

Will Corporate Social Responsibility be a game changer in future international business?

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Abstract:

This conceptual paper examines how Corporate Social Responsibility (CSR) can affect business behaviour, produce financial gains and its potential to be a game changer in future international business. By analysing the findings of academic and practitioner research publications on CSR, this paper explores whether it has a significant impact on organisational environments and financial performance, or is simply a tool employed for companies to appear ethically conformist. Comparing past and present CSR trends, whilst examining the practises of contemporary organisations, this study demonstrates how companies adapt to the norms and procedures required by CSR. Set within the framework of institutional theory, in particular New Institutional Sociology (DiMaggio and Powell, 1991 & Scott, 2001), the reasoning behind CSR investments and policies are investigated. The paper will explore how organisations, through mimetic, coercive and normative isomorphism, have changed their implementation of CSR. The conclusion of this study is in order for a company to reap the benefits of CSR; they must adopt structures and procedures advocated by similar organisations, taking account of the preferences of their stakeholders and adapting these to the business's overall strategy. CSR has significantly changed over time and now provides a realistic opportunity for companies to benefit from their investments in this area, but to say that it will be a definite game changer in future business is an assumption rather than inevitability.

Key Words: Corporate Social Responsibility, Research, Organisations, Impact, Change, Isomorphism

Introduction:

With global business on the greatest scale ever before seen, impacting on a truly international level, corporate social responsibility (CSR) is an issue given far more attention and scrutiny than it was in previous years. The term CSR describes a business's responsibility to both the society and environment in which it operates (Ducassy, 2013). This paper will discuss whether CSR will be a 'game changer' in future international business, with the term "game changer" being defined such that it has a major impact on a company's organisational environment or will have a substantial beneficial impact on their profitability. Specifically, the paper will analyse the possible strengths and limitations of CSR, whilst investigating whether or not companies independently adopt CSR practises for beneficial purposes or as a collective smokescreen of ethical conduct. Furthermore exploring the details of how through mimetic, coercive and normative isomorphism, businesses have adopted CSR practises. The analysis in this paper will allow one to make an informed prediction on CSR's impact in future business as it pertains to whether or not it will be a game changer in future business.

CSR's Recent History:

To investigate whether or not CSR will be a game changer in future business, it is important to comparatively analyse both current and historical CSR trends. By analysing these trends it is possible to show whether or not there can be any forecast of CSR's impact for future business. In this section, analysis of the findings of Silberhorn & Warren (2007) and Maignan & Ralston (2002) will identify recent ideas surrounding the development of CSR within the 21st century and introduces the paper's continued focus on the reasoning behind the CSR practises of companies.

In the comparative study into CSR in Britain and Germany (Silberhorn & Warren 2007), it was concluded that CSR had emerged as a strategic business tool, being implemented with high levels of care and attention. With the current state of CSR's relevance to a business model, it projected "*that business and CSR strategy appear to be on a convergent path, making business and CSR integration across the company the norm in future.*" (Silberhorn & Warren 2007: 352) The findings they presented demonstrating the increasing significance of CSR in 2007, as well as their own prediction that CSR would continue to grow and become a formality in business, is evidence that CSR may become a game changer in future international business. However, with the test results coming from Britain and Germany alone, these findings only demonstrate the results of a small minority sample. Therefore the findings of Silberhorn & Warren (2007) are not entirely valid in this discussion as they fail to identify the importance of CSR on a truly global platform. This investigation only partially validates the notion that CSR will be a game changer in future business internationally.

Comparing CSR trends over recent years reflects on how it is changing and may play a more important role in the future. In the study by Maignan and Ralston (2002), cited in Planken *et al.* (2013), the pair observed how with large Fortune 500 companies in the USA, the onus on CSR initiatives differed greatly than in Europe. The findings presented showed US companies placed higher value in their CSR investments when it came to areas such as philanthropy and volunteer work. Whilst in the Netherlands and in France there was greater importance placed on the environmental initiatives with CSR. Comparing these results to a large American company such as Coca-Cola helps to show the shift in CSR preferences towards alternative motives. In 2013 Coca-Cola launched a large scale anti-obesity campaign (Bachman 2013). Muhtar Kent, the company's chairman and CEO personally addressed the world obesity issue on behalf of the company. Coca-Cola now provides in depth health and nutritional information as well as sponsoring global sporting events such as the London Olympics. This campaign contrasts with previous CSR initiatives of the Coca-Cola Company, which focused primarily on philanthropic programs and community investment through The Coca-Cola Foundation. For example, in 2011 The Coca-Cola Foundation had invested over \$76 million into a total of 257 community organisations and initiatives (The Coca-Cola Company 2012). This demonstrates how these large Fortune 500 companies in America have changed their preferences towards CSR investment from the philanthropically orientated initiatives, to large scale ethical issues such as obesity.

From the analysis of the findings of Silberhorn & Warren (2007) and Maignan & Ralston (2002) compared to the change of focus in the CSR initiatives of Coca-Cola, it would appear that CSR is not only growing in importance to organisations, but also changing in accordance to modern issues. In order to provide more detail on CSR's development and importance in the future, it is important that the rationale behind the CSR practises and initiatives of both companies and their organisational fields are examined in further detail.

CSR Motivations - Introducing New Institutional Sociology:

If CSR investment is to grow and become a game changer in future business, then the motivations behind organisation's practises in this area must be scrutinised. If companies only invest in CSR as normative procedure, rather than independently trying to adhere to their own social responsibility, then it brings into question the extent CSR can really be a game changer in future business. Research into this issue examines how New Institutional Sociology (NIS) and its internal elements explain why companies have changed their focus in CSR today. Furthermore, this section identifies the reasoning and goals behind investments in CSR. Once these factors have been explored, the next step in analysing CSR's potential is to investigate the tangible impact investments in this area can have on a company.

Investing in CSR helps project a caring and ethical image for companies (Borghesi *et al.* 2014). However, the motivations behind CSR practises can be called into question when analysing this area from the institutional theory view of NIS. If CSR is implemented because of internally driven competitive isomorphism or externally warranted institutional isomorphism, it can be argued the motivations behind investment in this area has less to do with moral reasoning and more with obligatory institutional requirements from both internal and external pressure (Burns *et al.* 2006). Examining this application of NIS from the standpoint of institutional isomorphism, the rationale behind company investment in CSR can be broken down into the three further subsections identified by DiMaggio and Powell (1983). For instance, external factors such as protest groups or governmental pressures can heavily influence to what extent a business invests in CSR initiatives. In the investigation carried out by Borghesi *et al.* (2014), it was found that in companies whose CEO was involved in politics or made large political contributions, they invested significantly more into CSR initiatives than those whose CEO was not politically involved. This example shows how coercive isomorphism through recognised political pressures leads to organisations investing more in CSR. This demonstrates how coercive isomorphism may be a driving factor in the CSR policies of businesses.

Normative isomorphism can also account for the adoption and implementation of a company's CSR practises. This is brought about by the avocation of investment in this area by the professional assumptions of an industry, the professional bodies it adheres to and/or consultants of their organisational field in question (Burns *et al.* 2006). In the comparative study into the CSR reporting of Australian and South African mining companies by de Villiers & Alexander (2014), their results found normative isomorphism accounted for a large part of companies CSR practises. The conformance by businesses towards particular CSR policies within an organisational field, occurred from both the established norms and values instilled through high level management training, as well as the informative advice from industry consultants. This is an example of how the institutionalisation of CSR practises and initiatives can occur from normative isomorphism within an industry.

Mimetic isomorphism explores how businesses within their organisational field do not act with any independence towards the implementation of their investment in CSR, simply copying the initiatives of others as it is deemed to be keeping up to date and denying any competitive edge. In the investigation by Hou & Reber (2011), they found CSR initiatives that projected an eco-friendly image with environmentally sustainable assurances were the main focus of current western businesses CSR practises. This change over the nine years observed between the results of their investigation to the findings of the Fortune 500 study by Maignan and Ralston (2002) clearly exhibits how CSR investment preferences have changed over the years, with western companies moving their focus in CSR to imitate the projects undertaken by European competitors within their organisational fields. This demonstrates how mimetic isomorphism can play a crucial role in the implementation of modern CSR practises. However, the context of this example observed can discredit the validation that CSR

will be a game changer in future business. If companies invest in CSR practises only as a reactionary adjustment due to initiatives taken in this area by others within their organisational field, the practical benefits that may arise from CSR are disregarded.

Within the context of mimetic isomorphism, companies invest in CSR as a response to the decisions and actions taken in this area by similar businesses. However, the CSR practises of those companies is no more than a further reaction to CSR initiatives by others, which in turn consist only of an imitation of the CSR practises of other similar organisations (DiMaggio and Powell, 1983). Simply put, a cycle of mimicry from business to business accounts for the growth of CSR, as their initiatives in this field are all only implemented as a reaction out of apparent competitive necessity, rather than moral or ethical motivation. The application of the theory of mimetic isomorphism can be inferred further by the references of Greenwood *et al.* (2002). When applying his findings to the reasoning behind the CSR initiatives of companies, any actions are brought about because of the professional associations between organisations, acting as regulatory agents unto themselves. A type of organisational community is subconsciously created which determines how any given organisation within will adopt CSR practises. Decisions and actions relating to CSR are implemented under the hegemony of the companies within this socially constructed reality (Greenwood *et al.* 2002). CSR practises in different organisational fields become normative and are believed to be institutionally required, rather than developed from the motivation of giving back to society or acting from an ethical standpoint.

When applying institutional theory as the rationale behind CSR practises in organisations, one must not overlook competitive isomorphism as a factor. This sub section of NIS consists in this instance of organisations adopting CSR practises with the belief of giving a competitive edge to the company (Burns *et al.* 2006). The comparative study by Silberhorn and Warren (2007) ranked the highest areas of importance identified for combined corporations when investing in CSR. These results (see Figure 1 below) demonstrate company's rank the possible profitability of CSR investment at the top of the agenda. This is an example of how competitive isomorphism could also be a contributing factor to an organisation's investment in CSR. From this application of institutional theory, there is weight in the argument that CSR will be a game changer in future business, as its potential benefits may dictate a company's decision to invest in this area. However, in order to investigate whether CSR will be a game changer in future business, this investigation must now analyse the level of impact investing in this area can have on an organisation.

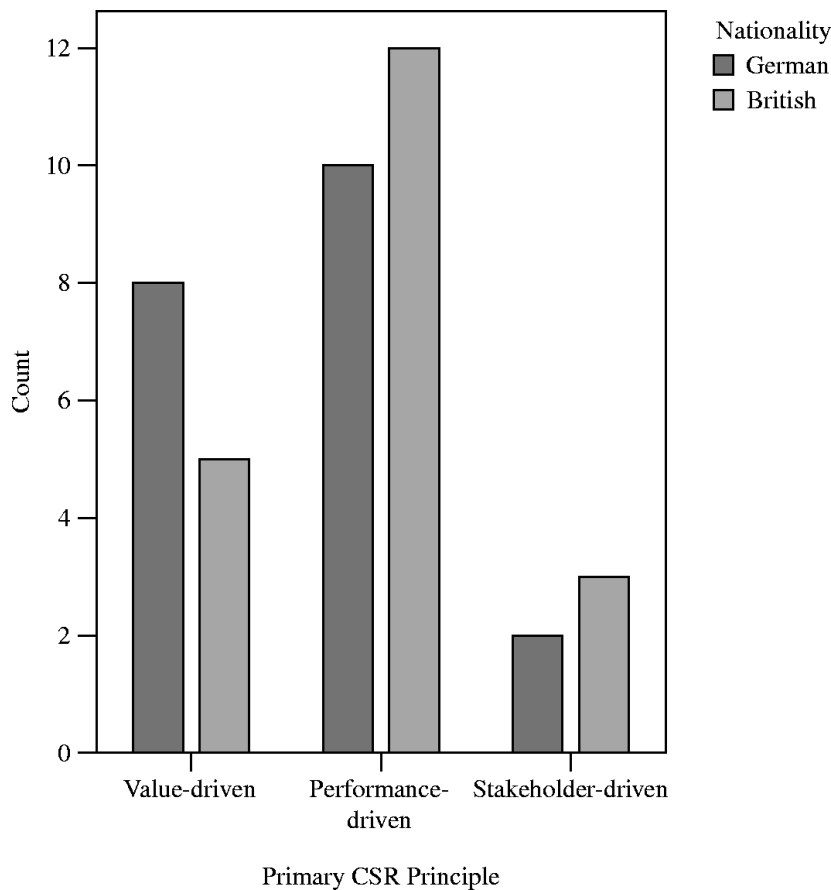


Figure 1 Primary CSR Principle (Silberhorn & Warren 2007)

Impact of CSR Investment on Organisations:

In order to research whether or not CSR will be a game changer in future business internationally, this investigation must explore the level of impact on organisations CSR projects and investment can have. If CSR investment can bring substantial returns for a company, particularly as it relates to how they perform financially, it can be surmised CSR will be a game changer in future business as its implementation would bring positive results. This section of the paper will analyse the impact CSR investments may bring by examining test results and case studies related to this area. The impact of CSR is reviewed mostly by focusing on the returns investment in this area can bring financially, but also the benefits it can bring as it relates to issues such as strengthening against recessionary pressures, sustainability of institutional working environments and company image.

In the research into consumer habits carried out by Planken *et al.* (2013), they found companies with large investment in CSR initiatives saw significantly higher purchasing intent from consumers as a result. This was both the case in an established region such as the Netherlands, as well as in an emerging country, for example India. It would therefore appear that CSR investment can have a

correlating effect on the consumers appeal to a business' image and products. The possible correlation between CSR initiatives and an organisation's performance was also analysed in a test on 188 businesses on Kinder, Lydenberg, Domini and Co (KLD)'s top named Corporate Citizens for 2005, 2006 and 2007 (Michelon *et al.* 2013). The results from this investigation showed if investment in CSR was done strategically and with the preferences of stakeholders taken into account, then company performance would be strengthened both in terms of accounting-based and market-based levels of performance.

The Body Shop serves as an example of how the findings of Planken *et al.* (2013) and Michelon *et al.* (2013) are relevant to a business. The company has flourished under the influence of its CSR strategy and Investment. In this case they built the business' identity around its commitment to both society and the environment. The Body Shop has supported campaigns against animal testing in the cosmetic industry as well as women's rights and anti-nuclear testing demonstrations. It is these causes upon which the company has underpinned its brand identity, in particular with animal testing as their products often advise that they were not tested on animals, as demonstrated in the image below. The Body Shop's success from their clear focus around CSR as their brand identity serves as a good example of how CSR can have a positive impact on company performance.



Figure 2 Body Shop Example (Jinal 2012)

The beneficial effects CSR may bring to a company lie not solely on its financial impact, but also on its ability to strengthen the longevity and increase the sustainability of an organisation. For example, some professional sports *“are affected by the environment – and thus view it as their responsibility to improve environmental damage that affects their sport. Hockey for instance is affected by environmental issues related to water.”* (Trendafilova *et al.* 2013: 301). In addition to this, business's investments in CSR initiatives gain see returns in terms of strengthened stakeholder relations in particular as it pertains to consumers. In this regard CSR can be a key factor in ensuring good public relations and reducing the negative impact caused to an organisation by any

transgressions. This is none more relevant than to companies such as those in oil, tobacco or fast food, whose field of work are under constant scrutiny (Nguyen 2010).

When looking into whether or not CSR can benefit companies during times of economic or financial crisis, Ducassy (2013) found in her research that CSR can act as a buffer to the negative impact that a crisis may have. From the findings of the study of this hypothesis, there was a significant link between the corporate social performance of businesses and their financial performance in relation to the immediate period after a financial crisis (Ducassy 2013). Her findings would therefore support the prediction that CSR will be a game changer in future business. As it could be argued with the 'buffer' like effect that CSR can have on a company's financial performance in times of an economic crisis, with the uncertain nature of the future financial environment that business' will invest in CSR for use as an insurance type strategy.

It is not as straightforward; however, to conclusively say that if a business invests more in CSR that it will see a corresponding increase in returns. Although when implemented strategically company performance can be strengthened, this is not the case in different areas of CSR investment such as diversity, product and governance related CSR. In fact results show that investment in these areas of CSR had a negative impact financially on the performance of companies (Michelon *et al.* 2013). Furthermore, when the strength of CSR was critically evaluated over a longer period of time, it was shown in results found by Ducassy (2013), CSR does not have a positive link to the financial performance of a company when in a stable economic environment.

“there is no longer a significant connection between financial performance and CSR meaning that the level of social performance does not have any effect on financial performance.” (Ducassy 2013: 164).

By reviewing the findings of the research carried out by Michelon *et al.* (2013) and Ducassy (2013), it can consequently be seen there is no validity in the simplistic assumption that CSR investment alone equates to a rise in a company's performance. However, it can be surmised from the evidence shown, that due to the uncertain nature of the current economic climate, it may be wise for companies to invest in CSR so as to offer some financial protection. The evidence shows that when an organisation's CSR investments are strategic and in line with its stakeholder preferences, it is more likely to help improve company performance.

Conclusion:

In conclusion, analysis of CSR's development, the reasoning behind investment in this area and the impact it can make, have allowed the critical evaluation of whether or not CSR will be a game changer in future international business. Initial research indicates that CSR has grown in size and importance for modern businesses, with also a clear shift in the type of CSR initiatives that modern businesses look to invest in. The comparison between the finding of Silberhorn & Warren (2007) and Maignan & Ralston (2002) with the clear shift in CSR practice by The Coca-Cola Company, serve as an example of how this change in CSR practises has occurred. The application of NIS as a concept for the reasons behind this shift in the level of CSR investment and CSR investment preferences would indicate the reasoning behind contemporary organisation's investment in CSR may not be that of ethical obligation but more rather out of a perceived obligation. Coercive isomorphism due to factors such as the political pressures as identified by Borghesi *et al.* (2014), suggest that this is the reason behind an increase in CSR investment by organisations. Understanding the application in this instance of normative isomorphism with the example laid out by de Villiers & Alexander (2014) in their study, reveals that this can be a contributing factor into the CSR policies of companies. Whilst examining mimetic isomorphism through the comparison of results by Hou & Reber (2011) and Maignan and Ralston (2002), as well as the theoretical cycle indentified by DiMaggio & Powell (1983) and Greenwood *et al.* (2002), indicates that this branch of NIS accounts significantly for why many businesses seem to adopt similar CSR practises within their organisational fields.

CSR has undoubtedly become a growing factor in contemporary industry. From the investigation into CSR's potential impact by Michelin *et al.* (2013), it can be shown that CSR can have both a positive link to financial performance in a company though the use of strategic investment, as well as acting as an insurance like tool in times of economic crisis. This coupled with the findings of Silberhorn and Warren (2007) that companies place more importance on the profitability aspect of CSR would therefore argue that CSR would be a game changer in future business. Furthermore with the contextual comparison of the importance placed on areas of CSR, it can be seen that there has been a shift and CSR has indeed evolved in contemporary business strategies both in environmental importance as well as significance. However due the fact that CSR has been proven to also have no correlation whatsoever in terms of financial performance under normal economic circumstances, as well as the fact that it would appear that coercive, normative and mimetic isomorphism could largely account for the scale of CSR's recent growth, the hypothesis that CSR will be a game changer can also be relevantly counter argued and therefore unproven.

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