Reconciling “Business Cents” With “Business Sense:” An In-Depth Analysis Of Corporate Social Responsibility Policies On Corporate Dynamics And Organizational Stakeholders

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ABSTRACT

The idea of corporate social responsibility, CSR, has evolved into more than a company's philanthropic pursuits; it has become a meaningful tool to engender organizational goodwill from stakeholders, as well as solidify market share. When implemented correctly, CSR policies align organizational altruistic intentions with strategic planning to better serve society and the bottom line. When implemented incorrectly, CSR policies foster negative connotations with corporate incentives. An effective CSR policy integrates the consumer's desire for sustainable business models with the organization's desire to maximize efficiency and return. Based on a myriad of factors, CSR policies also have peripheral advantages that can be explored to determine employee perception, job satisfaction, organizational commitment, and consumer advantage.

Keywords: Corporate Social Responsibility; CSR; Organizational Stakeholders

INTRODUCTION

In today's society, there has been increasing corporate scrutiny regarding not only an organization's “business cents,” but also its “business sense;” no longer is the purpose of a business strictly to “maximize shareholder wealth” at the cost of stakeholder's well being. Instead, corporations are using organizational citizenship behaviors as a method of building corporate value through various initiatives. By capitalizing on growing trends in sustainable business practices, organizations can work to integrate the shareholder's interests with the stakeholder's wellness, making “cents” make “sense.”

These organizational citizenship behaviors do not, however, occur strictly at the detriment of the company's bottom line. In fact, many organizations positively benefit from the implementation of these behaviors creating more attractive initiatives for organizations to execute. According to a 2008 IBM study of 250 international business executives, conducted by Pohle and Hittner, many leaders see CSR policies as a “growth opportunity” that maintains the ability to generate revenue, as well as increase competitive advantage (as cited in McShane & Cunningham, 2012, p. 81). Many institutions use a formal CSR policy to directly improve the company's performance in terms of brand image and employee recruiting/retention, while taking advantage of some of the secondary benefits, such as “increasing individual perceptions of ethical-organizational fit” (Coldwell, Billsberry, Meurs, & Marsh, 2008, p. 611).

According to A.B. Carroll's “A Three-Dimensional Conceptual Model of Corporate Performance,” CSR can be defined as the “economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (as cited in Valentine & Fleischman, 2008, p. 159). In colloquial terms, CSR is the expectations society places on an institution beyond the typical course of business given the present corporate

climate. These expectations are constantly evolving to best adapt to advances in technology, social conventions, and legal mandates. Being both reactionary and innovative in nature, CSR policies act as an organization's link bridging fiscal targets and altruistic intentions. This bridge integrates the moral, ethical, and social missions of a corporation with its economic and fiscal obligations to its shareholders.

CONCEPTUAL BACKGROUND: DESIGN VARIABILITY

As CSR initiatives have evolved through time, so have the societal expectations placed upon the corresponding organizations, Exhibit 1. As individual initiatives are implemented across industries, stakeholders increase expectations of corporations based on the newly established norms. This behavior forces organizations to adopt dynamic attitudes towards CSR initiatives to stay ahead of the competition. Organizations that fall behind in any of these regards tend to reap lower rewards than their competitors (Piercy & Lane, 2009, p. 343-345). The effectiveness of a given CSR policy is highly dependent upon multiple variables, including perceived authenticity and strategic design.

Perceived Authenticity

Exhibit 1: Ethical Fit (Coldwell, Billsberry, Meurs, & Marsh, 2008, p. 613)

In the approximate five year time span, it becomes increasingly apparent that there are disconnects between expectations and overall industry performance in terms of CSR policies. Even as expectations have risen, performance has declined steeply which places a strain on stakeholder-organization relations. In this occasion, the organizational CSR policies are not advancing in relation to stakeholder expectations.

As a variable, perceived authenticity is a direct result of the dynamic expectations of stakeholders; it is no longer acceptable to merely have a theoretical CSR policy by which the organization adheres, instead practical applications must be clearly visible to the stakeholder for the benefits to be retained. Stakeholder's perceived authenticity runs along a continuing spectrum, where authenticity is also a measure of return.

As defined in McShane and Cunningham's 2012 article, despite the myriad of denotative explanations across disciplines, "authenticity" can be distilled into the simple principle of "being true to oneself" (p. 83). This principle is the metric to which all stakeholders measure an organization's CSR policy, and thereby determine the level of return attained by the organization. As a continuation of McShane and Cunningham's argument, there are multiple facets to increasing the perceived authenticity of CSR initiatives, including a sustained commitment of resources and organizational engagement (2012, p. 87-90).

Both aspects of perceived authenticity are highly dependent upon the degree of awareness on the part of the stakeholder. There typically is a correlation between greater visibility of the CSR policy's effects and organizational return (Tripathy & Rath, 2011, p. 44-46). One of the methods of consistently displaying social accountability is by ensuring a sustained commitment of resources towards the CSR initiatives; by allocating tangible resources to diverse initiatives, stakeholders are given a visual reaffirmation of the corporation's dedication to balancing the "Triple Bottom Line" (McShane & Cunningham, 2012, p. 87). This takes the intangible properties of a theoretical CSR policy and gives them a physical manifestation for stakeholders to associate with and other organizations to emulate.

Just as it is important for stakeholder's to visually recognize the effects of a CSR policy, it is also important for the intentions of the policy to be aligned with corporate ambitions. If a CSR policy's goal is not properly aligned, the results of this oversight can be severe, including but not limited to internal corporate barriers inhibiting CSR policy implementation and lowered perceived authenticity (Piercy & Lane, 2009, p. 346; McShane & Cunningham, 2012, p. 87-90). This alignment can range from the statements and subsequent actions of the corporation to the internal and external actions of an organization (McShane & Cunningham, 2012, p. 87-88). Essentially, what the corporation emphasizes in the theoretical CSR policy must also be emphasized in the organization's day-to-day communications/behaviors, as well as the external business practices. This relates back to the visibility aspect of perceived authenticity, as well as forward to the topic of strategic design.

Strategic Design

When designing a CSR policy, a corporation should take into consideration multiple factors, such as a cost-benefit analysis of initiatives and employee engagement in applications. In some instances, a policy may seem beneficial, however if its costs outweigh the potential gains, or if the employee involvement is low this initiative should be abandoned or redesigned. Poorly designed policies are detrimental to overall CSR effectiveness and detract from other advantageous strategies. In one of the cases presented by McShane and Cunningham, the perils of disregarding employee engagement are displayed:

I used to work in an investment bank and we [worked closely with charity]. And, the reason that we got involved in it was that, one of high muckety-mucks'... daughter had diabetes. And so he engaged everybody and [said] this is what we're going to do, it's our corporate thing and we're going to go do it, [but] ...people weren't all that engaged in it, they didn't have that personal connection. ~ Allen (2012, p. 90)

Even though the executive chose a cause that seemed significant to himself/herself, the employee engagement was not there. This meant that employees had little incentive to support the executive's initiative or internalize it as part of the organization's typical behavior. This lack of support makes the CSR efforts seem weak, lowering perceived authenticity. If the executive had chosen a different cause or placed a larger emphasis on employee feedback, the integration of the CSR initiatives would have been more effective, engendering a more positive reaction.

BENEFITS/DETRIMENTS OF CSR INITIATIVES

After establishing a CSR policy, it is important to continuously monitor its effectiveness to ensure sustained performance and beneficial return. By examining the causal relationship between effective initiatives and value creation, an organization can best determine the future trajectory of CSR initiatives and adjust to negative feedback to avoid tarnishing the corporate image. Stakeholder's dynamic view of CSR initiatives requires an organization to proactively adopt a dynamic attitude as well. The two major stakeholders who play integral roles in shaping the CSR policies of corporations are the organizational employees and consumers, Exhibit 2 (Tripathy & Rath, 2011, p. 45).

Exhibit 2: Organizational and Consumer Effects on CSR Effectiveness

Organizational Employees

CSR policies have the distinct advantage of being linked to increased organizational commitment, job satisfaction, and employee empowerment/retention (Valentine & Fleischman, 2008, p. 160; Coldwell, Billsberry, Meurs, & Marsh, 2008, p. 611-612; McShane & Cunningham, 2012, p. 81-83). This correlation makes CSR initiatives especially useful to potential managers looking to attract the top talent in the field. Essentially, workers are looking for an organization that shares similar social accountability principles, or somewhere that employees can be proud to work.

Although the CSR policy is an indirect cause of the phenomena, it is truly the corporation's efforts that make this possible. Firstly, it is imperative the corporation acknowledge the CSR initiative's strategic opportunity for growth via competitive advantage and revenue generation. This influences the employees' perceived authenticity and establishes an emotional connection to emphasize the corporation's commitment to the implemented policies (Valentine & Fleischman, 2008, p. 168).

By answering the employees' social requirements of the firm, corporations can influence organizational attractiveness/commitment, and job satisfaction (Coldwell, Billsberry, Meurs, & Marsh, 2008, 613-615). CSR initiatives have the ability to empower the employee by satisfying the desire to contribute to society in a way that might be unattainable on a personal scale. This enhances corporate unity, as employees identify with the corporation and its social accountability goals. Furthermore, by enhancing commitment and morale, employees' efficiency increases, as does employee retention and job satisfaction. Simply put, happier workers are more efficient and less likely to seek alternative employment and CSR policies help satisfy worker's desire for contentment. In fact, a study of UK employees found that 58 percent "believed that the social and environmental responsibilities of the organization they worked for were very important" (Brammer, Millington, & Rayton, 2007, p. 1702). This further emphasizes the importance of the implementation of effective CSR policies.

Conversely, CSR policies that are ineffective also have astounding consequences. Whether due to lack of authenticity or employee value inconsistencies, organizations can see ineffective CSR policies as a misallocation of resources, discouraging future endeavors. This sends a clear message to stakeholders that the organization is not truly committed to such initiatives and that any further attempts are merely “window dressing.” This can even decrease employee commitment further, which discourages any future attempts to update CSR policies. By attempting to address issues immediately as they arise, organizations can forgo the negative consequences and capitalize on the weaknesses to further strengthen corporate positioning.

Consumer

As another integral stakeholder influencing the CSR policies of an organization, consumers, with their purchasing power, are not to be ignored. Similar to the demands placed by the employee, consumers also engender reactions from corporations seeking to address these needs. An effective CSR policy should address a demand by a consumer and enhance the corporate image, in order to create a strategic marketing incentive, Exhibit 3 (Kreng & Huang, 2011, p. 532-533). These initiatives may be influenced directly by consumer demands or indirectly by public policy mandates; regardless of the origin, corporations benefit from increased consumer value placed on products/services, increased credibility, and branding opportunities (Lacey, Kennett-Hensel, 2010, p. 582-583).

Exhibit 3: Study Framework (Kreng & Huang, 2011, p. 533)

As the proposed framework for the study conducted by Kreng and Huang, this figure details the various forces influencing the CSR policies of organizations. CSR initiatives are related to “earning profit” and “social services,” which influences “consumer behavior,” “corporate strategy,” and “public policy.” For example a rigorous reform adopted by a single organization, can influence consumer behaviors. This in turn may influence corporate strategy by effecting purchasing decisions and public policy by impacting legislative proceedings.

This increase in valuation may be attributed to the prevalence of social-action causes championed by industry, as shown by “91% of US organizations reporting formal CSR policies... translating to an estimated \$14.5 billion in charitable giving” (Lacey, Kennett-Hensel, 2010, p. 581). Primarily consumers fall into four distinct categories, as described by Piercy and Lane (2009, p. 345)...

1. Committed, cause-driven purchasers (~8%)
2. Those who want to purchase ethically but are not sure how to, and are looking for retailers to help them (~30-35%)
3. Those who feel the same but doubt their individual purchases can make much difference (~30-35%)
4. Those who are completely uninterested (~22-32%)

These four sub-classifications of consumers accentuate the importance of clearly visible CSR policy implementation. With a market that can support a premium of 5-10% of the price attached to a product/service from a company with well-regarded CSR policies, there is a highly competitive market to attract conscientious consumers (Piercy & Lane, 2009, p. 340). By simply instituting an effective CSR policy, a corporation can attract 8% of the market share, while by instituting an effective CSR policy whose initiatives and effects are clearly visible to consumers a corporation can attract 68-78% of market share. This significant value comes from increased organizational social credibility and branding opportunities that differentiate products from competitors, Exhibit 4.

Exhibit 4: Company Responses to CSR Imperatives (Piercy & Lane, 2009, p. 348)

The relationship between CSR initiatives and customer value are based upon multiple factors. Depending on the organization's "CSR Responses," whether active or passive, the customer value may increase, decrease, or remain constant. Outside influences, such as "employee/manager perceptions," "company social credibility," and "other stakeholder perceptions" also contribute to the customer's value placed on the product/service. By adapting a proactive approach to CSR, a corporation can positively influence these additional factors and influence customer value.

Conversely, ineffective policies can be caused by corporate misrepresentation, consumer misinterpretation of goals/standards, or internal ethical discontinuity amongst participants (Piercy & Lane, 2009, p. 344; Kreng & Huang, 2011, p. 537). These have clearly recognizable effects, such as consumer assigned corporate stigmas, the advantageous repositioning of a competitor, decreased consumer commitment and purchasing incentives, as well as lower product differentiation. This decrease in brand loyalty places a direct strain on customer relations, as consumers become dissatisfied with CSR initiatives. Even if the initiatives were previously well-regarded by the public, an evolving metric of effectiveness can render CSR initiatives moot. By adopting a strictly defensive approach to CSR policy evolution, organizations can create strategic weaknesses in regards to proactive competition (Piercy & Lane, 2009, p. 349). By adopting a purely reactionary position, CSR policies tend to become stagnate and incapable of capitalizing on the market potential, rendering them ineffective.

THEORETICAL MODEL

In the effort of rigorous analysis, the proposed theoretical model falls into two larger categories: the individual and the organization. Based on the construction of previous studies, the model seeks to identify the relationship between consumers, employees, managers, and organizational return. This relationship will be measured using individual surveys designed to measure personal values, individual interviews sampled from the surveys, and fiscal analysis of financial statements.

In the "Individual" component of the research, employees and managers of a particular industry will be asked to complete a comprehensive, three-part survey designed to measure personal values towards, organizational

implementation of, and perceived authenticity of CSR initiatives. The first part, personal values, will measure the importance placed upon CSR initiatives by the individual, including purchasing behaviors, personal involvement, and assigned value. This will serve as an indication of the overall individual's receptiveness to potential CSR initiatives. Secondly, the individual will answer questions regarding the organizational implementation of CSR policies. This will refer primarily to the theoretical aspects of the CSR policy of the organization, such as the scope of reforms, day-to-day implications of initiatives, and "individual accessibility." This will establish the level of integration the CSR initiatives have been able to permeate into the corporate dynamic. Finally, the perceived authenticity of the CSR policies will be evaluated to determine the individual's personal viewpoints regarding effectiveness, organizational integration, and receptiveness to future initiatives.

The "Individual" responses will be divided into "Employee" and "Manager" categories to view the CSR initiatives from both ends of the organizational spectrum. This ensures any discrepancies between managerial and employee perceptions are addressed, prior to the fiscal analysis which will serve as a baseline for comparison. After the responses have been collected, a randomly selected portion of respondents will be chosen for participation in a series of confidential interviews regarding the nature of their survey responses. By allowing the participants the opportunity to elucidate upon the survey answers, the research will gain a better understanding of employee and managerial viewpoints towards CSR initiatives and organizational implementation.

To examine the impacts of the CSR policy, in terms of corporate gains/benefits, a fiscal review of organizational financial statements will be obtained to determine whether individual judgments of employees and managers are indicative of the policy's realized performance. By determining the "true effectiveness" of a policy, the surveyed respondents' personal views and opinions can be weighed against the actual impacts. This will add yet another metric for comparison of results, and will be considered the control group, Exhibit 5.

This study is designed to evaluate the "effectiveness" of CSR initiatives based on the individual perceptions of employees and managers, as well as the organizational fiscal return. Additionally, the study will examine the relationship and any possible discrepancies between the employees and managers interpretation of CSR policies, with the organizational financial statements acting as a quantitative metric and control group.

CONCLUSION

Although many studies examine the broad effects of cross-industry implementation of CSR initiatives throughout the corporate hierarchy, there is little research conducted regarding the regional and industry-specific CSR policy effectiveness. Due to industrial differentiations, comprehensive, cross-industry observation may provide a weakness in terms of CSR development. Certain industries are at varying stages of CSR "maturity," which must be considered when comparing results. Additionally, regional factors, such as geographic isolation, may limit the scope of CSR initiatives implemented by a given institution. This will provide a continuing stream of research in the coming years.

CSR is a dynamic opportunity for strategic growth and corporate development, as well as a chance to increase stakeholder value in the organization. From increase job satisfaction, employee retention, and organizational commitment to building firm social accountability, brand image, and consumer value, CSR helps align interest of shareholders and stakeholders. This alignment helps the organizational citizenship behaviors with the strategic objectives of the corporation, building employee empowerment and consumer satisfaction. Through the use of variables, such as perceived authenticity and strategic design, corporations can capitalize on social issues to help further society and corporate standing. This creates a competitive advantage for institutions, as well as engenders goodwill from consumers. Ultimately, CSR initiatives are behaviors that try to reconcile decision making that makes “business cents” and “business sense.”

AUTHOR INFORMATION

Madeline Marco Scanlon is a junior at Robert Morris University currently pursuing undergraduate degrees in Actuarial Science and Finance, while simultaneously completing her MBA. Originating from a diverse academic background, Madeline has been a part of various research projects exploring such areas as the mathematical reasoning behind Shannon-Weaver Communication Theory and the practical applications of TRIZ Analysis on green technologies. Currently, Madeline is directing her focus towards researching the implications of sustainable behaviors and corporate social responsibility on organizational behavior. Upon graduation, Madeline wishes to obtain her ASA and FSA credentials, as well as a PhD in Finance.

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