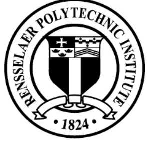

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Corporate Social Responsibility: Strategic Implications

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**Corporate Social Responsibility:
Strategic Implications**

Abstract

We describe a variety of perspectives on corporate social responsibility (CSR), which we use to develop a framework for consideration of the strategic implications of CSR. Based on this framework, we propose an agenda for additional theoretical and empirical research on CSR. We then review the papers in this special issue and relate them to the proposed agenda.

Keywords: Corporate Social Responsibility (CSR), Resource-Based View (RBV), Hedonic Analysis
JEL Classification: L15, L21, M14

INTRODUTION

In recent years, scholars and managers have devoted greater attention to the strategic implications of corporate social responsibility (CSR). Consistent with McWilliams and Siegel (2001), we define CSR as situations where the firm goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law." However, this is just one interpretation of CSR. Numerous definitions of CSR have been proposed and often no clear definition is given, making theoretical development and measurement difficult. CSR activities have been posited to include incorporating social characteristics or features into products and manufacturing processes (e.g., aerosol products with no fluorocarbons or using environmentally-friendly technologies), adopting progressive human resource management practices (e.g., promoting employee empowerment), achieving higher levels of environmental performance through recycling and pollution abatement (e.g., adopting an aggressive stance towards reducing emissions), and advancing the goals of community organizations (e.g., working closely with groups such as United Way). Researchers are moving beyond just defining and identifying CSR activities, to examine the strategic role of CSR in organizations.

Similarly, there is growing interest among managers in the antecedents and consequences of CSR, especially for executives at multi-national, multi-divisional companies. These corporate leaders are mindful of the fact that business norms and standards, regulatory frameworks, and stakeholder demand for CSR can vary substantially across nations, regions, and lines of business. They are also aware that their divisional managers are under constant pressure from employees, suppliers, community groups, NGOs, and government to increase their involvement in CSR.

Unfortunately for both academicians and practitioners, the analysis of CSR is still embryonic and thus, theoretical frameworks, measurement, and empirical methods have not yet been resolved. Furthermore, this topic cannot be analyzed through the lens of a single disciplinary perspective. Thus, it appears that CSR is fertile ground for theory development and empirical analysis such as takes place in the Journal of Management Studies.

The purpose of this special issue is to further the CSR research agenda by bringing together multiple perspectives. After issuing an open call for papers on the Academy of Management website and other venues, we received numerous manuscripts. We reviewed these papers and selected several for presentation at a Special Issue Workshop at the University of Illinois at Chicago.[1] Among the authors and discussants at the workshop were scholars from several academic disciplines (management, political science, accounting, marketing, and economics), many international contributors, and a high proportion of junior scholars.

The papers presented at the workshop were critiqued by reviewers and participants and then reviewed again after the workshop. From these revised manuscripts, we selected the five best for publication in the special issue. Several themes emerged from these studies: the relation between CSR and competitive advantage, the role of differences in institutional environments in framing stakeholder expectations regarding the propensity of firms to engage in CSR, a comparison of the social desirability of the strategic use of CSR versus "coerced" CSR, the role of economic, philosophical, and global corporate citizenship perspectives on CSR, and the evolution and influence of the academic literature on CSR.

The remainder of this paper is organized as follows. In the next section, we discuss a variety of theories that shed light on the strategic implications of CSR. Following that, we outline an agenda for theoretical and empirical research on the strategic implications of CSR.

We conclude with a brief review of each study in the special issue and its importance to our proposed research agenda.

THEORETICAL PERSPECTIVES ON CSR

Numerous theories have been brought to bear on the subject of CSR. We summarize selected articles on theoretical perspectives in Table 1. Theodore Levitt could be credited with setting the agenda for the debate about the social responsibility of business in his HBR article "The Dangers of Social Responsibility," in which he cautions that "government's job is not business, and business's job is not government" (1958, p. 47). Milton Friedman (1970) expressed the same sentiment and added that the mere existence of CSR was a signal of an agency problem within the firm. An agency theory perspective implies that CSR is a misuse of corporate resources that would be better spent on valued-added internal projects or returned to shareholders. It also suggests that CSR is an executive perk, in the sense that managers use CSR to advance their careers or other personal agendas.

R. Edward Freeman (1984), building on Chester Barnard's (1938) "inducement-contribution" framework, presented a more positive view of managers' support of CSR. Freeman's stakeholder theory asserts that managers must satisfy a variety of constituents (e.g., workers, customers, suppliers, local community organizations) who can influence firm outcomes. According to this view, it is not sufficient for managers to focus exclusively on the needs of stockholders, or the owners the corporation. Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that non-financial stakeholders perceive to be important, because, absent this, these groups might withdraw their support for the firm. Stakeholder theory was expanded by Donaldson and Preston (1995) who stressed the moral and ethical dimensions of CSR, as well as the business case for engaging in such activity. Another

perspective, stewardship theory (Donaldson, 1990) is based on the idea that there is a moral imperative for managers to "do the right thing," without regard to how such decisions affect firm financial performance.

Institutional theory and classical economic theory have also been applied to CSR in a paper by Jones (1995). The author concludes that companies involved in repeated transactions with stakeholders on the basis of trust and cooperation are motivated to be honest, trustworthy, and ethical because the returns to such behavior are high. Institutional approaches have also been used to analyze environmental social responsibility. More specifically, Jennings and Zandbergen (1995) analyze the role of institutions in shaping the consensus within a firm regarding the establishment of an "ecologically sustainable" organization. Finally, a recent paper by Waldman, Siegel, and Javidan (2005) applies strategic leadership theory to CSR. These authors conjecture that certain aspects of transformational leadership will be positively correlated with the propensity of firms to engage in CSR and that these leaders will employ CSR activities strategically.

To the extent that firms engage in CSR strategically, this behavior can be examined through the lens of the resource-based-view-of-the-firm (RBV). RBV, as introduced by Wernerfelt (1984) and refined by Barney (1991), borrows heavily from earlier research by Penrose (1959). This theory presumes that firms are bundles of heterogeneous resources and capabilities that are imperfectly mobile across firms. Barney (1991) maintains that if these resources and capabilities are valuable, rare, inimitable and non-substitutable, they can constitute a source of sustainable competitive advantage.

The first theoretical paper to apply the RBV framework to corporate social responsibility was Hart (1995), who focused exclusively on <u>environmental</u> social responsibility. Hart asserted

that, for certain types of firms, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage. Russo and Fouts (1997) tested this theory empirically using firm-level data on environmental and accounting profitability and found that firms with higher levels of environmental performance had superior financial performance, which they interpreted to be consistent with the RBV theory.

Using the RBV framework, a more formal theory-of-the-firm model of "profit-maximizing" CSR was posited in McWilliams and Siegel (2001). These authors outlined a simple model in which two companies produce identical products, except that one firm adds an additional "social" attribute or feature to the product, which is valued by some consumers or, potentially, by other stakeholders. In this model, managers conduct a cost/benefit analysis to determine the level of resources to devote to CSR activities/attributes. That is, they assess the demand for CSR and also evaluate the cost of satisfying this demand.

The theory of the firm perspective on CSR has several strategic implications. The first is that CSR can be an integral element of a firm's business and corporate-level differentiation strategies. Therefore, it should be considered as a form of strategic investment. Even when it is not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance. A second strategic implication of a theory of the firm perspective is that one can apply the RBV logic to CSR, in the sense that it is possible to generate a set of predictions regarding patterns of investment in CSR across firms and industries. For example, we expect to observe a positive correlation between CSR and both R&D and advertising (McWilliams and Siegel, 2000). Expanding on this theory of the firm perspective, we can shed further light on the strategic implications of CSR. In particular, we wish to focus

on issues relating to industry evolution, market structure, firm dynamics, and the role of asymmetric information in the context of CSR.

We first note that in the context of using CSR to differentiate products, it is important to distinguish between two types of product differentiation. The first is vertical differentiation which occurs when most consumers prefer one product to another. Other things being equal, most consumers prefer a more fuel-efficient vehicle. In the context of CSR, such a situation could occur when it is clear in the mind of consumers that the product with a CSR characteristic is better than the product without such a characteristic. For example, a "hybrid" version of a Honda Accord generates less pollution than a standard Honda Accord. Thus, it is clear to most consumers that the hybrid car is better than the standard model. Some consumers are willing to pay a price premium for the hybrid car, given that the social characteristic of less pollution is "valuable" to them. This type of differentiation can strengthen or maintain the reputation of the firm which adds value in addition to allowing the firm to meet a particular market demand (Fombrun & Shanley, 1990).

In contrast, horizontal differentiation occurs when only some consumers prefer a particular product, but the preference is based on taste, rather than quality. For example, some consumers choose a particular vehicle because of the color. This type of differentiation does not contribute to the reputation of the firm and does not allow the firm to charge a premium price. Horizontal differentiation also operates for different brands. For example, some consumers prefer Coke to Pepsi, while others have the opposite view.

In contrast to the ease of valuing CSR attributes, consumers often find it difficult to determine if a firm's internal operations meet their moral and political standards for socially responsibility. The level of asymmetric information regarding internal operations can be

mediated by the firm itself or by activists. For instance, companies such as McDonalds, Motorola, and Nike publish annual reports on social responsibility. One can view this activity as a form of advertising, especially for more general types of CSR. While such reports may be useful, some consumers perceive this information as biased, since it is filtered through senior management. Fedderson & Gilligan (2001) assert that activists can play an important role in addressing this concern, by supplying consumers with information they can rely on to choose socially responsible firms.

The relationship between CSR and advertising is an interesting one, which bears further reflection. Several stylized facts relating to industry evolution and the nature of advertising are useful to consider. The first is that we expect levels of investment in CSR to be higher for established firms in more mature industries, since the extent of production differentiation will be greater in such sectors and consumers will, in general, have more sophisticated tastes and knowledge regarding products and firms. It is clear that such companies are likely to derive greater benefits from the use of CSR for reputation enhancement/protection. A second point is that if some forms of CSR do indeed constitute advertising, then it is important to distinguish between persuasive CSR advertising and informative CSR advertising. Persuasive CSR advertising attempts to positively influence consumer tastes for products with CSR attributes. It follows that this type of advertising need not be firm-specific. Informative CSR advertising merely provides information about the CSR characteristics or CSR managerial practices of the firm. Following Milgrom and Roberts (1986), one could also view a high level of CSR advertising (either persuasive on informative CSR advertising) as a signal of product or firm quality.

Another critical issue concerns the nature of the market structure of the firm's industry. A key conclusion of the McWilliams and Siegel (2001) paper was that, in equilibrium, firms that engage in CSR will earn the same rate of profit as firms that do not engage in CSR. We refer to this finding as the neutrality result. This finding was misinterpreted by Piga (2002) as implying that CSR can only occur in monopolistically competitive industries, since some oligopoly models of vertically differentiated markets predict that (in equilibrium) firms selling the higher quality product (in our case, the firm that sells a good with a CSR characteristic) reap "abnormal" profits.

We believe that the neutrality result holds under both oligopoly and monopolistic competition. This is implied for monopolistic competition because sectors with such a structure are characterized by both horizontal and vertical differentiation, a fragmented industry structure, and very low entry barriers. Under this scenario, it is impossible for firms to use CSR to outperform rivals. Examples of firms in monopolistically competitive industries that engage in CSR include restaurants, hotels, companies selling organic produce, and different types of retail establishments.

The neutrality result likely holds for monopolistic markets as well. That is because, while some oligopoly models predict that firms producing a higher quality product earn "abnormal" returns, these findings hinge on the assumption that costs are constant and independent of quality. These assumptions were not invoked in the McWilliams and Siegel (2001) model. Furthermore, recent economic models of CSR (Baron, 2001; Fedderson & Gilligan, 2001) identify an important countervailing force on the ability of companies to engage in strategic CSR in oligopolistic industries: activists who target leading firms (e.g., the attack on

Nike's Asian production). This countervailing force makes it difficult for oligopolistic firms to achieve a competitive advantage through the strategic use of CSR.

The question of whether firms can use CSR to achieve a sustainable competitive advantage is another important question. A paper by Reinhardt (1998) finds that a firm engaging in a CSR-based strategy can only generate an abnormal return if it can prevent competitors from imitating its strategy. In competitive markets this is unlikely, since CSR is highly transparent, with little causal ambiguity. Other theoretical studies (Dutta, Lach & Rustichini, 1995; Hoppe & Lehmann-Grube, 2001) show that any early mover advantages that might be gained by offering higher quality products (recall that CSR is modeled as a "quality improvement" in McWilliams & Siegel, 2001) are eroded when competitive strategies are observable.

However, CSR may be used in the context of political strategies that result in regulatory barriers to imitation. One such strategy would be for firms to be use government regulation to impose CSR on rivals who do not employ an appropriate technology, thus raising the costs of those rivals relative to the initiating firm. Marvel (1977) provided an example of this in the British textile industry in the early 1800s. The first child labor law was passed in Great Britain after the mill owners who employed modern technology banded together and lobbied for restrictions on child labor, which was used more by the older, smaller mills. McWilliams, Van Fleet, and Cory (2002) applied the RBV framework to demonstrate how U.S. firms can use political strategies based on CSR to raise regulatory barriers that prevent foreign competitors from using substitute (e.g., low labor cost) technology.

Insert Table 1 about here

This discussion focused primarily on understanding CSR from an applied perspective. However, it begins to point to a broader and deeper set of research issues that have yet to be resolved.

RESEARCH AGENDA ON THE STRATEGIC IPLICATIONS OF CSR

There are numerous unresolved theoretical and empirical issues relating to the strategic implications of CSR. These include defining CSR, identifying institutional differences in CSR across countries, determining the motivations for CSR, describing CSR strategies, modeling the effects of CSR on the firm and stakeholder groups, determining the effects of leadership and corporate culture on CSR activity, assessing the effect of CSR on the firm and stakeholder groups, measuring the demand for CSR, measuring the costs of CSR and assessing the current knowledge base.

Theoretical issues to be resolved

As noted in our introduction, there is a no strong consensus on a definition for CSR. CSR has been used as a synonym for business ethics, defined as tantamount to corporate philanthropy, and considered strictly as relating to environmental policy. CSR has also been confused with corporate social performance and corporate citizenship. The lack of consistency in the use of the term CSR makes it difficult to compare results across studies, hampering our ability to understand the implications of CSR activity. As other issues are resolved, we hope that they lead to the emergence of an agreed-upon definition of CSR.

Having a good definition of CSR, with a common terminology, would aid us in modeling the role organizational culture and leadership in determining the importance of CSR within an organization. Researchers could analyze how changes in corporate control, particularly through merger or acquisition, affect the type and level of CSR activity within firms. Alternatively,

changes in top management (CEO or team) might be examined to determine whether leadership style and characteristics are more important than corporate control/culture for predicting CSR activity. Understanding the role of leadership could be extended to understanding the decision making process and how decisions about CSR activity are affected by demands from multiple stakeholders.

Asymmetric information makes it difficult to study the antecedents and consequences of CSR. Managers may perceive that many external stakeholders view CSR activity more favorably if it is divorced from any discussion of the bottom line. With this in mind, managers may not reveal the more practical motivations (such as product promotion, labor cost control and reputation building) behind their CSR activities, especially in corporate publications such as annual reports. This lack of candid information has made it difficult to distinguish and discuss the different motivations for CSR, which may be private or social.

The use of CSR to capture value is referred to as strategic CSR by Baron (2001) who points out that "it is the motivation for the action that identifies socially, as opposed to privately, responsible action." That is, if the motivation is to serve society, at the cost of profits, the action is socially responsible, but if the motivation is to serve the bottom line, then the action is privately responsible. For privately responsible actions, there may well be social benefits that exceed the cost of the action to the firm. However, this does not change the motivation, unless these social benefits are of value to managers. For example, providing day care may lower the number of juvenile crimes in a community, but the firm might provide the day care only because it increases the availability of workers and lowers the cost of absenteeism.

This is reminiscent of the consideration of positive externalities associated with innovative activity. An externality is defined as the impact of an economic agent's actions on

the well-being of a bystander. Pollution is a classic example of a negative externality, while innovation (whose benefits cannot be entirely appropriated by its creator) is a classic example of a positive externality. While the private returns to innovation (or those that accrue to the company) may be high, the social returns to innovation (through the creation of new or improved products and processes) may be even greater. Researchers need to use more direct methods, such as interviews and surveys, to "tease out" less self-serving information about the motivations for CSR activity and improve the precision of measurement of the private and social returns to CSE.

In addition to understanding the motivation for the provision of social benefits, we need to understand how the provision of these goods, through strategic CSR, affects society. An example of strategic CSR is when a firm links the provision of a public good to the sale of their (private) products (e.g., eco-labeling). Bagnoli and Watts (2003) model this behavior and find that propensity of firms to engage in strategic CSR depends on two factors: the intensity of competition in the market and the extent to which consumers are willing to pay a premium for social responsibility. The authors conclude that there is an inverse relation between intensity of competition and provision of CSR. That is, in more competitive markets, less of the public good will be provided through strategic CSR. Conversely, the less competitive the market, the more of the public good will be provided. This is easy to understand, since more competition results in lower margins and, therefore, less ability to provide additional (social) attributes or activity. Conversely, less competition leads to the potential for higher margins and more ability to provide additional attributes or activity.

An analysis of the provision of public goods by private firms is a welcome addition to the management literature on CSR, which has been primarily concerned with answering the

following question: do firms "do well by doing good"? Showing that a firm does well by doing good is often referred to as making the business case for CSR. While understanding the relation between firm performance and social performance is of primary importance in the management literature, a more thorough understanding of the CSR phenomenon requires that we take account of other stakeholders as well. These stakeholders include: customers, employees, governments, suppliers, taxpayers, community groups, and underrepresented groups.

Our understanding of CSR should be extended to an examination of the strategic use of CSR activities. Fombrun and Shanley (1990) established that investing in CSR attributes and activities may be important elements of product differentiation and reputation building. McWilliams and Siegel (2001) suggest that CSR activities be included in strategy formulation and that the level of resources devoted to CSR be determined through cost/benefit analysis.

Analysis of the strategic implications of CSR is hampered by cross-country/cultural differences in the institutions that regulate market activity, including business, labor and social agencies. Institutional differences lead to different expectations and different returns to activity. For firms operating in multiple countries/cultures this complicates the process of determining which activities to engage in and how much to invest. As the knowledge base of CSR develops world-wide, we will be better able to analyze and advise on CSR.

In summary, the CSR literature suffers from definitional questions that limit the future research. Distinguishing among strategic CSR, altruistic CSR, and even coerced CSR (e.g., Husted & De Jesus Salazar, this issue) constitutes a significant theoretical breakthrough. However, until theory and research can adequately agree upon what, specifically, constitutes CSR, research will continue to provide a lack of consistent results. It is to this empirical research that we next turn our attention.

Empirical issues to be resolved

Problems with measurement of the costs and benefits of CSR activities continue to cloud our understanding of the strategic implications of CSR. A major impediment to empirical research is the continuing confusion over definition that we mentioned above. It is impossible to measure what we cannot define and, as long as we use different definitions, we will get empirical results that cannot reliably be compared. Table 2 presents selected empirical studies of CSR.

Insert Table 2 about here

Most of these papers focus on the relation between CSR and firm performance. Early studies used either the event study methodology (which is based on analysis of short-run changes in stock prices as a proxy for firm performance in the aftermath of a CSR-related event) or regression analysis (which uses an accounting measure of profitability, such as return on assets, as the dependent variable in a regression model that "explains" firm performance). These studies usually attempted to answer the question: do firms do well by doing good? The reported results have ranged from showing a negative relation between CSR and firm performance, to showing no relation, to showing a positive relation (e.g. the results of divesting from South Africa shown in Table 2). There is little consistency in these findings. This may be a result of inconsistency in defining CSR, inconsistency in defining firm performance, inconsistency in samples, imprecision and inconsistency in research design, misspecification of models, changes over time, or some more fundamental variance in the samples that are being analyzed.

McWilliams and Siegel (1997) critiqued the use of the event study methodology to measure the consequences of CSR. The authors reported that the findings of event studies of CSR appearing in top management journals were unreliable, due to serious flaws in the research design and implementation of the event study methodology (see also McWilliams, Siegel, & Teoh, 1999). They also cautioned that the use of stock price as a metric for performance is not appropriate for studying CSR. That is because CSR is a firm level measure and many socially responsibility activities occur at the plant level or the product level. Another concern is that an analysis of stock price effects only relates to financial stakeholders and it is clear that non-financial stakeholders are also affected by CSR activities.

McWilliams and Siegel (2000) challenged the conventional regression model used to assess the relationship between corporate social performance (CSP), which is often used as a synonym for CSR, and firm performance. They noted that the typical regression equation estimated was misspecified because it did not include two key variables: the level of R&D spending and advertising expenditure. Both of these variables have been shown to be determinants of firm performance and, because all three (R&D, advertising, and CSP) are elements of a differentiation strategy, they hypothesized that R&D and advertising would be correlated with a measure of CSP. The results of McWilliams & Siegel's estimation of the correctly-specified, expanded equation demonstrated that the three explanatory variables were correlated. Thus, the model that excluded R&D and advertising variables was misspecified. Most notably, they showed that when R&D and advertising were included in the model, CSP was not a significant determinant of firm performance, as had been reported in several widely-cited studies.

Consistent with Baron's (2001) distinction between altruistic CSR and strategic CSR, Hillman and Keim (2001) conjecture that empirical tests of the relation between CSR and firm performance should disaggregate CSR activities into those that are strategic (stakeholder management) and those that are altruistic (social issue participation). Based on estimation of a disaggregated model, they report that there is a positive relation between firm performance (measured using market value added) and strategic CSR and a negative relation between altruistic CSR and firm performance.

McWilliams and Siegel (2001) provide a framework for analyzing CSR within the context of the theory of the firm. Based on this framework, they develop hypotheses regarding the provision of CSR attributes across industries and market structures. They hypothesize that "the provision of CSR will depend on R&D spending, advertising intensity, the extent of product differentiation, the percentage of government sales, consumer income, the tightness of the labor market, and the stage of the industry life cycle" (2001, p. 125). All of these should be tested empirically to see if the results support the hypotheses.

McWilliams and Siegel conclude that "there is some level of CSR that will maximize profits while satisfying the demand for CSR from multiple stakeholders. The ideal level of CSR can be determined by cost-benefit analysis" (2001, p. 125). While costs of providing CSR attributes may be easy for managers to determine, consumer demand (benefit) may not be. Consumer demand for CSR could be difficult to measure because CSR attributes are among many attributes of a product. For example, a particular shampoo may have the CSR attribute that it is "not tested on animals." But, it also has a particular scent, color, consistency, and package. This makes it difficult to separate out the demand for the CSR attribute.

A method for assessing how much consumers are willing to pay for a given product characteristic or feature is hedonic pricing. Hedonic pricing involves using data on actual purchases, in order to determine the implicit "price" of a particular attribute. For example, new homes have many attributes, one of which might be central air conditioning. Examining a large number of new home sales, with and without central air conditioning, but holding other attributes constant, it would be possible to determine how much consumers are willing to pay for the central air conditioning. Similarly, to determine the "demand" for "not tested on animals," researchers can compare sale data on many shampoos, with and without the CSR attribute and can determine how much consumers will pay for that attribute. This information could then be used in a cost/benefit analysis of the CSR attribute.

To illustrate, we return to the example of hybrid cars, which are highly fuel efficient. Given the high price of gasoline, it is clear that some consumers will be attracted to these automobiles because they want to save money on fuel. Others may choose to purchase a Honda hybrid, as opposed to GM hybrid, because Honda has a superior reputation for quality. Still others are willing to pay a price premium for the hybrid car, strictly because the social characteristic of less pollution is "valuable" to them. The beauty of the hedonic method is that it allows us tease out the value to the consumer of <u>each</u> of these three factors (fuel efficiency, quality differential, and the social characteristic of less pollution).

The hedonic method is based on the notion that the (logarithm of the) price of a good or service is related to its characteristics or features as follows:

$$\ln \text{PRICE} = \beta_0 + \sum_{k=1}^{K} \beta_k Z_k + \varepsilon_i$$

where ε is a random error term and Z is a vector of k characteristics or attributes. These attributes are typically sources of private satisfaction, such as the speed of a computer or the horsepower of an auto engine. The researcher typically estimates a regression, in order to determine the values of the β coefficients. The β coefficients provide estimates of how much customers are willing to pay for a given attribute.

Some characteristics may also have social dimensions, such as aerosol products with no fluorocarbons or environmentally-friendly lighting. A major advantage of hedonics, relative to other methods (e.g. focus groups), is that it is based on observed, not hypothetical data. Hedonics have been used by government agencies and other researchers to "price" individual attributes of computers, autos, housing, land, and dowries. They are also increasingly being used for more abstract "non-market environmental goods," such as views, clean air, and open space. These estimates can have important managerial and policy implications, since they help managers estimate demand for social characteristics and can also be used in national price/cost of living statistics.

The theoretical and empirical issues discussed above provide an important foundation for understanding the contributions of the articles in this special issue. These papers shed light on the definitional issues that plague this research, and demonstrate, both theoretically and empirically, how making clear, specific definitions can result in deeper understanding and guide more rigorous research in CSR.

PAPERS IN THE SPECIAL ISSUE

The article by Alfie Marcus and Marc Anderson poses an interesting research question, especially in light of our previous discussion of the strategic implications of CSR. The authors

ask whether a firm's "dynamic capability" influences its competence in CSR. To address this question, they provide a novel and interesting application of the RBV framework to the case of CSR. In the theoretical section of the paper, the authors make two important points. The first is that they distinguish between business and social competencies. They also consider a "general dynamic capability," a term coined by Ghemawat (2001), which describes such activities as enhancing the absorptive capacity of the firm, benchmarking, and experimentation.

The authors examine their research question using a detailed firm-level survey in the U.S. retail food industry. Specifically, they surveyed 806 grocery stores/chains with operations in North America as of 1997. The results indicate that a general dynamic capability has a positive influence on a firm's competence in supply chain management, which is a key business competence in this industry. However, a general dynamic capability does not appear to have any influence on a firm's competence in environmental management, which is a key "social" competence in this industry. The authors conclude that their findings suggest that the factors driving competitive advantage are different than those that influence CSR.

Jonathan Doh and Terrence Guay assess the role of differences in the institutional environments of Europe and the U.S. in explaining expectations regarding the propensity of firms to be socially responsible. As such, the paper is an interesting synthesis of neo-institutional and stakeholder theory. It is a qualitative analysis, consisting of three case studies. Specifically, the authors assess the roles that U.S. and European nongovernmental organizations (NGOs) have played in influencing CSR policies in three areas: the trade and regulation of genetically-modified organisms (GMOs), pharmaceutical pricing and distribution policies, and international environmental agreements such as the Kyoto Protocol Treaty.

The case studies reveal the role of institutional differences in these two regions in influencing government policy, corporate strategy and NGO activism related to CSR. Specifically, the authors find that these factors play an important role in determining how CSR is perceived and implemented in the U.S. and Europe. A key implication of the Doh and Guay study is that any cross-country comparison of the propensity of firms to engage in CSR should take into account these institutional differences.

In the next article, Bryan Husted and Jose de Jesus Salazar pose another interesting research question: is it better for firms to act strategically with respect to CSR than to be coerced into making such investments? More generally, the authors analyze the conditions under which firms can maximize profit and enhance social performance. As such, they take the theory of the firm perspective on CSR seriously, since they conduct a cost/benefit analysis of social responsibility. This technique was proposed in by McWilliams and Siegel (2001).

Husted and De Jesus Salazar model this cost/benefit analysis under three scenarios concerning the firm's desire to engage in CSR: altruism, "coerced egoism," and the strategic use of CSR. Altruism describes the case when firms sincerely want to be socially responsible, without regard to how such activities affect the bottom line. Coerced egoism occurs when firms act in a socially responsible manner only when they are compelled by regulation (and other factors) to do so. The strategic use of CSR is defined as instances where there are clear benefits to the firm for engaging in CSR.

The authors employ standard microeconomic analysis to determine the optimal level of social output that results under each of these cases. They demonstrate that <u>both</u> society and firms are better off when firms use CSR strategically than when they are coerced into making such investments. This is a conclusion that would make Adam Smith smile.

In the next paper, Duane Windsor examines different perspectives on CSR. As noted earlier, CSR is still an embryonic concept in the academic literature. Windsor's essay is a tour-de-force on the evolution on three opposing perspectives on CSR: economic, philosophical, and global corporate citizenship. As he defines it, the economic viewpoint focuses on the firm's ability to use CSR as a tool to create wealth, implies minimal government intervention to promote CSR, and advocates that the firm adopt prevailing business ethics. On the other hand, the philosophical perspective results in moral reflection on CSR and should lead to higher levels of CSR and other forms of altruism. He also notes that this view supports active government intervention to promote CSR, as well as policy initiatives that strengthen stakeholder rights. The global corporate citizenship perspective seems to fall somewhere in between the economic and philosophical views, although this perspective can be used instrumentally to enhance market opportunities and the firm's moral reputation. The author concludes by discussing the implications of each of these perspectives for CSR scholarship.

This special issue concludes with an article by Andy Lockett, Jeremy Moon, and Duane Visser, which assesses the status of CSR research in the management literature. Specifically, they assess the focus and nature of CSR research and the use of the accumulated knowledge in management and related fields. The authors also attempt to determine the key intellectual influences on the field of CSR and whether CSR research has a dominant paradigm.

Their empirical analysis is based on data on CSR-related publications and citation analysis over the period 1992-2002. The authors identified CSR-related articles in the following journals: Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Journal of Management, Organization Science, Strategic Management Journal, Journal of Management Studies, Harvard Business Review, Sloan Management Review,

and California Management Review. They analyzed both the articles cited in these CSR-related papers and the citations that CSR-related articles generated in other journals.

They found that the "field" is in a "continuing state of emergence," a term coined by Thomas Kuhn (1972). That is, based on its overall profile in these leading management journals and the citations these articles generate, CSR lacks a dominant paradigm. This is an obvious call to action for concerned researchers.

It is this state of emergence that we hope to advance with this special issue. The papers here exemplify the variety of perspectives that have been brought to bear on CSR. They also demonstrate an increasing ability to clearly define the construct of CSR (albeit not necessarily all agreeing on the definition) and build strong theoretical arguments and high-quality empirical studies that will provide an effective springboard for future research in CSR.

Table 1:
Selected Theoretical Papers on CSR

Author(s)	Nature of Theoretical Perspective(s)	Key Argument/Result
Friedman (1970)	Agency Theory	CSR is indicative of self-serving behavior on the part of managers, and thus, reduces shareholder wealth.
Freeman (1984)	Stakeholder Theory	Managers should tailor their policies to satisfy numerous constituents, not just shareholders. These stakeholders include workers, customers, suppliers, and community organizations.
Donaldson (1990)	Stewardship Theory	There is a moral imperative for managers to "do the right thing," without regard to how such decisions affect firm performance.
Donaldson and Preston (1995)	Stakeholder Theory	Stressed the moral and ethical dimensions of stakeholder theory, as well as the business case for engaging in CSR.
Jones (1995)	Stakeholder Theory	Firms involved in repeated transactions with stakeholders on the basis of trust and cooperation have an incentive to be honest and ethical, since such behavior is beneficial to the firm.
Hart (1995)	Resource-Based View of the Firm	For certain companies, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage.
Jennings and Zandbergen (1995)	Institutional Theory	Institutions play an important role in shaping the consensus within a firm regarding the establishment of an "ecologically sustainable" organization
Baron (2001)	Theory of the Firm	The use of CSR to attract socially responsible consumers is referred to as strategic CSR, in the sense that firms provide a public good in conjunction with their marketing/business strategy
Feddersen and Gilligan (2001)	Theory of the Firm	Activists and NGOs can play an important role in reducing information asymmetry with respect to CSR on the part of consumers.
McWilliams and Siegel (2001)	Theory of the Firm	Presents a supply/demand perspective on CSR, which implies that the firm's ideal level of CSR can be determined by cost-benefit analysis.
McWilliams, Van Fleet and Cory (2002)	Resource-Based View of the Firm	CSR strategies, when supported by political strategies, can be used to create sustainable competitive advantage.
Waldman, Siegel, and Javidan (2005)	Theory of the Firm/ Strategic Leadership Theory	Certain aspects of CEO leadership can affect the propensity of firms to engage in CSR. Companies run by intellectually stimulating CEOs do more strategic CSR than comparable firms

Table 2:
Selected Empirical Papers on CSR

Author(s)	**Methodology**	**Nature of CSR Event/Action**	**Key Results**
Abowd, Milkovich and Hannon (1990)	Event Study	Human Resource Decisions	No consistent pattern of increased or decreased stock price
Worrell, Davidson and Sharma (1991)	Event Study	Layoff Programs	Investors react negatively to layoff announcements, especially when they are due to financial distress
Clinebell and Clinebell (1994)	Event Study	Plant Closures	Longer periods of advance notice of plant closings result in greater losses in shareholder wealth
Posnikoff (1997)	Event Study	Divestment From South Africa	Divestment enhanced shareholder value
Wright and Ferris, (1997)	Event Study	Divestment From South Africa	Divestment had a negative effect on shareholder value
Teoh, Welch, and Wazzan (1999)	Event Study	Divestment From South Africa	Divestment had a neutral effect on shareholder value
Aupperle, Carroll, and Hatfield (1985)	Regression Analysis	An Overall Firm-Level Index of CSR	There is a neutral relation between CSR and profitability
McGuire, Sundgren, and Schneeweis (1988)	Regression Analysis	An Overall Firm-Level Index of CSR	Prior profitability was more closely related to CSR than was subsequent performance
Russo and Fouts (1997)	Regression Analysis	Environmental Performance	There is a positive relation between environmental performance and financial performance
Waddock and Graves (1997)	Regression Analysis	An Overall Firm-Level Index of CSR –KLD Data	CSR results in an improvement in firm performance
McWilliams and Siegel (2000)	Regression Analysis	An Overall Firm-Level Index of CSR–KLD Data	There is a neutral relation between CSR and profitability
Hillman and Keim (2001)	Regression Analysis	"Social Issues" CSR and "Stakeholder Management" CSR – KLD Data	"Stakeholder Management" CSR is positively correlated with shareholder wealth creation (market value added); "Social Issues" CSR is not

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Endnotes

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