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RESPONSIBILITY APPROACHES

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Organization and Management

October  
2007

HELSINGIN KAUPPAKORKEAKOULU  
HELSINKI SCHOOL OF ECONOMICS  
PL 1210  
FI-00101 HELSINKI  
FINLAND

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Helsinki School of Economics

ISSN 1235-5674  
(Electronic working paper)  
ISBN 978-952-488-189-0

Helsinki School of Economics -  
HSE Print 2007

# Something good for everyone?

## Investigation of three corporate responsibility approaches

Minna Halme  
Helsinki School of Economics  
Dept. of Marketing and Management  
P.O. box 1210  
00610 Helsinki  
e-mail: minna.halme@hse.fi  
tel. +358 40 353 8251

### Abstract

Corporate responsibility (CR) is primarily considered as a trend that is expected to bring “something good for everyone”, corporations and societal stakeholders alike. Contrary to the popular perception, I argue that potential threats pertain to the CR trend. To begin with, the paper points out that the outcomes of corporate responsibility are unclear. The research community appears to be more keen on the responsibility policies and programmes of corporations than their outcomes. Studies on the outcomes of corporate responsibility are deficient at least in two ways. Firstly, despite the abundant studies addressing the link between corporate responsibility (CR) and financial performance, little attention has been paid to the fact that different types of corporate responsibility also have different performance implications. Secondly, while the majority of CR research conducted within business studies concentrate on the financial outcomes for the firm, the societal outcomes of CR are left largely unexplored. To tackle these two deficiencies, this paper first presents a pragmatic categorization of corporate responsibility. This categorization consists of three CR action-orientation types that are based on the dominant mode of CR activities practiced by the firm. It is argued that each of these types lead to different outcomes. The final aim of the article is to explore the implications of alternative CR action-orientation types with regard to financial and societal performance.

### Introduction

During the past decade, the negative side-effects of globalized market economy and the ever increasing power of multi-national corporations have become more evident (Stiglitz 2002, Korten 1995). The ability of nation states to tackle disparities of wealth distribution and other inequalities with traditional legal and regulatory means has turned out inadequate. As the international regulatory bodies have not been able to form a sufficiently strong counter-force to corporate power either, high hopes are being placed on a complementary mechanism: self-regulation of companies in the form of voluntary corporate (social) responsibility (Jenkins 2005, Zadek 2004). Governments expect this trend to advance social justice and decelerate environmental degradation, while companies usually aspire the same trend to retain their licence-to-operate and minimize mandatory intervention of external parties.

At the first look corporate responsibility appears like a motherhood and apple pie –concept. It holds the inherent promise that companies voluntarily take on to themselves societal tasks, which are beyond the legislation or other mandatory requirements, and which may involve no apparent economic gains for the shareholders. At the second look we may notice that by asking companies to take voluntary responsibilities beyond their business, we actually

legitimize their increased power to decide about societal matters. In certain societal contexts it is righteous to ask, whether corporate responsibility trend poses a threat for democracy. For example, let us think of a large corporation that successfully lobbies for tax reductions, but at the same donates funds for information technology purchases for libraries or sets up art museums. Both of the latter deeds can be easily be perceived as implementation of corporate responsibility, but in essence the corporation has transferred decision-making power over usage funds to itself. The tax funds for public spending have reduced while spending decided upon by the corporation has increased. This is problematic from at least two perspectives. Firstly, some causes will always be more attractive targets of donations than others. Art, ICT and sick children for example, are attractive targets for donations, but who is interested for instance in the elderly? Another concern with regard to increased societal involvement of corporations is the question of skills and expertise of corporate managers in societal work. Moreover, we need to scrutinize what kind of long-term societal development perspective there will be if societies are headed by corporations.

The above concern about democracy and its long-term development is relevant mainly for such societal contexts where democratically chosen government is functional, where the governance mechanism works through effective legislation and regulation and public sector. But even in the context of corrupt states or developing countries with weaker governance structures we must be prepared to ask whether corporations have long-term interest in developing these societies. While at present corporations may be the only engine for development in weak societies, it should not be taken for granted that CR offers the most meaningful long-term solution for societal development in the long-term. Perhaps even more importantly, we should scrutinize whether certain kind of CR is more beneficial than others. In other words, what kind of CR produces the desired outcomes?

There is very little analysis of the above (McWilliams and Siegel 2000). The research on the outcome side that there is, focuses mainly on the influence of CR on 'the bottom line', i.e. financial performance (FP) of the firm. Even in this stream of research there is much to improve. As I find that the financial and societal outcome questions of CR should be understood as parts of the one and same whole, let me next discuss the CR-FP research briefly, and then link this to the discussion about societal outcomes of CR. Despite a couple of recent meta-analyses that provide evidence of a positive relationship between corporate responsibility and financial performance (Margolis and Walsh 2003, Orlitzky, Schmidt and Rynes 2003), the evidence from the abundant studies on the CR-FP relationship, however, remains mixed (Barnett and Salomon 2006, Porter and van der Linde 1995; Aragón-Correa and Sharma 2003; Orlitzky et al. 2003; Schaltegger and Figge 2000; Wagner et al. 2001; Salzmann et al. 2005;).

One of the likely reasons for inconclusive evidence is that previous research on the influences of CR on financial performance (FP) frames CR as a monolith (Salomon 2006). I expect that further progress in the study of the outcomes of corporate responsibility (CR) would require research designs and conceptualizations to be more fine-grained. They tend to disregard that corporate behaviour varies depending on the firm-specific and industry-related factors (Lankoski 2000, Reinhardt 1999, Fox 2004). The monolithic view of CR is misleading also because it ignores the fact that corporate responsibility can be implemented in different ways – irrespective of the industry or other contextual factors. In other words, the question is not only whether companies practice corporate responsibility or not, but also what kind of responsibility is practiced.

It is likely that the mode of implementing CR influences its outcomes, including the financial ones (Porter and Kramer 2006). Even though several conceptualizations of distinctive CR types have been presented, empirical study of the link between the type of CR practiced and its performance outcomes has been rare. This means that the conceptual development in the entire field of CR has not been incorporated into research on financial performance. This also

means that those who have recognized different types of CR in their conceptualizations, have not problematized the societal and financial outcomes of these types. An exception is the study by Hillman and Keim (2001), which demonstrates with quantitative empirical evidence that the content of CR makes a difference in corporate financial performance. Similarly, evidence from mutual funds that practice socially responsible investing indicates that the financial returns from these investments differ depending on the operationalization of social responsibility used by the fund (Barnett and Salomon 2006). Consequently, rather than repeating the question of whether CR improves financial performance, we ought to refine the question and ask “what kind of CR improves financial performance and under what conditions?”

Second, further progress in this domain requires that the research on the performance outcomes of CR should be extended to cover also the societal realm. At present, most research in this domain concentrates on describing or analyzing CR policies, programmes, initiatives and the like, but it seldom scrutinizes their societal effects. But even though the business community and business academics appear to be most keen on the financial outcomes of CR, few would dispute that a major rationale behind CR lies in its societal outcomes. These include the quest of environmental protection and social decency and the need to even out some of sharpest inequalities brought about by the globalizing market economy. Yet, business scholars hardly question whether the whole CR trend is beneficial for its recipient, the society or its parts. It appears to be taken for granted that corporate responsibility is good for society – as long as corporations not only use CR as a sole public relations gimmick, but truly engage in it. At the same time, however, questions such as the effects corporate responsibility actions on society remain largely unexplored (Margolis and Walsh 2003). If, however, we take seriously the recommendation that business scholars should not lose the grip of broader societal issues (Ghoshal 2005, Rocha and Ghoshal 2006, Pfeffer 2005), our task becomes to understand the societal outcomes of CR better.

The aim of this paper is to start exploring the financial and societal outcomes of different CR types. The paper proceeds as follows. At first, existing CR typologies will be examined and elaborated. Using these as a baseline, I will outline three broad pragmatic CR action-orientation types that are especially intended to clarify how different ways of implementing CR deviate from each other. From this the paper moves to discuss the financial and societal outcomes of these different CR action-orientation types.

## **Alternative corporate responsibility approaches**

It is widely agreed that regardless of the specific label, corporate responsibility is a concept that not only defines the duties of business enterprises towards societal stakeholders and natural environment, but also describes how managers should handle these duties (cf. Windsor 2006)<sup>1</sup>. It assumes that companies have responsibilities that sometimes go beyond legal compliance and that they have responsibility for others with whom they do business with (Blowfield and Frynas 2005). Beyond this general level, interpretations of CR vastly differ. In this article, CR is treated as policies and activities that go beyond mandatory obligations such as the economic responsibility (being profitable) and legal responsibility (obeying the legislation and adhering to regulation). This is because in a market economy these two issues are considered to form a baseline for business activity. Unprofitable business usually ceases to exist and an enterprise that breaks laws or regulations will be dealt with by the legislative mechanism (Carroll 1996). This is although it is recognized that there are local contexts where the formal written law is not enforced. In such contexts,

<sup>1</sup> Corporate responsibility (CR) is a nebulous concept. Today, it is often used interchangeably with the previously dominant term corporate social responsibility (CSR). This article prefers applying the term corporate responsibility in order to stress the equal importance of social, environmental and economic responsibilities of corporate actors. In fact, for some the term corporate social responsibility may indicate denial of environmental responsibility of business (DesJardins 1998), which is a confusion that we want to avoid.

despite that legislation exists, situations arise in which corporate actions enter the area of “voluntary responsibility” rather than being codified by law (Fox 2004).

The fact that corporate responsibility has a number of sister concepts such as corporate sustainability, ‘business in society’, corporate citizenship, social issues in management, corporate accountability and the like (Garriga and Melé 2004, Meehan, Meehan and Richards 2006, Waddock 2004), adds confusion surrounding the responsibilities of corporations. However, expectations toward and interpretations about responsibilities of business enterprises vary not only because of this conceptual obscurity, but also because CR is inherently a concept that relates business to society. Since societies are different, conceptions about CR are bound to differ, too. Different national, cultural and social contexts call for different sorts of responsibility from companies (Midttun et al. 2006). For instance, in countries where social necessities are not taken care of by the government or by non-governmental organizations, more requirements and expectations tend to become directed toward the corporate sector.

### **Previous corporate responsibility typologies**

Attempts to understand the complex corporate responsibility phenomenon have led not only to proliferation of sister concepts, but also to multiple typologies used to describe it. Most often these typologies seem to serve research purposes rather than business practice. This is because a majority of them remains at conceptual level and thus does not easily translate to practitioners interested or involved in the CR efforts of companies. In any case, we recognize three main types of typologies that will be briefly elaborated next.

Firstly, it is possible to distinguish CR typologies based on the firm’s motivation to undertake CR efforts. Here the term motivation refers to ‘the reason why a firm engages in CR’. For instance, Husted and Salazar (2006) distinguish three CSR types based on the motivation of the firm. They differentiate between altruism, enforced egoism and strategic intent. Windsor (2006), on the other hand, makes a distinction between economic and ethical CSR, and corporate citizenship conception. In Windsor’s terms, in economic CSR, the firm’s rationale would be utilitarian, i.e. it is motivated by the competitive and market gains. In contrast, ethical CSR corresponds to altruistic motives. Finally, corporate citizenship refers to the strategic use of philanthropy as a motivational lever. Like many other motivation-based CR typologies, the ones mentioned here are conceptually deduced categories. Motivation for CR has also been studied in the form of qualitative empirical analysis but the results from these studies are mainly case descriptions that are not easily converted into typologies. Quantitative empirical studies on the motivation of corporations for responsibility, on the other hand, are difficult to conduct because such motivation tends to be a complex bundle of principles and attitudes that are, furthermore, conditioned by various contingencies.

Secondly, some authors approach corporate responsibility by scrutinising responsibilities that a firm is expected to accomplish. These can be called normative responsibility typologies. Among the most well-known of such typologies is Carroll’s (1991 and 1996) four-part pyramid classification. The first two parts of responsibilities include the economic responsibility of being profitable and the responsibility to conform to the legislation and regulation. Failure to fulfil these responsibilities usually leads to some form of a sanction – either a legislative one or extinction from operation because of economic failure. Beyond necessary economic and legislative responsibilities are ethical responsibilities. These refer to those activities that are expected or prohibited by societal members even if they are not codified in the law. These responsibilities are reflected by norms, standards and expectations of society. Finally, the fourth part in Carroll’s model is philanthropic responsibilities, comprising of responsibilities, which are purely voluntary from the business’ point of view. Contribution to humanitarian programmes or purposes would represent such responsibilities. The difference between ethical and philanthropic responsibility is that the latter is not

expected, but rather desired by societal stakeholders. According to Carroll's (1996) typology, a company is usually not considered unethical if it does not engage in philanthropy, whereas if it breaks against an ethical norm, accusations for immoral behaviour tend to arise.

Thirdly, the stage typologies are based on the idea that companies can be at different levels or stages of their CR development or awareness of CR. These models tend to begin with a stage labelled as 'defensive' or 'reactive/compliance'. These refer to behaviour patterns where firms defend against demands for CR by external constituents or react to them reluctantly. The models then move towards the other stages characterized by strategic and transformative orientation to CR, referring to going beyond legislation or other requirements, and aligning responsibility in their business strategy (Hunt and Auster 1992, Post and Altman 1992; Zadek 2004, Mirvis and Googins 2006). Some of these models explicitly adhere to a dynamic view, presenting firms as agents that move from one stage to another (for instance from lower level of CR awareness to a higher one), whereas others at least implicitly see 'defensive', 'reactive' or 'proactive' CR-orientation as static states characterizing different organizations (see e.g. Carroll 1979).

The starting observation of the paper was that previous literature has downplayed the fact that different types of CR may accrue different outcomes. The other side of the coin is that typologies most often encountered in corporate responsibility literature do not easily lend themselves for empirically observable linkages with financial performance or societal outcomes. Motivation-based CR categorizations are difficult to utilize, because there tend to be so many intervening factors between motivation and financial and societal outcomes, that an empirical research on these factors would be overly complex. Husted and Salazar (2006), for instance, have proposed a micro-economic model, which seeks to link altruistic versus egoistic CR motivations with profitability and social performance. Despite its theoretical merit, the model would be difficult to apply in an empirical study because studying links between motivations and outcomes is problematic, particularly if we speak of research designs that involve more than a single case. On the other hand, responsibilities assigned for firms are categories based on legal and moral obligations and as such somewhat difficult to link to performance-level outcomes. On the contrary, stage typologies comparing the outcomes of reactive versus strategic CR would appear a promising starting point for outcome comparisons, but such a starting point has rarely been applied. Presumably this is because empirical operationalization of each category would require multiple determinants and classification of many firms into multi-determinant categories is overly cumbersome.

Consequently, if we aspire to compare the financial and societal outcomes of different types of corporate responsibility, the existing typologies do not provide a healthy basis for such research. Instead, we need a CR typology that is formed from a more pragmatic perspective. In order to assess the impact of different corporate responsibility types on the firm's financial performance and societal outcomes, the content of categories should be empirically observable. To that end we suggest an action-oriented CR typology in the following section.

### **Suggestion for an action-oriented corporate responsibility typology**

This article extends the existing CR typologies by suggesting another typology that is based on the dominant mode of CR activities practiced by the firm. This is especially because it may be the most feasible solution is to scrutinize the outcomes of CR. Moreover, examining the mode of CR action is informative from the managerial perspective. When the mode of implementing CR is the target of analysis, our question is: "What type of responsibility actions should the firm primarily apply in order to generate the targeted financial and societal outcomes?" With this approach we would obtain the previously missing means to pragmatically assess the relationship between CR actions and their outcomes.



The seminal work of Wood (1991) urged researchers to assess corporate responsibility in a comprehensive fashion. To that end she introduced the corporate social performance (CSP) model which captures “principles of CSR, processes of corporate social responsiveness and outcomes of corporate behaviour” (pp. 692-693). Thus, a part of her model tackles the responsibility actions<sup>2</sup> and their outcomes. This often cited model, however, has not been applied as guidance for empirical studies on the relationship between CR action and outcomes. In the attempt to understand the CR action-orientation of companies, we can draw on some of questions asked by Wood (1991), such as: “What action orientation does a company bring to its relations with the external environment?” and “what methods does a company use to respond to environmental conditions and social demands?” (pp.706-707). There are also other issues touched upon in CR literature, such as what is the relationship of CR action to core business of the company (Porter and Kramer 2006) and what the are expected benefits of CR action (Zadek 2004). However, despite that these issues have been discussed in the literature, they have not been systematically put into one framework. In contrast, we here employ these issues in the pursuit to develop an action-oriented corporate responsibility model. This is done by combining three dimensions on which CR activities practiced by the firm may differ: CR’s relationship to core business; target of responsibility actions and benefits expected from CR activities. It is possible to distinguish at least the following three CR types that differentiate from each other with regard to the above listed dimensions:

- (1) Philanthropy (emphasis on charity, sponsorships, employee voluntarism etc.)
- (2) CR Integration (emphasis on conducting existing business operations more responsibly)
- (3) CR Innovation (emphasis on developing new business models for solving social and environmental problems)

One of the observable differences between firms engaging in CR is usually whether a firm conducts selected philanthropic activities or whether it concentrates on integrating responsibility considerations in its own business activities. The latter includes issues such as the environmental soundness of products and production, treatment of workforce in the company and suppliers facilities and so on. This distinction resembles the CR categorization applied by Hillman and Keim (2001), who divided firms into two broad categories based on how they practice CR. In their division, firms that focus on responsibility of their own business are contrasted to those that engage in charitable activities and use corporate resources for social issues<sup>3</sup>. The latter bears similarity with philanthropy CR type.

However, during the last few years, a trend has arisen, that may eventually broaden our understanding of CR beyond the previously dominated dichotomy. This trend entails seeing CR as a source of business innovations. The key manifestation of this trend is the base-of-the-pyramid (BOP) approach that especially seeks to solve problems of socially disadvantaged groups within a society while simultaneously creating new businesses or at least a lucrative business opportunities for companies (Prahalad 2005; Prahalad and Hart 2002; Prahalad and Hammond 2002; Fox 2004, Bendell and Visser 2005; WBCSD 2004). It is interchangeably called bottom-of-the-pyramid approach. Another parallel indication of the same trend are the new service business models based on energy or material efficiency opportunities and sustainable energy technologies (Lovins, Lovins and Hawken 1999). Furthermore, United Nations Environmental Programme’s Human Development through Market -initiative is an example of promoting business that explicitly tackles both social and environmental sides of CR (UNEP 2006, cf. Hart 2005). This trend of a firm taking selected social and/or environmental problems as a source of innovating new business has strong

<sup>2</sup> Responsiveness in Wood’s (1991) model.

<sup>3</sup> The difference between the suggested typology is that Hillman and Keim (2001) take stakeholder orientation as the basis for categorizing the actions of the analysed firms. CR Integration in their terminology would resemble the category of firms that act responsibly toward their primary stakeholders such as customers, employees and suppliers.

implications to the CR action perspective. When evaluated against the above defined dimensions, it clearly differs from the two previous CR types. We call this type CR Innovation (see Table 1 below).

Table 1. Comparison of CR action types

		CR action type		
		Philanthropy	CR Integration	CR Innovation
Dimension of action	Relationship to core business	Outside of firm's core business	Close to existing core business	Enlarging core business or developing new business
	Target of responsibility	Extra activities	Environmental and social performance of existing business operations	New product or service development
	Expected benefit	Image improvement and other reputation impacts	Improvements of environmental and social aspects of core business	Alleviation of social or environmental problem

We may present the three CR action types in a condensed form as follows. The primary CR orientation of the firms that conform to philanthropy is on charitable actions and using corporate resources for 'doing good' (i.e. donations, other charitable activities, or encouraging personnel to engage in voluntary work)<sup>4</sup>. In essence, the charitable activities take place outside of the firm's immediate own business and no direct business benefits are sought from them. They are extra activities, not a part of the core business. Indirectly, a company can seek to minimize intrusive public policy or improve corporate reputation and market opportunities with philanthropic activity (Godfrey 2005).

On the contrary, firms characterized by CR Integration attempt to combine responsibility aspects into their *core business* operations. In terms of stakeholder management, they are primarily concerned about responsibility toward their primary stakeholders such as customers, employees and suppliers. This type of responsibility is characterized by actions like ensuring high product quality and investments to R&D (responsibility toward customers), paying just wages and avoiding overcompensation to top managers at the cost of other employees, taking diversity-oriented measures (responsibility toward employees), paying in time to suppliers<sup>5</sup>, supplier training programs, supporting responsibility measures of the supply chain (e.g. no child labour; responsibility toward suppliers) and applying environmentally benign practices and policies (responsibility toward the local community). In other words, in CR Integration the responsibility considerations are integrated into the business operations of the company in question. As to the expected benefits, the company may simultaneously seek benefits related to corporate reputation, cost-savings, risk reduction, or anticipation of legislation.

<sup>4</sup> Hillman and Keim (2001) termed this approach to CR as "Social issue participation", which comprises issues such as charity, giving programs, donations and avoidance of 'sin industries', that is nuclear, tobacco, alcohol or gambling.

<sup>5</sup> Payment delays are a common problem in supplier relationships in which large client has considerable power over a supplier. These situations occur when there are few large industrial buyers and multiple small or medium sized suppliers who mainly depend on one or two clients (Zadek 2004).

The third CR action type, CR Innovation, is different from the two previous ones in several respects. Most important, a business enterprise takes an environmental or social problem as a source of business innovation and seeks to develop new products or services, which provide a solution to the problem. Contrary to philanthropy, however, this kind of CR should fulfil the win-win condition. While the company tries to develop new business that would alleviate an environmental problem or benefit a chosen poor market segment, it aims to simultaneously also create revenue for the enterprise. Inherent in CR Innovation is a strong win-win idea: corporations are not expected to provide products or services to low-income markets or to protect the environment because of the willingness to do good or to help. Instead, the underlying idea is to cater an underserved market or to benefit the environment so that it also makes business sense.

While the aim for the win-win condition distinguishes CR Innovation from philanthropy, this difference is no longer as obvious with respect to the CR Integration type because the latter can also increase corporate profitability. For instance, eco-efficiency improvements cut costs while simultaneously reducing the environmental burden. Or good working conditions are likely to further employee loyalty and lessen employee turnover. The key difference between CR Innovation and Integration, however, is that the former is about creating *new* business aiming at reducing a social or environmental ill, while the CR Integration is concerned about conducting *existing* business responsibly. In this case the added value brought about by the responsibility aim means that the business is conducted with the aim of reducing harm (necessary condition) or doing good to the involved stakeholders, if possible (additional condition). In the CR Innovation, solutions to social or environmental problems are a *starting point* for planning *new* business, products or services (Table 1). Hence, forming of such solutions cannot be delegated to CR professionals. Instead, to be materialised, these activities must be an elementary part of corporate R&D, business development and most likely also strategic management work. In some cases CR Innovation may require even deeper integration of the idea of responsibility into business than is the case when the already existing operations are being made more responsible. As a result, it may also be asked whether CR Innovation is eventually nothing but good business. This question may especially be raised by those for whom corporate responsibility equals to sacrifices of corporate funds. For this apparently dominant view in the U.S., philanthropy would qualify as the truest form of CR (Godfrey 2005, Carroll 1996, Mirvis and Googins 2006, Global Market Insite 2005). We maintain, however, that if business delivers new solutions to social or environmental ills, it is justified to call it responsible.

We recognize that the identification of the three CR types alone is not a major contribution to extant literature in this domain. While developing yet another CR typology has its merits, our aim is to go a step further and examine the influence of the CR mode to the outcomes that result. With the help of the above outlined typology of CR action types this should be possible. We will next discuss how and the extent to which this typology makes it possible to scrutinize the links between CR actions and their outcomes.

## **Financial and societal outcomes of different CR types**

It is possible to analytically differentiate between financial and societal outcomes of CR. On the one hand, CR influences the financial performance of the firm and on the other hand it has societal consequences. As mentioned, the study of the outcomes of CR is deficient in two respects. First, the studies of financial outcomes of CR predominantly neglect the fact that different ways of implementing CR are likely to generate different outcomes. Second, business academics have been strikingly disinterested in the societal outcomes of corporate responsibility (Margolis and Walsh 2003; Blowfield and Frynas 2005). This section tackles both of these deficiencies by utilizing the CR action typology developed above. The financial

performance question will be addressed first, and then the social outcomes of corporate responsibility will be focused upon.

### **The influence of action type to financial outcomes of CR?**

The traditional perception in previous CR research has been that corporate responsibility and financial performance are a zero-sum game: a responsible company would have to compromise on the financial side. Over the past few decades, however, many researchers have tried to show that CR pays off, if not in the short-term, at least in the longer run in the form of social legitimacy, employee motivation, eco-efficiency or other benefits. For one, there is plenty of case study evidence indicating that responsibility brings along economic benefits based on increased employee loyalty, longer-term relationships with customers, better risk management and efficiency improvements (Dunphy et al. 2003; Reinhardt 1999; Orsato 2006). Secondly, a number of quantitative studies indicate that proactive CR – particularly environmental responsibility – is profitable for the firm (Porter and van der Linde 1995; Guimaraes and Liska 1995; Hart and Ahuja 1996). A couple of recent meta-analysis indicate a positive link between corporate social and financial performance (Orlitzky et al. 2003; Margolis and Walsh 2003).

Nonetheless, in aggregate the results on the financial outcomes of CR remain inconclusive (Margolis & Walsh 2003, McWilliams and Siegel 2000, Godfrey 2005; Aragón-Correa and Sharma 2003; Schaltegger and Figge 2000; Wagner et al. 2001; Barnett and Salomon 2006). Usually imperfect methodologies are blamed for the contradictory findings (McWilliams and Siegel 2000, Orlitzky et al. 2003). It has also been pointed out that framing CR as monolith causes problems (Salomon 2006). To yield feasible results the research designs and conceptualizations should be more fine-grained. For example, the majority of current CR-FP studies take into account neither the influence of industry nor the geographical nor societal setting to their findings (Salzmann et al. 2005). Yet the financial performance outcomes of responsible corporate behaviour vary depending on the firm-specific and industry-related factors (Lankoski 2000, Reinhardt 1999, Fox 2004).

The mixed evidence, however, implies also that the repeated question, “is CR profitable or not”, is formulated incorrectly. Most studies fail to take into account that there are different ways of practicing corporate responsibility, and that these ways may yield different outcomes (Barnett and Salomon 2006; Hillman and Keim 2001). A more correct formulation could, therefore, be “What kind of CSR is profitable?”

The analysis of Hillman and Keim (2001) is one of the few studies investigating the influence of the type of CR to financial performance from an empirical vantage point. Testing the financial performance of over three hundred Standard & Poor’s 500 companies, they found that responsible management of primary stakeholder relationships accrues improved shareholder value, whereas charity-type of CR (i.e. philanthropy), which is not related to primary stakeholders is negatively associated with shareholder value. Integrating responsibility in core business means investing in key stakeholder relations, which in turn may lead to improved customer loyalty, lesser employee turnover and the like. These tacit assets appear to be a source of competitive advantage which is difficult for competitors to copy. This is not the case in charity-based CR activities (Hillman and Keim 2001).

Hence, there is already some empirical evidence to support our claim that the type of CR action makes a difference for CR financial outcomes. In the same vein, the microeconomic analysis of Husted and Salazar (2006) indicates that strategic rather than altruistic CR approach is more profitable for the firm. In our view, CR can be judged as ‘strategic’ when it supports core business activities and thereby contributes to the firm’s effectiveness in accomplishing its mission. Philanthropy can also be strategic, but in practice it seldom is (Porter and Kramer 2002 and 2006, Burke and Logsdon 1996).

On the basis of the above, we can argue that the action-type CR Integration is more prominent in terms of financial outcomes than Philanthropy. But how about CR Innovation and its influence on financial performance? At the time of writing this only few quantitative comparative studies based on large samples are available. There is more quantitative data regarding eco-efficiency than BOP initiatives. Many eco-efficiency innovation cases show that eco-efficiency improvements of companies create cost savings or new business (WBCSD 2000). A recent quantitative comparison of 65 European countries indicates that eco-efficiency has clear monetary value to companies (Advance 2006, Figge and Hahn 2006). Base-of-the-pyramid research is a recent trend, but there are documented BOP-business examples that can be assessed. Multiple economically successful examples are described for instance in Prahalad (2005), Hart (2005), Hart and Christensen (2002) and Hart and Milstein (2003). This evidence implies that CR Innovation is in many cases financially profitable, but due to the research settings where the evidence comes from, it is best considered as indicative.

Like CR Integration, CR Innovation is also usually close to core business. Its strategic role can, however, be different from that of CR Integration. Namely, CR Innovation involves creating new products, services or business models that may be particularly important for the future of the company. Occasionally CR Innovation also means conquering major new markets – particularly in the case of BOP approach.

As activities conforming to CR Integration and CR Innovation types are usually related closely to the core operations of the companies, they are more often strategic to the organization than activities representing philanthropy. CR which is close to core business, allows the firm to collect particular benefits of CR programmes and activities, rather than simply creating collective goods which can be shared by others in the industry, community or the society at large (Porter and Kramer 2006, Burke and Logsdon 1996). In sum, the above suggests that CR Integration and CR Innovation types carry more financial performance potential than philanthropy (Burke and Logsdon 1996).<sup>6</sup>

### **The influence of action type to societal outcomes of CR**

It is important to note that, to date, little effort has been dedicated to investigate what is the contribution of CR to various societal stakeholders (Margolis and Walsh 2003). Only a few studies ask whether CR benefits society, be it society at large or the specific target groups that should reap the benefits of CR efforts. It can be argued that particularly among business scholars it is taken for granted that CR is automatically advantageous to society (Blowfield and Frynas 2005). There is, however, substantial evidence on the contrary.

A case in point here is the work conducted among developing countries. Decades of failed governmental efforts have turned expectations to corporations as the agents that could deliver better solutions to pressing development problems (Easterly 2006). CR has been widely accepted as an approach or a tool in this task. However, it appears that when interests of business are not aligned with those of the poor and marginalized in the developing countries, the business case tends to override the development case (Blowfield and Frynas 2005; Frynas 2005). Voluntary standards and codes of corporate conduct have become popular in the North, but they may not be transferable to development country conditions with major power disparities. In those strikingly different conditions these approaches may not deliver the expected societal benefits. When pressure from donor, NGOs or government is absent, there is little incentive for companies to act if the financial

<sup>6</sup> It should, however, be noted that Hillman and Keim focus on practical activities whereas Husted and Salazar use motivation of CR as basis of categorization. The support is valid only if we interpret the altruistic approach in Husted and Salazar's model to corresponds to what Hillman and Keim call charity approach.

outcomes of CR activities are not immediately observable (Nevell 2005). Moreover, there is indication that even major charitable corporate spending does not deliver expected results due to corruption, the problems of short-termism, and the fact that company staff tends to focus on technical and managerial solutions and is unable to involve beneficiaries of CR work. For instance the effectiveness of the estimated US\$500 million CR spending of oil, gas and mining companies in community development in different countries has been increasingly questioned (Frynas 2005).

The above, however, does not imply that all kinds of CR endeavours are doomed to fail. The negative evidence presented above comes mainly from philanthropic type of CR. CR Integration and CR Innovation types are based on a different logic. CR Integration would mean high standards in environmental management of production<sup>7</sup>, paying fair compensation to workers in own facilities and applying similar responsibility policies for suppliers' operations<sup>8</sup>. As to CR Innovation, its very starting point is a social problem, which the company seeks to solve or alleviate with its own products or services. But unlike in the case of philanthropy, the very essence of CR Innovation is that the solution should be lucrative for the company, instead of aiding the underserved customers at the cost of the company. This is exemplified by a number of practical BOP business cases documented for instance by Prahalad (2005) and Hart (2005)<sup>9</sup>. However, due to its very starting point of solving a social or an environmental problem, it can be argued that CR Innovation type of corporate responsibility may have the greatest potential also in terms of societal outcomes. This is especially if the practicing firm does not take short-cuts and make compromise when crafting business models that benefit both ends.

In the previous sub-section I reviewed evidence to suggest that Integration and Innovation types of CR action are economically more beneficial to a company than philanthropy. Somewhat more surprisingly, there is indication that such strategically oriented approaches to CR also yield more substantial societal outcomes charity and philanthropy (Porter and Kramer 2006, cf. Husted and Salazar 2006, Burke and Logsdon 1996). There are multiple reasons to this observation. Philanthropic activities tend to remain disconnected and isolated from the corporate operating units. This is not to say that philanthropy could not be well-targeted and long-term – it can (Godfrey 2005) – but much of corporate philanthropy consists of incidental initiatives toward generic social issues. The social impacts of these initiatives are often sporadic (Porter and Kramer 2002; 2006). Business benefits, on the other hand, do not usually exceed short-term reputation improvements or sometimes hypothesized assurance against reputation risks (Godfrey 2005). On the contrary, when a company addresses its own existing business from the responsibility perspective the efforts tend to be aligned with business operations. Thus, they have also a greater potential to accrue business benefits that are more specific than, for instance, reputation enhancement. Moreover, when the social benefits and business incentives are aligned, more managers, also the less socially attuned ones, are more likely to engage in responsible activities. It should also be taken into account, that in times of economic hardship, philanthropic activities are at risk. On the contrary, in the strategic case there is less likelihood that CR activities are abandoned.

<sup>7</sup> For instance oil drilling in development countries causes clearance of land leading to long-lasting or permanent loss of vegetation, release of drilling fluids to the ecosystem, damages from leaking pipelines or atmospheric emissions from the flaring of gas (Frynas 2005: 594-595). CR Integration would require minimising the harmful impacts of these operations. For paper companies this approach would entail that wood comes from sustainably managed forests, that paper-making processes are eco-efficient and do not pollute waterways and air.

<sup>8</sup> At a macro-economic level, one of the first steps for companies that are large players in national development country context, publicising the amount of revenues and taxes paid to the host government is one part of bearing responsibility.

<sup>9</sup> Yet it should be noted that there are also voices that are critical against BOP approach (Kamrani 2007). They maintain that the business benefits as well as advantages to the poor or other underserved are often exaggerated. In general, BOP-criticism is seldom substantiated with empirical evidence, but it is evident that some BOP business models may fail to advance the position of the underserved customers.

Figure 1 summarizes the main observations made above. It suggests that of the three types of CR outlined in this paper, philanthropic CR tends to be least integrated with the core business of the company, whereas CR Integration and CR Innovation approaches are more tightly interwoven with core business. For reasons outlined above, it is proposed that the CR Innovation type of responsibility may accrue highest potential benefit – both for the practicing firm as well as society (Figure 1). However, CR Innovation is circled by a dotted line. This indicates that there is only case-based and anecdotal evidence regarding the financial and societal outcomes of CR Innovation.

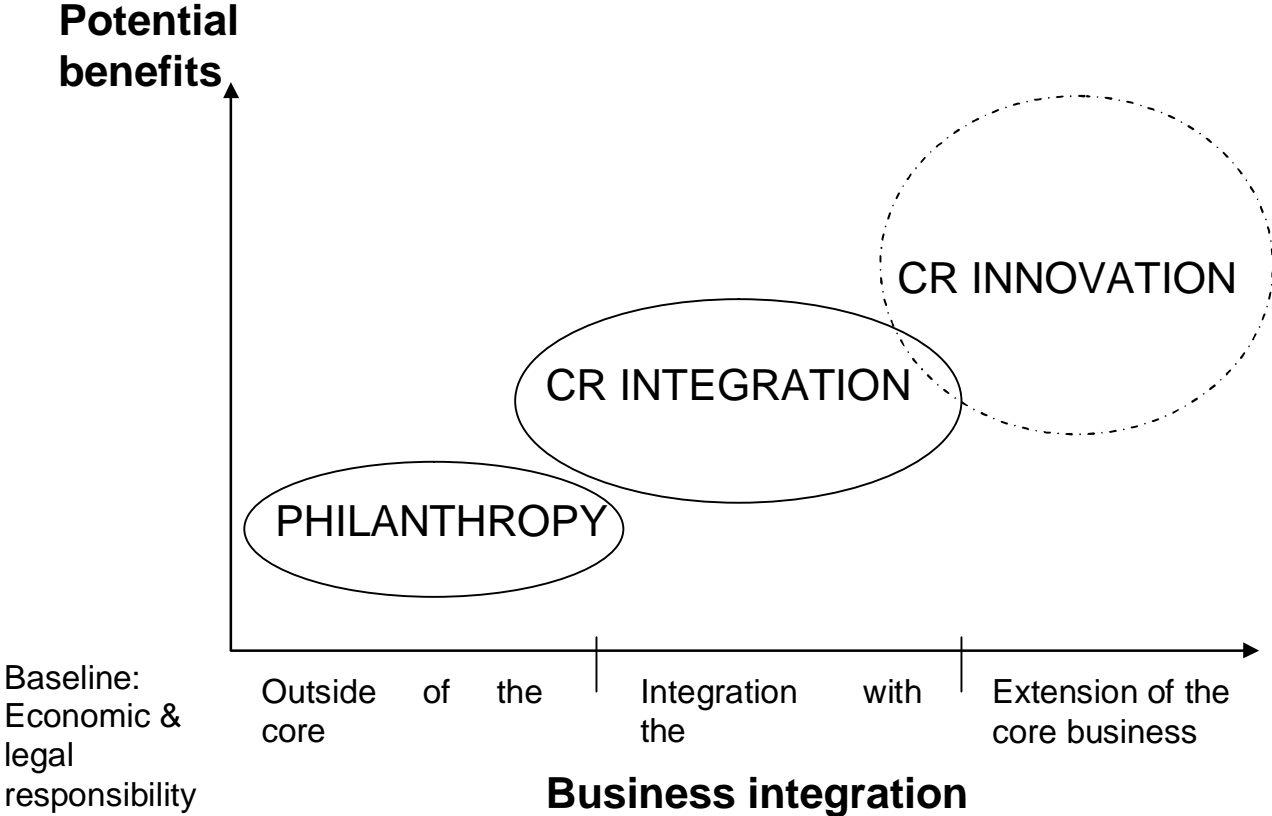


Figure 1. Level of business integration of CR types and the potential for expected financial and social benefits.

When interpreting the figure above, it should be kept in mind that it is intended to depict the dominant CR approach of a company. On most occasions, companies have a CR portfolio which is likely to include activities conforming to different types. For instance, companies that primarily follow CR Integration approach may also conduct some philanthropic activities especially in such cultural settings where it is expected from them for ‘licence to operate’ reasons. On the other hand, firms that engage in CR Innovation most likely also conduct activities that fall in the category of CR Integration. Small or medium-sized companies (e.g. Vertergaard-Frandsen 2006) which predominantly offer products that solve problems of the poor populations are a minority. In larger companies, such as Philips, more ordinary and established CR activities that conform to philanthropy or CR Integration types usually precede BOP initiatives (cf. Philips 2004). Moreover, when a multinational or large national company adopts a BOP strategy, its former CR Integration activities are likely to remain and co-exist aside of BOP activities. Despite this co-existence, it is usually possible to distinguish firms from one another with respect to the dominant CR action type. This is especially if we

accept the above presented three CR types as a convenient short hand notation rather than strict mutually exclusive categories.<sup>10</sup>

## Conclusions

The starting point of this paper was that corporate responsibility trend is expected to deliver “something good for everyone”. Not only business managers but also many other constituencies outside of the business community, such as politicians and global aid institutions, put trust on corporations as agents that will provide solutions to social and environmental problems. Similarly, the research community at business schools is keen to report on CR policies and programmes of companies. So positive are the expectations, that we do not scrutinize what outcomes actually result from CR trend at many different levels from single companies and single beneficiaries to change of political ideologies of global governance.

Following from this point, the paper argues for the importance of careful study of the outcomes of CR – not only for the financial performance of the firm but also for the societal stakeholders and the society at large. Furthermore, I maintain that in the studies about the outcomes of corporate responsibility we ought to give up seeing CR in a monolithic fashion and rather distinguish between different CR approaches. This is because corporate responsibility is practiced in various ways in different business companies. The financial and societal outcomes of *different CR action types* call for attention. In its entirety, the present study should be taken as an indication of a need to pay attention to the different ways in which corporate responsibility is practiced in contemporary business companies. This is especially because these different ways lead to different financial and societal outcomes.

In order to address this knowledge gap three distinct corporate responsibility action types, termed as Philanthropy, CR Integration and CR Innovation were outlined, and their financial and societal outcomes were explored. The material reviewed and discussed suggests substantial differences in the financial performance of companies with respect to the type of CR action conducted. It appears that philanthropy is least profitable from the financial performance perspective, and somewhat counter-intuitively, it also seems to accrue the most modest societal benefits. CR Integration and CR Innovation appear to have more potential with regard to both financial and societal outcomes. When making this observation it should be emphasized that hardly any contemporary company conducts only one type of CR actions, but that usually a predominant action-type for a company can be distinguished.

The typology suggested here is only one of the first steps toward an improved understanding about corporate responsibility actions and their financial and societal outcomes. With respect to future studies we have two points to make. First, although there are previous studies about the ways through which companies may benefit from corporate (social) responsibility, the benefits (or disadvantages) are hardly ever connected to CR practices, but the analyses remain at a general level. Future studies about the financial and societal outcomes of CR ought to be more fine-grained. Future research needs to investigate the kinds of outcomes that are produced by each type of CR. The CR types presented here offer one possible springboard for that study.

Finally, this article has named a few societal outcomes from CR activities for illustrative purposes. Future studies need to address these outcomes in a more detailed fashion. These

<sup>10</sup> A couple of final limitations of Figure 1 should be taken into account. Firstly, it is a visualisation of the general argument. It is not claimed to apply to all single cases. Secondly, it is possible that some single CR measures and undertakings have negative social impacts, which is a situation excluded from the above graphical illustration.



outcomes need to be both classified and measured. For the time being, there are some promising – mainly single-case studies – on the societal outcomes of CR. Systematic review and analysis of these studies offers one avenue toward a more comprehensive understanding of societal outcomes of CR.

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