td>Berman et al.</td>
<td>Empirical testing of stakeholder theory</td>
</tr>
<tr>
<td>2000</td>
<td>Zadek</td>
<td>Survey of existing business cases</td>
</tr>
<tr>
<td>2001</td>
<td>Heinkel, Kraus and Zechner</td>
<td>Cost of capital</td>
</tr>
<tr>
<td>2002</td>
<td>Porter and Kramer</td>
<td>Best practices for corporate philanthropy</td>
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<tr>
<td>2006</td>
<td>Porter and Kramer</td>
<td>Best practices for corporate philanthropy</td>
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<tr>
<td>2007</td>
<td>Barnett</td>
<td>Application of stakeholder theory</td>
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<td>2011</td>
<td>Schreck</td>
<td>Testing of CSR mediators and moderators</td>
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Together, these works provided managers the intellectual capacity they needed to respond to demand and implement CSR. Lee (2008) provides an overview on the conceptual evolution of CSR, observing that the level of analysis in CSR literature has progressed from macro-social...
discussions of what is best for society, as in Bowen (1953), to organizational and firm-specific, while the theoretical orientation has moved from ethical discussions to practical, operational principles that are management-oriented. As research into tangible CSR progressed, the literature developed firm-level best practices. As it stands today, CSR literature is discipline-specific and oriented towards providing concrete recommendations for more efficient implementation of CSR principles. The emergence of work on the business case transformed the study of CSR from a primarily philosophical and ethical subject to a practical discipline, driven primarily by economic considerations (Lockett et al., 2006; Vogel, 2005). With respect to this chapter’s discussion of the business case, two trends are worth noting:

1. Literature on the operationalization of CSR began in the 1980s, and
2. Since this time, the operationalization literature on CSR has increased in volume and depth of analysis, further developing the business case for CSR over time.

4.5 Conclusion

The argument of this chapter, that the relevant supply-side factor that drove and shaped the CSR movement was the business case for CSR, is substantiated in two ways. First, one recalls from chapter 2 that two trends were recorded with respect to the CSR movement: (1) firms’ practice of CSR increased with time, and (2) firms’ uptake of CSR increased with time at an increasing rate. Given our knowledge of the CSR operationalization literature and the two trends noted above, a matching pattern is observed. Namely, the uptake in CSR activity coincides with the development of the CSR operationalization literature, suggesting that research into the business case allowed businesses to respond to existing demand-side pressure. Secondly, when the development of the business case is modeled as a fall in the opportunity cost of CSR, the argument is corroborated by mainstream economic theory. As McWilliams and Sigel (2001) noted, the cost of CSR does impact firms’ provision of CSR goods and services – but it is not the cost measured in accounting terms, but in economic terms, including the cost of foregoing the best available alternative.
Before the development of the CSR operationalization literature, CSR was presented in primarily normative terms, making it seem to managers that resources spent on CSR were simply transferred away from shareholders. With the business case better understood, concerns regarding the cost of taking CSR principles into account is diminished. Thus, not only does the argument of this chapter regarding the importance of supply-side considerations fit with the observed history of the CSR movement, it has a valid foundation in economic theory to explain its causal role.

The one outstanding question relates to the second component of the business case. This chapter has observed that CSR operationalization research provided managers with the knowledge they needed on how CSR should be practiced. The other, presumably necessary component of the business case encompasses financial rationale – that is, not only how CSR ought to be practiced, but if and why it makes financial sense for the company. Corporate officials struggled in reconciling the trade-offs between the social and financial performance of their respective corporations. The links and trade-offs between the social and financial performance of corporations, which remain at the core of discourses related to the CSR movement, are explored in chapter 5.
Chapter 5: The “Uncertain” Business Case for CSR

5.1: Introduction

The previous chapters have provided an explanation regarding the emergence and existence of CSR. Chapter 3 began the analysis by adopting an institutional imperative perspective and the rational actor model in suggesting that corporations face a series of demands for socially responsible behaviour. Chapter 4 added another layer to that analysis by examining businesses’ ability to respond to these demands, claiming the key factor in their ability to respond was the development of operational literature that established best practices for CSR and components of its overall business case. This chapter looks at the significance of another set of research that also impacts the business case for CSR – studies into the link between CSR and profitability. Recognising that empirical findings do not establish that CSR is necessarily profitable, the chapter completes the analysis by amending the supply-and-demand model to relax the strict assumptions of rationality and profit-maximisation.

5.2: Completing the Business Case for CSR

The quest to build a business case for corporate social responsibility comes down to answering “what justifies the allocation of resources by the business community to advance a certain socially responsible cause” (Carroll and Shabana, 2011: 1). The response to this question is the development of the operational literature, outlined previously, that promises a range of benefits to companies from their CSR investments. This body of literature also goes a long way in explaining the growth of the CSR movement. If CSR is indeed a practice that benefits businesses, its practice is perfectly in line with the behaviour expected of a rational and profit-maximising corporation. Many contributors to the field hold the view that CSR exists because it is good business practice (Berger et al., 2007; Kurucz et al., 2008; Zadek, 2000). To confirm this perpetually-assumed explanation, it has long been a matter of interest that a positive link between social and financial performance be proven. If one is presupposed to assert a positive relationship between CSR and corporate financial performance (CFP), there certainly exist enough studies to justify such a perspective. Positive relationships have been found by Bragdon

Yet, despite the attractiveness of the idea that socially responsible behaviour is profitable, and a tendency of many authors to mention only the aforementioned studies, it is inappropriate to present these findings as if they constitute the consensus among analysts in this field. For every study that finds a positive relationship, there is a study for which the findings suggest a negative relationship, a combination of negative and positive relationships, no relationship, or an inconclusive relationship. Mixed, inconclusive, or neutral results are found in Fogler and Nutt (1975), Alexander and Buchholz (1978), Abbot and Monsen (1979), Arlow and Gannon (1982), Cochran and Wood (1984), Hoffer et al. (1988), Griffin and Mahon (1997), Kurtz (1997), McWilliams and Siegel (2000), Hillman and Keim (2001), Bauer et al. (2005), Margolis and Elfenbein (2008), Schreck (2011), and Barnett and Salomon (2012), while an outright negative connection between CSR and CFP is the result of work by Vance (1975), Jarrell and Peltzman (1985), Wright and Ferris (1997), Chu et al. (2005), Brammer et al. (2006), Becchetti et al. (2008), and Renneboog et al. (2008).

With a sense of futility, scholars today are simply concluding that the debate is unresolved with no clear agreement on the relationship between social and financial performance (Barnett and Salomon, 2012: 1304; Davidson and Worrell, 1990: 7; Vermuelen, 2011: 28). Schreck summarises decades of research by offering the sage advice that “there is no reason to assume unconditionally a positive relationship between corporate social and financial performance, as such an assumption would deny both the fact that socially irresponsible behaviour does “pay off” in certain cases and that, in other cases, the cost of beyond-compliance behaviour is not outbalanced by future returns” (2011: 167-168). This is hardly helpful to managers looking for direction. As it comes to evaluating potential projects, the guidance the literature offers is merely that “after more than thirty years of research, we cannot clearly conclude whether a one-
dollar investment in social initiatives returns more or less than one dollar in benefit to the shareholder” (Barnett, 2007: 794).

Further complicating any sense of consensus are the repeated methodological criticisms between studies. Most findings drawn before the 1980s are subject to methodological concerns serious enough to warrant asterisks beside their results. Few if any studies are adjusted for risk; sampling errors, including the use of too few businesses in the sample, are ubiquitous; and measures of financial performance are frequently inadequate (Aupperle et al., 1985). Moreover, the evaluations of corporate social performance, as the independent variable, are unsophisticated. Generally, studies compared a group of firms designated as “socially responsible” against a control group. The most common method of acquiring the list of socially responsible firms was to use a reputation index, created either by the Council of Economic Priorities (1971) or Moskowitz (1972). The obvious setback to the use of a reputation index, as indicated by the very term, is that it offers a purely subjective designation rather than an objective account of firms’ CSR activities. The alternative method to specify social responsibility is content analysis, reviewing documents such as annual reports to get an indication of firms’ commitment to social responsibility. This approach is not a guaranteed solution, however, as mere discussion of responsibility does not equate to responsibility in practice. The inherent inadequacy of both methods (Cochran and Wood, 1984) lends no clarity to an already complicated debate.

The methodology would improve over time, especially with the introduction of reliable corporate social performance data by the firm Kinder, Lydenberg, and Domini (KLD) beginning in May 1991. Authors appear to have endorsed KLD data, giving it wide use and relatively little criticism. Even so, other measures of CSR performance remain, with some articles preferring to use reputational, philanthropic, or self-disclosed data (Griffin and Mahon, 1997: 16). Yet the tentative tranquility on this front has not halted acrimonious methodological disagreements, especially on the techniques used to measure financial performance.

In 1997, McWilliams and Siegel made a compelling case that the use of short-term fluctuations in stock price to evaluate the effect of CSR, known as the event study method, was being used carelessly, cautioning that “the lack of information regarding the validity of assumptions [in the
event study method] and several research design issues in some articles raises questions about the confidence that readers can place in the conclusions drawn” (1997: 627). They stress that not all studies properly considered confounding events like major personnel changes, litigation, restructuring, or divestures, and therefore may not properly isolate CSR as the causal variable. Three years later (McWilliams and Siegel, 2000), the pair would further criticise prevailing methodological approaches, specifically the econometric model that Waddock and Graves (1997) propose to evaluate the link between CSR and financial performance. This model, along with most studies pre-dating their publication, omits independent variables that are, in the opinion of the authors, important determinants of profitability. Interestingly, while Waddock and Graves’s (1997) equation produces a positive relationship between CSR and CFP, a re-analysis with an improved selection of coefficients for the assessment invalidates these results, instead producing a statistically insignificant relationship. As the authors advise, the findings “underscore the importance of using the appropriate specification when estimating the “return” on CSR investment” (McWilliams and Siegel, 2000: 607). They were certainly not alone in their opinion (Pava and Krausz, 1995: 26-34).

These problems continue into the new millennium (Perrini et al. 2011, 61; Salzmann et al. 2005, 30). It remains the case that the choice of performance measures for both social and financial elements leads to different correlations, depending on the measures chosen. A meta-analysis conducted by Orlitzky et al. (2003) found that various components of CSR (environmental concern vs. managerial principles and minority hiring, for example) correlate differently with financial performance; that CSR is more highly correlated with accounting-based measures than with market-based indicators; and that reputational indices – which have been criticised earlier as overly subjective – are more highly correlated with financial performance than other, presumably more objective indicators of CSR. The increasing sophistication of techniques has not quieted the debate. Griffin and Mahon (1997: 11) identified 80 different measures of financial performance, each claiming to be superior to the others. This has since been expanded by, for example, Galema et al. (2008), Guenster et al (2011), and Kim and Statman (2012), who have begun using advanced measures from the discipline of finance (in this case, James Tobin’s Q ratio) as their financial performance measure. Unsurprisingly, this approach has also been
criticised for inadequately capturing all relevant indicators of a company’s market value (Gregory and Whittaker, 2013).

Finally, there are theoretical criticisms that the empirical literature correlates measures of business performance, such as CSR investment and profits, without a proper theory to explain it (Wood and Jones, 1995). Though stakeholder theory (Freeman, 1984; Donaldson and Preston, 1995; Jones, 1995) and other operational literature has done a good deal of work to fill this void, it is still felt by some that no theory can satisfactorily explain the connection between the two (Orlitzky et al., 2003: 404). It is not surprising that while all academics properly couch their conclusions in provisos, CSR researchers are inordinately likely to do so, noting their findings “hint but do not univocally demonstrate” conclusions and provide “no convincing evidence on the direction of causality” (Renneboog et al., 2008: 1740, for example).

The lack of a uniform method to investigate the link between CSP (corporate social performance) and CFP only serves to further complicate interpretation of the results. The unavoidable consequence is that this immense body of research is too convoluted to inform the decision making of businesses. Margolis and Walsh, in their meta-analysis of the literature, give voice to this concern:

*The reviewers see problems of all kinds in this research. They identify sampling problems, concerns about the reliability and validity of the CSP and CFP measures, omission of controls, opportunities to test mediating mechanisms and moderating conditions, and a need for a causal theory to link CSP and CFP. The imperfect nature of these studies makes research on the link between CSP and CFP self-perpetuating: each successive study promises a definitive conclusion, while also revealing the inevitable inadequacies of empirically tackling the question.*

(Margolis and Walsh, 2003: 278)

The failure to empirically confirm the profitability of CSR is a dilemma that has not garnered its due concern. It is true, as discussed in chapter 4, that linking and establishing some benefits to CSR makes it more tenable to managers, boards, and other high-level decision makers. However, the provision of some benefit is by no means an assurance that it outweighs its investment cost. To be an advisable business decision, its benefits must not only outweigh its costs, the decision
to pursue CSR must be the *most profitable* use of its resources, outweighing the opportunity cost of devoting its inputs elsewhere. Simply put, CSR must be a profit-maximising decision.

The rational choice model bolsters the need to prove a link between social and financial performance. When accounting for the rise of the CSR movement, one does not assume that corporations seek profit simply because it is their conventional disposition (Hawley, 1991), but also because the rational choice model envisages decision makers as utility-maximisers. When viewed through a positive lens, the far-reaching adoption of CSR across businesses implies it must be profitable. If analyses invoke rational choice as a foundation, profitability is a necessary condition of firm action. Therefore, logically, the observation of CSR’s widespread popularity is retrograde evidence that CSR must be profit-maximising, lest the behaviour be completely inexplicable. It is easy to understand, then, the serious quandary that arises from researchers’ failure to conclusively identify a link between CSR and financial performance. Without this evidence, those who point to the operational literature and the business case as an explanation for firms’ pursuit of CSR are vulnerable to warranted critique.

One way of skirting the issue has been to ascribe nebulous and generally untestable benefits to CSR. The most common and influential argument, historically and at present, is that CSR is a means of mitigating risks in the political environment that have the potential to adversely affect the conduct of business. This perspective is contextually accompanied by warnings that “the capitalist system is under siege” by groups dissatisfied with corporate America, thereby necessitating CSR to win back hearts and minds (Porter and Kramer, 2011: 64). This line of reasoning is as old as the movement itself. Historian William Ghent attributes the charity of the 19th century’s great philanthropists to a fear of labour and the impact that an organised working class could have on the functioning of industry (1902). Heald would echo this sentiment, singling out Carnegie’s desire to use philanthropy as a tool “to disarm the mounting criticism of great fortunes and aggregations of economic power which accompanied industrial expansion” (Heald, 1957: 377). In the early 20th century, writers cited general fears of socialism as the motivating factors behind businesses’ push to appear socially responsible (Clark, 1912: 219;
Heald, 1970: 303). In his article, Burt Spector makes the interesting argument that CSR was a contribution of the business community in the Cold War fight against Moscow. In his words:

> By supporting and encouraging free-market values, by fighting the spread of seditious and anti-capitalist points of view, and by opening trade and development with underserved regions in the global marketplace, business leaders could proclaim themselves to be agents of worldwide benefit in a way that also served their more immediate interests.

(Spector, 2008: 319)

Variants on this explanation persist to this day. Though the adversaries are different, the business community ostensibly remains in a perpetual state of damage control through to the 21st century. In its present state, the belief is most commonly known as “social licence theory” which holds that the conduct of business requires at least the tacit permission of society to operate. CSR is therefore a means of garnering society’s approval. In its strongest form, subscribers of this perspective argue that “corporations are social institutions, creatures of society that in effect have been chartered by society to perform certain purposes. These corporations must adopt policies and actions that are in conformity to the norms and goals of society. If not, the society that granted the charter can revoke it” (Tomer, 1994: 128). In this vein, the most common benefit ascribed to CSR is the potential to lessen government intervention (Pava and Krausz, 1995: 149), the thought being that proactive attention to issues of potential public concern can allow corporations to address the issues in a more flexible and cost-efficient manner. Weaker forms of social licence theory share the view that CSR can be a means to avoid costly interference while generally envisioning a more pluralistic institutional environment where any number of actors might upset the interests of business. These writers state that the private sector generally “needs legitimacy because it has systematically been criticised by labour unions, environmentalists, [and] anti-globalization protestors” and therefore urge corporations to act responsibly in order to “counteract these critiques” (Hanlon, 2008: 169). It is their view that businesses that operate with a ‘social licence’ are also subject to fewer objections from non-government actors in the civil sector, and thereby avoid any adverse effects from lobbying campaigns, protests, blockades, unflattering media exposure, or other actions (Prno and Slocombe, 2012). CSR is thus a tool for public legitimacy, political capital, or a manner to
prevent interference – an “industry response to opposition” (Owen and Kemp, 2013: 29) that allows managers to run their businesses smoothly. It makes intuitive sense that if by voluntarily reducing one’s pollution output, a company can avoid public protests or the imposition of carbon taxes or regulations, CSR can be a benefit to the bottom line.

The great difficulty of any of these theories is that – for whatever the reason CSR is alleged to be good for business, whether because it improves stakeholder orientation, bolsters employee morale, makes firms more resilient to scandal, *or* reduces political interference - at some point, the utility-maximisation principle necessitates that these investments in CSR must pay off. Even if the gains from a CSR investment are too indefinite to be reflected in one year’s balance sheet, over the long term, socially responsible businesses *must* be more profitable. If those that abide by a code of social responsibility indeed see the benefits of reduced interference, their companies must show a pattern of increased financial performance to justify the cost of acquiring the social licence to operate. However, over sixty years into the modern movement, researchers are still unable to prove its profitability with any certainty. The other implication of the mixed results is that while some companies must be “doing well while doing good,” there are others who defy all logic and continually invest in CSR despite doing quite poorly by financial terms (Griffin and Mahon, 1997: 22).

Given the uncertainty surrounding the desirability of CSR, I am inclined to echo Rowley and Berman (2000: 415) who “strongly suggest that social issues researchers move away from a focus on the CSP-CFP question” and look at new avenues for further inquiry. To be so bold, perhaps the answer is not to continually revise empirical investigation techniques but instead to revisit the ingrained assumptions of profit-maximisation and rational choice. At this stage, the appropriate question is to ask – given the prevalence of CSR, what would cause businesses to diverge from rational and profit-maximising behaviour? It is the assertion of this thesis that, in fact, there is reason to believe that businesses pursue CSR for reasons not derived entirely from their bottom line. By moving away from a strict adherence to the rational choice model and instead utilising a behavioural model that better reflects the multidimensionality of agents’
decision making tendencies, it is possible to construct a convincing explanation for the emergence and existence of CSR that still rests on well-formed theoretical ground.

5.3: Prospect Theory and the Response to Risk

The unproven business case for CSR resulting from the mixed empirical findings necessitates modifications to the straightforward supply-and-demand framework found in chapters 3 and 4. While the framework is conceptually accurate, left as is, its basis remains in classical economics and rational choice, suggesting the equilibrium between supply and demand (representing the state of the corporate social responsibility movement at a point in time) is profit-maximising. As this proposal cannot be verified by empirical evidence, the model must be adjusted to reflect that the equilibrium may not be profit-maximising despite CSR’s popularity.

As the introductory chapter states, the supply-and-demand framework will be tailored by the cognitive-psychological findings of Prospect Theory (Kahneman and Tversky, 1979; Tversky and Kahneman, 1981). Germane to the current task is Prospect Theory’s finding that, under circumstances of uncertainty, decision makers do not exhibit behaviour consistent with the ideal of expected-utility evaluations but rather show a number of tendencies that diverge from the axioms of rational choice. The particular findings of importance deserve some explanation. In rational, expected-utility decision making, the attractiveness of a decision with a number of potential outcomes is found by weighing the utility of each outcome by the probability it will be realised, and in reference to one’s absolute wealth level. Prospect Theory reveals that people are unlikely to follow this pattern. Firstly, agents use a status-quo reference point, mentally framing decisions as “losses” or “gains” from the status quo rather than looking at changes in absolute wealth. Furthermore, decision makers are observed to have an S-shaped value function, with the subjective values they attach to potential outcomes highly influenced by whether decisions are framed as “losses” or “gains.” Facing mathematically equivalent situations, people feel losses much more strongly than gains. The consequence of this, which is the central tenet of theory on which this thesis relies, is that decision makers are risk-seeking when in a frame of loss and risk-averse when in the frame of gains. To illustrate this, Tversky and Kahneman offer a laboratory
example where respondents are told to make two concurrent decisions, the first in the “frame of gains” and the second framed as losses (1981, 454):

Decision 1, either:

a. A certain gain of $240, or
b. A 25% chance to gain $1000 and 75% chance to gain nothing.

And concurrent decision 2, either:

c. A certain loss of $750, or
d. A 75% chance to lose $1000 and 25% chance to lose nothing.

The results demonstrate the effects of framing. In decision 1, option A is selected by 84% of participants. Agents exhibit strong risk aversion, preferring a sure gain even when option B has an expected value that is roughly 4% greater. The reverse is true for decision 2 when agents are put in a frame of loss. Option D is chosen by 87% of participants, as agents become willing to take on risk to avoid a loss. Of this, this thesis will hone in on decision 1 in particular: the risk aversion of decision makers in the “frame of gains.”

This finding becomes all the more interesting and distinct from rational choice when compared against another of Tversky and Kahneman’s (1981) posed questions. Consider, once more, the decisions given above. Recalling that decisions 1 and 2 were to be made concurrently, such that an agent would realise the effects of both decisions at the same time, it is worthwhile to note the pairing of decisions between 1 and 2. Results indicate that the combination of A and D was the most popular, with 73% of respondents choosing this combination. In stark contrast, the pair of B and C was chosen by only 3% of respondents. Keeping these results in mind, consider the final choice below:

Decision 3, either:

e. A 25% chance to win $240 and a 75% chance to lose $760, or
f. A 25% chance to win $250 and a 75% chance to lose $750.

It is clear to see that E is the preferable option, as it entails the opportunity for a larger win and a smaller loss. Accordingly, all participants (100%) chose option E. Interestingly, as one notices
after inspection, decision 3 is merely a repackaging of decisions 1 and 2. In fact, decision E is mathematically equivalent to the pairing of B and C, while decision F is the pairing of A and D. Curiously, however, when the same decision is framed in different manners, it receives different responses. While it is clear E is preferable to F, when viewed through the lens of “losses” and “gains,” participants ultimately chose the outcome that is unequivocally inferior. These experiments demonstrate the significant effect framing has on decision making.

Applied to the current research task, this finding of Prospect Theory is useful in that offers an explanation for why businesses might pursue CSR in spite of the fact that it may not be a profit-maximising choice. While “dominance” – a rule stating that if option X is at least as good as option Y in every respect, and better than option Y in at least one respect, X will be chosen - is an essential property of expected utility decision making, Prospect Theory holds that the effects of framing can cause decision makers to violate the axiom of dominance (Kahneman and Tversky, 1984). It therefore offers a plausible explanation for the behaviour of corporations: although the empirical record shows CSR may not be profitable in every circumstance, the effects of framing may be at work in causing businesses to invest in CSR even if it is not the “dominant” prospect.

Although Prospect Theory was developed by analyzing decision making at the individual level, organizational behaviour researchers have confirmed that the patterns of decision making put forward by Prospect Theory are also at play in the corporate world (Fiegenbaum and Thomas, 1984; Fiegenbaum, 1990). In addition, Prospect Theory has been used by political scientists to overcome the failures of other analytic frameworks and explain divergences from path-dependent behaviour (Weyland, 2008). This use of the theory demonstrates its applicability at the firm and group level, as well as the individual level. Its insights also have the potential to overcome the obstacle posed by the results of inconclusive CSR-CFP research. The proposition of this thesis is that CSR is a form of risk-averse behaviour undertaken by a corporate sector making decisions in an environment of consistent and substantial gains. The operational literature, corroborated by social licence articles, makes a persuasive case that acting with a view to social responsibility can make companies stronger and the political environment more
hospitable to business. Yet it was not the allure of profit that inclined managers to adopt a fairly radical change to their way of doing business, as the evidence of its bottom line profitability has not been proven. Rather, it was businesses’ own risk aversion that inclined them to adopt CSR. Given the immense growth and success of corporations by every measurable standard – profit, size, or political clout – just like those in decision 1, above, businesses were willing to steer some of their resources into social and community needs if it meant keeping the peace and securing their continued prosperity.

5.4: CSR as a Response to Uncertainty

CSR has always had its critics on the right who see wealth generation as the totality of corporations’ social obligations (Friedman, 1970). Yet, the most interesting expositions come from the left, those who appear to see through the veneer of CSR to the malicious agenda it hides. The 2006 report *What’s Wrong with Corporate Social Responsibility* by research group Corporate Watch is one fascinating version of this type of critique. They repudiate CSR as “a vehicle for companies to thwart attempts to control corporate power” (25) that “deflects blame for problems caused by corporate operations away from the company … while hampering efforts to tackle the root causes of social and environmental injustice” (i). They highlight the seeming hypocrisy in a number of multinationals’ CSR projects: BP’s takeover of solar power operators to greenwash its petroleum trade (an apt prediction, as BP would end its solar operations in 2011); Toyota’s development of the Prius to cover up its production of SUVs; and Shell’s social reporting project and code of conduct as a means to rebuild its image after a series of PR disasters. Then, in their most insightful moment, they reveal the true intent of CSR:

> If society’s primary approach to tackling major social and environmental problems is to enable the powerful interests that caused the problems to profit from their resolution, then the very intention of solving these problems is subsumed to the interest of profit.
> 
> (Corporate Watch, 2006: 15)

While their normative perspective on corporatism puts them among the outliers in the discussion, their report merely reiterates what has long been a component of the business case for CSR: less government intervention, less public criticism, more room to operate. Its vitriol aside, the report’s premise is entirely accurate. Proponents of enlightened self-interest have always
heralded it as a means to avoid regulation and gain autonomy (Eels, 1956). Ultimately, when Corporate Watch decries CSR as a “distraction from… a more fundamental reform of the corporate structure” it comes as no revelation (i). That is its intended purpose.

It is highly dubious that capitalism is indeed “under siege” as Porter and Kramer warn (2011: 64). By every conceivable measure, corporations have done and are doing well. Moreover, in the period during which CSR has come of age, the interests of the business community have found extremely cordial consideration. Though space precludes a complete treatment of this statement, there is every reason to believe the business sector is making decisions from a “frame of gains.”

5.5 Pivotal Moments in Firms’ Interest in CSR

There are two pivotal threshold moments in CSR’s history when firms’ interest in social responsibility accelerated: the birth of the modern movement in the early 1950s, and the beginning of CSR’s widespread adoption and practice in the 1990s. These moments deserve special attention as they represent what institutional scholars would call punctuated equilibriums – times when the established order was upset and a new method of behaviour emerged. Positive analyses of the CSR movement should be able to account for the timing of these two critical junctures, offering a plausible rationale for the change in business behaviour.

To begin, why would the modern discussion on the social responsibilities of corporations begin in the 1950s? The most curious aspect of this question, it seems, is why – if Clark, Heald, Spector, Porter and Kramer, and others are correct in their assertion that CSR is a response to attacks on capitalism – the movement would not have burst forth much earlier, particularly in the 1930s. For one, at no time before or since have corporations encountered such mobilised and virulent antagonism. The Roosevelt administration shared the conviction of the public that the business sector and its leaders were to blame for the stock market crash of October 1929 and the ensuing depression (Leuchtenburg, 1963: 35; Weiner, 1952: 724). The crisis reinforced the President’s pre-existing misgivings on corporate power, tellingly forewarned in a campaign speech for his first presidency in San Francisco on September 23, 1932:
Recently a careful study was made of the concentration of business in the United States. It showed that our economic life was dominated by some six hundred odd corporations who controlled two-thirds of American industry. Ten million small business men divided the other third. More striking still, it appeared that if the process of concentration goes on at the same rate, at the end of another century we shall have all American industry controlled by a dozen corporations, and run by perhaps a hundred men. Put plainly, we are steering a steady course toward economic oligarchy, if we are not there already.

Clearly, all this calls for a re-appraisal of values. A mere builder of more industrial plants, a creator of more railroad systems, an organizer of more corporations, is as likely to be a danger as a help. The day of the great promoter or the financial Titan, to whom we granted anything if only he would build, or develop, is over.

(found in Roosevelt, 1938: 751)

Furthermore, New Deal policies that attacked “high finance” and sought to redistribute wealth towards workers were directly harming the material interests of businesses, leading them to criticise the New Deal as a campaign of “reckless spending… [that] stifled private initiative and enterprise” (Weiner, 1952: 728). Capital stock taxes, surtaxes, and excess profit taxes were all raised to help offset the cost of new welfare programs, sowing deep resentment in the business community (Leuchtenburg, 1963: 154). Corporations also watched with dismay as wide-ranging labour legislation encouraged collective bargaining and imposed employment standards, including a maximum workweek and overtime provisions (Bernstein, 1985: 116 – 145). It was an environment of unparalleled hostility for corporate America, yet did not influence business leaders to consider shifting their attention away from their own interests to placate their critics.

Counter to the theories of those authors who portray CSR as a response to antagonism, the CSR movement commenced in a nearly-utopian business climate. Pre-tax domestic nonfinancial corporate profits (admittedly “a mouthful, but also seemingly a fair measure of the underlying health of business in America”) repeatedly topped 12% of national income in the 1950s and 1960s, a comparatively high benchmark against other decades (Fox, 2010). In the year Bowen (1953) published his seminal work on the social responsibilities of the businessman, the seasonally-adjusted unemployment rate averaged only 2.9% (Bureau of Labor Statistics, 2014). Corporations earned $23 billion in profit (FRED, 2014), a marked upswing from the pre-war level of $6.3 billion in 1939 (CEA, 1947: 49). Firms themselves were modernizing; rapidly
breaking down internal barriers as new managerial innovations effectively removed any inherent limits to their size or power (Galambos and Pratt, 1988: 158 – 171). Freedom from industry-specific market risk was achieved by diversifying product and service lines, unifying enterprises into larger conglomerates, and opening foreign subsidiaries to create large, multinational corporations. In 1960, 33 of the nation’s top 100 non-financial businesses operated in 10 or more industries – up from 7 in 1929 (Scott, 1985: 202). Meanwhile, challenges of organisational capacity were overcome through devolution and the creation of a burgeoning class of middle managers to handle operations in local markets (Galambos and Pratt, 1988: 158 – 171).

Domestic public policy was broadly accommodating to industry. The liberals in the Truman administration envisioned an “American capitalism… [with] virtually unlimited opportunities for growth” and were focused “not on re-slicing the economic pie but enlarging it” (Hamby, 1973: 300). Further, the President’s decisive actions to end the 1946 railroad strike, epitomised by a threat to draft into the armed forces all workers who refused his ultimatum to return to work, sent a clear message that the state would restrict those aims of unions that unduly harmed the conduct of business (Truman, 1946). Following further losses with the passage of right-to-work laws, in some states, and federal legislation diminishing collective bargaining powers offered under the New Deal, the labour movement reluctantly accepted that any opportunity they once had to restructure capitalism was now over (Carroll et al., 2012: 203-204). Moreover, firms were benefitting from an international order increasingly receptive to foreign direct investment and laissez-faire capitalism. American foreign policy was deliberately forging major and lasting links between capitalist states, exemplified by the headquartering of the International Monetary Fund and World Bank in Washington, D.C., facilitating the export of finance-capitalism to Europe and Asia (Panitch and Gindin, 2004). These linkages empowered corporations to set up plants, offices, and subsidiaries overseas, while at the same time opening new markets for their goods.

Times were good for the American corporation. Capitalism was by no means under threat – quite the contrary, it was in a golden age. In the period from 1955 to 1973, the unemployment rate averaged 4.8%, real GDP was growing at an average of 3.4% annually, and real per capita income was increasing at 2% per year (Cornwall and Cornwall, 2001: 22). The chart below,
reproduced from Heilbroner (1977, 210), illustrates the impressive wealth effect of the “post-war boom.” When the nominal GDP hit $1 trillion in 1971, it represented a doubling of the country’s real GNP per capita in a timespan of only forty years.

The internationalisation of trade was fuelling competitiveness, with intra-industry trade – an important signifier of productivity growth (Krugman, 1979) – skyrocketing. Campbell and Campbell (2001: 191) note that intra-industry trade accounted for “over 80 per cent of the increase in trade between 1959 and 1967 . . . [which] permitted the exploitation of economies of scale, and … especially encouraged the adoption of both product and process innovations.” These economies of scale enabled, and were a sign of, the continuing integration of American and European markets. Responding to the potential for growth this represented, businesspeople utilised an extensive international network of capital to concentrate markets into gargantuan multinational firms (Scott, 1985: 209 – 210). Public policy continued to favour liberalisation and
trade, as the figure below reveals (Pomfret, 2011: 97). The illustration, a representation of the average U.S. tariff rate, reflects a trend of accumulated policy choices that have opened markets and thereby allowed business to prosper.

Suggestions that business or capitalism was under threat are refuted by a consensus to the contrary, that in fact, business has been doing quite well since the emergence of the modern CSR movement.

This trend did not end suddenly to coincide with the second significant genesis moment in CSR’s history when, in the 1990s, its practical adoption began en masse. It is true that the economy faced significant challenges in the 1970s and early 1980s. Stagflation coupled with a “tidal wave of regulation” (Sicilia, 2004: 202) put a strain on the optimism and viability of many businesses. Yet this slump in the business cycle was not accompanied by an abandonment of capitalism or free trade policies but followed rather by “a deepening, acceleration and extension of capitalist globalization” (Panitch and Gindin, 2004: 14). The Reagan administration moved quickly to drop taxes and eliminate government involvement in the markets, such that many major industry players – such as the airlines, telecommunications firms, and financial institutions – saw nearly complete deregulation (Galambos and Pratt, 1988: 241-45). Carroll et al. note how the forces of technological innovation, communications, and globalisation intertwined in the years following the fall of the Soviet Union to build a “new global economy… around the primacy of markets”
wherein “American-style capitalism was touted around the world as the archetype of growth and expansion” (2012: 338-340).

Accompanying the success of the neoliberal agenda has been the precipitous decline of organised labour, which has augmented the relative power of corporations. Unions have been losing members since the 1950s, with increasingly steep losses since the Reagan era – and, as if to rub salt in the wound of a defeated labour movement, the consequence of a freer and more competitive labour market is that, according to Galambos and Pratt, “the firm, not the union, has become the central focus of the worker’s group loyalty” (1988: 237). Perhaps not unsurprisingly, the diminished power of organised labour offered the corporate sector a generous bequest. Ellis and Smith (2007) record a number of figures suggesting corporations have done exceedingly well over the past decades at the expense of other groups. The share of income going to profits, or the return to capital, has been “particularly” and “unusually” high in nearly all western economies since the 1980s. This has come at the cost of workers, whose wage share is unusually low due to the active exertion of corporations’ market leverage to bargain wages down. In other words, not only are corporations doing exceedingly well in absolute terms, but are also doing well relative to other civil society actors.

The final chart, below, depicts and is an accurate encompassment of the health of the private sector since the birth of the CSR movement. Data from the U.S. Federal Reserve (FRED, 2014) is used to graph nominal corporate after-tax profits from 1947 to present. The trend suggests corporations have seen consistent and increasing gains since the mid-20th century when the CSR movement emerged, and particularly since the 1990s when CSR began mainstreaming into business practice. As a comparative rubric, corporations’ after-tax profits are charted against a computer-generated exponential trendline. Recall, from chapter 2, that an observational account of the CSR movement led to the following reflections: that the practice of CSR has increased over time, and that the rate of increase is itself increasing. Of course, this type of pattern is represented mathematically by an exponential line. While it is important to remember that these chapter 2 observations on the state of the CSR movement are posited rather than being strictly empirical or empirically proven beyond any reasonable doubt, it does lend credence to the
hypothesis that the growth and gains of the corporate sector have a relationship with the growth of the CSR movement.

Viewed through the insights of Prospect Theory, the observation that business has good reason to be in a “frame of gains” has significant implications for a positive interpretation of the CSR movement. Prospect Theory advances the notion that decision makers in a “frame of gains” will be risk-averse, preferring certain gains to riskier, even higher-yielding alternatives. It is the view of this thesis that CSR is exactly that – a form of risk-averse behaviour from a very well-positioned corporate sector. Political motives are, without question, embedded in the CSR investment decision (Neiheisel, 1994; Sicilia, 2004). But the driver of CSR is not the result of attacks on the business community – it is the very success of corporations themselves that inclines them to social responsibility. As Weyland explains, “when facing positive prospects, people tend to proceed with caution. They pursue gains with prudence and, due to loss aversion, refuse to incur risks for this purpose” (2008: 287). Viewing CSR as precisely this type of behaviour makes sense of an otherwise puzzling movement.
Promisingly, there exists some empirical evidence to indicate that what this perspective posits is indeed the case. While there is obviously a plethora of studies from which to choose, a number of sophisticated articles have flipped the typical CSR-CFP investigation on its head, and are instead investigating whether financial performance leads to social responsibility, rather than the other way around. Notably, McGuire et al. (1988), Waddock and Graves (1997), Margolis and Walsh (2003), Orlitzky et al. (2003), Margolis et al. (2007), and Margolis and Elfenbein (2008) all find evidence that corporate financial performance, as a dependent variable, is positively and/or causally related to corporate social responsibility. The implication, of course, is that financial success – which theoretically puts decision makers in a frame of “gains” – inclines companies to engage in CSR. While by no means vindication of this thesis’ proposal, it is at least an encouraging affirmation.

Moreover, these studies are further evidence that decision makers are not merely exhibiting a rational aversion to risk. It has always been held that rational decision makers will exhibit risk aversion (Bernoulli 1738/1954). A typical utility function is presented as concave; a twice-differentiable function of wealth U(w) defined for w > 0 such that U’(w) > 0 and U”(w) < 0 (see Norstad 1999 for an introduction). As such, rational risk aversion, found in the second derivative, is a consequence of the diminishing marginal utility of wealth. This suggests, however, that risk aversion diminishes as the absolute level of wealth rises. The graph below demonstrates the phenomenon by illustrating how a decision of equal absolute consequence would be treated by two firms in different financial circumstances. As the graph illustrates, as a firm gets larger, its level of risk aversion diminishes.

![Graph showing diminishing risk aversion with increasing absolute wealth](graph.png)
This finding stands opposed to the record of the CSR movement as it has been observed. Not only do the empirical studies above indicate that interest in CSR increases, rather than diminishes, as a firms become more successful, but the theoretical literature is consistent in portraying CSR as an activity that firms pursue after the more fundamental challenge of adequate profit has been addressed (Tuzzolino and Armandi, 1981; Carroll, 1991). Prospect Theory, on the other hand, which holds that decision makers have a status quo reference point in mind rather than a level of absolute wealth, does not encounter this dilemma. Therefore, while not discounting the fact that some companies may opt to invest in CSR for purposes of risk mitigation, in line with recommendations of the operational literature (Zadek, 2000), it remains the case that the use Prospect Theory allows for a fuller and more compelling account of the CSR movement than rational choice alone.

5.6: Conclusion

A strictly rational explanation for the CSR movement is clearly not tenable. Not only is the debate over the profitability of CSR currently unsettled, but the movement proceeded for decades while lacking this evidence. This dilemma desperately calls for an answer to account for corporations’ investments into CSR that could overcome an unproven business case. Prospect Theory provides that answer, asserting that decision makers in a “frame of gains” tend to be risk-averse. Since the 1950s when the modern CSR movement began, and especially since it began being practiced extensively in the 1990s, there is every reason to believe businesses have been making decisions from a “frame of gains.” CSR is therefore a form of risk-averse behaviour – corporations are willingly deciding to be more socially responsible because it is more valuable to them to realise more certain, if potentially smaller profits than run the risk of losing their advantageous position by acting irresponsibly. This holds both at a macro-level when Prospect Theory is applied to corporate sector as a whole (as Weyland (2008) confirms it can be done), and at the level of the firm, where empirical evidence suggests that financial performance often leads to increased levels of social responsibility. In terms of the supply-demand model this thesis develops, such a finding would presumably be incorporated as a modification to the supply side – a note that, as corporations evaluate their willingness to respond to demands for social
responsibility, an overarching “frame of gains” inclines business leaders to be risk-averse, leading them to invest in CSR even if it is not proven to be a profit-maximising decision.
Chapter 6: Conclusion

6.1: Introduction

To reiterate, the overarching purpose of this thesis has been to explain the emergence and evolution of the CSR movement in the corporate sector. The central research task has been to explain what accounts for the emergence of the movement, and particularly the growing application of its principles in the corporate sector despite what might be described as mixed results or contradictory evidence on its financial benefits for firms. The analysis has been informed by public choice theory. The objective in this concluding chapter is to recount the major findings of the thesis, reflect on the significance of those findings, and suggest potential directions for further research.

6.2: Summary of Major Findings

This thesis has revealed that over the course of more than a century, corporate social responsibility has evolved from a limited preoccupation of a few socially progressive corporate tycoons to a ubiquitous presence in contemporary management. It has also revealed that CSR has been a movement that emerged and has been developed largely from within the business community itself, notwithstanding the fact that some of the impetus and support for it has been provided by forces and interests outside the corporate sector. Finally, it reveals that the influence and application of CSR in the corporate sector has increased over time at an increasing rate, to the point where, today, CSR has a massive presence in the boardroom and in the marketplace.

From a social science perspective, the widespread popularity of CSR is quite remarkable. For one, the notion that managers adhere to the interests of non-shareholders is, in itself, controversial. Even more interesting is the recognition that CSR represents a divergence from the conventional practice and understanding of business as enterprises built solely to realise profits for their owners with little consideration or concern for their effects on communities and economies. The overview of the literature on this particular issue reveals that businesses are defying the logic of profit-maximisation and narrowly economically based rational choice and
pursuing CSR without a business case that proves such investments are beneficial to the bottom line.

With an observational account of the movement in place, it was possible to begin constructing an explanation to account for the movement. To do so, it was necessary to construct a conceptualisation of CSR with static and dynamic applicability – one robust enough to explain why businesses invest in CSR at a set point in time, and one that can be applied forwards and backwards to account for the state of the CSR movement at different stages in its history. It also requires a conceptualisation that encompasses both macro and micro levels of analysis – for while the movement takes place at a macro level, the decision to invest in CSR is made at the firm level, making both components essential.

Chapters 3 and 4 provided an explanation of the emergence and expansion of the practice of CSR rooted in economic concepts of demand-side pressure and supply-side response. Chapter 3 explained the emergence and expansion of the practice of CSR as a function of demand-side pressures that incentivise businesses to act in socially responsible ways. As it was beyond the scope of the thesis to track every potential source and effect of demand-side pressure, the conceptualisation of the demand side has been constructed with purposive litheness such that other factors that have incentivized firms to be more socially responsible, but which have not received attention in the chapter, could be incorporated into it. Without claiming to be an in-depth analysis, the chapter provided a number of examples to make the concept of demand-side pressure clearer. A number of stakeholder groups were discussed, including consumers, investors, and managers themselves, along with how shifts in their preferences have corresponded to pressures on business to act in more socially responsible ways. Chapter 4 added a supply-side explanation related to the willingness and ability of corporations to respond to incentives and provide the socially responsible goods and services that consumers, investors, and other civil society actors desire. The chapter posited that the key supply-side factor was the development of operational literature that instructed corporations on how and why, in business rather than normative terms, to engage in CSR. As the business case for CSR improved, firms were better able to justify the allocation of resources to CSR initiatives.
Chapter 5 suggested that while the demand-side and supply-side explanations offered in the previous two chapters constitute a significant step forward in understanding the factors that have driven the CSR movement within the corporate sector, the explanation remained somewhat incomplete without modification.

Chapter 5 underscored the difficulty arising from researchers’ inability to conclusively determine the relationship between CSR and financial performance. When writers suggest CSR exists because it is good for business, this logic reaffirms the notion of corporations as profit-maximisers in line with rational choice theory. However, the inability of empirical tests to prove CSR’s profitability presents a major setback to a purely rational interpretation of the movement. Accordingly, Chapter 5 modifies the thesis’s supply-and-demand framework to recognise that decision makers are not perfectly rational. In an attempt to provide a more complete explanation that takes this into account, and to overcome the quandary posed by inconclusive empirical results on the CSR-financial performance question, Prospect Theory is invoked. Of particular importance is the finding that agents in a “frame of gains” tend to be risk-averse, preferring alternatives that offer certainty even if they have a lower expected value than risker yet higher-yielding options. Influenced by the insights of Prospect Theory, Chapter 5 makes the case that there is strong reason to believe that businesses are making decisions from a “frame of gains” and have benefitted from a broadly hospitable economic and institutional environment since the dawn of the CSR movement. It reinforces this point by noting that at the two critical “threshold” junctures in CSR’s history, the birth of the CSR movement and the beginning of its widespread practical uptake, the business community was doing particularly well. Lastly, it points to empirical studies that indicate financial performance is the precursor to social responsibility, rather than the other way around. This is firm-level evidence that the “frame of gains” may indeed be at play in decisions of corporate leaders to institute CSR as part of the corporate operating strategy.

Taken as a whole, this thesis hypothesises that firms encounter a variety of demands for socially responsible behaviour, to which they respond based on the business case for doing so. However, it adds that as corporations evaluate the business case for investing in CSR, they tend to be risk-
averse and therefore more willing to undertake socially responsible projects to safeguard their companies’ profits and the hospitable environment in which they operate. These components of the model, of course, interact with each other. As the demand for responsible behaviour has grown with time, so has the business case for investing in CSR – and insofar as this has allowed corporations to become more successful, so too does the “frame of gains” perpetuate itself in the corporate world. Taken together, the dimensions of the new model are an improvement over a strict rational choice explanation for the CSR movement, allowing for a fuller and more compelling account of its emergence and existence.

6.3: Significance of the Research Findings

This thesis makes a contribution to the literature devoted to explaining the emergence and evolution of both the principles and practice of corporate social responsibility. The findings of the thesis are significant both at the theoretical and empirical levels. At the theoretical level, the thesis builds on extant theory regarding the factors that account for decisions by firms to invest in CSR. In particular, it makes a contribution at the theoretical level by supplementing rational choice theory with prospect theory in order to provide a fuller explanation of why firms either adopt or do not adopt CSR into their operations.

The thesis also makes a contribution at the empirical level by bringing together the evidence in the extant literature regarding the extent to which CSR increases the profits of firms. The empirical evidence suggests that businesses, policy makers, and all stakeholders should pay careful attention to how the business case for CSR impacts firms’ interest in it, and more specifically, the important role that risk and uncertainty play in the CSR question. Managers, in particular, will want to consider if their CSR decisions are being motivated by the effects of framing and risk to ensure their level of CSR investment matches the true risk preferences of their principals. Similarly, if CSR investment is an outcome desired by policy makers or others, they should contemplate the efficacy of punitive measures such as regulations that might remove corporations from a “frame of gains.”
Notwithstanding those contributions to the literature on CSR, it is important to note that this thesis does not provide definitive evidence that corporate social responsibility is the type of behaviour herein described; nor does it settle the question on the desirability of CSR for corporations or society at large. What it offers is insight as to what may be motivating corporations’ engagement in social responsibility.

6.4 Recommendations for Further Research Related to CSR

This thesis does not claim to do more than take the first step in proposing a new, or at least a fuller, explanation for the emergence and existence of the CSR movement. Each component of the explanation should be verified with further research, with elaboration on the constituent pieces of each. For example, it would benefit the discussion to have a fuller look at demand-side pressures and, as one illustration, examine the exact impact that consumers’ interest in climate change has had on companies’ green records. Each potential demand-side pressure could be so investigated. Similarly, on the supply side, it would be interesting to create an exhaustive documentation of developments in the operational literature and pair them with instances that companies have opted to follow the literature’s recommendations. This thesis does explore both demand and supply components, with examples of each, and at the level of correlation argues that these factors have relevance to the CSR movement. The obvious difficulty is that the business case for particular CSR decisions is specific to each investment, so this work would need to be done through fairly individual firm-level case studies. It would therefore be a long road to establishing causation, though such a finding would, of course, be enlightening.

As it is, CSR remains a dominant paradigm of contemporary management, even with the lingering question of its profitability outstanding. While it may, someday, be the good fortune of managers to discover the answer to this question, it remains the case that generations of businesspeople have taken up the cause of CSR without it. It is hoped that this thesis contributes to explaining and understanding why corporate social responsibility has and continues to be at the forefront of the business agenda, and will foster interest in further research related to this interesting and important phenomenon.


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