

CHAPTER 4

**THE BUSINESS
CASE FOR
CORPORATE
SOCIAL
RESPONSIBILITY**

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The old thinking was that if you make money you can do this positive social and environmental stuff—but I think the true philosophy of sustainability is the interdependence. It's not about charity; it's about the fact that if you do the right things in the community, the community will do the right things for you. If you do the right things for the environment, you'll have a stronger business so that you can make more money. It's not about sort of a condescending view... I don't know if that's subtle or if people don't get it, but it's very important. It's about interdependence rather than balance. It's about mutual dependence or interdependence, rather than charity. It's fundamental.

(Manufacturing Executive, 2005).

IN business practitioner terms, a ‘business case’ is a pitch for investment in a project or initiative that promises to yield a suitably significant return to justify the expenditure. In what has become known as the ‘business case for Corporate Social Responsibility (CSR)’ the pitch is that a company can ‘do well by doing good’: that is, can perform better financially by attending not only to its core business operations, but also to its responsibilities toward creating a better society. A long tradition of scholars have examined this proposition, both theoretically (Carroll, 1979; Swanson, 1995, 1999; Wood, 1991), and empirically (Cochran and Wood, 1984; Graves and Waddock, 1994; Mattingly and Berman, 2006; Russo and Fouts, 1997), primarily with a focus on conceptualizing, specifying, and testing some relationship between corporate social performance (CSP) and corporate financial performance (CFP). The results are decidedly mixed: a firm that dedicates resources to fulfilling what are perceived to be its social responsibilities will financially perform either better, worse, or the same as it might have done otherwise, depending on which studies we line up and consult.

In a meta-analysis of CSP–CFP studies correcting for sampling error and measurement error, Orlitzky *et al.* (2003) found support for a generally positive relationship between CSP and CSF across industries and study contexts, and Preston and O’Bannon (1997) found evidence that positive financial performance either lagged or occurred synergistically with positive social performance. At the level of the individual firm, however, the question persists for both academics and practicing managers: is there a generalizable ‘business case’ for CSR, and if so, what are its dimensions?

The purpose of this chapter is to provide a general summary of the key value propositions evident in the research on the business case for CSR, described as four general ‘types’ of the business case, or four modes of value creation. We will then present a critique of these approaches (including identifying some problems inherent in the construct of CSR itself) and offer some principles for constructing a ‘better’ business case. Our intent is not to conduct a thorough review of studies analysing the relationship between CSR and financial performance, as that has been well done elsewhere (Griffin and Mohon, 1997; Orlitzky *et al.*, 2003; Vogel, 2005). Rather we seek to unearth assumptions underlying dominant approaches in an effort to build a more robust business case for CSR that can move beyond existing limitations.

We take the view that managing a business enterprise is an increasingly complex task in an era of globalized trade and competition, exponentially faster information flow, highly fluid capital markets, and greater interconnectedness among civil society groups. Factors bearing upon the successful operation of a business are multiple, often non-linear and stochastic (and therefore largely unpredictable), and inextricably entwined with the needs of a global society—as described by the executive business practitioner in the opening quote from recent research. If ever the separation of business concerns from those of society generally was real and

justified—and we concur with those who contend that it is, and has always been, a false distinction—such a separation is now not only conceptually invalid, but is pragmatically untenable. Principles for constructing a better ‘business case’ for CSR must reflect the changing conditions for business at a global level.

This chapter is structured as follows: first we will draw on existing reviews and models to construct an overview of four general types of business case for CSR, where each type rests on a broad value proposition for corporate social responsiveness and performance; the four are: *cost and risk reduction*, *competitive advantage*, *reputation and legitimacy*, and *synergistic value creation*, focused on creating value on multiple fronts simultaneously. Here we attempt to organize much of the literature under these four value creation categories. Next we outline some underlying characteristics and basic assumptions of each general type of CSR business case. Third, we consider key critiques of the business case as highlighted in the broader CSR literature. Finally, we offer ideas toward addressing these limitations, toward building more compelling business cases for contemporary organizations operating in a complex global environment.

FOUR GENERAL TYPES OF THE BUSINESS CASE FOR CSR

While there have been numerous reviews of the business case for CSR (Haigh and Jones, 2006; Margolis and Walsh, 2001; Salzmänn *et al.*, 2005; Smith, 2003; Vogel, 2005), most are focused on organizing and evaluating the evidence for establishing a link between corporate social responsibility and financial performance (Griffin and Mohon, 1997; Orlitzky *et al.*, 2003; Roman *et al.*, 1999). Over 120 studies have examined this link over the past 30 years with mixed results (Margolis and Walsh, 2003), which has left some scholars in the field of CSR to question whether there is really any clear market motivation for firms to engage in socially responsible behaviour (Vogel, 2005). It would appear then that in the real world of strategic management a solid business case cannot be built by depending solely on locating an irrefutably established causal connection between CSP and financial performance.

Given these diverse reviews, this chapter will take a different approach. Although this mixed evidence might suggest that there is no a priori reason to develop a business case for CSR, there are growing calls for business to adopt a wider range of social and environmental responsibilities—from business associations such as the World Business Council for Sustainable Development and Business for Social Responsibility (Smith, 2003) and from governments and business leaders (Wheeler and Grayson, 2001). As the economic, political, and social power of business has grown relative to other societal institutions (governments, organized religion, for

example), some argue that corporate social responsibility has expanded to the provision of the kind of services that used to be offered by governments and community organizations (Perrow, 2002; Solomon, 1997), including the function of guarding and enabling citizens' rights (Crane *et al.*, 2004; Matten *et al.*, 2003).

So here we have an apparent paradox: critics of business—and global business leaders themselves—are calling for an increased role for business in social and environmental affairs, yet there is mixed evidence of a positive 'business case' for CSR. Perhaps that is because most business cases seek justification on purely economic grounds. We support those who have argued that some kind of business case *must* be made in order to call attention and garner support from the business sector (Joyner and Payne, 2002; Schmidt Albinger and Freeman, 2000), but we suggest that the case to be made is qualitatively different from the one that currently dominates the literature.

A necessary step towards advancing a robust business case for CSR is a close exploration of the fundamental underlying assumptions of dominant approaches, so that we can move beyond the stalemate between economic or ethical models of CSR (Driver, 2006; Matten *et al.*, 2003), and build a more 'nuanced' business case for virtue (Vogel, 2005). While there is no universal definition of CSR (Carroll, 1999; Driver, 2006; Garriga and Melé, 2004; Smith, 2003; Van Marrewijk, 2003) this in itself is not problematic; like CSR, 'sustainability' has often been referred to as a 'contested concept' (Jacobs, 1999) and in this field of alternate meanings lies opportunity for forward-thinking businesses that adopt this frame (Colbert *et al.*, forthcoming 2008; Hart, 2005). We suggest that what is needed is a set of questions for unearthing the underlying assumptions of the various approaches in order to build a *better* (more robust, multidimensional, more compelling) business case for CSR, in order to address the growing need for business to become engaged in creating value on multiple fronts. In so doing we add to the call for the development of more integrative models of CSR (Driver, 2006; Swanson, 1995, 1999; Freeman, 2000), and make advances in that direction by offering a set of criteria that will begin to enable a move beyond economic and ethical conceptions of the business case through a focus on modes of value creation and the various dimensions that underlie this construct.

This section presents findings from our review of the literature focusing on the business case for CSR, which we have organized as four general types of business cases, each embodying a proposition for value creation: *cost and risk reduction*, *profit maximization and competitive advantage*, *reputation and legitimacy*, and *synergistic value creation*. As with other classification schemes, there may be disagreement on the placement of a topic under one category or another, but we hold with Bowie and Dunfee (2002) who emphasized the pragmatic usefulness of offering a classification scheme over an ad hoc approach. We do not present these as mutually exclusive categories—a firm may be involved in all four at once through a variety of policies and initiatives—but in our review of the business case for CSR literature,

we identified these as predominant themes emphasized across the field of theories and studies.

In the following sections we describe these four general types of CSR business cases in terms of the *focus of the approach*, the *topics* of empirical studies and theory papers that characterize the type, as well as by the underlying assumptions about *how value is created and defined* in each domain.

Cost and Risk Reduction: Optimization Subject to Constraints

The focus of this approach is that the firm chooses to engage, or not, in CSR related activities in order to reduce costs and risks to the firm. A number of areas of inquiry typify this general approach to building a business case for CSR, including: the *trade-off hypothesis*, the *available funds hypothesis* or *slack resources theory*, and *enlightened value maximization*. Each of these hypotheses can be seen as embodying a view of value creation as some form of *trading* interests among social, environmental, and economic concerns.

The trade-off hypothesis, which most explicitly displays this view of value creation, was polemically defined by Milton Friedman (1962, 1970), who made a clear distinction between what he considered to be the real obligations of corporate executives: to work solely in the interests of the firm's owners, customers, and employees, and to eschew any urge toward diverting funds to improving the general social good, which he deemed 'taxation without representation'—grounds for another revolution. His succinct libertarian view set a firm dichotomy in the debate between fulfilling fiduciary duties and social responsibility, and established a benchmark statement on the negative trade-off view of CSR and costs to the firm: by increasing social performance for reasons of managerial whimsy, firms incur unnecessary costs and reduce their profitability—a view supported in a few subsequent studies in CSR (Kedia and Kuntz, 1981; Lerner and Fryxell, 1988). Some studies under this approach have identified an inverted U relationship which suggests that there is an optimal level of environmental and social performance, beyond which the corporation is incurring unnecessary costs and reductions in profitability (Salzmann *et al.*, 2005; Lankoski, 2000). The available funds hypothesis or slack resources theory (Waddock and Graves, 1997a), also assumes a trade-off view of CSR and financial performance by suggesting that when organizations are enjoying superior financial performance, or have slack resources, they are able to dedicate additional resources to CSR activities. The implication in this approach is that firms perceive CSR as an additional cost and thus can only afford to pursue these activities when they are not in a situation where they need to minimize costs. In terms of Carroll's characterization (1979, 1991) of four categories of responsibilities (economic, legal, ethical, and discretionary or philanthropic), the slack resources theory addresses primarily the discretionary responsibilities.

A focus on enlightened value maximization (Jensen, 2002) implies that long-term corporate value maximization occurs through the appropriate management of trade-offs between stakeholders. Managerial decision trade-offs are driven by the 'agency solution', that is, the alignment of managerial interests with those of company owners through executive compensation weighted with stock options. High incentive plans can lead to the managerial opportunism hypothesis (Aklhafaji, 1989; Posner and Schmidt, 1992; Preston and O'Bannon, 1997), which identifies the potential for executives to reduce social and environmental spending, even when funds are available, in order to maximize personal compensation linked to short-term financial performance. Instrumental stakeholder management (Berman *et al.*, 1999; Donaldson and Preston, 1995; Quinn and Jones, 1995) describes how the firm is affected by stakeholder relations with a view to risk and cost reduction through trading off stakeholder concerns in the firm's decision-making process. Firms view stakeholders as part of the environment to be managed, rather than as driving corporate strategic decisions (Berman *et al.*, 1999), and attention to stakeholder concerns helps to reduce corporate risk by avoiding decisions that will push stakeholders to oppose the organization's objectives (Bowie and Dunfee, 2002). Establishing trusting relationships with key stakeholders is seen from this perspective as having the potential to significantly lower costs of the firm (Barney and Hansen, 1994; Hill, 1995; Jones, 1995; Wicks *et al.*, 1999; Godfrey, 2005). A focus on developing CSR standards and auditing CSR practices is a focus of the risk management approach aimed at building confidence among stakeholders (Story and Price, 2006; Kok *et al.*, 2001); research that presents a 'trading' managerial view positions CSR as separate from and secondary to economic performance (Adams, 2002) and strategic management (Dick-Forde, 2005). How organizations respond to expressions of morality in markets is influenced by a desire to avoid consumer boycotts, liability suits, increased labour costs, and short-term losses in market capitalization (Bowie and Dunfee, 2002).

Under a cost and risk reduction perspective of the CSR business case, the primary view is that the demands of stakeholders present potential threats to the viability of the organization, and that corporate economic interests are served by mitigating those threats through a threshold level of social or environmental performance.

Competitive Advantage: Adapting and Leveraging Opportunities

In this general case, CSR initiatives are conceived strategically as conferring competitive advantage on the firm over industry rivals. A number of topics relate to this area of focus, including: the *supply and demand theory* of the firm, *base of*

the pyramid approaches, a *natural resource-based view* of the firm, and *including stakeholders for competitive advantage*. What is common to these perspectives is the characterization of value creation occurring through the firm *adapting* to its external context in order to optimize the organization's competitive advantage in its respective industry.

The supply and demand theory of corporate CSR (McWilliams and Siegel, 2001; Anderson and Frankle, 1980; Aupperle *et al.*, 1985; Freedman and Jaggi, 1982) takes an adaptation perspective toward the external environment by suggesting that firms will supply only the level of environmental and social performance that is demanded of them, with a view to profit maximization. Base of the pyramid approaches (Hart and Christensen, 2002; Prahalad, 2004; Prahalad and Hammond, 2002; Prahalad and Hart, 2002) examine how multinational firms might adapt to global drivers for change, such as population growth and poverty, in order to capitalize on the 'fortune at the bottom of the pyramid' (Prahalad and Hart, 2002). Similarly, adaptations of the traditional resource-based view of strategic management (Barney, 1991) are the 'natural resource based view' (Hart, 1995), natural capitalism (Lovins *et al.*, 1999) and the sustainable value framework (Hart, 1997; Hart and Milstein, 1999, 2003) that challenge managers to adapt to global drivers of change using an appropriate set of 'sustainability lenses' that allow a firm to segment shareholder value creation strategies. Also in line with the resource-based view, social and ethical resources and capabilities (Harrison and St John, 1996; Hillman and Keim, 2001; Litz, 1996; Petrick and Quinn, 2001) are conceived in this approach as internal organizational resources that build competitive advantage by enabling a strategic adaptation to the external environment. Approaches advocating stakeholder inclusion in strategy-making (Hart and Sharma, 2004; Mitchell *et al.*, 1997; Ogden and Watson, 1999; Wheeler and Sillanpää, 1998) also take an adaptation perspective toward creation of investor value. Competitive strategic positioning is the focus of Porter and Van der Linde's (1995) view of CSR as a competitive driver to be resourced by the firm. Social investments in a competitive context (Porter and Kramer, 1999, 2002) or strategic philanthropy (Bruch and Walter, 2005; Smith, 1994) also fall under this approach where firms elect to engage in philanthropic efforts that are supported by the core competencies of their organization, adapting to stakeholder expectations in order to generate sustainable performance with regard to stakeholder needs and their own competitive advantage.

In sum, *adaptive* approaches to building a business case for CSR focus on building firm competitive advantage through strategically orienting and directing resources toward the perceived demands of stakeholders. Stakeholder demands are viewed less as constraints on the organization, and more as opportunities to be leveraged for the benefit of the firm.

Reputation and Legitimacy: Building a Responsible Brand

The business case built in this domain is focused on exploiting CSR activities in order to build value through gains in firm reputation and legitimacy. Frames of inquiry associated with this view include: *licence to operate*, *social impact hypothesis*, *cause-related marketing*, and *socially responsible investing*. These approaches are characterized by a focus on value creation by leveraging gains in reputation and legitimacy made through *aligning* stakeholder interests.

Licence to operate concepts can be linked to Davis's (1973) 'iron law of responsibility' with the idea that a business organization is a social entity that must exercise responsible use of its power, or risk having it revoked, and thereby lose control over its own decision making and external interactions (Sethi, 1979). Social impact hypothesis (Cornell and Shapiro, 1987; Pava and Krausz, 1996; Preston and O'Bannon, 1997) focuses on the importance of alignment by suggesting that failure to meet stakeholder needs has a negative impact on firm reputation and thus suggests that the costs of CSR activities are much less than the potential benefits. Other studies focus on the positive link between a firm's corporate social performance and reputation (Fombrun and Shanley, 1990; Turban and Greening, 1997). Social cause-related marketing (Drumwright, 1996; Varadarajan and Menon, 1988; Murray and Montanari, 1986) highlights the alignment of stakeholder and firm interests by linking corporate philanthropy and marketing, showcasing socially and environmentally responsible behavior of the firm in order to generate reputational gains. Studies on ethical purchasing behavior and green consumerism (Crane, 2001; Frankel, 1998; Peattie, 1998), an extension of consumer sovereignty arguments that have been employed to model citizenry behaviour in political markets (Haigh and Jones, 2006; Jones, 1995), consider how a strong product brand or reputation acts as a marketing differentiation strategy for firms that can impact financial performance through enhancing reputation (Smith, 1990; Bhattacharya and Sen, 2004; Brown and Dacin, 1997; Sen and Bhattacharya, 2001).

Socially responsible investing (Barnett and Salomon, 2003; Domini, 2001; Kinder *et al.*, 1993) and ethical investing (Mackenzie and Lewis, 1999) emphasize an alignment between a potential investor's ethics and expectations of corporate social performance, suggesting a relationship with reputation and market value. Studies on the attractiveness of corporations as prospective employers (Schmidt Albinger and Freeman, 2000; Waddock *et al.*, 2002; Riordan *et al.*, 1997; Turban and Greening, 1997; Stigler, 1962) emphasize the alignment between a firm's reputation in the area of CSR and its ability to attract talent. Reputation and legitimacy is also the focus of intrinsic stakeholder approaches (Calton and Lad, 1995; Jones, 1995) that compare the approach a firm uses to interact with one stakeholder group, and its effects on stakeholder groups' perceptions. Isomorphic pressure for social responsibility is explored for its role in motivating CSR where an organization might gain first mover advantage and reap the rewards of reputational gains with

dominant stakeholders (Bansal and Roth, 2000) or within industry-specific CSR initiatives (King and Lenox, 2000). The potential performance benefits granted through enhanced legitimation from corporate CSR disclosures (Gelb and Strawser, 2001; King and Lenox, 2001) is another area of inquiry in this general type of business case for CSR. Supply chain pressures on firms to seek social or environmental certification in order to support their legitimacy (Cashore, 2002) is another topic area that supports a business case for CSR through concerns with impact on firm reputation.

In summary, these topics and studies, organized under an *aligning* perspective, focus on building competitive advantage by enhancing the reputation and legitimacy of the organization through firm CSR initiatives.

Synergistic Value Creation: Seeking Win-Win-Win Outcomes

The focal point of this approach is in finding win-win-win outcomes by seeking out and connecting stakeholder interests, and creating pluralistic definitions of value for multiple stakeholders simultaneously. Topics gathered under this approach to the business case include: *positive synergy* or '*virtuous circle*', *sustainable local enterprise networks*, *value-based networks*, and *societal learning*. A focus underlying these approaches is the view that creating connections between stakeholders by *relating* common interests will open up heretofore unseen opportunities for multi-point value creation.

Positive synergy or the '*virtuous*' circle' approach (Pava and Krausz, 1996; Preston and O'Bannon, 1997; Stanwick and Stanwick, 1998; Waddock and Graves, 1997b) highlights positive gains generated through combining slack resources and good management. The sustainable local enterprise networks (Wheeler *et al.*, 2005) model emerged from examining 50 case studies of successful and self-reliant sustainable enterprise-based activities in developing countries, resulting in virtuous cycles of reinvestment in human, social, financial, and ecological capital. The value-based networks conception (Wheeler *et al.*, 2003) describes how communities and social networks united by a sense of what is valuable create new opportunities for mutual gain. The concept of the triple bottom line of sustainability (Elkington, 1998) emphasizes synergies that can emerge for organizations, environment, and societies through integrating efforts across these domains.

Societal learning is defined as articulating new paradigms that can alter the perspectives, goals, and behaviours of social systems larger than particular organizations (Brown and Ashman, 1998). Of the three types of learning—single, double, and triple loop (Argyris and Schon, 1978)—societal learning deals with triple-loop learning (rethinking the rules of the business and society relationship), although it often is stymied at double-loop learning (reflection on how to play the current game better) (Waddell, 2002).

In summary, approaches advocating synergistic value creation are focused on seeking opportunities to unearth, relate, and synthesize the interests of a diverse set of stakeholders, broadly conceived. Because many of these emerging ideas fall outside of traditional business models, they are the least represented in our framework of value creation approaches.

Summary of Section: Four General Types of the Business Case

The business case for CSR is conceived under a wide range of topical and theoretical approaches. We have offered a typology of the chief approaches according to the basic value proposition embodied in each.

There are subtle but distinct differences between some approaches we have categorized under one type of business case or another. For example, one could argue for *base of the pyramid* (BoP) approaches to be situated under a *synergistic value creation* instead of *competitive advantage* view. Our rationale is that BoP advocates typically exhort multinational corporations (MNCs), primarily situated in more developed nations, to enter less developed geographies and find business opportunity by alleviating social problems, but with much of the financial value captured by the MNC. *Sustainable local enterprise networks*, by comparison, assume a more organic, grassroots, relativistic approach, and work with existing networks. The private sector is one player that can extract value but not necessarily the key player.

Our intent here is to draw some broad second-level CSR value creation categories in order to examine some of the basic assumptions underpinning the various business case pitches. The next section highlights some general characteristics of each type of business case, along with some basic underlying assumptions.

UNDERLYING CHARACTERISTICS AND BASIC ASSUMPTIONS OF THE FOUR TYPES OF CSR BUSINESS CASE

Each general type of CSR business case we have constructed embodies a number of characteristics and is underpinned by some basic assumptions. Our assessment of these underpinnings is necessarily broad, with the aim of sketching the general contours of each approach—to step back from the trees and describe the shape of the forest of CSR business case research. Characteristics we highlight are: the

Table 4.1 Four types of business case value creation

	Cost and risk reduction	Competitive advantage	Reputation and legitimacy	Synergistic value creation
Key Value Proposition	Trading: Engaging in CSR to reduce costs and risks to the firm	Adapting: A strategic approach to CSR to build relative competitive advantage	Aligning: Exploiting CSR activities to build value through gains in firm reputation and legitimacy	Relating: Integrating stakeholder interests to create value on multiple fronts
Central role of business	Economic Actor	Economic Actor	Political Actor	Social Actor
Level of Theory	Organization	Industry	Political and Cultural System	Societal
Assumed Nature of Interactions	Linear	Complicated	Complex	Self-Organizing
Dominant Logic	Normative Economic	Normative Economic	Normative Political	Cognitive Social
Ontological stance	Unequivocal	Unequivocal	Equivocal	Equivocal but grounded (language, history, culture)
Epistemological stance	Positivism	Post-Positivism	Social Construction (Structuralist to Interactionist)	Pragmatism

fundamental proposition for *how value is created* (and for whom); emphasis regarding a particular *role for business*; a preferred *level of theorizing* on which it is focused; and a *dominant logic* under which the basic proposition is grounded. Basic assumptions include the underlying *ontological stance* and *epistemological stance* of each of these approaches, which we will highlight in order to identify opportunities to bridge traditional debates in CSR. The general shape of each type is outlined in Table 4.1.

Key Proposition for Value Creation

The four general types of CSR business case we have described differ in their key value propositions based on the approach to dealing with elements in the organizational environment (stakeholder interests, competitive pressures, or other), each of which is succinctly captured under our four active descriptors: trading, adapting, aligning, or relating. Business cases framed as *cost and risk reduction* focus on *trading* among what are viewed generally as competing interests; *competitive advantage* business cases describe payoffs accrued through *adapting* to the competitive environment; a CSR proposition based on building *reputation and legitimacy*

advocates aligning with political and social norms and expectations; and *synergistic value creation* approaches are aimed at *relating* disparate elements in the operating domain, and integrating those elements in novel ways.

Central Actor Role for Business

Across the theories underpinning these four broad propositions for business value creation there are, implied and explicit, a number of ‘actor roles’ for business institutions to play in society. Garriga and Melé (2004) mapped the territory of CSR theory and offered a set of four groups: instrumental theories, in which the organization is seen only as an instrument for wealth creation; political theories, which are concerned with the use of corporate power in the political arena; integrative theories, which focus on the satisfaction of social demands; and ethical theories, which are based on the responsibilities of corporations to society. These groups of theories correspond roughly to Carroll’s (1991) categories (a pyramid of economic, legal, ethical, and philanthropic responsibilities) though his morality-based perspective would fit into the latter of the theoretical groups.

If we consider these groups of general theories and responsibilities in the CSR field at large, and we view ‘business’ (we use this term in the general sense to mean the private business sector, focusing mainly on public corporations) as a value-creating actor in the world, we can draft various actor roles that business is purported to play in global society. Both the *cost and risk reduction* and *competitive advantage* approaches take the explicit view that business is primarily an *economic actor*—the chief (or in the extreme, only) function of business is to efficiently convert inputs to products and services and to create financial wealth, and CSR activities are admitted as a means to that narrow end. Business cases based on a *reputation and legitimacy* approach highlight the *political actor* role for business. This includes and extends the economic role to include a complex mix of political and economic interests and dynamics. The power and position of the corporation in society is the central concern; the organization accepts social duties and rights or participates in some form of social cooperation (Garriga and Melé, 2004) as an expected part of doing business. *Synergistic value creation* approaches focus on the firm as an integrative *social actor*, which we define to embrace both the *economic* and *political* roles for business, and also extend to improving general social well-being. This is not a new idea, but one based on the reasonable presumption that economics and politics are human constructs, and therefore integral to the broad societal domain. This conception is consistent with the ‘concentric circles’ depiction of corporate responsibility issued by the Committee for Economic Development (CED), based on the notion that ‘business functions by public consent and its basic purpose is to constructively serve the needs of society’ (1971: 11, cited in

Carroll 1999). The first circle holds the economic and efficiency function of a corporation, the second contains the responsibility to execute the economic function with sensitivity to context, including changing social values and priorities, and the outer circle holds the responsibility to actively improve the general social environment, including the natural environment. The outer circle contains the inner two, and is not separable. This view is all the more relevant in an increasingly globalizing business environment.

Main Level of Theorizing

The level of theory (Klein *et al.*, 1994) is the organizational level that the researcher is attempting to depict or describe, and is the level to which the findings are purported to be generalizable. The four general types of CSR business case vary across theoretical levels; that is, each includes and describes interactions and effects at various levels in the business system. Theorizing in the *cost and risk reduction* view is centered on the organization, with key variables such as CSP and CFP distinctly attached to the firm; *competitive advantage* approaches necessarily include consideration of the relevant industry dynamics; *reputation and legitimacy* business cases address elements in the political and cultural context; and *synergistic value creation* approaches take a wide view of all components of the societal context. Again here, these are not mutually exclusive categories; there is an accumulative expansion of variables under consideration moving left to right.

Assumed Nature of System Interactions

As the level of theory is raised above the organization level there is a corresponding assumption regarding the nature of system interaction effects across the four general types. *Cost and risk reduction* approaches, often involving linear regression of CSF dependent variables on CSP/CSR independent variables, generally assume linear effects; *competitive advantage* approaches typically involve mediating or moderating strategic variables, complicating direct linear effects; a *reputation and legitimacy* view acknowledges non-linear complex effects in qualitative reputational narratives; and synergistic value creation approaches emphasize the self-organizing tendency of complex interactive variables. ‘Complex’ in this instance ‘means more than just “complicated”’; it describes a system whose component agents operate with some measure of autonomy, as well as in relation to other system components, i.e. independently and interdependently. That interaction gives rise to emergent properties that are irreducible, that exist only in relationship. As Cilliers (1998) has noted, an airliner is merely *complicated*; a mayonnaise is *complex*’ (Colbert 2004: 349).

Dominant Logic Frame

The dominant logic frame describes the grounds for logical justification in each of the four general CSR business case types. A key debate in the literature turns on how to justify CSR-related corporate activity, which we address in the next section on key critiques. In our construction of four general types we deliberately have not separated out a purely ‘moral business case’, as we adopt the assumption that morality and ethics are embedded within constructs of economy and politics: to suggest that these are value-free realms is absurd, despite the distinctions made in much of the CSR literature. The four general types constructed here are justified on normative economic grounds, normative political grounds, or on grounds of cognitive social integration—that is, of unearthing and connecting notions of value and values in the broad social domain. The *cost and risk reduction* and the *competitive advantage* approaches appeal exclusively to economic logic and norms; the reputation and legitimacy cases find grounding in political logic—in the relative power dynamics operating in the prevailing social system, in the service of economic ends; and the *synergistic value creation* approach is grounded in cognitive social integration.

Relevant Ontological and Epistemological Stance

Economics-based descriptive research, which includes the *cost and risk reduction* and *competitive advantage* business cases, is primarily founded on a realist ontology that sees reality as objective and unequivocal (Wicks and Freeman, 1998). Both predominantly embody a positivist epistemological stance, which relies ‘on the assumption of an objective world external to the mind that is mirrored by scientific data and theories’ (Gephart, 2004: 456). A degree of relativism is admitted under a *competitive advantage* approach through a post-positivist epistemological stance, which holds that reality can only be known probabilistically; plurality is typically introduced in taking stakeholder constructions into strategy formulation processes.

Reputation and legitimacy approaches are built on an equivocal, constructivist ontology and epistemology. The social construction of reality means that social existence is a human construction, while at the same time human perspectives are shaped by social factors (Berger and Luckmann, 1966). There are two main streams of social construction: an interactionist approach and a structuralist approach (Pfeffer, 1985). The interactionist position is one of extreme relativism, with each event knowable only from the perspective of the individual experiencing it, whereas the structuralist sees patterns of meaning shaped by roles and shared paradigms, which both structure and constrain the interpretations that are given to interaction patterns. Reputation and legitimacy are constructs that can be framed from both an interactionist and a structuralist view.

The *synergistic value creation* view holds an equivocal, or relativist, ontology, but adopts a pragmatic stance that sees intersubjective realities as mediated by language, history, and culture (Wicks and Freeman, 1998). A pragmatic epistemology rejects the categorical distinctions of positivism, and the absolute relativism of anti-positivism, and assesses research not on grounds of ‘truth’, however constructed, but on grounds of usefulness (Wicks and Freeman, 1998)—in this case, usefulness applies to the level and range of value creation through corporate CSR activities.

Underlying Characteristics and Assumptions: Summary

The characteristics and assumptions described above and displayed in Table 4.1 help to illustrate some key differences across the four types of CSR business case. Differences across the *central role of business*, and the *level of theorizing* point to an opportunity to broaden the scope of business-case making to explicitly include consideration of value creation at various levels—levels that are cumulatively integrated, or exist as nested systems. The range of the *assumed nature of system interactions* and variations in the *dominant logic* taken together suggest there are alternate ways in which a business case can be framed. There are also alternate ways in which one might be received by managers and stakeholders, once we admit a wider variety of sense-making frames and processes of meaning creation. And finally, the variation in *ontological* and *epistemological* stances indicates that the methods by which we attempt to describe and justify a business case for CSR could be broader than they are typically. And finally, acknowledging the variation in *ontological* and *epistemological* grounds opens opportunities to describe and justify a CSR business case more broadly than is typical.

GENERAL CRITIQUES OF THE BUSINESS CASE FOR CSR

Building a ‘business case’ for CSR implies we are building a coherent justification for a corporation to invest in CSR-defined initiatives. The central debates and critiques in the CSR literature, as they relate to a business case for CSR, are therefore problems of justification. Three key problems that recur in CSR critiques are: the *level* of justification (organization and society); the *logic* of justification (economic, ethical, political, social); and the *grounds* of justification (positivist, anti-positivist, and pragmatist).

Level of Justification: Organization and Society

The search for definitive causal connections between CSP and CFP has yielded inconclusive results (Griffin and Mohon, 1997), and some have argued that the search is pointless, because there logically cannot be a consistently positive relationship between these two constructs: the working assumption of CSP research is that corporate social and financial performance are universally related, and it is an extreme, untenable proposition to assert that any management initiative is *always* positively correlated with financial results under any conditions (Rowley and Berman, 2000). While generalizable justification at the level of the single organization might inherently not be possible, meta-studies have found a positive correlation overall between CSP and CFP indicators (Orlitzsky *et al.*, 2003; Preston and O'Bannon, 1997). This suggests that CSR business case arguments might be more appropriately framed at multiple levels simultaneously: we might see 'the projects of "self-creation" and "community creation" as two sides of the same coin, and see in institutions many possibilities for different ways of living together to pursue the joint ends of individual and collective good' (Freeman and Liedtka, 1991: 96).

Logic of Justification: Economic, Ethical, Political, Social

The problem with the logic of justification is most often characterized as a schism between economic and ethical justifications for CSR—the implication being that economic evidence is not normative, is value free. This problem is perpetuated due to an inherent defect in the construct of CSR itself: by asserting that corporations must attend to 'social responsibilities' in addition to 'business responsibilities', we admit that the two are distinct and separable. This distinction is further amplified when we attempt to justify CSR with a 'business case', i.e. when we attempt to express the value of socially responsible practices in purely financial terms, which says that financial performance stands as sufficient justification for CSR-related activity.

Swanson (1995) described several theory-building problems with 'economic' and 'duty-aligned' (ethical, political, social) perspectives of CSP research: incompatible value outcomes, a focus on individual choice, and narrow value orientations. Others have argued that CSR justified on economic models presents a too-narrow idea of the corporation and of the interests of investors (Gioia, 2003; Stormer, 2003), for whom, presumably, a business case for CSR is built.

Burrell and Morgan described a *unitary* view of organizations as one that tends to stress that the corporation is a cooperative enterprise united in the pursuit of a common goal. A *pluralist* view stresses the diversity of individual goals and interests—the formal goals of an organization are seen as 'little more than a legitimizing

façade, an umbrella under which a host of individual and group interests are pursued as ends in themselves' (1979: 202–3). Debate between economic and ethical justifications for CSR is a debate between two fundamental conceptions of *what is a corporation*: a disconnected, simple entity with unidimensional, stable interests, or an interconnected, complex self with multidimensional, dynamic interests, taking responsibility for a greater common good (Driver, 2006).

Throughout the CSR literature, economic and ethical justifications are separated, and the latter are called 'normative'; we rejected that separation in our overview of the underlying characteristics of business case arguments, and used the terms *normative economic* and *normative political* to foreground the integration of ethics and values into those paradigms. All management research is normative in the sense that every paradigm rests on some (often unstated, unchallenged) assumptions about what is good and valuable and worth pursuing; CSR researchers hold that firms have real obligations to a broad set of stakeholders, and because this runs counter to the dominant ideology of shareholder primacy, they appeal to ethical arguments to substantiate their preferences (de Bakker *et al.*, 2005); this creates the appearance of a separation between ethics and economics where none exists, as the dominant view is just as ethically laden. This false separation is perpetuated when we attempt to justify positive social behaviour in economic terms, rather than as valuable in itself, and as integral to a healthy capitalist business system.

Grounds of Justification: Positivist, Anti-positivist, and Pragmatist

A further critique occurs on epistemological grounds of justification for CSR: what has been called the 'integration dilemma' (Swanson 1999: 507), of bringing together empirical (descriptive) and normative (prescriptive) approaches. Empirical inquiry investigates measurement, explanation, and prediction, while normative inquiry focuses on moral evaluation, judgment, and prescription of human action (Trevino and Weaver, 1994). Positivistic approaches place a sharp distinction between describing and prescribing: in descriptive work, researchers stand as neutral observers, using scientific methods to make contact with 'reality', to report to managers 'in an unbiased way what empirical forces are to be reckoned with in a given context' (Wicks and Freeman, 1998: 125). When prescription is undertaken, as it often is in the strategy discipline, it is done so on the grounds of assumed goals such as corporate efficiency and wealth maximization. An anti-positivist epistemology (including interpretive, constructivist, and morally normative approaches) admits an intersubjective, multi-vocal plurality to the grounds of justification, but is in danger of collapsing under the weight of the relativist dilemma, where nothing useful can be said to advance organizational practice, lest one view be privileged over another. The pragmatist approach employs the criterion of 'usefulness'—though not in the

utilitarian sense of ‘the greatest good for the greatest possible number’. Rather, useful ‘in the sense of helping people to cope with the world or to create better organizations’ (Wicks and Freeman, 1998: 129). A pragmatic epistemology admits multi-vocality, but finds evaluative criteria in higher order humanistic goals.

Summary

These three problems: the *level*, *logic*, and *grounds of justification* are critical issues to be addressed in formulating research in the business case for CSR. These problems are at some level irresolvable, and are exacerbated by the construct of CSR itself. Rather than attempt resolution, we will next offer ideas toward building more expansive conceptions of the CSR business case to embrace these apparent paradoxes.

BUILDING A BETTER BUSINESS CASE FOR CSR: ADDRESSING THE CRITIQUES AND EMBRACING A SOCIAL ACTOR ROLE FOR BUSINESS

We suggest that progression toward a more integral approach to CSR, with a focus on *modes of value creation*, would assist with developing a more robust rationale for why CSR matters to business theorists and practitioners. To set out some recommendations in this regard, it would first be helpful to consider three ‘eras’ of CSR research (Van Marrewijk, 2003), and how we might envisage different incarnations of the business case for CSR in relation to those eras. We consider how research in CSR might shift in order to enable the development of a ‘postconventional’ view of the business case for corporate social responsibility. Our recommendations will address the ontological (rational to pluralistic to integral), epistemological (reductive to fragmented to integrative), and methodological (positivist to constructivist to pragmatic) transitions that we argue are required for this new ‘era’ of the business case in CSR to be fully realized.

Three Eras in CSR Research and the Business Case for Social Responsibility

Different authors have outlined historical eras in CSR in terms of a sequence of approaches (Carroll, 1999; Freeman, 1984; Van Marrewijk, 2003). Rather than take

this as a succession of eras, where the shareholder approach was replaced by the stakeholder approach and so on, we suggest that these approaches exist simultaneously, one building on the next and necessitating a broader business case be built (this is a matter of shifting emphasis: ‘stakeholder’-focused management has existed since the beginning of the Industrial Revolution,¹ what is novel is that this view has been named and described, and has moved to the mainstream of management thought and practice). The first era of *shareholder primacy* is characterized by a view of organizations as primarily accountable to shareholders, evidenced most clearly in the *cost and risk reduction* approach, and to some degree in the *competitive advantage* view to building a business case for CSR. The second era of *stakeholder management* broadens the locus of reference for the firm toward incorporation of, and adaptation to, a variety of stakeholder interests. In the general types of the business case for CSR, *competitive advantage* and *reputation and legitimacy* approaches demonstrate thinking in this ‘era’ by extending the role of business beyond that of an economic actor, toward acknowledging a dual role for business: as both economic and political actor. This approach thus builds on the perspective of the previous era, rather than negating it, developing a richer and fuller view of the organization in context. The third era of *social integration*, or a societal approach, is represented by a move away from thinking about social responsibility toward thinking about *societal* responsibility (Gioia, 2003). CSR theory and research that builds the business case for *synergistic value creation* begins to advance into this era by incorporating a view of business as an economic, political, and social actor (all of which embrace ethics). Each of these eras co-exists in the *social integration* approach to CSR, with ‘eras’ representing waves of influence in the dominant approaches, rather than temporally distinct conceptions. In fact, the social integration perspective was embodied in the CED (1971) description of CSR more than 35 years ago, and thus does not represent a modern ‘era’, so much as a worldview toward social systems as holistic and contextually sensitive.

Eras of CSR and Development in Human Systems

In order to explore this more fully, we follow Van Marrewijk (2003) and invoke Ken Wilber’s thinking on levels of development in human systems. The four value propositions identified earlier as four general types of the business case for CSR can be conceived of as *four modes of value creation*, underlain by several dimensions. These dimensions can be mapped across the three eras of general CSR research in order to describe a new form of the business case for CSR, one that holds the promise of advancing the field. In his map of ‘human possibilities’, Wilber (2000) describes the evolution of social systems and related evolution in culture and

¹ The first examples of ‘cooperative’ enterprise occurred in the early years of the 19th century in Scotland and England (Wheeler and Sillanpää, 1997).

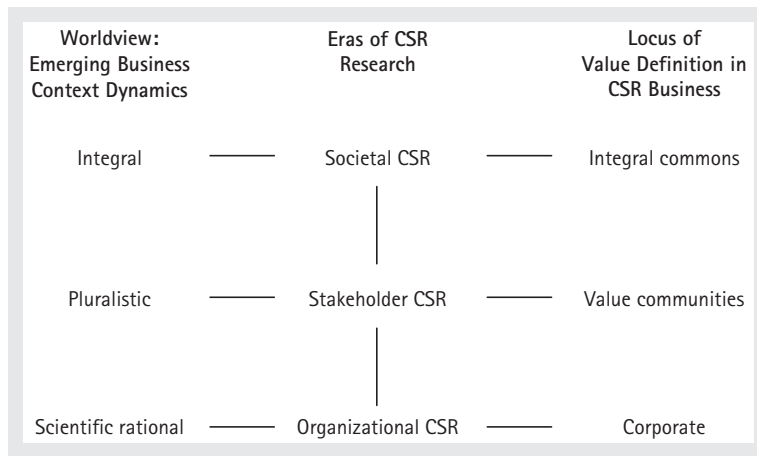


Fig. 4.1 CSR value holarchy

worldview in terms of preconventional, conventional, and postconventional states, and these can map onto the different eras of CSR. Shareholder primacy typifies the preconventional ‘corporate states’ approach to social systems reflected in a scientific rational worldview. Stakeholder approaches can be seen as the conventional state, organizing society in terms of ‘value communities’ that are embodied within a pluralistic perspective. Finally, the postconventional approach of societal integration portrays a view of social systems as an integral commons, coextensive with an integral worldview—a creative space (physical, cognitive, or virtual) to foster the coming together of humanistic interest and intention.

In this progression, nothing is lost, but there is an increase in integrative capacity that facilitates a move toward holism—the progression is not ‘hierarchical’, but ‘holarchical’. Figure 4.1 depicts a CSR value holarchy. Each stage can be viewed as ‘higher or deeper, meaning more valuable and useful for a wider range of interactions’ (Wilber, 1998: 59).

While acknowledging that the ‘pluralistic relativism’ of stakeholder management is a positive progression, it must be viewed as a precursor to moving to the ground for integration, or be found irrelevant; without integration, pragmatic action is stymied. Within the stakeholder management era then, the move away from dealing with a few individual stakeholders that are powerful, legitimate, and urgent (Mitchell *et al.*, 1997) and the increasing trend toward acknowledging a wider range of ‘fringe stakeholders’ (Hart and Sharma, 2004) holds great potential for enhancing contextual sensitivity. However, there is the danger that this new radical pluralism will collapse to fragmentation and challenge any action beyond individual agency. It is necessary to view this as a stage of development toward integralism. For business organizations, integralism occurs when deep and broad social needs are put to the foreground in re-imagination of business strategies—when strategic planning exercises are driven from an intensive

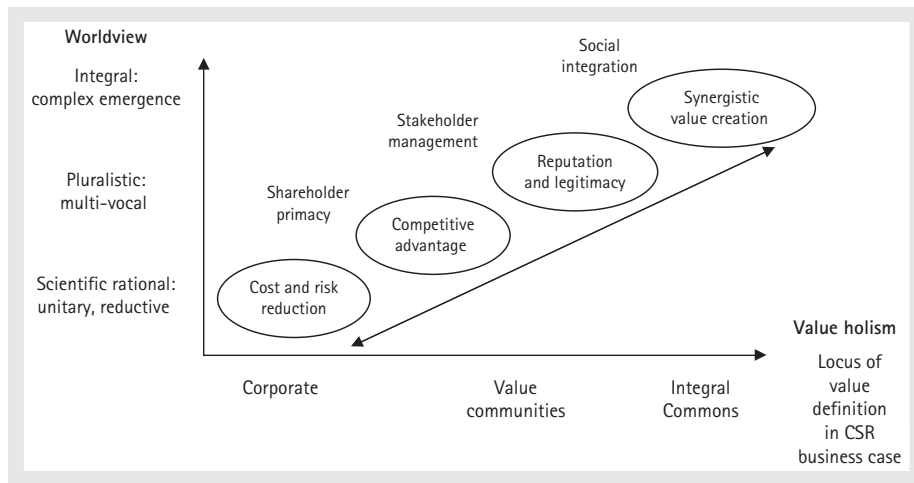


Fig. 4.2 Four modes of value creation in the CSR business case

exploration and understanding of real human needs, versus commercially created wants. This move honours that difference but creates a healthy tension between *agency* and *communion*, in order to avoid what Wilber calls the ‘pathology’ of fragmentation.

In our analysis of the business case for CSR, this integral commons is approached in the move from stakeholder management to social integration through a focus on value-based networks, with modes of value creation forming the business case for corporate social responsibility (see Fig. 4.2). We describe the dimensions of these modes of value creation more fully in the following three recommendations for building a better business case for CSR; that is, one that has more integrative capacity, is more holistic and allows for emergence, and thus is more valuable and useful for a wider range of interactions.

Recommendations for Building a Better Case for CSR: Dimensions of Modes of Value Creation

In this section we will discuss three recommendations for building a better business case for CSR: acknowledging complexity, building integrative capacity, and encouraging pragmatism.

Acknowledge Complexity and Allow for Emergence

To overcome the difficulty in conceiving a business case for CSR, it is essential to broaden the locus of reference for business away from an organization-centric to an organization-and-society view. We argue that CSR research needs to move beyond the reductive approach of the rational view, and the fragmented challenges of

radical pluralism, to a view of the organization as part of an integral complex network, 'interdependent and complexly interactive' (Wilber, 1998: 57).

Causal effects in complex systems are both linear and non-linear, and complex living systems pursue multiple goals (Frederick, 1998; Colbert, 2004). Frederick (1998) suggests that a paradigm shift in which we move beyond existing stakeholder concepts to a view of social systems that draws on insights from complex natural systems is essential for the field to respond to urgent questions facing business and society. This complexity perspective would focus more on non-linear emergent outcomes, rather than on more reductive or linear relationships.

Build Integrative Capacity for a more Holistic Approach

Our second recommendation for building a better business case for CSR is to focus on enhancing the integrative capacity of business in order to encourage holism. CSR needs to move beyond the economic/ethical divide through a decreased emphasis on reductive or fragmented approaches to a more integrative perspective. This integrative capacity is characterized by a move from corporate states, to value communities to a view of the integral commons—that is, by a capacity for members of the organization to view themselves and their work as a part of something larger, whether purpose-bound or value-chain-defined, and then to assess whether that larger purpose is satisfactory.

Frederick (1998) comments on the 'pre-Copernican' state of dominant CSR research and theorizing, advocating a move away from the organization as the central focus of CSR analysis that has led much of this research to a dead end. He draws on complexity theorist Stuart Kauffman (1992) to describe how it is essential to broaden the context within which we consider human relations and 'decenter' the corporation away from the normative reference for the field of social issues in management. In a similar fashion, Gioia (2003) advocates moving from the concept of 'social responsibility' to that of 'societal responsibility'. This shift would emphasize the move away from creating organizational wealth, to the organization as an instrument for creating broader societal value. This view of business as an *interdependent* system is essential for recognizing the complexity of globalization and the interaction of systems, so that CSR becomes the foundation for strategic action rather than an add-on (Stormer, 2003). This requires moving beyond the stakeholder model of the firm to an inter-systems model of business (Stormer, 2003): shifting the assumption of corporations as autonomous or independent entities, which secondarily consider their obligations to the community, toward a view of firms as part of the communities that created them (Solomon, 2004) as an essential element of this critique. This is characterized by a shift from the 'egoic' view of the self as alienated and autonomous toward the 'post-egoic' view of the organization self as interdependent (Driver, 2006). Rather than focusing exclusively on the 'responsibilities' piece of the term, which emphasizes an 'atomistic

individualism' (Solomon, 2004: 1029) there is a need to emphasize the social aspect as well. We argue that in order to address critiques of the dominant approaches to the business case for CSR, we need to return to some more fundamental questions about the self and communities that will allow us to envision new forms of social and economic life (Freeman and Liedtka 1991).

Encourage Pragmatism to Enhance Value Creation

Our final recommendation for building a more robust business case for CSR deals with the importance of moving beyond positivist and constructivist epistemologies to embrace a pragmatic perspective. We have argued that each stage in the eras of development is deeper, more valuable, and useful for a wider range of interactions. From the pragmatic perspective, becoming more integral through acknowledging complexity and enabling emergence, and more integrative through building capacity and encouraging holism, is more *useful* because it enables a broader view of value creation, supported by this wider range of interactions. While value from this perspective may be hard to measure with traditional quantitative approaches that have an ontological view of reality that is unequivocal, more qualitative, narrative perspectives may assist with apprehending the worth of these approaches to support a business case for social responsibility.

CONCLUSIONS

We began with the view that managing a business enterprise is an increasingly complex task: that factors bearing upon the successful operation of a business are multiple, often non-linear (and therefore unpredictable), and inextricably entwined with the needs of a global society. We suggested that a 'better business case' for CSR must reflect the changing conditions for business at a global level. We have drawn three recommendations in this chapter for conceiving a more robust, nuanced, and compelling CSR business case: acknowledge system complexity (move from reductive, to pluralistic, to integral conceptions of the business and value creation), build integrative capacity (in conceiving of the locus of value creation, from corporate, to value-based communities, to seeking an integral commons), and taking a pragmatic approach (encouraging managerial experimentation with new business models for value creation).

If the four modes of value creation in CSR are viewed along a holarchic progression, where each is inclusive of the last, and if CSR objectives are defined integratively, as creating simultaneous value for organizations and society, and if the business case for CSR is framed as a pragmatic, experimental pursuit toward

a better society and better organizations, then the business case for CSR would be a relevant concept, and would look quite different than it does currently. The case for socially responsible thinking *and action* would extend beyond the economic business case. It would attempt to connect the identity of the organization and of individual members, and it would be an argument for a more richly and deeply conceived notion of value creation.

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