

## **CORPORATE SOCIAL RESPONSIBILITY ORIENTATION: AN ALTERNATIVE CONSTRUCT AND ITS APPLICATION**

This paper examines social strategy-environment co-alignment. Based upon a critical examination of the concept of corporate social responsibility orientation (CSRO) as a descriptor of the mode of adaptation to the social environment sought by an organization, a new, theoretical construct of CSRO is advanced, based on an organization's goals, goal-related behaviour and goal-related transactions with the social environment. Propositions are advanced relating an organization's social adaptation to its level of exposure to the social environment, its philosophy and values, and its ability to derive competitive advantage from stakeholder relationships.

### **Introduction**

Although the process by which organizations adapt to their task environment is a major managerial and empirical concern (e.g. Miles, Snow, Meyer & Coleman Jr., 1978; Slater & Narver, 1999; Venkatraman & Prescott, 1990), the non-task, or social environment has received relatively little attention. The attention bestowed upon the task environment is because it is "the primary set of forces to which an organization must respond" (Miles, et al, 1978, p. 253). Accordingly, organizational strategy, which is "how an organization defines its relationship to its environment in the pursuit of its objectives" (Bourgeois, 1980, p. 27), is largely shaped by an organization's task environment. Likewise, because "the legitimacy of an institution may depend on how it adapts to the changing values of society" (Votaw 1965, p. 101), organizational strategy should reflect the social environment in which the organization is embedded.

Generally, studies examining organizational adaptation to the social environment have used a "lagging" measure, namely social performance. Social performance, which may be judged by differing stakeholders according to their interests or involvement with a particular firm (Wood & Jones, 1998, p. 331), has been criticized as a measure of social strategy-environment co-alignment for a number of reasons. First, many of the studies using the measure "have no underlying logic that explains why the variables being measured and correlated are supposed to produce meaningful results" (Wood & Jones, 1998, p. 354). Second, lagging measures, in contrast to "leading" measures, which are more likely to lead to construction of a meaningful theoretical system, ignore the drivers of performance (Svendsen, Boutillier, Abbot & Wheeler, 2001). In this paper, we overcome these criticisms by adopting a leading measure, namely the organization's orientation towards social adaptation.

Leading measures in the social adaptation area necessarily must focus on social relationships, specifically, relationships with stakeholders. The amount or type of responsibility an organization is willing to accept in its relationships with stakeholders can be construed as its corporate social responsibility orientation. The aim of this paper, therefore, is to analyse and develop the construct of corporate social responsibility orientation (CSRO) with reference to its

ability to explain organizational adaptation to the social environment. We address this aim by first outlining the limitations of existing definitions of CSRO for assessing social strategy-environment co-alignment. Next, we advance a new, relationship-based construct of CSRO that synthesises opposing views of stakeholders, captures CSRO as an expression of strategic intent and postulates stakeholder relationships as a potential source of competitive advantage. Finally, propositions about the level of exposure to the social environment, the effect of top management philosophy and values, and stakeholder relationships as competitive resources, are derived from the new construct to suggest how adaptation to the social environment contributes to performance by altering organizational legitimacy.

## **Literature**

The organizational environment has been conceptualised as comprising the task environment, which is related to a firm's specific domain of activity, and the general environment, which affects all organizations (Bourgeois, 1980) and includes the social environment. If the task environment influences product and market strategy, then the social environment ought to influence social strategy. That contemporary organizations have social strategies, either implicit or articulated, can be in no doubt, as their "size, resource control, and power" translates into decisions having both social and economic import (Reich, 1998).

The external social environment of organizations, though frequently referred to in the literature, is not well defined. Since social environments may vary by culture, place and time, we suggest that the social environment be defined by the societal values (cf. Votaw, 1965) underpinning an organization's social "license to operate". This definitional approach is consistent with the legitimacy literature, which makes it clear that business survival depends on "congruence between values associated with the organization and the values of its environment" (Dowling and Pfeffer, 1975, cited in Epstein & Votaw 1978). Large organizations, especially multinational corporations, may look to hypernorms to delimit the values of society that describe the social environment. Hypernorms "entail principles so fundamental to human existence that they serve as a guide in evaluating lower level moral norms ... [and are] reflected in a convergence of religious, philosophical, and cultural beliefs" (Donaldson and Dunfee, 1994). While hypernorms may change over time, they include, as a minimum, core human rights and the obligation to respect individual dignity. Which of these norms is salient and relevant to any given organization will vary according to characteristics such as the organization's impact on economic factors and the industry it is in.

Adopting a "values of society" definition of the social environment makes it clear that successful adaptation to the social environment requires a strategy or a specific goal, and that values must play a key role in directing and implementing strategy. We take both of these points up later in our definition of corporate social responsibility orientation.

Organizational orientation towards the social environment of necessity requires consideration of stakeholders, since they are the relevant groups and individuals who populate an organization's specific social setting, who affect or are affected by an organization and consequently uphold or oppose the organization's license to operate (Freeman, 1984). Social responsibility orientation represents an organization's posture towards the enactment of relationships with its stakeholders. An organization may consider its stakeholders as those groups towards whom it has a level of responsibility by virtue of their stake in the organization. Stakeholding is thus a relational concept, implicit in which is the level and type of responsibility that parties in the relationship are willing to accept or enact. The amount or type of responsibility an organization is willing to accept can be construed as its corporate social responsibility orientation.

Thus far, we have suggested that organizations' social environments are defined by values and populated by stakeholders with whom value-based relationships are enacted via a social strategy. Next, we critique the existing construct, "CSRO", based on Archie Carroll's (1979) model of social performance, which has been used as the basis of all studies to date that have looked at managerial values as a corporate social performance indicator (Wood & Jones, 1998, p. 345). Despite the popularity of this construct, we conclude in the next section that this construct is inadequate for the task of understanding organizational social adaptation.

### **Corporate Social Responsibility Orientation – the old construct**

In this section we describe the existing construct of CSRO as used in previous studies and explain why it is rejected in favour of a new definition of CSRO. The current construct is based on Carroll's (1979) four-part classification of corporate social responsibility and has been tested extensively in North American studies. Carroll's (1979) definition states that organizations are obliged to maximize profits (economic responsibilities), obey the law (legal responsibilities), act within prevailing industry and societal norms (ethical responsibilities) and proactively prevent the decay of society's quality of life (discretionary responsibilities, such as philanthropy).

Carroll's definition has been parsimoniously adapted for empirical use by Aupperle (1984), which has led to numerous studies. However, Carroll's attribution of philanthropy as the peak expression of corporate social responsibility is at odds with previous research in Australia and some European nations, which have stronger state welfare systems than the US (Black 2001; CCPA 2000; Maignan, 2001). Inclusion of a philanthropic category in definitions of CSRO has also been criticized on the grounds that it is not sufficiently demarcated from the ethical category, which itself is vaguely defined (Schwartz, 1998). Additionally, this body of research has "produced few significant empirical results" (Wood and Jones 1998, p. 320) perhaps because "the studies have not drawn explicit empirical links between manager's expressed values (or more accurately, preferences among four CSR categories) and their behaviours. In addition, previous research fails to consider "the interests and involvements of the stakeholders ..." (ibid, p. 348).

Studies using Aupperle's instrument consistently find an inverse relationship between the economic and discretionary categories, most likely an artefact of the forced choice methodology employed. This finding has exacerbated the "profits versus principles" argument, which is the major theoretical dichotomy in the business and society field. On the one hand, business ethicists invoke moral philosophy (deontological views) to argue for a "duty-oriented" (Swanson, 1995) interpretation of responsibility towards stakeholders. Criticisms of this camp see this argument as "profoundly lacking sense of the pragmatic forces operating in the corporate world" (Gioia, 1999). Furthermore, a "trade-off problem exists when profits and duty seem to collide" (Swanson, 1995, p. 46). The contrasting view, argued by social science researchers and strategic management theorists, is that firms will be more effective if they manage the relationships that matter (Freeman, 1999), in other words, consequences count (a teleological or utilitarian theory of ethics). Stakeholders are seen as having instrumental value, that is, they are valued for their consequences. Since the major "use" for stakeholders is economic, the utilitarian view of stakeholders can also be described as an economic perspective (Swanson, 1995) of CSR.

The foregoing analysis highlights the need for a new construct that allows portability across cultures and geographic areas, draws explicit links between goals, values, behaviours and stakeholder interests, and directly addresses the instrumental/intrinsic stakeholder value dichotomy in the business and society literature. Next, we develop a new construct definition to meet these criteria.

## CSRO – A New Construct

The shape of the new construct is suggested by the term “orientation” itself. Orientation is described by the Collins English Dictionary (Hanks, 1986, p.1,085) as the act of “adjustment or alignment of oneself or one’s ideas to surroundings or circumstances” or “positioning” in relation to a specific direction. Several aspects of the definition are worth highlighting. First, the concept of orientation involves a specific goal (direction). Second, orientation provides a description of the way one acts as a consequence of the goal. Third, orientation describes the response one adopts when dealing with things external to one’s self. Thus, an orientation can be described in terms of the characteristics of the goal, the goal-directed behaviour, and the transactions with the environment and parties threatening or enabling the achievement of the goal (stakeholders).

**Characteristics of the goal.** The goal of social responsibility orientation has the following sub-dimensions: the amount or level of social responsibility accepted (i.e. high-low), the motivation for accepting the specified amount of responsibility (intrinsic or instrumental value of stakeholders), and the scope of social responsibility. From these sub-dimensions flow social strategies that may be either deliberate or emergent (Mintzberg & Waters, 1985).

Acceptance of a high amount of responsibility is characterised by a stakeholder engagement goal. Acceptance of a minimal amount of responsibility (i.e., that which is required by law), on the other hand, is characterised by a compliance goal. As noted by Keith Davis, an early writer on CSR, “A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do” (Davis, 1977, p. 36).

Stakeholder engagement is the involvement or participation of stakeholders in the firm’s operations or the act of bringing stakeholder interests to bear on the operations of the firm, based on acceptance of a binding obligation to enact a relationship with the stakeholder. This definition recognizes the intrinsic value of stakeholders, while admitting instrumental value to be derived from stakeholder relationships. Given that the instrumental value of a given stakeholder relationship is variable over time and can vary between stakeholder groups, stakeholder engaged firms attempt to balance stakeholder needs, or manage in a “stakeholder tolerance zone” (Doyle, 1992). By contrast, a compliance-oriented firm takes the view that corporations meet responsibilities to stakeholders *at an adequate level* not through a process of engagement, but by compliance with laws and regulations.

Motives for engaging with stakeholders may be driven by either an intrinsic value/duty aligned perspective or an instrumental value/economic perspective or by mixed motives. A duty aligned or intrinsic value perspective of stakeholder engagement sees the task of balancing stakeholder needs as driven by moral beliefs that business should be based on ethical principles such as co-operation and trustworthiness (Jones, 1995). An economic or instrumental value perspective sees the task of balancing stakeholder needs as driven by economic imperatives and a belief that social responsibility will lead to business performance. Given that “one of the most important lessons in life is that something can have *both* intrinsic and instrumental value” (Creel, 2001, p. 151), high CSRO is represented by a stakeholder engagement goal that is motivated by both the intrinsic value of stakeholders and the instrumental value of stakeholder relationships.

The final sub-dimension of the CSRO goal defines the scope and criteria of social responsibility. This sub-dimension is drawn from Preston and Post’s (1975) concept of public responsibility, which limits social involvement to that arising from the firm’s primary and specialised functional role. Businesses are responsible for solving problems they have caused,

and for helping to solve problems and social issues related to their business operations and interests (Wood, 1991). The social responsibility of business thus has limits.

**Characteristics of behaviour.** Two sub-dimensions of organizational behaviour relate specifically to a CSRO. They are ethical business behaviour (Davenport, 2000) and value attunement (Swanson, 1999). Ethical business behaviour means the organization is guided by rigorous ethical standards in all of its business dealings. Following Davenport (2000), ethical business behaviour is characterised by fair and honest business practices, high standards of behaviour set for employees and, ethical oversight exercised at executive and board levels.

The extent to which values are consciously incorporated into CSR decision-making processes indicates an organization's value-attunement or value-neglect, a concept developed by Swanson (1999). This sub-dimension recognises that CSR is a value-laden process, that is, "an ideal type of responsiveness that involves the selection, retention, and enactment of organizational values that are consistent with constructive social impacts" (Smith et al. 2001, p. 276). Because the concept of value attunement emphasizes values that are consistent with constructive social impacts, it is clear that organizations are not required to adopt the values of each and every stakeholder group (some organizations count terrorist groups or despotic regimes among their stakeholders), but are required to constructively formulate value decisions within their social environment. This principle is not at odds with the principle of public responsibility; indeed, the values attunement dimension further defines the concept of public responsibility by specifying that the values leading to constructive social impacts within the organization's domain of endeavour are the values to be selected, retained and enacted.

As described by Swanson (1999), under conditions of value neglect, values are perceived as irrelevant to a factual diagnosis of policy. Senior executives would not recognise social interests as valid unless they coincide with personally held beliefs, making corporate policy invulnerable to broader social values. This "executive myopia" leads to a scarcity of value information available for problem solving and creates an inward-looking organization not disposed to learn about complex and dynamic environments. Executives in such organizations see social control as an appropriate response to the environment. For example, value neglect responsiveness can give rise to actions such as the "cash for comments affair" on Australian radio in 1999, when some radio broadcasters were found guilty of accepting cash gifts from some of Australia's leading companies in lieu of making favourable on-air comments (Davies, 2000). The "cash for comments" affair can be understood as an example of value neglect, which led to an attempt at social control, an unsuccessful social adaptation strategy.

**Characteristics of transactions with the environment.** The environment transaction dimension of CSRO includes the processes selected for enacting socially responsible stakeholder relationships (dialogue and social involvement), measurement of social impacts, and disclosure of social performance.

A corporation cannot select its social actions in a vacuum. It needs stakeholder input, or dialogue, about its role in society to ensure the actions selected will have a positive impact on the given stakeholder relationships. Dialogue as a sub-dimension of CSRO is therefore defined as the extent to which stakeholder views *about the organization's role in society* are sought and incorporated into business decisions through formal mechanisms. The nature of the social involvement sub-dimension is defined as the extent to which partnerships with the social sector are pursued that may deliver profitable and sustainable change *for both sides* (Moss Kanter, 1999). At the extreme positive boundary, the social sector is approached "not as an object of charity, but as an opportunity for learning and business development, supported by R&D and operating funds rather than philanthropy ... high impact business contributions to the social sector use the core competencies of the business" (ibid. p.132). At the extreme negative boundary, no social partnerships are sought. Points on the continuum include actions that deliver change to one party only, such as philanthropy.

The “metrics” sub-dimension is defined as independent measurement and verification of social performance. The disclosure or sub-dimension means that an organization reports publicly about its social performance, even if the news is bad or objectives have not been met.

### **Application of the New Construct**

It is expected that an organization’s orientation towards social responsibility will predict its adaptation to the social environment. A successful social strategy-environment co-alignment may contribute to performance because legitimacy confers cost-savings through conflict avoidance with stakeholders. Specifically, when an organization pursues a social strategy with a high stakeholder engagement goal, careful attention to ethical behaviour and value attunement with stakeholders, and transacts with stakeholders via processes such as dialogue and transparency, it should adapt more successfully to its social environment and enjoy increased legitimacy. Accordingly, we propose that,

P1: Successful social strategy-environment co-alignment contributes to performance through the cost-saving benefits of conflict avoidance.

Not all organizations, however, face the same demand for adaptation to the social environment. As noted by Robert Miles (1987), industries more closely identified with the “public interest”, such as utilities, banking and insurance have higher exposure to the general social environment than others. Other industries facing high demand for social environment adaptation include extractive industries, industries with a large environmental impact, and large employers. On this basis, we propose that,

P2: Corporate social responsibility orientation will account for more variance in performance in industries with high exposure to the social environment and in large organizations than in industries that are more removed from the public interest.

Decisions about social strategy formulation and the social values to be embraced are also likely to be strongly influenced by top management philosophy and values (Miles, 1987). Values need to be clearly articulated to foster rational decision-making (Liedtka, 1991) and have become central to understanding business phenomena (Agle & Caldwell 1999, p. 327). Therefore, we propose that,

P3: A values oriented top management philosophy that articulates values consistent with positive social impacts and formalizes value attunement processes will lead to high corporate social responsibility orientation.

According to resource-based theory (Barney, 1991), relationships of the business with constituencies in its environment are potential resources, which can deliver competitive advantage (Hunt and Morgan, 1995). The “resource worthiness” of stakeholder relationships can also facilitate strategic advantage (Litz, 1996). In organizations with high public interest and values oriented top management, stakeholder relationships are likely to be given high priority, enabling the organization to derive relationship-based competitive advantage through unique combinations of innovative collaborations (with suppliers, employees or business and social sector partners), customer loyalty, reduced regulation by government stakeholders and conflict avoidance with employees or local communities. Accordingly, we propose that,

P4: Organizations with high CSRO are more likely to derive sustainable competitive advantage from their stakeholder relationships.

## **Conclusion**

This paper has described the dimensions of a new construct of CSRO and advanced a theoretical model of leading indicators about an organization's social strategy-environment co-alignment. The new construct uses the dimensions of goals, behaviours and transactions, to explain social environment adaptation. It avoids the trade-off problem between profits and principles and is more likely to be portable across cultures and nations than the existing construct.

We argued that an organization will select its CSR goals according to the value it gives stakeholders and stakeholder relationships, and the limits of its responsibilities towards them. The particular configuration of goal sub-dimensions indicates a selected CSR strategy. The choice of strategy was proposed to lead to behaviours that are either ethical or unethical, and value attuned or value-neglectful. The behavioural dimension of CSRO thus forms an ethical structural platform for the enactment of the chosen strategy and the selection of implementation processes, which are described as transactions with the environment. If strategy is understood as a pattern of decisions (Mintzberg and Waters, 1985), then different patterns in the sub-dimensions of social responsibility orientation may result in different social strategies, which contribute more or less effectively to stakeholder relationship-based competitive advantage.

Operationalized as a measure, the CSRO construct introduced in this paper could be used to advance understanding of the effectiveness of stakeholder relationship management strategies and CSR outcomes such as reputation, legitimacy, or financial performance. It could also be compared with stakeholder evaluations of social performance to test the hypothesis that orientation is a leading indicator of performance. The multi-dimensional nature of the CSRO construct presented here suggests that future research can use this construct to develop a typology of social responsibility strategies. Such effort would advance the CSR field by identifying "discrete and collective categories well suited for detailed analysis ... permit parsimony without simplicity ... and [provide] a basis for theory development and hypothesis testing (Rich, 1992) thus addressing some of the theoretical problems identified by Wood and Jones (1995).

Finally, comparing the new CSRO construct with other organizational orientations, such as strategic orientation, learning orientation and innovation orientation, may further illuminate the drivers of best practice management.

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