FROM THE EDITORS

Is the Socially Responsible Corporation a Myth? The Good, the Bad, and the Ugly of Corporate Social Responsibility

by Timothy M. Devinney

Executive Overview

Despite differences of opinion about the efficacy of corporate social responsibility, there is a general consensus among academics, policy makers, and practitioners that corporations operate with a social sanction that requires that they operate within the norms and mores of the societies in which they exist. In this article I argue that the notion of a socially responsible corporation is potentially an oxymoron because of the naturally conflicted nature of the corporation. This has profound implications for our understanding of corporate social responsibility, what we view as the relevant issues relating to it, and how we investigate its role and impact.

Corporation: An ingenious device for obtaining individual profit without individual responsibility.

Responsibility: A detachable burden easily shifted to the shoulders of God, Fate, Fortune, Luck or one's neighbor. In the days of astrology it was customary to unload it on a star.

Ambrose Bierce, The Devil's Dictionary (1911)

It is a central tenet of advocates of the concept of corporate social responsibility (CSR) that corporations receive a social sanction from society that requires that they, in return, contribute to the growth and development of that society. There is little argument as to the existence of this sanction but considerable debate as to whether it requires more of the corporation than the obvious: enhancing the society by creating and delivering products and services consumers want, providing employment and career opportunities for employees, developing markets for suppliers, and paying taxes to governments and returns to shareholders and other claimants on the rents generated by the corporation. For those with a narrow conception of CSR, the corporation has little, if any, obligation to the society other than the creation of economic rents that can accrue to the stakeholders with recognized rights to those rents. For those with an expansive view of CSR, the corporation should serve as an instrument of public policy by other means. For those seeking a compromise, CSR is something in between these two extremes.

The discourse between the two extremes has, to some extent, taken on the characteristic of a religious debate, since little fact or science has been brought to bear that would reveal what the costs and benefits of CSR truly are. This has arisen not simply because many of those involved in the debate have a vested interest in the outcome and

"From the Editors" is a new section that will run intermittently in an effort to provide our editorial team, including our Editorial Board members, an opportunity to comment on timely topics.

Timothy M. Devinney *(T.Devinney@unsw.edu.au) is Professor of Strategy in the School of Strategy and Entrepreneurship at the Australian School of Business.*

Copyright by the Academy of Management; all rights reserved. Contents may not be copied, e-mailed, posted to a listserv, or otherwise transmitted without the copyright holder's express written permission. Users may print, download, or e-mail articles for individual use only.

hence want to control the rules of the debate, but more because the definition of CSR has itself been malleable (see, e.g., Aguilera, Rupp, Williams, & Ganapathi, 2007). To those with a more corporatist orientation, CSR includes activities such as mandated environmental and occupational health and safety practices, but excludes claims by outside stakeholders on the rents of the firm (Banerjee, 2007). To those with a more expansive viewpoint, CSR involves corporations acting on behalf of the disadvantaged and demands active claims on rents by broad sections of the society, however defined. Hence, in a Kuhnian sense one can make or disparage a claim that any corporation is or is not socially responsible by the definition of CSR one believes is relevant and the level of specificity at which it is applied. For example, resources companies such as the Anglo-Australian giant BHP-Billiton routinely place high in social responsibility surveys (such as the Global Reporting Initiative) precisely because they are considered by GRI standards to be environmentally responsible and to have and enforce recognized environmental and safety policies and procedures. Yet these same companies are actively boycotted and vilified by extreme environmental groups for their impact on the environment. An even more complex example arises with L'Oreal, which engages in limited animal testing, but owns the Body Shop, which actively promotes its animal-friendly orientation. L'Oreal's purchase of the Body Shop, which was suffering financially at the time and was considered by some as potentially not financially viable, created a corporate schizophrenia that attracted groups that now argue that we should boycott the Body Shop because of who its owners are. However, as a stand-alone entity it is possible that the Body Shop's days were numbered. Is society not better off with a schizophrenic L'Oreal rather than no Body Shop at all?

This definitional malleability would not be an issue if it did not spill over into the scientific investigation of corporate practices of importance to the readers of this journal. For example, a cursory examination of the domain statement of the AOM Social Issues in Management Division shows the difficulty of specifying what we are attempting to address when we are talking about a corporation's responsibility to society[1]:

> *The domain of the [Social Issues in Management Division] includes: the Social Environment (which includes topics such as corporate social responsibility, corporate philanthropy, stakeholder management, and corporate social performance); the Ethical Environment (which includes topics such as corporate codes of ethics, corporate crime, individual ethical behavior, the influence of the organization on ethical conduct, ethical implications of technology, and the assessment of personal values and corporate culture); the Public Policy Environment (which includes topics such as political action committees, and the legal and regulatory areas); the Ecological Environment (which includes topics such as environmental management and various ecological issues); [and] the Stakeholder environment (which includes topics such as the impact of corporate use of technology, workplace diversity, corporate governance, and public affairs management). . . .*

The broadness of this self-chosen mandate may be entirely legitimate and representative of the interests of the members of that division, but it creates issues when one attempts to operationalize a definition that reveals when a corporation is or is not socially, ethically, or politically responsible, or acting in accordance with conflicting and confusing norms of a society. Attempts to be all-encompassing lead to overly complex, fuzzy conceptualizations that are virtually impossible to validate or refute empirically. The science of corporate social responsibility suffers thereby.

In what follows I will argue that CSR is no free lunch and that despite hopes to the contrary there is little if any logical or empirical evidence that more social activities on the part of corporations are likely to be socially enhancing, and that in fact they can be socially harmful. In other words, the holy grail of CSR—"doing well by doing good"—is an illusory goal that is noble in spirit but unachievable in practice. In this I refer to an apt quotation from Elizabeth Taylor[2]: "The problem with people who have no vices is that generally you can be pretty sure they're going to have some pretty annoying virtues." The point I wish to make is that corporations, by their very nature, have conflicting virtues and vices that ensure that

[1] See http://sim.aomonline.org/.

[2] See http://thinkexist.com/quotes/elizabeth_taylor/.

they will never be truly socially responsible by even the narrowest of definitions. Even nongovernmental organizations (NGOs), with no professed vices, will possess very annoying virtues. This goes beyond a simple recognition that multiple stakeholders with multiple agendas exist at multiple levels (Aguilera et al., 2007). The position I will espouse hereafter is that CSR may not be de facto good or bad, and that like any other organizational instrument it is neutral until used in a specific context by interested actors. In this I am echoing and reinforcing the detailed and cogent criticisms of CSR made by Banerjee (2007) but doing so from a different perspective.

Let me begin with a caveat. What I do not wish to say is that individuals do not have "values" and "beliefs" that matter to them and that corporations and their managers do not have incentives—personal, professional, and societal—to behave in ways that are ethical and positive to the society by some definition of what it means to be "ethical." Nor am I saying that we must accept corporations and their structures for what they are: a sort of corporate equivalent to "boys will be boys." Or that people—individually or in groups—playing their roles as managers, employees, customers, social activists, and so on cannot alter industry structures, organizational models, or perceptions of the role of corporations through their actions (see, e.g., Waddock, 2008).

What I do wish to say is that any position taken by a firm and its management, social, ethical, or otherwise, has trade-offs that cannot be avoided. Corporations can be made more "virtuous" on some dimensions (or by the definition of virtuousness by some individuals or groups), but this will invariably involve a price on other dimensions (or a cost borne by those with other definitions of virtuousness). As these trade-offs are rarely going to be Pareto optimal, they will invariably involve a trade-off of values and a "judgment" about what is "better" or "worse." CSR, like most aspects of life, has very few, if any, win/win outcomes.

In what follows I will look at the issue of CSR from three perspectives and conclude with a set of challenging questions for the field. The first is the issue of moral sanction (e.g., Porter & Kramer, 2006). Following on from this I will discuss conceptually the good and bad of corporate social responsibility. Finally, I will address why the evidence on the returns to social responsibility is so unclear (the ugly). I will conclude with a series of questions (or provocations). My point in this article is not to provide a comprehensive review or new theory but to open an informed scientific debate that leads to a more complete understanding of the social position of the corporation (for such a review see, e.g., De Bakker, Groenewegen, & Den Hond, 2005).

Who Is Sanctioning Whom? And Definitional Confusion

Any discussion of CSR ultimately implies a definition of what "social" means. The traditional viewpoint derives from the belief that corporations receive an implicit and broad moral sanction from the society and hence are required by that sanction to operate within the economic, legal, political, and social norms of that society and to contribute to the fulfillment and expansion of those norms. Although this sounds noble in theory it is little more than a motherhood statement; its meaning in practice is difficult if not impossible to operationalize.

We must first understand that corporations do not operate in a singular clear society with unambiguous and uncontested norms. This is most readily evident when discussing multinationals, which operate over many political and legal jurisdictions, but it is equally applicable to a nation-bound firm that must navigate its way through a broad range of societal constituencies. For example, I have neighbors who were born in China, Korea, India, Syria, Japan, the Netherlands, Croatia, and 10 other countries. The local election ballot has to be printed in more than 20 languages. Yet, in the same street where several wives were imported for arranged marriages live a lesbian couple and a dozen individuals in de facto relationships (some with "illegitimate" children). Does this represent one "Australian" society? Or does it represent many societies that are physically occupying adjacent spaces? Is the right characterization based on ethnicity? Lifestyle? Would corporate policies and choices that appeal to one appeal to all? Certainly not, as any debate among neighbors would reveal.

What I am saying is hardly new or insightful. However, it raises two very important questions when one makes recourse to CSR as a payment or return to the moral sanction to operate given to a corporation: (a) What does "moral sanction" mean? and (b) who is (are) the sanctioner(s)? Is sanction simply a license to operate; that is, does moral equate to legal? To what extent does it allow the sanctioner to make claims to aspects of "ownership" of the sanctioned? Do those claims on ownership relate to residual rents, or do they imply a right to engage in operational interference? Do the rights of sanctioning supersede the rights of those possessing legal ownership rights? Who sanctions the sanctioners? For example, did the Bagyeli people of Cameroon "vote" to authorize the Rainforest Alliance Network to lobby on their behalf when acting in opposition to the ExxonMobil Chad-Cameroon pipeline?

What these questions hint at is that not only is the question of the definition of "social" unclear, but so too is the definition of "responsibility." Is "responsibility" prescribed so as to equate with legal requirements (e.g., the Sarbanes-Oxley Act of 2002), or are corporations held to a higher standard only revealed ex post facto? The malleability of this sanction is seen in the fact that firms in U.S. states with more liberal governments engage in more corporate profit "redistribution" than their counterparts in less liberal states (Liston-Heyes & Ceton, 2007), implying that corporate social activity reacts to a political purpose.

Many researchers choose to sidestep this issue by creating the construct of corporate social performance (CSP)—thereby allowing them to work more easily with any social dependent variable (or database) at hand. However, this does little more than add an additional layer in the sequence determining what is "legitimate" performance as recognizable to the relevant societies. CSP takes the ontological issue of the meaning of a corporation's responsibility to its societies and turns it conveniently into an epistemological issue of what CSR is or can be justified as being.

A related issue is whose moral sanction is most relevant. For example, let us assume that corporations in country X operate with the moral sanction of a broad range of constituencies that span the secular and religious. What if they are in conflict? For example, suppose that the religious sanction embodies beliefs about the role of women, the education of girls, or the days on which trading can occur? Does the secular supersede the religious? Take this further and suppose there are conflicting religious sanctioners who both insist that trading rights follow their religious requirements, which are in complete conflict? One can go even further down this route by noting that many civil society organizations working in developing countries are engaged in overt missionary activity that not only puts them in conflict with local practices but raises questions that such activities are simply a less than subtle attempt to impose foreign values (Kristof, 2002; Mills, 2007).

It is important to note that this moral sanction encompasses the legal sanction but is broader than simply a license to operate. Although political, judicial, or arbitration processes ultimately resolve practically (or via fiat) many of the sorts of conflicts I am discussing, to fall back on these processes as a way around the moral sanction conundrum does little more than pass the problem on without effective resolution. As all the questions relating to the sanctioning of the corporation now arise with respect to the sanctioning of the process of resolution, it should be apparent that any process for resolution short of a complete Coasian bargain would fail to resolve the problem. For example, trade disputes are invariably resolved by recourse to the World Trade Organization (WTO), yet many social activists view the WTO as without moral sanction as they believe it inadequately represents many of the relevant constituencies (be they aboriginal, animal, or global) and fails to value the appropriate resources adequately.

We all understand that societies are complex and dynamic organisms. My point in the above discussion is that any definition of CSR ultimately must include definitions of what "social" and "responsibility" mean and that these definitions must be clear and operational so that any attempt to scientifically understand the role and impact of CSR practices is possible. Without a clear understanding of the societies to which a corporation is meant to be responsible and what more or less responsibility entails, the efficacy of any discus-

sion of CSR is limited by a fundamental incommensurability. From a practical perspective, no such comprehensive definition of CSR will ever be possible as all interested parties will never be at the negotiating table and hence will not be able to contribute their definitions of "social" and "responsibility" to the debate. When put in the context of CSR it should also be clear that it is ultimately the decision of the corporation as to what it is willing to agree to (whether voluntarily or under duress). Hence, a cynical retort to the corporate response that "we cannot solve all the world's problems, so we will concentrate on where we can make a difference" might be to say that what is really being said is that "we choose to work on those problems that have the most benefit to us."

Before moving on to the good and bad of having corporations engage in social activities, it is important to understand two additional questions. First, can we assume that corporations will be guided by their moral sanctioner(s) rather than doing the guiding? In other words, a strong assumption underlying CSR is that corporations should follow the dictates of society. Is this realistic or naive? Second, would the society willingly "vote" to confer upon corporations and their executives the rights to expand norms/morals? In asking corporations to take on a social responsibility, we open up their claim to the rights to actively engage in social decision making. Is this really what we want? Do we want simply to restrict corporations to be obliged to engage in CSR but not to define what they believe CSR is or should be? Is such a stance itself immoral? Or more provocatively, would you want Wal-Mart making social decisions for you?

The "Good" of CSR? Corporations Behaving Well

Part of the logic of CSR is that corporations can (and some would say should) be instruments of social policy. Although what this means has never been well articulated, embodied within this logic is an assumption that corporations simply may be the best instruments by which certain policies and practices can be achieved. Such a perspective is purely instrumentalist and rational: CSR is good because corporations (or "markets") are the most efficient way of determining social needs and delivering social solutions. From this perspective we can highlight four reasons why a society would want firms to act as instruments of policy and be active CSR participants.

First, individuals vote with their feet and pocketbooks. Based on this logic, corporations with more acceptable practices within a society would have more satisfied customers, more satisfied employees, and more satisfied owners and hence would last longer and thrive in more adverse circumstances (Reich, 2007). For example, experimental work by Auger et al. (2003, 2008) and Devinney et al. (2006) showed clearly that segments of consumers exist who are responsive to the social positioning of products. Similarly, survey research has revealed that there is a correlational link between employee satisfaction and the social activities of companies (e.g., Koh & Boo, 2004). What we don't know is the sustainability of these effects, although we do know that niche companies that grew up with specific "social" positions, such as Ben & Jerry's, the Body Shop, Green & Black's, and so on, have established resonance with segments of customers, and that value has been realized in their prices when they've been acquired (e.g., Unilever paid 1.27 times earnings for Ben & Jerry's, and L'Oreal paid a 31.5% share price premium for the Body Shop).

Second, corporations possess more knowledge than individuals and governments and hence are more likely to be able to use that information to tailor products and services to the appropriate constituencies. Corporations engage in ongoing and active research aimed at attempting to understand the demands of their various stakeholders and act on that research. For example, Toyota's development of a hybrid vehicle (Reinhardt, Yao, & Egawa, 2006) was related directly to the company's ability to recognize a demand in the marketplace.

Third, corporations have a better understanding of trade-offs, technologies, and trends operating within a society and can act on them in a way that is more rational and realistic than governments can. This is similar to my prior point but related to the production side of the equation. For

example, Toyota's development of hybrid vehicles arose because of its investment in and understanding of complex related technologies. The realization of the Prius as a commercial vehicle was a confluence of the understanding of the technology and the demand of a small specific segment of customers. Whether or not Toyota's intent was to help save the planet is immaterial to the fact that the company's knowledge was mobilized to provide a solution to a looming social problem while also selling automobiles that individuals wanted to buy.

Finally, being free of the transparency required of governments and many civil society organizations, corporations can more easily engage in social "experimentation" (Brugmann & Prahalad, 2007; McClintock, 1999). Indeed, the natural entrepreneurial spirit of competitive markets implies that free markets are engaging in continuous experimentation. For example, organic products were developed and marketed because entrepreneurial farmers believed there was a demand (Paull, 2006). It was only later, when the market for such products became mature, that organics became more mainstream and were picked up by mass producers and subject to complex regulatory and certification regimes. The whole modern microfinance market arose because of small-scale experiments and adaptation of ideas going back centuries. Muhammad Yunus's contribution was setting up an experiment (Grameen Bank) that was both scalable and could operate legitimately as a corporate model that could be replicated (Yunus, 2008).

Hence, one can make a cogent logical argument that corporations are valid instruments for social entrepreneurship and an effective means of gauging the social demands of conflicting constituencies. This logic goes further when one realizes that governments work well when there are needs for comprehensive nationwide (or global) policy demands, as would be the case with climate change and the need to develop an effective carbon trading system, but fail when there are a myriad of conflicting demands, legitimate or otherwise. In this latter situation, firms work well since they can choose their relevant constituency and work to resolve the issues that are most relevant to it, while ignoring the needs and demands of other constituencies whose claims on the rents of the corporation are less legitimate and defensible (something a government cannot do). Hence, we can conclude that CSR is good because it unleashes the entrepreneurial self-interest of inventors, firms, managers, and investors to solve social problems.

The "Bad" of CSR? Doing Well by Exploiting Being Good

A potentially naive assumption underlying CSR is that firms are guided by society and do not deliberately manipulate that society for their own benefit. It is the natural vice of corporations that they gravitate toward solving problems from which economic rents can be claimed. There are five natural vices of relevance here.

First, corporations exist to generate economic returns, not to solve societal problems. They live to optimize for themselves (i.e., their near stakeholders: shareholders, managers, employees, suppliers, governments, etc.), not the general public. Milton Friedman has been either vilified or hailed for his often misquoted (and frequently truncated) statement: "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970, p. 6). We can, and many do, take this statement as a value judgment about what firms should do. Friedman, being a pure positivist, is more likely to have meant this as a description of what is reasonable to expect from firms and that any attempt to influence or mitigate this has its own underlying costs. Take for example, the additional quote (Friedman, 1970, p. 2):

> *In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions accord with his "social responsibility" reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money. The stockholders or the customers or the employees could separately spend their own money on the particular action if they wish to do so.*

Second, corporations skew societal standards to their own needs. We can see this in two ways. The first is the use of regulatory capture and direct and indirect political influence (Niskanen, 1971). A classic example of this is how the Multi-Fiber Arrangement[3] served to protect those in the industry it was supposed to regulate (de Winter, 2003) by giving primacy of decision making to Western labor unions, purchasers (such as Nike and the Gap), and various religion-affiliated Western NGOs, while controlling the global market for textiles through production quota allocations from developing countries (much to the chagrin of Chinese producers). One might view this as natural, as any regulatory structure could hardly survive without the acquiescence of the regulated, but the extent to which the various interested parties (dominated by Western corporations, labor unions, NGOs, and religious organizations) captured components of the agenda going forward was telling (including the establishment of the Fair Labor Association, from which the labor participants withdrew because they believed the corporate interests were dominating). As noted in the last section, one of the good aspects of corporate engagement is that they have a much deeper understanding of the benefit and cost of trading off constituencies. The flip side of this is that they will work proactively to make sure that the most valuable constituencies, from their perspective, receive preferential treatment.

However, an even more complex aspect is the use of social activity as a competitive weapon. For example, one small mining company accused its global competitor of using its "award winning CSR positioning" to disadvantage competitors by lobbying for standards that reduced the value of the small mining companies (which did not have the scale to absorb the costs of the new standards) so that it could purchase them at a discount. Is such a use of CSR activities moral? Is it socially responsible or just the "pursuit of private interest by public means" (Bierce, 1911)? The fact that this is a general phenomenon is evidenced in Maloney and McCormick's (1982) study of the application of the U.S. Clean Air Act regulations. They showed that the regulations were not only a benefit to environmentalists but were structured in such a way as to serve as an effective barrier to entry benefiting established manufacturers over new foreign and domestic competitors by requiring them to meet more stringent and costly standards (a fact confirmed by Dean and Brown, 1995).

Third, corporations are not representative of the society at large. For lack of a better analogy, corporations are urban upper middle class. They do not represent the poor and disadvantaged of a society, nor do they represent the geographic spread of a society. For example, in Germany the corporate power base is most clearly in the northwestern to southern crescent, leaving the former Eastern states largely barren of major industrial and corporate activity. In Australia, the corporate and industrial population center is concentrated along the coast, with the interior dominated by farming and resource extraction. Both of these distributions show up clearly in the structure of their political parties.

Fourth, most corporations are naturally socially conservative and hence will not experiment unless they can see a clear profit from the endeavor. This is the opposite of our argument earlier. Although corporations have an incentive to engage in product and market experimentation, they are unlikely to engage in socially confronting experimentation. For example, it is difficult to find firms in the southern United States or Italy that would actively donate to or allow their names to be associated with gay and lesbian or pro-choice organizations. Jacobs (1990) gave compelling examples of how special-interest groups influence corporate giving. Hunt (2008) argued that "philanthrocapitalism" as a "transposition of the corporate model into the charitable sector [is an] ethos [that] is not necessarily in accordance with the demands of accountability, voice, and an engaged public sphere. There is little engagement with the kind of structural injustices—racial, economic, social—or broader environmental, demographic or strategic challenges that require political advocacy."

[3] The Multi-Fiber Arrangement is also known as the Agreement on Textile and Clothing. In operation from 1974 to 2005, it regulated and governed the world trade in textiles and garments by imposing quotas on the amount developing countries could export to developed countries.

Fifth, CSR allows governments to abdicate some of their social responsibilities, thus making the delivery of those social services provided by companies less accountable and transparent and more subject to the whims of unelected decision makers. Those wishing to take a broader perspective on Milton Friedman's argument given earlier would be quite pleased with Swedish Industry Minister Maud Olofsson, who, when asked about the Swedish government bailing out Saab, responded, "Voters elected me because they wanted nursery schools, police, and nurses, and not to buy loss-making car factories." Management's responsibility is to the corporation; government's responsibility is to the societies of voters. The business of society is government's. Again to quote Friedman (1970, p. 3):

> *The imposition of taxes and the expenditure of tax proceeds are governmental functions. We have established elaborate constitutional, parliamentary and judicial provisions to control these functions. . . . Here [meaning the case of CSR] the businessman—self-selected or appointed directly or indirectly by the stockholders—is to be simultaneously legislator, executive and jurist. He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds—all of this guided only by general exhortations from on high to restrain inflation, improve the environment, fight poverty and so on and on.*

The 1980s and 1990s were an era in which governments became shy of raising taxes and typically worked to reduce the tax burden on citizens and corporations. Public corporations were more likely to be privatized than created; bond issues for the expansion of infrastructure were eschewed for public-private build, own, operate-and-transfer schemes; and more and more social activity was "devolved" onto NGOs. Consequently, the pressure on corporations to take on part of the payment burden, albeit indirectly, increased.

These five points highlight the major philosophical problem with CSR: It asks corporations to work against their natural genetic makeup and managers and employees to work at cross-purposes. Taken together these issues imply a societal version of Adam Smith's warning:

> *People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary.*

Are we to believe that these tendencies are mitigated when a corporation says it is socially responsible? For example, CEO Lee Scott has been promoting Wal-Mart as a reformed green company while also moving aggressively into organics in an attempt to move upmarket and earn higher margins (Gunther, 2006). Fears were that its sheer size would give it unassailable control over the structure and development of the organic supply chain (Gogoi, 2006). But in the end the idea flopped with consumers, and Wal-Mart shelved its ambitious plans to focus more on the role that environmental actions can play in reducing cost (Gogoi, 2007).

The "Ugly" of CSR? Where's the Performance?

The empirical literature on the relationship between CSR and performance is mixed and fraught with empirical question marks around not just how performance is measured but what it means to "do good" (Margolis, Elfenbein, & Walsh, 2007; McWilliams & Siegel, 2000; Orlitzky, Schmidt, & Rynes, 2003). In addition, as the in-depth academic study of the CSR movement is relatively nascent (despite the volume of publication activity), it is difficult to disassemble the underlying corporate competencies and to determine which CSR competencies can be linked to specific performance outcomes. As noted, much of this is related to the problem of defining what CSR is and whose benefit is most relevant. In spite of this, CSR will be sustainable only to the extent that both corporations and the relevant societies are ultimately convinced that there is some "payoff" to the investment.

First, there is no indication that doing well by doing good has a clear and obvious relationship to the generation of firm value. We can look at this in two ways. First, from a financial markets perspective, Geczy, Stambaugh, and Levin (2005) showed that firms that list on "ethical indices" lose between 1% and 2.5% of their value relative

to similarly situated companies through the equivalent of an antiliquid trading effect. Others (Renneboog, Ter Horst, & Zhang, 2007a, 2007b) effectively confirmed these results using different approaches, while Statman (2007) showed that one can generate the performance characteristics of a social investment fund with more careful composition of the fund. Second, absent this trading effect there is no reason to believe that whoever holds equity will influence the value of that equity. For example, when CalPERS[4] dropped tobacco stocks from its portfolio, this cost pension holders the equivalent of $688 million, yet in no way affected the operational performance of those companies (are cigarette smokers going to smoke less because CalPERS is no longer an owner?). Similarly, in any of the last five years short-selling socially responsible investment fund indices and buying "vice" stocks such as Altria/Philip Morris (which has outpaced the market by 5% per annum for 60 years!) would have netted the investor approximately 20% (less short interest). According to Entine (2009), the tobacco stocks CalPERS dropped outperformed the S&P 500 by 250% to date, implying an opportunity loss of more than $1 billion.

Second, as few longitudinal studies exist we simply do not understand the causal link between a firm's specific CSR activities and the operational outcomes that can influence performance. Hence it is equally plausible that the relationship between CSR and performance is such that performance drives CSR activities and not that CSR activities drive performance (or both). We have the additional problem that longitudinal studies have a confounded definition of what CSR amounts to, as the CSR activities of the 1980s and 1990s, which were much more philanthropy based, look little like those of the 21st century, where alliances and marketing partnerships are coming to dominate.

A cynical perspective would say that perhaps CSR activities are a combination of free cash-flow-driven managerial discretion (Wang, Choi, & Li, 2008) and rational corporate self-interest (Baron, 2000). For example, if we focus on the latter point there is evidence that the return to philanthropy (as one compartmentalized measure of CSR) is approximately equal to the return to advertising (e.g., Wang, Choi, & Li, 2008) and that CSR more broadly construed is strongly related to advertising and consumer product industries (e.g., Fisman, Heal, & Nair, 2007). Similarly, Harjoto and Jo (2007) show not just an interaction between CSR activity and advertising intensity but a strong relationship between organization structure and ownership conflicts, implying that CSR is an ex post facto discretionary reaction to internal and external organizational and strategic conflicts. The veracity of the managerial discretion position is reinforced by Prior, Surroca, and Tribó (2008), who showed that firms that engage in earnings manipulations are significantly more likely to also engage in CSR activities. Chen, Patten, and Roberts (2008) showed a similar offset strategy whereby firms with poor environmental and product safety performance engage in more philanthropy.

From our perspective the relationship between CSR and corporate performance can be broken down into four basic areas that encompass nearly all the (nonmoral) reasons why corporations and managers would take on CSR initiatives: (a) their impact on customers and demand, (b) their impact on cost, productivity, and efficiency, (c) their impact on intangibles, innovation, and the duration of assets, and (d) their impact on risk (cost of capital). Simplistically, Total Economic Value = Consumer Surplus + Producer Surplus, where Consumer Surplus = Willingness to Pay – Price and Producer Surplus = Price – Economic Cost. Structured in Net Present Value (NPV) terms, this is simply $NPV = \Sigma_{\forall t} (Revenue_t - Cost_t)/(1 + r)^{t-1}$.

What this implies is that there are necessary but not sufficient conditions that must arise if the "doing well by doing good" paradigm is going to be operational: (a) CSR influences demand positively (e.g., there are more customers and/or a higher willingness to pay because consumers value the social stance or new attributes of the products on offer), (b) CSR makes the firm's cost structure

[4] California Public Employees' Retirement System provides retirement, health, and related financial programs and benefits to more than 1.6 million public employees, retirees, and their families and more than 2,500 public employers.

of operations more efficient relative to that demand (e.g., happier, more engaged employees, less turnover of staff, better and more reliable suppliers, etc.), (c) CSR allows for longer lived usage of assets (e.g., through the enhancement of innovation or increasing the value of investment in brands and reputation), and (d) CSR reduces the risk profile of the firm (e.g., by removing its linkage to market movements and forms of firm-specific risk). Points a and b imply that ($Revenue_t$ – $Cost_t$) is improved with CSR. Point c means that there are more time periods (t) over which the assets have value. Point d implies that (1 + r) is smaller.

However, these are only necessary conditions that imply that a firm can "do well," not that it would "do good." If by engaging in CSR the firm is revealing a set of "competitive competencies" that allow it to operate more efficiently based on its "goodness," there is no indication that the firm will not exploit those competencies for monopolistic gains. Indeed, the example given earlier of how mining companies used their CSR competencies to lobby for standards that imposed disproportionate costs on smaller rivals is just such an example. The larger firms are more efficient and safer and have a lower cost of capital. They also now have an oligopolistic lock on many major commodity markets that they have gained through their acquisition of smaller rivals.

Putting this in perspective, there is uneven evidence as to the performance implications of CSR activities. The most comprehensive study to date seems to hint that CSR does not hurt performance, but there is no concrete support to believe that it leads to supranormal returns (Margolis, Elfenbein, & Walsh, 2007, 2008). That is probably all that can be scientifically justified. More negatively, it hints at the fact that perhaps we are looking at CSR from the wrong perspective.

Discussion

I began this paper with the provocative statement that the socially responsible corporation is a fundamental impossibility. I sought to justify this by noting that the conflicting good and bad characteristics of the relationship between a firm and its societies along with the dynamic nature of its moral sanction make it impossible for the firm to be serving identifiable social purposes about which all of the relevant societies are in agreement. I do not deny that the firm attempts to achieve goals and outcomes that go beyond creating shareholder value or economic profits (sometimes with the knowledge of owners and sometimes not). Or those observable constituencies who are at the negotiating table at any point in time might not all agree to the sharing of the rents (excluding of course those not at the table). However, to argue that the choices the firm makes in terms of the distribution of the rents from its investments and activities can be de facto considered or identified as socially responsible or socially irresponsible in the vast majority of cases is impossible. Short of theft, extortion, fraud, murder, and a host of other obvious crimes, firms and constituencies will always engage in interactions whose outcome will lead to hedonic pricing of virtues and vices.

The difficulty is that we must be willing to accept the good and bad character of the corporation. We want corporations to experiment, but not too much or on the wrong things. We want them to offer products and services and create new processes, but not those that might be to the detriment of us (whoever us is) and certainly not at a high price. For example, Auger et al. (2008) ran experiments where the only way in which consumers could get good "ethics" with their product purchases was by accepting bad functionality. In the end, consumers voted overwhelmingly for better functionality at the expense of ethics. We want the corporation to engage in good social activity, but to be nice and not use it for competitive advantage that forestalls competition. We want managers to act benevolently when making choices about the social investments of corporations, but to do so in ways that align with our conceptions of what is socially right. But all of this is impossible. We must accept that as a social organism the firm will be a complex mixture of virtues and vices that cannot be separated. Firms, like individuals, will be naturally conflicted. If we give firms the power to make social decisions, we must accept that

they will use that power in a way they see fit, and we cannot vote them out of office if we disagree.

What does all this imply about a research agenda? First, until there is a clear understanding and articulation of the domain and subdomains of CSR, few fruitful generalizable conclusions will be possible, as every result will be contingent on the corporate and social context and the relevant "responsibility" under investigation. Domain articulation requires methods for defining and identifying societies (as opposed to just references to stakeholders) and the relevant responsibilities and how they map onto the needs and demands of those societies. Note that what is being implied is not a never-ending search for a definition of CSR but a domain specification methodology that can be applied in multiple contexts to allow for replication and generalizability.

Second, no investigation can assume that the goal of the corporation is to be guided by the need to use CSR for "good" alone. The trend toward social consciousness on the part of corporations is not inevitable, nor is it something that corporations will leave unexploited for their own individual interests. Baumol and his colleagues (1996, 2007) noted that the assumption that all innovation is welfare enhancing is a myth and that there is "good" and "bad" innovation, the former rent-creating and the latter rent-redistributing. CSR may have similar characteristics: There may be better and worse CSR differentially possessing the characteristics outlined in the good and bad sections above. This also implies the need to understand the political economy surrounding the social dimension of the organization and how the current developments have been used for competitive enhancement and positioning versus monopolistic and oligopolistic exploitation (Banerjee, 2007).

Third, the path by which CSR activities pervade the organization and influence our traditional dependent variables is not well understood. As outlined earlier in this paper there are four basic paths through which financial performance is influenced by CSR investment. Knowing how these pathways work and where legitimate competitive flows differ from the flows related to exploitation of a CSR position is critical yet completely unexplored with any degree of scientific rigor. Indeed, it is my argument that the failure to find the holy grail of CSR—"doing well by doing good"—is that none of the studies examining CSR activities versus performance provide a well-articulated model as to how the activities flow through to capitalized performance measures. Although it is impossible to have a perfect Du Pont analysis for CSR, the lack of even an imperfect attempt is disheartening. Indeed, triple-bottom-line accounting (Elkington, 1998) creates a template that should be applied more rigorously and consistently across all of these studies. If we cannot map the path that shows how financial, organizational, and social performance is influenced by CSR activities, these activities will be imperfectly manageable, and investments in CSR will be inefficient and wasteful.

Fourth, organizations are social contexts, and we know from experiments such as the Stanford prison experiment (Zimbardo, 2007) that we can influence the revealed good and bad characteristics of individuals by manipulating the context and expectations in which their actions are embedded. We know little about how CSR activities are influenced by the context in which managers, consumers, investors, and employees (just to name a limited few stakeholders) find themselves. It is convenient to believe that auditors, such as those at Anderson, and the top management team at Enron were different from us. However, Zimbardo's work suggests that they may be just like 90% of us, and we are simply deluding ourselves as to what our own actions would be.

Together these four challenges require that we take a more complex and multifaceted approach to CSR: one that is simultaneously skeptical and embracing, requiring a unique integration of empirical methods and theoretical disciplines.

Acknowledgments

Grahame Dowling, Jeff Malpas, Jonathan Doh, Dirk Matten, and Pratima Bansal have all made comments and criticisms of earlier drafts of this paper. I wish to thank them and the many others at presentations who have commented on the veracity (or lack thereof) of my logic. Apologies to Sergio Leone and Bobby Banerjee. All errors, omissions, and attributions are those of the author alone. This research is supported by a Discovery Grant from the Australian Research Council.

References

Aguilera, R. V., Rupp, D. E., Williams, C. A., & Ganapathi, J. (2007). Putting the S back in corporate social responsibility: A multilevel theory of social change in organizations. *Academy of Management Review, 32*(3), 836–863.

Auger, P., Devinney, T. M., Louviere, J. J., & Burke, P. (2003). What will consumers pay for social product features? *Journal of Business Ethics, 42*(3), 281–304.

Auger, P., Devinney, T. M., Louviere, J. J., & Burke, P. (2008). Do social product features have value to consumers? *International Journal of Research in Marketing, 25*(3), 183–191.

Banerjee, S. B. (2007). *Corporate social responsibility: The good, the bad and the ugly*. Cheltenham, England: Edward Elgar.

Baron, D. P. (2000). *Business and its environment* (3rd ed.). Upper Saddle River, NJ: Prentice Hall.

Baumol, W. J. (1996). Entrepreneurship: Productive, unproductive, and destructive. *Journal of Business Venturing, 11*(1), 3–22.

Baumol, W. J., Litan, R. E., & Schramm, C. J. (2007). *Good capitalism, bad capitalism and the economics of growth and prosperity*. New Haven, CT: Yale University Press.

Bierce, A. (1911). *The devil's dictionary*. Project Gutenberg. Retrieved March 10, 2009, from http://www.gutenberg.org/etext/972.

Brugmann, J., & Prahalad, C. K. (2007). Cocreating business's new social impact. *Harvard Business Review*, (February), 1–13.

Chen, J. C., Patten, D. M., & Roberts, R. W. (in press). Corporate charitable contributions: A corporate social performance or legitimacy strategy? *Journal of Business Ethics*.

Dean, T. J., & Brown, R. J. (1995). Pollution regulation as a barrier to new firm entry: Initial evidence and implications for future research. *Academy of Management Journal, 38*(1), 288–303.

De Bakker, F. G. A., Groenewegen, P., & Den Hond, F. (2005). A bibliometric analysis of 30 years of research and theory on corporate social responsibility and corporate social performance. *Business and Society, 44*(3), 283–317.

Devinney, T. M., Auger, P., Eckhardt, G., & Birtchnell, T. (in press). The other CSR: Consumer social responsibility. *Stanford Social Innovation Review*.

de Winter, R. (2001). The anti-sweatshop movement: Constructing corporate moral agency in the global apparel industry. *Ethics and International Affairs, 15*(2), 99–117.

Elkington, J. (1998). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford, England: Capstone.

Entine, J. (2009, February). The next catastrophe. *Reason*. Retrieved April 19, 2009, from http://www.reason.com/news/printer/130843.html.

Fisman, R., Heal, G., & Nair, V. B. (2007). *Social responsibility: Doing well by doing good?* (Working paper). New York: Columbia University.

Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *New York Times Magazine*, pp. 1–6.

Geczy, C., Stambaugh, R. F., & Levin, D. (2005). *Investing in socially responsible mutual funds* (Working Paper). Philadelphia: The Wharton School, University of Pennsylvania. Retrieved April 14, 2009, from http://finance.wharton.upenn.edu/rlwctr/papers/0402.pdf.

Gogoi, P. (2006, March 29). Wal-Mart's organic offensive. *Business Week*, http://www.businessweek.com/bwdaily/dnflash/mar2006/nf20060329_6971.htm.

Gogoi, P. (2007, April 12). Organics: A poor harvest for Wal-Mart. *Business Week*, http://www.businessweek.com/bwdaily/dnflash/content/apr2007/db20070412_005673.htm.

Gunther, M. (2006, July 31). The green machine. *Fortune*, http://money.cnn.com/magazines/fortune/fortune_archive/2006/08/07/8382593/index.htm.

Harjoto, M. A., & Jo, H. (2007). *Why do firms engage in corporate social responsibility?* (Working Paper). Santa Clara, CA: Santa Clara University.

Hunt, T. (2008, April 17). The business of giving: A new class of corporate philanthropists would have us believe charity is post-political. Far from it. Retrieved April 20, 2009, from http://www.guardian.co.uk/commentisfree/2008/apr/17/3.

Jacobs, D. L. (1990, September 30). Managing: Corporate donations under attack. *New York Times*, section 3, p. 23.

Kristof, N. D. (2002, May 21). Following God abroad. *New York Times*, p. A21.

Liston-Heyes, C., & Ceton, G. C. (2007). Corporate social performance and politics: Do liberals do more? *Journal of Corporate Citizenship, 25*(May), 95–108.

Maloney, M. T., & McCormick, R. E. (1982). A positive theory of environmental quality regulation. *Journal of Law and Economics, 25*(1), 99–123.

Margolis, J. D., & Elfenbein, H. A. (2008). Doing well by doing good: Don't count on it. *Harvard Business Review, 86*(1), 19.

Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. (2007). *Does it pay to be good? A meta-analysis and redirection of research on corporate social and financial performance* (Working Paper). Boston: Harvard Business School.

McClintock, B. (1999). The multinational corporation and social justice: Experiments in supranational governance. *Review of Social Economy, 52*(4), 507–521.

McWilliams, A., & Siegel, D. (2000). Corporate social responsibility and financial performance: Correlation or misspecification? *Strategic Management Journal, 21*(5), 603–609.

Mills, G. (2007, November 2). The new imperialists. *International Herald Tribune*.

Niskanen, W. A. (1971). *Bureaucracy and representative government*. New York: Aldine-Atherton.

Orlitzky, M., Schmidt, F. L., & Rynes, S. R. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies, 24*(3), 403–41.

Paull, J. (2006). The farm as organism: The foundational idea of organic agriculture. *Journal of Bio-Dynamics Tasmania, 83*, 14–18.

Prior, D., Surroca, J., & Tribo, J. A. (2008). Are socially responsible managers really ethical? Exploring the rela-

tionship between earnings management and corporate social responsibility. *Corporate Governance: An International Review, 16*(3), 160–177.

Reich, R. B. (2007). *Supercapitalism*. New York: Vintage Books.

Reinhardt, F. L., Yao, D. A., & Egawa, M. (2006). *Toyota Motor Corporation: Launching Prius* (HBS Case 9-706-458). Boston, MA: Harvard Business School Press.

Renneboog, L., ter Horst, J., & Zhang, C. (2007a). *The price of ethics: Evidence from socially responsible mutual funds* (Finance Working Paper 168/2007). Brussels, Belgium: European Corporate Governance Institute.

Renneboog, L., ter Horst, J. & Zhang, C. (2007b). *Socially responsible investments: Methodology, risk exposure and performance* (Finance Working Paper 175/2007). Brussels, Belgium: European Corporate Governance Institute.

Smith, A. (1904). Of wages and profit in the different employments of labour and stock. In E. Cannan (Ed., 1904), *An inquiry into the nature and causes of the wealth of nations* (Book I, Chapter X, paragraph I.10.82). Library of Economics and Liberty. Retrieved April 20, 2009 from http://www.econlib.org/library/Smith/smWN4.html.

Statman, M. (2007). *Socially responsible investments*. (Working Paper). Santa Clara, CA: Santa Clara University, Department of Finance. Retrieved March 10, 2009, from http://ssrn.com/abstract=995271.

Wang, H., Choi, J., & Li, J. T. (2008). Too little or too much? Untangling the relationship between corporate philanthropy and firm financial performance. *Organization Science, 19*(1), 143–159.

Yunus, M. (2008). *Creating a world without poverty*. New York: Public Affairs.

Zimbardo, P. (2007). *The Lucifer effect*. New York: Random House.

Copyright of *Academy of Management Perspectives* is the property of *Academy of Management* and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.