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## **NRG**

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# A RESEARCH AGENDA FOR INTERNATIONAL CORPORATE SOCIAL RESPONSIBILITY

## Abstract

This paper builds on a recent article by Elisabet Garriga and Domènec Melé, in which they provided an overview of the main approaches in current CSR (Corporate Social Responsibility) research. It applies their general approach to CSR research aimed specifically at the international level, and concludes that the research agenda in this field may usefully be divided into four main questions. First, how does the process of establishing absolute (also 'international' or 'universal') standards for social and environmental issues - supposedly related to the objectives and values of developing societies - affect business behaviour? Second, under which conditions can profit maximisation by Western firms lead to responsible business behaviour in developing countries, and under which conditions does such behaviour contribute to profit maximisation? Third, what is the relevance of societal demands on business behaviour related to developing countries, and what is the legitimacy of these demands? Fourth, under which conditions can Western-based businesses make a positive contribution to local communities in developing countries?

## Keywords

International corporate social responsibility, csr

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## **A Research Agenda for International Corporate Social Responsibility**

*Frans Paul van der Putten*

### **Introduction**

This paper builds on a recent article by Elisabet Garriga and Domènec Melé, in which they provided an overview of the main approaches in current CSR (Corporate Social Responsibility) research. They divided research on CSR into four categories of theories:

a. Ethical theories. These revolve around the ethical requirements in the relationship between business and society. Within this group Garriga and Melé distinguish normative stakeholder theory, universal rights, sustainable development, and the common good approach.

b. Instrumental theories. These focus on CSR as a strategic tool for wealth creation, and are concerned with maximising shareholder value, strategies for competitive advantage, and cause-related marketing.

c. Integrative theories. This group of approaches studies how business integrates social demands, by concentrating on issues management, the principle of public responsibility, stakeholder management, and corporate social performance.

d. Political theories. Theories in this group are related to the social power and inherent responsibilities of business to play a positive role in its social environment. In particular they focus on corporate constitutionalism, integrative social contracts, and corporate citizenship.

While Garriga and Melé highlight the necessity of further research to investigate how all these theories and approaches connect, their overview summarises half a century of CSR studies and in itself may be regarded as a tentative indication of CSR as a domain in academic research as it is actually practiced. Thus, although most individual instances of research are concerned only with one particular approach or theory, and possibly reject the validity of the other approaches, the collective output of CSR research shows what the academic community apparently considers as being covered by the term 'CSR'. On the basis of their study, Garriga and Melé identify four dimensions that together constitute CSR research. These four dimensions therefore can be assumed to be the central themes researched in CSR, and relate to: ethical values, profits, social demands and community performance. In other words, CSR research studies the demands on business to adhere to ethical values, secure profitability, integrate social demands, and display a positive role in the community. The binding element is that what is *demande*d of business by society. To what extent society's demands should and can be fulfilled in practice is the main question underlying CSR research as a whole.

Most theories on CSR (from any of the four categories) are not explicitly concerned with the international aspects of CSR. To get an idea of how CSR theories relate to the international level it is necessary first to briefly look at each of the four categories of CSR theories.

### *CSR and ethical values*

According to A. Carroll, the first definition of CSR ('the social responsibilities of the businessman') was provided in 1953 by H.R. Bowen: '[...] the obligation of businessmen to pursue those politics, to make those decisions, or follow those lines of action which are desirable in terms of the objectives and values of our society' (cited in Carroll 1999a, 269). Thus Bowen implicitly raised the major problem of knowing what is desirable for society. The emergence of business ethics as an academic field in the 1980s stimulated the systematic study of this issue (Waddock 2004, 19; Van Luijk, 1999; Buchholz and Rosenthal 1999, 310). What Garriga and Melé refer to as the common good approach is a point of attention in business ethics, but even more so is the issue of the responsibilities of the individual manager. The main practical question in this regard is which actions by corporate decision-makers are inherently right (Karssing 2000, Wirtz 2000).

Not so much a result of academic progress but of the practical need for concrete standards, a rudimentary framework of what is desirable emerged in the 1990s: the major components in CSR were thought to be economic, social and environmental responsibilities. This three-component view, the 'triple bottom line' (people, planet, profit; Elkington 1997; see also Zadek 2001, 9), has gained wide acceptance among business, government and other groups. Attempts have also been made to further develop the 'absolute' requirements for responsible business behaviour in the social and environmental spheres. These are the 'universal rights' and 'sustainable development' movements referred to by Garriga en Melé. The universal rights approach attempts to define which social responsibilities are the minimal requirements to CSR, with human rights and labour rights taking up a central role. Although so far consensus has not been achieved, the social standards proposed are often related to such state-sponsored documents as the Universal Declaration on Human Rights and the ILO conventions. The sustainable development approach, which often refers to the 1987 Brundtland Report as its first major milestone, focuses on the basic responsibilities with regard to the natural environment (Van Luijk 1993, 207; Desardins 1999). Like with social standards, there are no generally accepted environmental standards, other than those legally defined, that are clearly delineated. The mentioned documents are aimed primarily at government policies; they were not written to be used as criteria for company behaviour. Nonetheless, because they are widely seen as the most relevant materials available, guidelines for business are often derived from the standards contained in these documents. Many corporate codes of conduct actually refer (implicitly) to many of these international standards (on codes of conduct see Kolk and Van Tulder 2002). Some businesses support codes that are sector-wide, or even business-wide (for instance SA8000: Leipziger and Kaufman 2003).

Another approach to establish what is desirable for society has been provided by normative stakeholder theory. The theory that a firm is a nexus of contracts between stakeholders was developed in the 1980s and 1990s (Freeman 1984, Clarkson 1995), and has become very popular as a tool to describe relations between companies and all the various groups inside and outside of the organisation who have an interest in it. Normative stakeholder theory holds that the responsibility of business is not to society at large, but to legitimate stakeholders (Donaldson and Preston 1995). Focusing on specific groups in society (the legitimate stakeholders) rather than 'society' in general can be helpful, but has also caused a controversy as to who is a legitimate stakeholder. Shareholders, employees, customers, suppliers, and local communities are often accepted as legitimate stakeholders, also by companies themselves. The status of other groups, who play a less 'primary' role (Clarkson 1995, 106-107), is less clear. Moreover, the question of how conflicting interests between legitimate stakeholders are to be solved in terms of allocation of corporate resources is also unclear. Finally, whereas the main assumptions underlying the universal standards (regarding rights and sustainable development) approaches can be argued to relate to fundamental values, this is more difficult in the case of the normative stakeholder approach. For instance, work by Wim Dubbink shows that stakeholder theory does not always solve the tension between CSR and democracy (Dubbink 2005).

#### *CSR and profits.*

This group of theories emerged in the early 1960s, in response to the beginnings of a CSR debate in the United States some years earlier. The best-known advocate of this group of theories is M. Friedman, who took the shareholder value approach by claiming that profit maximisation is the only responsibility of business. Some authors have specified this by stating that it is specifically *long-term* profit maximisation that is the proper responsibility of business (Garriga and Melé, 53-54). This implies that interests of any stakeholder group, not just of shareholders, can be a part of responsible business, if this contributes to long-term profitability. The problem is, as has been established by various authors already in the 1970s, that it is very hard to know how social

and environmental targets relate to long-term profits (Abt 1974 and 1977, Lufkin 1974, Novick 1974). Therefore the shareholder maximisation approach has produced theories aimed at defining CSR in terms of specific aspects of company benefits (competitive advantages, cause-related marketing; see also Hummels and Timmer 2004). Particularly relevant in this context are studies of how managing CSR-related (political) risks relate to the company's interests. Investing in limiting potential reputation or other damage from CSR issues implies short-term costs but better long-term protection of the organisation's interests (Litvin 2003, 300-302).

Although many managers accept the basic principle that long-term profitability requires some degree of taking into account various stakeholder interests, in the 1990s the time horizon of businesses became shorter, especially in the USA. E. Englander and A. Kaufman have described how CEOs became more powerful with regard to their colleagues on the board, while at the same time stock options became their main reward, instead of salaries. The result is what Englander and Kaufman termed the transformation of US capitalism from a technocratic to a proprietary form (Englander and Kaufman 2004, 404). The effect is that indicators of profitability have become aimed at a shorter term than previously, which undermines the notion that business tends to behave socially responsible in order to achieve long-term continuity. Business ethicists have increasingly directed their attention to the morality of the market, as the market is the main force to determine the balance between profits and other aims (Van Lwijk 1993, 212-213; De George 1994, 8).

#### *CSR and social demands*

In the 1970s, the attention in CSR shifted away from theorising about what is good for society, to analysing which demands to business are put forward by society. In 1979 Carroll concluded that CSR relates to society's *expectations* (Carroll 1979, 500). This is slightly different from Bowen's statement in 1953 that society's objectives and values are the main criterion for CSR. In Carroll's approach, society actually has a notion of how business ought to behave. This might be expressed in demands made by society. It is relevant here to distinguish between demands to *limit* the (negative) impact of business on society, and demands aimed at *increasing* the (positive) impact. Thus a company may be required to minimise damage to the environment through its own commercial operations, while also being asked to contribute actively to promote environmental improvement through non-commercial activities such as promotional campaigns. From the 1950s until the present, the dual (positive and negative) meaning of CSR has caused much confusion. Social concerns aimed at minimising the negative impact of business may be more properly referred to as concerns of 'irresponsible corporate behaviour', while the approaches emphasising the positive impact are often termed 'corporate citizenship'.

The business response to social demands (positive and negative) was studied and referred to in terms of corporate social performance and corporate social responsiveness (Carroll 1979, 501, Wood and Jones 1998, Buchholz and Rosenthal 1999, 306).<sup>1</sup> The emergence of descriptive stakeholder theory in the 1980s facilitated research on the business integration of social demands. This theory defined the social context of business as consisting of stakeholder groups, each having its own set of expectations regarding a company (Clarkson et al. 1994). Thus in CSR the general concept of society was replaced with the more specific concept of stakeholder groups. Stakeholder and issues management became important areas of research. A problem arising from this development is the question of how a demand put forward by given stakeholder group relates to 'society's expectations'. Moreover, important questions are how management should deal with conflicting stakeholder demands (Blair 1995), and how society can judge whether business behaviour meets its expectations?

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<sup>1</sup> Recently the concept of corporate social responsiveness, as developed in the 1970s, has been revived in Dutch literature: Hummels et al. 2003.

### *CSR and political performance*

This set of approaches is based on the notion that business has social power and needs to use this power responsibly. According to a recent definition by Dubbink (2005, 55), social power is the ability to influence the outcome of societal processes relevant for the solution of public issues, independent from political institutions. In comparison to the theories focusing on social demands, a stronger emphasis is put here on the responsibility of business to play an active and positive role socially. That companies should not cause social or environmental damage is more or less taken for granted.

Following the introduction of terms like corporate constitutionalism and integrative social contract, this approach resulted in the 1980s and 1990s into the theory of corporate citizenship (Carroll 1999a, 290; Waddock 2004, 26; Matten and Crane 2003). Most authors who have explored the concept stress concern for the local community as a main element (Garriga and Melé 2004, 57). In an international context this means that wherever a company is active, it plays a responsible role in the local community. In a developing country context this is often thought to relate to improving the local community in terms of environmental and social development. Depending on the size of the company, 'local' may pertain to a town or to a whole country. In the context of globalisation, also the term global corporate citizenship is sometimes used. This refers to the thought that the world is more and more becoming a single community, with global firms as important actors. Many stakeholder demands put forward by non-Western NGOs are aimed at soliciting a positive contribution by business to local social or environmental issues.

### *The international level*

Originally, mainstream research on CSR concentrated on domestic issues such as market power, philanthropy, racial discrimination, the position of women, and the environment. This was especially the case in the United States, where most CSR research took place. But by the early 1990s, issues relating to international relations were becoming an important element in CSR (Van Luijk 1993, 207). What is different with regard to the decades before circa 1990, is that a far larger proportion of business in industrial countries is involved in developing countries, either directly (through direct investment or direct trade), or indirectly (via extra-company supply chains). As a result of the widespread attention for the process of globalisation, 'the most significant feature of the business world' (Boatright 2000, 2), CSR is often seen in the context of international relations, where government regulation is less dominant than at the national level (De George 1999, 236). Currently foreign investment and trade are generally welcomed by most governments of developing countries. The old worries of powerful corporations acting as agents of foreign imperialism diminished in favour of new desires for rapid economic growth through foreign capital and technology.

From an international perspective, the *ethical values theories* on CSR are not very different than when seen from a domestic point of view. The main difference is that it becomes even less clear what the objectives and values of society are. Involving developing countries means that societal values and stakeholder interests become potentially more varied. However, many advocates of the universal rights and sustainable development approaches claim that also – or rather, particularly - with regard to developing countries, there are absolute standards for CSR. The triple principle concept of 'people, planet, profit' is generally considered to be valid domestically as well as internationally. The search for absolute standards is largely motivated by the desire in Western countries to address the legal, cultural, administrative, economic, and social differences (in relation to the West) that exist in developing countries. De George pointed at the fact that applying CSR standards that originated in the West is regarded as a form of

cultural imperialism in developing countries (De George 1994, 3).<sup>2</sup> He also mentioned that this can result in business taking to ethical relativism, when Western firms automatically place local values and norms above international standards (De George 1999, 235, also McMahon 1999, 351).

In this context the role of the state is a crucial element. It is the state that is the principal institution to respond to the objectives and values of society, to regulate the relationship between a business organisation and its stakeholders, and to install laws and other forms of regulation to indicate the absolute standards for business behaviour. The limited ability of states to perform these functions, especially at the intergovernmental level and in developing countries, is the main reason why international CSR exists as a societal issue.

The *profit-oriented approaches* apply primarily to the situation in Western economies, rather than to developing countries. Compared with the situation in developing countries, the main difference lies in the implications for host countries. Companies with a strong interest in long-term continuity are more likely to develop lasting relationships with foreign countries than companies looking for short-term profitability. Western firms by definition are foreign to developing countries. Another aspect is that shareholders' profits from Western-based companies are largely distributed within Western economies. Whereas large-scale indirect shareholding via pension funds and life insurance firms means that many individuals may in theory benefit from shareholder maximisation, very few of these individuals live in developing countries.

*Stakeholder demands.* With regard to doing business in developing countries, the main aspect that is different from the domestic level is that it becomes even harder to see how demands put forward by one group relate to what 'society' expects. A major element in this problem is the difficulty for business to assess to what extent non-Western societies support demands made on behalf of them by Western-based NGOs. At the core of international CSR is its negative variant: demands aimed at minimising irresponsible corporate behaviour. It is the concern that international business harms developing countries that is a major source of stakeholder activism. It is also the main driver of the search for absolute CSR standards.

An important phenomenon in *corporate citizenship* at the international level are partnerships between business and NGOs (Matten and Moon 2004, 24). A fundamental question in this respect is to what extent companies are *able* to perform social functions (Buchholz and Rosenthal 1999, 304, Van der Putten, Crijns and Hummels 2003). Still, ultimately corporate citizenship as a concept does not apply particularly to the difference between Western and developing countries. This may be regarded as representing the positive impact approach in CSR, as opposed to the irresponsible corporate behaviour approach.

#### *Conclusion: research questions*

The position occupied by international CSR within the theoretical field of CSR (as outlined by Garriga and Melé) can be characterised in the first place by a greater complexity than domestic CSR studies, since a larger number of factors is relevant. Another fundamental factor is the weakness of states. The limited influence of states on business at the international level, and the weak or unstable position of the state at the national level in developing countries provides the context within which international CSR issues exist.

Applying the four categories of CSR theories identified by Garriga and Melé to Western business in developing countries raises four main issues:

1. How does the process of establishing absolute (also 'international' or 'universal') standards for social and environmental issues – supposedly related to the objectives and values of developing societies – affect business behaviour?

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<sup>2</sup> The influence of Western private business enterprises on developing countries has long been a controversial theme in international relations. The term 'Western' in this paper refers to the countries of Western Europe and North America, Australia, and New Zealand.

2. Under which conditions can profit maximisation by Western firms lead to responsible business behaviour in developing countries, and under which conditions does such behaviour contribute to profit maximisation?
3. What is the relevance of societal demands on business behaviour related to developing countries, and what is the legitimacy of these demands?
4. Under which conditions can Western-based businesses make a positive contribution to local communities in developing countries?

The first (absolute standards) and the third (stakeholder legitimacy) of these issues relate more specifically than the other two to the relationship between Western business and developing countries. A major distinction within the concept of CSR is between 'irresponsible corporate behaviour' (the negative variant) and 'corporate citizenship' (the positive variant).

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