Corporate Social Responsibility:
Moving Beyond Investment Towards Measuring Outcomes

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Introduction

At a recent conference in London the CEO of Sustainability, a widely-respected authority on Corporate Social Responsibility (CSR) reporting, offered a stark critique of management practices. His research suggests that the number of firms engaged in social reporting is increasing, as is the average length of these reports. However, despite a widening recognition amongst business leaders of the need to accept a broader responsibility than short term profits, the quality of their company's CSR reporting has hardly improved in the last 5 years (Elkington, 2003). At the same conference, Simon Zadek of Accountability, reporting on his research (Zadek, 2002), concludes that these social reports are not having a significant impact on managerial decision making.

In this paper, we report on an empirical study of CSR policy and practices amongst a number of leading multinationals to explore some of the underlying reasons why CSR reporting seems to have evolved with such low impact on business decision making. In addition, we propose a framework developed during the study which clearly links CSR to both business and social outcomes. In concluding the paper, we highlight some of the policy and practice issues which need to be resolved if the general perception of CSR reporting is to change from being seen as an expensive exercise in compliance.

In the next section, we explore the growing impact of CSR on business as viewed by differing interest groups.

The Growing Impact of Corporate Responsibility on Businesses

Over thirty years ago, Milton Friedman wrote in the New York Times that the social responsibility of a business was to increase its profits. Any diversion of company
resources to social programmes, charity and other non-profit generating activities, the Nobel Laureate argues, represents a tax on consumers and investors (Friedman, 1970). Such a tax reduces society’s total wealth and satisfaction. His position, based upon sound free-market ideology, has come under increasing attack since time of writing and can no longer provide the business leader with an erudite means of avoiding the issue. Corporate Social Responsibility (CSR) is something that every Board must now address in some form. Ironically, it is arguably the triumph of free-market ideology over regulated economies which has foisted new responsibilities on increasingly powerful multinational companies. Globalisation strategies provides businesses with unprecedented access to markets and ever-lower production costs (Day and Montgomery, 1999), it has also brought closer to reality the concept of the global village first discussed in the 1960s. Business practices, even those conducted a very long way from their home markets, can be subject to intense scrutiny and comment by customers, employees, suppliers, shareholders and governments, as well as other groups upon whose support the business relies. One such group, Non-Governmental Organisations (NGOs), has become more and more powerful in recent years, calling business to account for policies in the areas of fair trade, human rights, workers rights, environmental impact, financial probity and corporate governance. In an ever more cynical world, where society is much less inclined to trust their governments and businesses, NGOs retain high levels of trust across a broad spectrum of society.

Whilst it is true that in certain circumstances powerful multinational companies can impose trading conditions on the less powerful, such as non-unionised workers, commodity producers in developing countries and Third World labourers (Klein, 1999), the idea that modern companies must commit themselves to effectively address poverty and environmental degradation must surely be an overstatement. This discussion between advocates of Milton Friedman’s position—limiting responsibility to maximising profit—and NGO activists who regard firms being primarily instruments of social policy represents the extreme ends of the debate. Many academics writing in the field of CSR are cognisant of these extremes and seek to establish a middle ground. Wood (1991) suggests that the public responsibility of business is divided into areas of social involvement directly related to their business activities and competencies, with secondary areas of involvement relating to its primary activities. For example, an auto maker might reasonably be expected to deal with vehicle safety and the environment but now low-income housing or adult illiteracy. Clarkson’s long-term study of corporate behaviour (Clarkson, 1995) indicates that companies deal with stakeholders, not society, and that CSR must distinguish between stakeholder needs and social issues; managers can address stakeholder requirements but not abstract social policy. Carroll (1979) suggests corporate responsibility has different layers: economic, legal, ethical and discretionary categories of business performance and that business leaders must decide the layer at which they choose to operate.

Similarly, the UK Government wishes to establish a middle ground in this debate, with the Prime Minister suggesting that, “we must ensure that economic growth contributes to our quality of life, rather than degrading it. And we can all share the benefits” (DTI, 2001).
Finally, although business leaders themselves acknowledge that their firms are socially created and “licensed”, most would argue they were created primarily as economic agents to provide the goods and services society wants at the right price, quality and availability. As such, their firms’ competencies are built around their commercial activities. For example, one thousand software firms tackling global poverty through a myriad of small initiatives is laudable but likely to be ineffective. With the exception of a handful of businesses, such as the Body Shop and the Coop Bank who have developed strong CSR policies as a basis for growth, it would, arguably, be more effective—and efficient—for governments to tax these firms and give the money to multinational agencies that are competent in the field.

On balance, it would be most unlikely to find a consensus between the various stakeholders, particularly as CSR is a relatively new and emergent business responsibility. However, in establishing our research objectives, we sought to identify received wisdom about the business case for CSR activities in general, and linkages between these activities and business or social outcomes in particular. In both cases, we found the arguments presented and claims made about the positive impact of CSR on business to be highly assumptive and lacking in empiricism. These assumptions are presented next and our questioning of these beliefs forms the background to our research objectives.

Assertions and Beliefs about the Business Case for CSR

In reviewing the arguments that “you do well by doing good”, we can readily identify five commonly-held beliefs which seem to be largely anecdotal and, as such, highly questionable:

- Consumer preferences will increasingly favour products and services from socially responsible, transparent and trustworthy firms (Willmott, 2001 and Mitchell, 2001).
  - The assertion that consumer behaviour will shift to reward social responsibility is grounded in surveys of attitudes and trade-off analysis, not observed behaviour. Attitude-behaviour correspondence seems to lack empirical grounding and is not obviously evident when researched (Knox and Walker, 2001, 2003).

- Investors will increasingly favour responsible companies and irresponsible companies will find their cost of borrowing rises (Accountability, 2002).
  - Zadek (2002) acknowledges that only 4% of the total funds available for stock market investment are governed by CSR principles, therefore, most firms judged not to be socially responsible still have full access to equity funding.

- Potential employees will be attracted only to responsible companies and others risk skill shortages (Department of Trade and Industry, 2001: Citing the 1998 McKinsey Study, “The War for Talent” and MORI research).
Arguments about competing for talent also appear to be based upon stated intention and not observed behaviour. Cited studies were concluded during the last long period of uninterrupted economic growth and may be cyclical. This link between employee motivations, customer retention and shareholder value has been made separately from CSR theory (Reichheld, 1996).


- Von Hippel (1986, 1989) has been presenting these arguments and case-studies for over 20 years without reference to CSR practices.

- Being trusted by stakeholders and pursuing socially responsible policies reduces risks arising from safety issues (consumer, employee and community), potential boycotts and loss of corporate reputation.

- Clearly, concern for safety and building trust is paramount to the firm’s reputation management and future sales but cannot be exclusively associated with CSR policies. In fact, it’s just good business practice to pursue both with vigour.

In essence, whilst the above arguments for CSR are intuitively appealing, many researchers admit the links between business performance and the implementation of CSR policy are difficult, if not impossible, to prove (Wood and Jones, 1995). Against this background, we set our research objectives, design and protocol. These are discussed next.

**Research Objectives, Design and Protocol**

Since our research objectives are exploratory in nature, we anticipate that our study will contribute to the development of CSR as an instrumental theory. The three specific objectives of our research are:

- To explore how and how strongly CSR investment is linked to business and social outcomes among mainstream business.
- To develop a framework for linking CSR to performance.
- To identify the consistencies (and inconsistencies) among CSR policy makers and how their CSR programmes are implemented.

Clarkson (1995) identified numerous problems encountered by researchers working towards similar objectives. In a landmark, 10-year study, he concludes that researchers should concentrate on how firms actually manage their stakeholders rather than upon empirically validating inherently untestable frameworks of social responsiveness. Consequently, we felt it necessary to look at CSR practice in developing a framework for linking CSR investments to performance.
Research Design and Protocol

Content analysis of the CSR, customer and reputation management literature identified the assertions made about the link between CSR and business and social outcomes. These relationships are illustrated in our prototype framework (Figure 1) and suggest that CSR programmes affect stakeholders’ cognitions which then change their behaviours in ways sympathetic to the company’s commercial interests.

To understand if firms do conceive of the linkage between CSR and performance in this manner, the researchers interviewed the CSR leaders of six multinational companies who are among the global market leaders in their fields. Purposeful sampling (Eisenhardt, 1989) was employed to eliminate firms facing acute CSR issues, such as extraction or tobacco companies, who are judged by the researchers as being unrepresentative of typical businesses.

The selected firms were: Orange (UK), Diageo PLC, Pilkington PLC, Unisys, Company X and Company Y. [Both Company X and Company Y opted to remain anonymous by name but we can report they are a global software vendor and an IT service provider respectively]. All six firms had a readily identifiable executive responsible for CSR. This person normally reported into the Main Boards of their companies through the Corporate Affairs function. Two of the interviewees, Diageo and Pilkington, are responsible for their firm’s global CSR policies, one (Unisys) responsible for Europe–Middle East–Africa and the other three responsible for the UK. However, the true power of these individuals within their firm and, hence, their ability to provide accurate data as to how CSR policy influences decision making are made, cannot readily be assessed by the researchers. We acknowledge this as a limitation of our methodology.

Figure 2.1 CSR Link to Corporate Reputation and Business Performance
Empirical evidence was gathered in semi-structured interviews with these CSR leaders and, whilst the literature identifies a wide variety of definitions of “CSR investments”, we allowed the participating companies to determine how they defined CSR rather than impose a definition upon them. Towards the end of the interview and before sighting our prototype framework (Figure 1), interviewees were asked to create their own framework illustrating the links between their CSR programmes and outcomes. They were then asked to assess our prototype framework and contrast this with what they had just drawn. As suggested by Eisenhardt (1989), we modified our prototype framework through successive interviews and, after 2 or 3 iterations, the revised framework remained largely unaltered and could be used in the final interviews to guide discussions. Interviews lasted between 2 and 3 hours and each of the respondents agreed to clarify any remaining issues as necessary post interview. Finally, all the interviewees agreed to read and modify a draft of a commercial report we produced (Maklan and Knox, 2003) to ensure that they concurred both with our revised framework (Figure 2) and our other findings. This report was unanimously endorsed by our respondents and in the next section, we report on this empirical framework and key findings. Next, we report on this framework and our findings.

**Research Framework and Findings**

Since our research framework has been validated by each of our six respondents on behalf of their respective companies, if is both convenient and instructive to present our research findings against this framework:

We found for most respondents that the common starting point of their CSR programmes was the company’s vision and values which had usually developed on a normative basis. Whilst none of the respondents would claim to have such a formalised
or, indeed, instrumental framework as we offer here, each recognised that their corporate vision and values co-evolved with corporate reputation (sometimes referred to as brand [Davidson, 2002]) and the behaviours of its employees. At the same time, there was full agreement that CSR programmes favourably enhance corporate reputation and to some extent could influence employee behaviour. Thus, it was felt that once CSR is “embedded” in their employees’ attitudes to stakeholders and through listening and responding to stakeholder concerns, their business would automatically act more responsibly, have a greater understanding of the risks in its environment and strengthen its corporate reputation:

“… CSR drives good corporate governance. It comes before the paraphernalia of good governance, and is more integral to the way we operate, the way we behave, the way we treat other people, the way the company is protected.”
Orange CSR spokesperson.

“Every employee is empowered to do the right, responsive thing and their performance is reviewed in terms of what was achieved and how, based upon our values of integrity, honesty, being open and respectful with others.”
Company X CSR spokesperson.

With the exception of Diageo which does adopt a shareholder value approach to its CSR polices and practices (i.e. programmes to outcomes directly [Figure 2]), the remaining companies tend to measure at the left-hand side of Figure 2; setting CSR objectives, identifying their primary stakeholder(s), scoping obligations and, perhaps, developing some measure of employee awareness and their buy-in towards such programmes.

With such strong normative positions linking CSR programmes to the company vision, values and reputation, it is understandable why “hard-edged” business cases do not always accompany CSR programmes since, for most, embracing CSR is intuitive. Whilst this enables rapid CSR adoption in our respondent companies, it fails to address some of the more fundamental questions about their policy and practices regarding CSR programmes. For instance, such policy questions as:

• For what and to whom are we to be held responsible?
• How do we manage the conflicting demands amongst our stakeholders and how should our CSR programmes reflect the way we prioritise their interests?
• How much should we invest in CSR and how does the company assess successful outcomes so that we can continuously improve?

Next, we turn to our findings in which we report shortcomings in CSR policy issues across our sample companies before reporting on their practices which, in a similar way, seem to fall short on best practice examples.

**CSR Policy: Findings and Discussion**

Referring back to Figure 2, we report on our CSR policy findings which relate both to visioning (the scoping of social obligations and the challenge of prioritising...
stakeholders) and to the assessment of social outcomes. Turning first to the scooping of social obligations:

• Companies feel responsible for communities impacted by their core business operations

All respondents interviewed felt that their companies should comply fully both with regulatory (and legislative) demands as well as industry norms and expectations. The key reference point for most companies was their industry, rather than an idealised gold standard of corporate responsibility:

“We are proud of our brands, and proud of how we lead our industry in social responsibility.” Diageo CSR spokesperson.

“We are an increasingly grown-up business ... we understand our impact on the industry, our customers and partners ... all stakeholders. We must provide responsible leadership commensurate with our position.” Company X CSR spokesperson.

Those with the most articulated positions on what they wish to be held accountable for used the following criteria for this assessment:

– Their social responsibilities should leverage their unique core competencies so as to make a contribution others cannot match.

   For instance, Company X's policy goal is to empower the digitally disadvantaged; addressing the “digital divide” between the I.T. haves and have-nots.

– Their investment should have a great impact on society.

   “We are world leaders in glass, with manufacturing operations in 25 countries and are major contributors to the local communities where we are located.”
   Pilkington, CEO.

– Their social programmes should have a direct relationship to the industry in which they operate.

   For instance, responsible alcohol consumption has been central to Diageo's CSR programme since it was formed out of United Distillers and Grand Metropolitan over 5 years ago. Its central corporate citizenship group manages a number of global initiatives as well as providing seed capital and management expertise to local business units engaged in “alcohol in society” initiatives.

   Orange, in addition to consulting and responding to stakeholders on mobile masts, invests in the promotion of better communications between people. It believes the cause is relevant to its business, leverages its corporate competencies and is of importance to its employees.
What was evident to us from this finding was that each company had clearly scoped out their CSR policy around the impact of their operations or brands and seem to conform to Wood's (1991) view about engaging in social involvement directly related to business activities and competencies. By adopting such a normative approach, the unanswered questions here are:

How do these companies know how much to invest in CSR versus the other demands for resources?
What is the extent of their CSR obligations and should they be conditioned by market position?

• Companies are clear on their most important stakeholders but are less able to set priorities among the rest

In response to the question posed earlier “to whom are we to be held responsible?” most respondent firms have a flat list of stakeholders beyond their priority stakeholders (normally customers). These include: Government, NGOs, suppliers, employees and communities. There is no consistent approach to prioritising their secondary stakeholders. We offer three possible explanations for this:

1. Companies tend to treat all secondary stakeholders equally.
2. They do not manage secondary stakeholders actively.
3. Most likely, stakeholder differentiation needs to be developed further.

Our research identifies a mechanism for this differentiation based upon Mitchell et al. (1997) model which classifies stakeholders into one of seven types according to the urgency, power and legitimacy of their claims over the company. This issue of stakeholder prioritisation is of vital importance to the effective management of CSR and seems to be largely absent in policy decision making amongst the firms interviewed.

• Social outcomes need more formal assessment

We define social outcomes to mean the results of CSR programmes, such as the value of the philanthropy (e.g. curing a disease), positive impact on entire eco-systems, reduction in poverty and the increased participation in society by socially disadvantaged groups.

Diageo stands alone in publishing an analysis of social outcomes as well as calculating the Economic Value Added (EVA) it creates in local markets through its activities and tax revenue generated for host governments. The other firms face commercially difficult choices against their policy decision making discussed above since, without a mechanism for prioritising stakeholders for CSR purposes and with no substantive means of measuring successful outcomes, how do senior management make these choices? Is a philanthropic investment decision or a scheme borne out of an appreciation of areas of employees' concern a legitimate CSR programme? Whilst vision and values drive CSR policy making in our framework (Figure 2), social outcomes linked to a particular
CSR programme need to have clear metrics established, as does any area of business investment which is predicated by the achievement of targeted outcomes such as brand share, profit and revenue growth.

**CSR Practices: Findings and Discussion**

Of the three main findings reported here as CSR practices, both risk and stakeholder behaviours are highlighted in our framework (Figure 1). Attitudes to CSR reporting, however, are outside the framework and in presenting this finding, we highlight a major paradox. First, we look at business risk:

- **Risk management is not fully integrated with business activities**

A consistent theme throughout the management literature and our interviews was the belief that effective CSR programmes reduce a firm’s exposure to rare, but catastrophic risk of the Brent-Spar, Bhopal and Andersen Consulting magnitude:

> “If you truly engage all stakeholders in policy making, then the chances of being blind-sided by a Brent-Spar must be greatly reduced.” Unisys CSR spokesperson.

Whilst such corporate disasters are very rare events, each respondent confirmed that their companies had a risk management practice which attempts to identify all potential risks (events) to the business through a systematic and transparent process. This process generally involves assessing the potential impact of each event and assigning a probability of occurrence. Summing up the risks as a weighted average of events and outcomes provides some measure of the total risk facing the company.

In Diageo, the External Affairs function applies this process for the firm and has been able to positively correlate its evolving CSR programme with a year-on-year reduction in weighted-average risk facing the company. This has been achieved by better assessment of the risks, improved contingency planning and stronger relationships with relevant stakeholders through their CSR programmes.

However, in most of our respondent companies, risk is managed separately by the finance department and is not fully integrated with CSR. Each respondent confirmed that finance undertakes formal risk assessment and that neither the process nor the management actions arising from it are managed within the CSR function.

We would suggest, therefore, that there may be a mismatch between where the process for risk assessment resides (Finance) and where the competency for risk management exists (CSR function).

- **Stakeholder behaviours, not only attitudes, count to drive revenue and costs**

Companies appear to be managing the left-hand side of Figure 2 more than the right-hand side. Generally, respondents confirmed that their firms develop CSR programmes which are consistent with their core vision and values, manage it through
employees and corporate branding and measure stakeholder perceptions of the business. They also confirmed that this does not usually carry through to a robust analysis of stakeholder behaviours and business outcomes.

Firms are measuring what is relatively easy for them to measure i.e. attitudes. As discussed earlier, attitude-behaviour correspondence is often difficult to reconcile (Oliver, 1997). However, it is not for lack of effort or awareness that this situation exists:

“We have been involved with benchmarking groups trying to isolate the impact of CSR upon behaviour from everything else going on ... but it does not seem possible” Diageo CSR spokesperson.

The problem of measuring behaviours transfers into problems of measuring business outcomes, as discussed previously, and attributing some portion of these outcomes to CSR investments and programmes.

The business case logic outlined in the flow of Figure 2 is based upon responsibility leading to increased customer expenditure, higher productivity, improved contribution from suppliers and reduced employee turnover. With the exception of risk, they all require some understanding of behaviours and not just attitudes. If firms do not overtly link CSR to changing stakeholder behaviours (and to business outcomes), expenditures on CSR are likely to become more and more vulnerable to criticism over time.

• Business attitude to CSR reporting is paradoxical

All respondent companies claim to have conducted a broad and deep scan of the NGO and stakeholder environment relevant to their business operations. Most engage stakeholders and NGOs formally in order to understand and assess the claims being made upon them. Equally, all are comfortable with their understanding of CSR reporting, yet are fierce in their criticisms.

Each respondent totally rejects the ideas of standardised reporting as not being suitable to their own industry (or firm). They listen to the points of view of NGOs and social auditors but reserve the right to report on what they feel is most relevant to their situation. CSR and financial managers feel inundated with requests for information from NGOs and ethical investment analysts, each addressing similar issues with different information demands. One respondent referred to “questionnaire fatigue” in reference to this proliferation of social and environmental assessments. They consider these demands difficult to meet as the data is not always at hand or accumulated according to the definitions of the particular requester. Many respondents were very wary of de facto social and environmental legislation being made through NGOs and international humanitarian organizations. One respondent referred to this as “mission creep”.

Across all the firms we interviewed (except Pilkington), social and environmental reporting was managed and communicated to stakeholders separately from their financial reports.

We sense a real paradox here of companies wanting standardisation of the information required of them but vociferously rejecting a “one size fits all” approach to CSR
measurement and reporting. If the core idea of the triple bottom line of company reporting (improved financial, social and environmental transparency) is to be achieved, then an integrated approach to such reporting and communications across the three areas is required.

Moving Forward with CSR

If our research is any guideline, it seems to us that businesses are facing a number of challenges in their approach to CSR. The argument that a firm has social responsibilities has been accepted. It is our contention, however, that the lack of a systematic framework linking investment in these responsibilities to social or business outcomes could well be inhibiting the development of CSR.

In essence, the framework proposed here calls for a number of CSR policy and practices to be fundamentally re-evaluated. From a policy perspective, we propose that CSR leaders and other management need to build a consensus behind a CSR vision of what and to whom they wish to be responsible and how they wish to measure and report on their performance against the vision. That process will force senior management to consider their company’s unique competencies and determine how they can be leveraged to differing social and financial ends. Implementation of that vision through best practices requires measurement of stakeholder behaviours, more integrated risk management and formal assessment of social outcomes.

Recent scandals have demonstrated that the reporting of financial results is problematic, despite standard reports and external verification. Social reporting is even more problematic as it requires verifiable assessments of complex social processes, such as stakeholder dialogue, responsiveness and attitudes. The campaign for global standards is led by a limited number of groups with strong links to the social responsibility community,

If business is unhappy with the plethora of reporting demanded by NGOs, then it will have to find a collective voice and create implementable reporting structures that can secure broad social support.

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References


