Altruism, Opportunism and Points in Between

Trends and Practices in Corporate Social Responsibility

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This report was made possible by the support of the Insurance Corporation of British Columbia

May 2000

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Executive Summary

This report has been prepared with support from the Insurance Corporation of British Columbia (ICBC), a provincially-owned crown corporation.

The purpose of the paper is to (i) develop a framework that may be useful to ICBC in developing a strategy for corporate social responsibility (CSR); (ii) provide ICBC with insights into how companies understand and approach CSR, why companies are interested in CSR; and how companies design and implement CSR; (iii) serve as a basic resource for other companies interested in CSR (ICBC intends to support the dissemination of this paper as an expression of its commitment to corporate social responsibility).

This study is based on (i) a review of the literature on CSR; and (ii) interviews with senior executives at 11 companies that have a reputation for commitment to CSR.

The conclusion of a recent, worldwide Environics poll was that CSR is becoming a "global expectation that requires a comprehensive corporate response." The poll found that the *greatest influence* on public perceptions of companies comes from factors related to social responsibility. Canadians were found to attach greater importance to the social role of corporations than citizens of almost every other country.

CSR is becoming a "mainstream" issue for corporate executives. Evidence includes: (i) accelerating corporate involvement in organizations aimed at promoting CSR; (ii) growing recognition among CEOs of the need to respond to non-shareholder stakeholders; and (iii) growing corporate acceptance of the importance of producing detailed public reports on their "social performance".

WHAT IS "CORPORATE SOCIAL RESPONSIBILITY"?

Corporate *social* responsibility represents the notion that corporations have responsibilities to society beyond their responsibility to maximize the economic value of owners' (or shareholders') interests. This view is captured in the Conference Board of Canada's definition of CSR:

> Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors.

How then to transform this concept into practice? The "stakeholder management" approach is, today, the dominant model for operationalizing CSR. It comes close to equating social performance with the corporation's management of stakeholder relationships. The model suggests that the success of the corporation depends on the continuing support of "primary stakeholders."

> If any primary stakeholder group, such as customers or suppliers, becomes dissatisfied and withdraws from the corporate system, ... the corporation will be seriously damaged or unable to continue as a going concern.[1]

The implications of the stakeholder management model are that:

a) maintaining the support of primary stakeholders is essential to corporate survival;

b) primary stakeholder management is therefore an integral part of “good management”;

c) good management of relations with primary stakeholders will inevitably produce socially responsible behavior;

d) CSR therefore emerges *automatically* as a product of sound management.

WHY BOTHER WITH CSR?

The answer to the question of why firms care about CSR depends upon two factors: *attitudes* and *evidence*.

Attitudes. A firm whose attitudes toward CSR are characterized by “low business orientation” would not demand a rigorous business case for CSR. This type of firm engages in CSR for reasons that are largely separate from business considerations. It may be motivated by a high level of *altruism* – a belief that CSR is the “right thing to do” whether or not it has an impact on business success.

At the other end of the range, the firm whose attitude toward CSR is characterized by a “high business-orientation” would require a rigorous business case for CSR. It would seek evidence of links between it and the firm’s financial objectives.

Few firms lie at either extreme end of the spectrum. Most approach CSR with a mix of business and non-business objectives. We argue however that firms’ behavior will increasingly demonstrate a perceived connection between CSR and long-term success. Fewer firms will see CSR as divorced from day-to-day business concerns.

(ii) Evidence

(a) The Missing Link: CSR and the Bottom Line

Virtually all firms – except those taking a purely altruistic approach to CSR – will have an interest in establishing a business case for CSR. Academic research on CSR has focused on evidence of a *direct link* between CSR and profitability. The results have been inconclusive. Some studies have found a direct positive link between CSR and corporate financial performance; but many others have shown a negative or a neutral

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[1] Clarkson (1995).

relationship. Part of the ambiguity may be due to the fact that it is practically impossible to draw generalized conclusions about links between CSR and bottom-line performance.

(b) Indirect Evidence

Indirect evidence links CSR with desirable behavior by corporate stakeholders. This, in turn, is assumed to have a positive impact on corporate financial performance. The weight of *indirect* evidence paints a compelling picture of the importance of CSR to achievement of broad corporate objectives. The main body of the report refers to a wealth of research that suggests or demonstrates: (i) consumer demand for CSR; (ii) consumer aversion to corporate irresponsibility; (iii) positive effect on corporate reputation caused by CSR; (iv) positive effect on employees caused by CSR; (v) positive effect on corporate relations with government caused CSR.

The conclusion to be drawn from the evidence – direct and indirect – is that the "why bother with CSR?" question only has meaning in the context of the unique circumstances of the firm: its primary stakeholders, their expectations, and the degree to which CSR is part of what it takes to satisfy those expectations.

PUTTING CSR INTO PRACTICE

(i) Designing Approaches to CSR

(a) Consultation

Many of the firms we interviewed described systematic efforts to incorporate the views of staff, customers and other key stakeholders into the design and implementation of their CSR-related activities.

(b) Strategic CSR

Firms are demonstrating growing interest in incorporating CSR into their business strategy. This means designing CSR programs that play to the corporation's internal strengths and strategic objectives. The perspective of the Royal Bank of Canada – which consistently receives top ranking for "corporate responsibility" in an annual *Report on Business (ROB) Magazine* survey – is worth noting. Royal Bank CEO John Cleghorn has referred to a recent trend of corporate contributions meeting "both the needs of the corporation as well as those of the beneficiaries." He emphasized that his Bank's own CSR activity is targeted to "causes that are thematically linked to our corporate goals and the interests of our employees, customers and shareholders." The main body of this report provides several examples of how major Canadian companies are taking a strategic approach to CSR.

(ii) Implementing CSR

(a) Organizing for CSR

Interviewees stressed the importance of avoiding "ghetto-izing" CSR within the firm. They noted the importance of avoiding the impression that CSR was the sole responsibility of a particular corporate unit. If taken seriously, CSR becomes the business of every part of the company, and cannot be isolated as the domain of a corporate affairs or community affairs unit.

(b) Communicating CSR Within the Firm
The firms we interviewed took seriously the means by which CSR was communicated within the firm. The challenge is to make clear that CSR is not an "optional add-on", but rather is a way of doing business and a component of how the corporation defines itself. Several executives noted that the term "corporate social responsibility" was not meaningful within their firm and so was rarely used internally. Management and staff use terms more relevant to the company's operations, practices and vocabulary. At BC Hydro, people speak of "building public support". At Vermont National Bank, management and staff think in terms of "community banking."

(c) Building and Maintaining a Supportive Corporate Culture
Communication. Building a common understanding within the firm of CSR is a prerequisite for embedding in the firm attitudes that are "friendly" to CSR. Sometimes, even simple slogans can be useful for this purpose. At Citizens Bank of Canada, its public slogan – "A Different Kind of Bank" – is a reminder to staff and management about the central position of its ethical policy in the Bank's business model.

Reporting. A growing number of firms are producing some form of annual report on their CSR activities. Production of such reports sends a signal throughout the firm that CSR is a corporate priority.

Leadership. Interviewees pointed to the necessity for leadership from the highest levels of the firm with respect to CSR. It is important that signals constantly be sent from the firm's leaders about the links between CSR, corporate values, and corporate success.

(iii) Measuring and Reporting

Systematic corporate reporting on CSR is not only a way to reinforce a supportive culture within the firm. It is also a way to address the concerns of external stakeholders. "When a company is able to quantify and benchmark its performance [related to CSR] and communicate confidently to stakeholders, it positively influences stakeholder perception."[2] Pressures for more intensive corporate reporting on CSR are coming from government regulators, investors, advocacy groups, labor unions, community organizations, the news media and customers. Corporations are sensitive to this pressure, and are responding.

The emerging "state of the art" in reporting on CSR is the "social audit". Because standards have yet to be developed, companies have adopted a range of approaches. The most demanding format is modeled on a conventional financial audit: a comprehensive social audit, verified by an independent third party, that measures the full range of social and environmental impacts across a company's entire operations.

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[2] Kahn, et. al. (2000).

Major Canadian corporations are only beginning to respond to the challenges of reporting on their CSR activity. The observation of a Telus executive that “we still have a lot to do” in this area was representative of most of the companies interviewed. Among the companies we studied there were two exceptional cases, VanCity Savings Credit Union and BC Hydro. Brief descriptions of their social reporting practices are found in the main body of the report.

As well as reporting on their own CSR activity, some companies are beginning to ask the community organizations to which they provide support to furnish performance information. In an environment where community requests for corporate support exceed corporate resources allocated for CSR, performance data supplied by requesting organizations provide a basis for rationing CSR resources.

PRACTICAL IMPLICATIONS

(i) “Opportunistic” CSR

The answer to “why bother with CSR?” cannot be found in general propositions about the value of CSR to the firm. “Firms respond to the demand for CSR, on the part of numerous corporate stakeholders, in a manner that is consistent with their response to the demand for other product attributes.”[3] CSR may be regarded as a tailored response to opportunities (and threats) in the firm’s environment. Translating this “opportunistic” approach to CSR into action involves understanding CSR as (i) a product attribute; (ii) a corporate attribute; and (iii) a corporate function.

(a) CSR as Product Attribute

CSR under certain circumstances is a product attribute for which there is a market. It can be bought and sold. The phenomenon of “social investing” is a spectacular example of the emergence of CSR as a product attribute. A Canadian example of a CSR “vendor” is Citizens Bank of Canada. Its “ethical policy” is a promise to customers that their funds will not be used in ways that are socially irresponsible. Citizens Bank promises only to lend to and invest in companies that satisfy ethical screens. This business model was tailored to a segment of the market that wants to purchase CSR when it does its banking.

(b) CSR as Corporate Attribute

Some companies may either not be in a position to “sell” CSR, or may choose not to enter that market. As a corporate attribute, CSR is not bought and sold. As an overall attribute of the corporation, it may affect consumers’ willingness to buy a corporation’s goods and services, and also affect other stakeholders’ attitudes toward the firm. A contemporary Canadian example that exemplifies CSR as a corporate attribute is the Royal Bank of Canada. The Bank’s reputation as a CSR leader in Canada is well established. It regards this reputation as an asset that generates positive returns in terms of relationships with key stakeholders such as (i) federal government regulators; (ii)

[3] Siegel & McWilliams (1999).

customers (who expect the Bank to support the communities in which it operates); and employees (who "feel good" about the Bank because of its reputation for CSR).

(c) CSR as Corporate Function

CSR when viewed from the "opportunistic" perspective is a corporate asset that needs to be managed as any other asset would be. Hence the notion of CSR as a corporate function, which is the set of structures and processes for: (i) managing/maintaining relationships with key stakeholder groups; (ii) assessing the relative importance to the firm of different stakeholder relationships; (iii) articulating the benefits that the corporation hopes to achieve from particular stakeholder relationships; (iv) assessing the extent to which involvement in socially-oriented activities will help the firm strengthen relationships with particular stakeholders; (v) assessing the kinds, and volume, of socially-oriented activities that make most sense for the firm, and how the firm will organize itself to deliver them.

(ii) Concluding Note

We have introduced the concept of an "opportunistic" approach to CSR. Some may find this perspective repugnant, because it would appear to strip away the moral or ethical content of CSR, reducing it to the level of product development or marketing. In fact, there is no reason why a "moral" (or altruistic) and an opportunistic approach to CSR must be mutually exclusive. The two points of view already co-exist in most companies. To varying degrees, depending on the values and culture of different firms, CSR will be driven by altruistic motives that are separate from business concerns. But rarely will altruism be the sole or even the dominant motivation. The opportunistic approach necessarily picks up where altruism leaves off.

PART 1 - INTRODUCTION

(i) Moving to the Mainstream

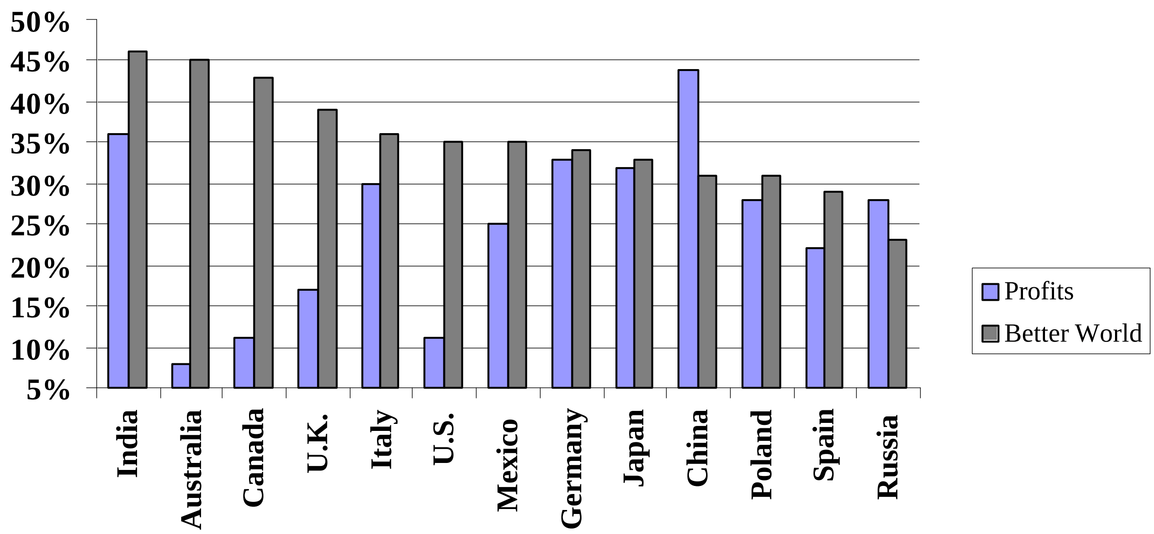
Not so very long ago, the frontier between "business" and "society" appeared, to some opinion-leaders, to be clearly drawn.

The neo-classical economist Milton Friedman argued in an oft-quoted article published in 1970 that "the business of business is business" and that corporate social responsibility was a "fundamentally subversive doctrine." He went on to observe:

> [Businessmen who believe that] business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers... are ... preaching pure and unadulterated socialism.[4]

Nearly 30 years later, a worldwide poll covering 25,000 people in 23 countries[5] found few places in the world where Friedman's view would be well received. Major findings of the Environics "Millennium Poll on Corporate Social Responsibility" include:

Figure 1 - Perceptions of the Role of Business
(Source: Environics (1999))



- the greatest influence on public perceptions of companies comes from factors related to social responsibility; they outweigh issues of brand quality and business fundamentals;

[4] Friedman (1970). Friedman won the Nobel Prize for economics in 1976.
[5] Environics International (1999).

- majorities of citizens in all countries think companies must go beyond “making a profit” and should focus on building a “better society” (see Figure 1);

  ⇒ Canadians feel especially strongly about this point: Canadians attach greater importance to the social role of corporations than citizens of almost every other country; they are also less likely than citizens of almost all other countries to emphasize a company’s profit-making role (see Figure 1);

- more than 20 percent of consumers either rewarded or punished companies over the past year based on their perceived social performance.

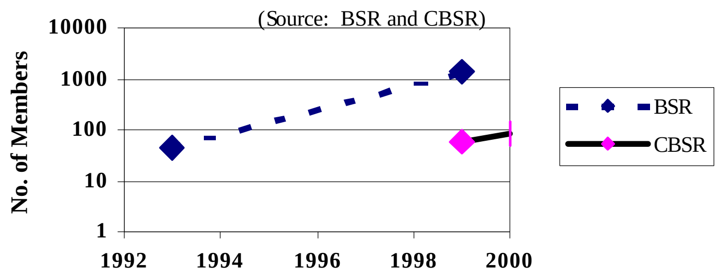
Corporate social responsibility, the authors of the Environics study argued, “is fast becoming a global expectation that requires a comprehensive corporate response.”

To be sure, there is nothing new about the concept of CSR. In 1950 the chief executive officer of the American retailer Sears said that the “four parties to any business in the order of their importance” were “customers, employees, community and stockholders”.[6] Indeed, the very fact that Friedman felt compelled 30 years ago to denounce CSR forcefully suggests the debate has been a live one for some time.

But if the concept is not new, the weight it carries with businesses and their customers has clearly increased. No longer the “subversive” idea vilified by Friedman, CSR appears to be fast becoming a “mainstream” issue for corporations. Evidence comes from a variety of sources, many of which will be addressed in further detail in this report:

Figure 2 - Membership Growth at BSR and CBSR

(Source: BSR and CBSR)



- survey data and academic research on corporate, consumer and investor attitudes;

- evidence from corporate behavior, which shows that business leaders find it increasingly necessary to pay attention to CSR; for example, the number of companies belonging to San Francisco-based Business for Social Responsibility grew from 45 in 1993 to more than 1,400 in 1999; membership in Canadian Business for Social Responsibility (CBSR) grew by 40 percent between 1999 and 2000 (Figure 2).

- evidence from citizen behavior; the recent boom in “social investing” (see below) indicates a fast-growing “market” for CSR; as well, there is anecdotal evidence (supported by survey data) of consumers’ increasing willingness to punish companies for disregarding their perceived social responsibilities; the consumer

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[6] General Robert Wood, cited in Clarkson (1995).

boycott of sporting goods manufacturer Nike Inc. for its treatment of overseas factory workers is a well-known recent example; Nike's current financial troubles have been linked to damage to its brand resulting from "lingering association with ... overseas sweatshops."[7]

- increasing attention given by business schools and business academics to CSR; a 1999 academic journal article stated that "only recently have [social issues] joined the mainstream management literature as a legitimate area of inquiry."[8]

Other factors, too, have converged to make CSR a "top of mind" concern for a growing number of corporate leaders. These include: (i) rising levels of shareholder activism, a significant portion of which relates to social issues[9]; (ii) the explosive growth of the internet, which has facilitated rapid communication of detailed information about corporate behavior and mobilization of consumer activism; (iii) the "downsizing" of the public sector, in Canada and throughout the world, which has caused the public to heighten its expectations of the social role to be fulfilled by the private sector.[10]

Perhaps the most telling comment about the degree to which CSR is fast becoming a part of mainstream corporate thinking comes from one of the charter members of the US-based advocacy group Business for Social Responsibility, commenting on the changing nature of BSR's membership:

> We're getting divisions of Kraft, the Fortune 500, and investment bankers out to make a killing who recognize that this is the way to success. We don't just have the oddball New Age companies any more. We've got the suits.[11]

(ii) Overview of the Report

(a) The Insurance Corporation of British Columbia

This report has been prepared with support from the Insurance Corporation of British Columbia (ICBC), a provincially-owned crown corporation. ICBC is, by law, the sole provider of basic auto insurance in British Columbia. As well, as a result of its recent merger with the province's Motor Vehicle Branch, ICBC also has responsibility for services related to driver licensing, vehicle certification and road safety.

Although ICBC is the legally-mandated monopoly provider of basic automobile insurance[12] in British Columbia, it competes with other insurance firms for the provision of optional forms of automobile insurance. Its financial mandate is to break even, rather than to make a profit.

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[7] Lee (2000).
[8] Harrison and Freeman (1999).
[9] Some evidence suggests that approximately 1/3 of shareholder proposals in the U.S. relate to social issues. See VanDuzer (1999).
[10] Daviss (1999).
[11] Gary Hirshberg, quoted in Bennett (1999).
[12] All motorists must purchase from ICBC a basic package that includes accident benefits, third-party legal liability protection and under-insured motorist protection.

(b) ICBC and Social Responsibility
As a crown corporation, ICBC is an instrument of government policy. It therefore has an explicit social mandate. ICBC is in the "business" of producing social outcomes desired by the government, namely outcomes related to reducing the risk associated with road transportation in British Columbia.

ICBC's explicit social mandate creates a context for discussion of CSR that differs significantly from the context affecting a private sector enterprise. Private firms, even those that are strongly committed to social responsibility, must nevertheless come to terms with a distinction between the welfare of their owners, on the one hand, and their non-owner stakeholders on the other hand. Although private companies are increasingly taking the view (as described elsewhere in this paper) that socially responsible behavior contributes to the long-term success of the firm, they will still face tradeoffs in the short-term.

In principle, the picture for a crown corporation is different. There is no distinction between the "owner" of the crown corporation and society. The corporation's owner is the government which in turn is acting in the interest of all citizens. So the crown corporation simultaneously serves the interests of its owner, the government, *and* the interests of society. In principle, there is no tradeoff between serving the interests of the owner of the crown corporation and serving the interests of society.

In practical terms, however, there are factors that affect a crown corporation's immediate operating environment and long-term viability which may cause it in some cases to see a short-term tradeoff between the interests of its "owner" and its other stakeholders. In the case of ICBC, these factors include:

- operating constraints imposed by the government (e.g. the requirement to operate on a break-even basis);

- policy uncertainty (e.g. uncertainty regarding the government's intentions with respect to ICBC);

- consumer attitudes toward ICBC and auto insurance (e.g. the extreme sensitivity of British Columbians to auto insurance premium costs and to claims servicing issues, which may cause them to undervalue ICBC investments in social responsibility);

- the presence of a competitive market for some of the services sold by ICBC (which, as in the case of the preceding point, forces ICBC to consider the degree to which consumers are willing to "pay for" socially responsible behavior)

The way in which ICBC will implement its commitment to social responsibility is therefore affected by issues and constraints similar to those faced by a private firm that seeks to be socially responsible. The first bullet point noted above is similar to the constraint imposed upon a private firm by its owners (or shareholders). The second point is similar to the variety of operating risks faced by private firms: market conditions or regulatory conditions could change in ways that would alter the balance between the costs and benefits of socially responsible behavior. The third and fourth points are common to all firms, whether privately-owned or state-owned, that sells goods or services.

(c) Purpose of the Report, and Methodology

ICBC currently undertakes a wide range of activities that it classifies as "socially responsible." A recent internal inventory identified 45 socially responsible activities grouped in 16 programs or departments. The notion that CSR is a core element of ICBC's business is well understood across the corporation.

ICBC has recently begun moving toward a more strategic approach to its CSR activity. It was in this context that the Institute On Governance (IOG) was asked by ICBC to prepare this paper. The purpose of the paper is to:

- provide a framework that may provide a basis for ICBC to (i) review its current portfolio of CSR activities; and (ii) develop a strategy for CSR;

- provide ICBC with insights into (i) how other companies in businesses or situations similar to ICBC understand and approach CSR; (ii) why these companies are interested in CSR; and (iii) how they design and implement CSR; and

- serve as a basic resource for other companies interested in CSR (ICBC intends to support the dissemination of this paper as an expression of its commitment to corporate social responsibility).

This study is based on (i) a review of the literature on CSR; and (ii) interviews with senior representatives of 11 companies.

Companies interviewed for the study were chosen on the basis of (i) their reputation for interest in CSR and (ii) their perceived relevance to ICBC's business and situation. On the latter point, we focused on companies that had some of the following attributes: (i) are crown corporations; (ii) are in the insurance business (if not in the insurance business, then operate in the financial sector; if not in the financial sector, then operate in the services sector); (iii) are based in British Columbia (if not in BC, then in Canada; if not in Canada then in the US).

The remainder of the paper is organized as follows:

Part 2 provides an overview of recent thinking and trends concerning the meaning and significance of "corporate social responsibility". It describes the "stakeholder management" model of CSR, which dominates current thinking and practice.

Part 3 seeks to answer the question "why bother with CSR"? It examines factors that motivate companies to undertake CSR, and reviews the evidence linking CSR to overall corporate performance.

Part 4 focuses on practical questions of how selected companies have designed and implemented CSR.

Part 5 offers some conclusions and seeks to assess their practical implications for corporations. It proposes some questions that ICBC management must address in developing its strategy for CSR.

PART 2 – WHAT IS "CORPORATE SOCIAL RESPONSIBILITY"?

(i) Introduction

The principal idea behind corporate *social* responsibility is that, as the term itself suggests, corporations have responsibilities to society that extend beyond their responsibility to maximize the economic value of owners' (or shareholders') interests.

CSR's premise is that corporations are responsible to a wide range of non-owner groups – "stakeholders" – who interact with the corporation and who may affect its fortunes and/or may themselves be affected by it. This view is captured in the definition of CSR offered by the Conference Board of Canada:

> Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental responsibility, human rights and financial performance.[13]

The notion of broad responsibility to stakeholders as well as shareholders is, of course, problematic for the firm. Important questions arise which need to be addressed if the idea of CSR is to have any meaningful impact on corporate activities. In principle, CSR casts widely the net of corporate responsibility. At the end of the day, the performance of a firm in designing and implementing a meaningful approach to social responsibility will depend on the firm's own assessment of *who* are its key stakeholders and *what* are its responsibilities to them. But the firm's assessment of these matters is not made in isolation, nor is it static over time. Instead, it will be constantly affected by shifting forces within and outside the firm, including managers, shareholders, board members, customers, community stakeholders, external interest groups, political leaders, opinion leaders, academics, etc.

The way that the firm grapples with the concept of CSR – bearing in mind its own views and objectives as well as those of external parties - will mean the difference between arriving at an understanding of social responsibility that is either (i) so broad and deep as to be impossible to implement; (ii) so narrow as to have little meaning; or (iii) a reasonable middle ground between the objectives of the firm and the needs and expectations of stakeholders.

Practical questions related to how firms address CSR, and why firms might believe that CSRis worth addressing at all, are discussed in the following sections of this paper. The purpose of this section is to provide a conceptual and theoretical backdrop to the CSR debate. It explores some of the business literature on CSR and looks back at how social and economic forces have transformed the CSR debate in recent decades. It describes

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[13] Khoury, et. al. (1999), p. 2.

different models of CSR, but focuses on the "stakeholder management" model, which dominates current thinking and practice.

(ii) Theoretical Background

Although practical approaches to CSR seem to be converging around the definition presented at the beginning of this section of the paper, in reality there is no "one view" of CSR. A variety of views have been popular over time. Even today, different understandings of CSR co-exist.

Table 1 – Range of Approaches to CSR

	Corporation a social actor?	What is CSR?	Motivation for CSR?	Orientation to External World
Fundamentalism	No.	Doesn't exist	None. The business of business is profits.	
Self-Interest	No.	Legal/contractual responsibility, but additional activities OK if they generate profit.	It may contribute to profitability.	
Social Contract Theory	Yes.	The corporate response to societal values and rules of behavior.	Corporation needs to accommodate societal demands.	
Stakeholder Management	Yes.	Management of relations with stakeholders.	Corporation needs to accommodate stakeholders' demands.	
Stewardship	Yes.	Corporation's contribution to building a "better world".	It's the right thing to do, period.	

This brief theoretical overview will focus on five approaches to CSR that are fairly well representative of the range of possibilities[14]. For convenience, we label these five approaches (i) Fundamentalism; (ii) Self-interest; (iii) Social Contract; (iv) Stakeholder Management; (v) Stewardship. The five approaches, summarized in Table 1, represent a progression toward increasing sensitivity by the corporation to the needs and expectations of the world outside itself. As well, they reflect differing views on the social nature of the corporation. The first two views reject or minimize the notion that the corporation is a "social" entity, while the latter three are based upon the assumption that the corporation has a social character.

(a) Fundamentalism

Friedman's approach (see p. 1), labeled by some as "fundamentalism,"[15] embodies the rejection of corporate personhood. He dismissed the idea that corporations are social, and argued that they can have no responsibilities because they are only "artificial persons."[16] Only human actors – in this case, executives – can have responsibilities, and

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[14] Adapted from Wexler (2000) and Klonowski (1991)
[15] *Ibid*., pp. 9-10.
[16] Friedman (1970).

those corporate responsibilities relate exclusively to shareholders. Friedman argued that spending corporate money on social causes amounted to taxation – either in the form of lower shareholder returns or higher consumer prices – and redistribution:

> Here the businessman – self-selected or appointed directly or indirectly by 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 this guided only by general exhortations from on high to restrain inflation, improve the environment, fight poverty and so on and on.[17]

Friedman's argument is based on a functionalist view that clearly distinguishes between the role of the public and private sectors. He argues that broadening the idea of social responsibility to include corporate actors is essentially an extension of the "scope of the political mechanism to every human activity."[18] Friedman's views about the social role of the corporation hold little currency today.

(b) Self-interest

There is a more moderate approach than Friedman's, which nevertheless continues to reject the idea of corporations as social agents.[19] The "self-interested" approach accepts that there may be corporate benefits from socially responsible activities that trump any concerns about the muddying of the functions of the public and private sectors:

> This win-win formulation…argues that to act with CSR a firm must be responsible to its investors *and* can be responsible to others as long as care for the shareholders is taken duly into account. This ... amends the minimalist [fundamentalist] CSR position.[20]

Within this approach, CSR is justifiable if it can be well demonstrated that it benefits the corporation in financial terms.

(c) Social Contract

The third camp is based on variations of social contract theory. These theorists see corporations as acting within the boundaries of an implicit agreement with the rest of society, an agreement that is constantly evolving. As societal values change, so do the rules by which corporations must abide. Unlike the first two approaches, corporate social contract theorists envision a 'moral floor' that limits corporate actions. They argue that legal constraints alone are insufficient to ensure a minimum acceptable level of socially responsible behavior by firms.[21] They must be supplemented by constraints on corporate behavior that are built into the implicit "contract" between the firm and society.

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[17] *Idem.*
[18] *Idem.*
[19] Wexler (2000).
[20] *Ibid.*, p. 79.
[21] For example, see Stone (1975), pp. 93-110.

(d) Stakeholder Management
Stakeholder management theory is an "offspring of social contract theory."[22] It represents the most influential set of ideas affecting the way that corporations currently practice CSR.

The stakeholder-management model minimizes the vagueness of the social contract approach by identifying specific constituents with which the corporation interacts and to whom it owes responsibility.[23] Despite the lack of consensus on many aspects of stakeholder theory, and a lack of sophisticated understanding of the dynamics within stakeholder groups,[24] stakeholder management theory has proven over time to be of considerable practical relevance. Over the past 20 years, the stakeholder approach has gained legitimacy among management theorists and corporate leaders alike, and has contributed to a "refocusing on a broad set of stakeholder relationships rather than a narrow set of purely economic relationships."[25] It has transformed the way that many corporations understand and undertake the corporate community relations and develop CSR strategies.

(e) Stewardship
One might also refer to this approach as the "altruistic" model of CSR. Like Friedman's model (ironically!) it draws a clear distinction between social responsibility and business considerations. But it arrives at a radically opposite conclusion: that the corporation, regardless of business considerations, has a duty to serve social needs and to interact with society in a morally virtuous way. The stewardship model is based on the assumption that the corporation has a moral obligation to contribute to the development of a better world, and to contribute to "the moral development of both employees and the society."[26]

(iii) CSR as "Stakeholder Management"

The stakeholder management approach to CSR deserves special attention, given its dominant position among practitioners and theoreticians alike. Though by no means easy to apply, the model has a strong intuitive appeal. It is simply explained and easily understood, and lends itself well to "strategic management" approaches that are familiar to corporate executives. The stakeholder management model of CSR comes close to equating social performance with the way in which a corporation manages its key stakeholder relationships. Stakeholder management virtually *becomes* "social performance." The major challenge for the corporation involves the development of approaches for balancing the demands of a diverse range of stakeholders.

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[22] Klonoski (1991), p. 13.
[23] Freeman (1984).
[24] Harrison & Freeman (1999), pp. 483-484. The authors argue that researchers have failed to identify important differences within stakeholder groups by focusing on large catch-all categories like "customers" and "employees." They suggest joint studies with researchers in other disciplines such as marketing to fill these gaps.
[25] *Idem*.
[26] Klonoski (1991), p. 15.

One of the pioneers of the stakeholder approach to CSR, the Canadian management professor Max Clarkson[27], formulated the theory in a way that drew a tight link between stakeholder-management, corporate survival and corporate social responsibility. (Some empirical evidence related to this proposition in presented in the next section of the paper.) Clarkson saw the corporation as having *primary* and *secondary* stakeholders. Primary stakeholders typically include shareholders and investors, employees, customers and suppliers, together with governments and communities. He argued that without the continuing participation of these primary stakeholders in what he referred to as the "corporate system",

> the corporation cannot survive ... If any primary stakeholder group, such as customers or suppliers, becomes dissatisfied and withdraws from the corporate system, ... the corporation will be seriously damaged or unable to continue as a going concern.[28]

Clarkson cites a range of examples of major corporate failures from the 1980s and 1990s as evidence of the robustness of this proposition. The implication of his theory is clear:

e) maintaining the participation of primary stakeholders is essential to corporate survival;

f) primary stakeholder management is therefore an integral part of "good management", writ large;

g) good management of relations with primary stakeholders will inevitably produce socially responsible behavior;

h) CSR therefore emerges *automatically* as a product of sound management practices.

As Clarkson observed:

> The moment that corporations and their managers define and accept responsibilities and obligations to primary stakeholders, and recognize their claims and legitimacy, they have entered the domain of moral principles and ethical performance, *whether they know it or not.* So long as managers could maintain that shareholders and their profits were supreme, the claims of other stakeholders could be subordinated or ignored... [But when] ethical judgements and choices may become issues of survival, the management of ethics and ethics programs in a corporation becomes a matter of strategic importance.[29]

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[27] Clarkson was Dean of Management at the University of Toronto from 1975 to 1980. He launched and taught pioneering courses in corporate values and business ethics. He founded the Centre for Corporate Social Performance and Ethics at the University, with which he was associated until his death in 1998.
[28] Clarkson (1995). Also important to the firm are its relationships with what Clarkson defined as "secondary stakeholders", which include special interest groups and the news media. Although not immediately essential to the survival of the firm, they may affect the success of the firm (and the views of primary stakeholders) by mobilizing opinion in favor of or in opposition to it.
[29] *Idem*., emphasis added.

The growing acceptance of the stakeholder model of social responsibility is a testament to its robust and practical nature. Nevertheless, it has an important weakness: it suggests that firms can discharge their social responsibilities purely by being *responsive* to stakeholder demands. It places no onus on the firm to show moral leadership in areas where stakeholders themselves are not active or interested. One could imagine (perhaps with some difficulty) a case where *none* of a firm's primary stakeholders were interested in, for example, environmental sustainability, racial equity, gender equity or economic fairness. Under such circumstances, a strict interpretation of the stakeholder model would suggest that the firm was being "socially responsible" even if it too ignored these concerns.

There are two kinds of responses to this weakness in the stakeholder model: the first lies within the model itself, the second is outside it.

First, the model itself, if applied by the corporation thoroughly and in good faith, goes a long way toward ensuring that no significant moral or social "gaps" will appear in the company's behavior. If a company seriously and energetically engages with the full range of its primary stakeholders, making a genuine effort to understand and respond to their views, it is hard to imagine that much room would be left in the corporation's behavior for major moral gaps.

Second, the stakeholder management model does not preclude the corporation from exercising independent moral judgement and moral leadership. As is discussed in Part 3 of the paper, many business leaders report that their company's pursuit of CSR is linked to a mix of altruistic and business-related factors. If this is so, then it is not unreasonable to expect that corporations might, on matters of significant social concern, hold themselves to a standard that exceeds the standard determined by the immediate views of their stakeholders.

(iv) Forces Transforming the CSR Debate

(a) Globalization and Information

Changing approaches to CSR can be directly linked to dynamic social and political forces shaping the context in which corporations act. These forces have transformed the role of the corporation in society, and society's expectations of its behavior. Understanding these forces may help corporations respond more effectively to the demands of various stakeholder groups.

Globalization may perhaps be the most significant force affecting the way in which corporations view social responsibility, as well as stakeholders' expectations regarding CSR. Globalization has reinforced the notion that we live in a shrinking and increasingly "boundary-less" world, forcing us to rethink notions about the dividing line between business and society, between what is "private" and what is part of "the community." Globalization has raised the general level of awareness of the fact that, as one commentator put it, "economies – like nature – are closed systems."[30] Although this fundamental shift in perspective was induced by globalization, its impact is felt as much by companies that operate only in their home country as it is by multi-national corporations. The point, simply, is that corporations feel under greater pressure to factor into business decisions variables that relate to external actors and institutions.[31]

These concerns have resulted in greater scrutiny of corporate activities and skepticism about their motives. New information technology encourages this trend by providing for the widespread distribution of news, increasing demand for detailed information, and facilitating the mobilization of concerned citizens. Consumers increasingly demand transparency, and that transparency inevitably leads to demands for ethical behavior.[32]

(b) Reform in the Public Sector

A significant political force affecting popular expectations related to CSR has been the "re-engineering" and "downsizing" of governments throughout the industrialized world. Governments have been moving steadily away from direct involvement in public service delivery, putting greater emphasis on their core policy-making and regulatory functions. Many areas traditionally seen as "public services" to be owned and operated by the public sector have been privatized or contracted out to private agents. Increasingly, the line separating public and private interests becomes blurred, as private corporations deliver public services. The result is that the functional dichotomy that formed the basis of Friedman's "fundamentalism" no longer makes much sense.[33] If corporations are performing "public" tasks, consumers will expect levels of accountability and communication that they would traditionally associate with their elected officials.

(c) The "Post-Material" World

A final, related force that has important implications for CSR is the rise of "post-material" concerns at the level of individual value systems. Political sociologists have identified a new set of values which have transformed the way that individuals search for personal happiness and perceive social and political institutions and processes.[34] Theorists point to the rise of a well-educated, articulate "post-bourgeois" class, with new political demands and tactics. The argument is that individuals born after the Second World War,

> having been raised during a period of unprecedented prosperity, might tend to give relatively high priority to non-material goals; their parents and grandparents, having experienced hunger and turmoil during their formative years, remain likely to emphasize economic and physical security.[35]

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[30] Daviss (1999).
[31] Waddock & Boyle (1995), p. 129. Globalisation has also raised new questions about the responsibility of corporations in the context of developing countries. For example, see Hibler & Beamish, eds., (1998).
[32] Atkin (1999).
[33] Wexler (2000), pp. 78-79.
[34] See Lipset (1985a); Inglehart (1985); Nevitte (1991); Nevitte (1996).
[35] Inglehart (1985).

In practical terms, these new values have redefined the nature of political conflict. Whereas debates used to center on the distribution of wealth, increasingly social issues and conceptions of quality of life are at the forefront:

> These values manifest themselves in a desire for a less impersonal, cleaner, more cultured society, a freer personal life, and democratization of political work and community life. Such concerns run counter to those that dominate among the traditional classes of industrial society, which are more preoccupied with satisfying material needs, namely, sustenance and safety.[36]

"Post-materialism" helps explain the evolution of the CSR debate, particularly with respect to the expectations of consumers and employees. Exploring the link between political values and workplace expectations is not a new endeavor.[37] Recent business literature, as well as information gathered through interviews with corporate executives that we conducted for this study, indicates that post-materialist values have penetrated the workplace, as employees, particularly those who are well-educated, look carefully at non-material factors when considering employment opportunities. Employees expect greater participation in management decisions than in the past and are also trying to secure a better balance between work, family and community commitments.[38] Simultaneously, consumers are also demanding greater information about corporate conduct and are increasingly seeing corporations as actors that should share the responsibility to "contribute to broader societal goals" as well as fulfil their traditional roles.[39]

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[36] Lipset (1995a), p. 195.
[37] For example, see Pateman (1970), especially Ch. 3.
[38] Waddock and Boyle, (1995), pp. 131-33; McKay (2000).
[39] Environics International Ltd. (1999).

PART 3 – WHY BOTHER WITH CSR?

> Ultimately, decisions about CSR involve a certain leap of faith. It starts with a management decision that CSR is the right thing to do and that it certainly isn't going to hurt from a business perspective.[40]

So said a senior executive at one of Canada's largest financial services firms, commenting on key factors driving CSR at his company. The remark struck us as being particularly perceptive because it resonated with two themes that recurred in the interviews conducted for this study, and in the literature we reviewed, namely that:

- the "objective", fact-based business case for CSR is far from being clear cut; nevertheless, an increasing number of companies appear open to considering evidence linking CSR with corporate financial performance; and

- apart from being driven by any business considerations, decisions related to CSR are to varying degrees grounded in corporate values and corporate culture (which allow for the "leap of faith").

In other words, our analysis suggests that the answer to the question of why firms care about CSR depends upon two factors: *attitudes* and *evidence*.

Attitudes. Different companies will approach CSR with different sets of biases and expectations based upon factors such as the industry of which they are a part, the relative importance and composition of different stakeholder groups, the views and values of top management, the corporate culture and corporate history. As a result, certain companies will be more naturally disposed toward CSR than others.

Evidence. Companies will look for evidence of the effect that CSR may have on the achievement of overall corporate goals. Corporate attitudes may shape the kind or quantity of evidence that companies demand. For example, companies whose attitude already favors CSR may be have less need for evidence that CSR is "good for the company." Companies that are more naturally skeptical about CSR may, conversely, seek "proof" that CSR ought to be an element of corporate strategy.

(i) Attitudes

To a minimum extent, companies are *required* to be socially responsible. Laws and regulations demand that firms fulfill a basic set of responsibilities with respect to, for example, employees, customers and the communities within which they operate.

It is when companies contemplate going beyond the bare minimum that the "why bother?" question becomes interesting. For most firms the answer will follow from, among other things, perceptions about the impact of CSR corporate financial

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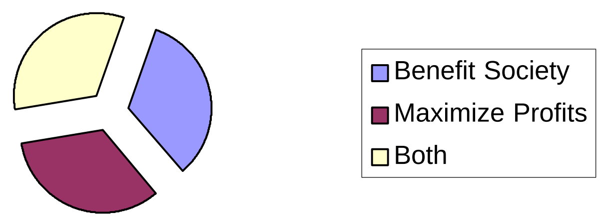
[40] Interview with Royal Bank of Canada executive.

performance. In other words, one would expect that firms' decisions about engaging in discretionary social responsibility (i.e. social responsibility beyond that which is mandated by law) would be influenced to some degree by the *business case* that could be made for social responsibility.

Figure 3 - Motivation for CSR: Canadian Senior Execs.

(Source: Menzies (1997))



The relative importance of the business case to decisions about CSR is likely to vary according to the values, expectations and circumstances of the firm, an issue we will explore in more detail later in this section of the paper. Suffice it to say here that firms' attitudes toward CSR can usefully be viewed as falling in a range with "low business-orientation" at one end and "high business-orientation" at the other.

For example, the firm whose attitudes toward CSR are characterized by "low business orientation" could be expected not to demand a rigorous business case for CSR. This type of firm engages in CSR for reasons that are to a large degree separate from business considerations. It may feel a strong sense of obligation to support certain causes or charities. It may be motivated by a high relatively level of *altruism* – a firm belief that CSR is the "right thing to do" whether or not it has an impact on the success of the business. At the most, a firm of this sort might simply want to put a budget constraint around its CSR activity to ensure that it was not creating unacceptable levels of financial costs. But it would not vigorously seek evidence of a connection between CSR and overall corporate success.

At the other end of the range, the firm whose attitude toward CSR is characterized by a "high business-orientation" would be likely to require a rigorous business case to be made for CSR. It would seek evidence of tight links between it and the firm's market and financial objectives.

Few firms, of course, would lie at either extreme end of the spectrum. Most would approach CSR with motives determined by varying proportions of non-business and business objectives. Indeed, a 1997 poll[41] of senior executives at Canada's top companies found opinion evenly divided on the question of whether the motivation for socially responsible behavior was to "benefit society" or to "maximize profits" (Figure 3). However, an assumption underlying this paper is that there is a trend that is steadily pushing firms toward the "high business-orientation" end of the range. We would argue, based on the literature and the interviews conducted in connection with this study, that the behavior of firms will be increasingly likely to suggest that they see a connection between CSR and their long-term success. A decreasing number of firms will see CSR as

[41] Cited in Menzies (1997).

being completely divorced from day-to-day business concerns. As one recent commentary put it, “Fading fast are the days when a company would simply pop a cheque in the mail to a specific charity because it was the personal favorite of the chairman’s wife.”[42]

Companies’ attitudes toward CSR will also depend upon the degree to which they are influenced by the “stakeholder” model of CSR, outlined in the previous section of this paper (p. 10). The more they accept this model, the more they are likely to see the business-relevance of CSR. The notion that CSR follows directly from the way in which the firm manages its stakeholder relationships gives CSR a decidedly “business-like” character. Indeed, the logical consequence of the stakeholder perspective is that CSR becomes a matter of strategic importance for the firm. Evidence suggests that the influence of the stakeholder model is growing. A recent *Financial Times* and PricewaterhouseCoopers survey of 750 CEOs from around the world found that they regarded “pressure from stakeholders” as the second-most important challenge facing them in 2000 (Box 1).

Box 1 – *CEO’s Views on Top Challenges in 2000*

1. Recruiting skilled staff.
2. Pressures from stakeholders.
3. Environmental demands.

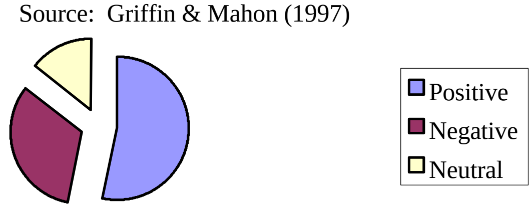
(Source: Smy (1999))

(ii) Evidence

(a) The Missing Link: CSR and the Bottom Line

Figure 4 - Correlation between CSR and Bottom Line - Review of 62 Studies

Source: Griffin & Mahon (1997)



The preceding paragraphs suggest that virtually all firms – with the rare exception of those that take a purely altruistic approach to CSR – will have varying degrees of interest in establishing a business case for CSR. Virtually all firms will be interested in understanding the extent to which CSR may affect the bottom line. Not surprisingly, then, much of the academic research on CSR over the past 20 years or so has focused on seeking evidence of a *direct link* between CSR and profitability. The results have been inconclusive.

A study published in 1997 reviewed 51 scholarly articles covering 62 research studies undertaken since the early 1970s on links between CSR and financial performance. Although it found that more than half of the articles purported to show positive links

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[42] Menzies (1997), p. 64.

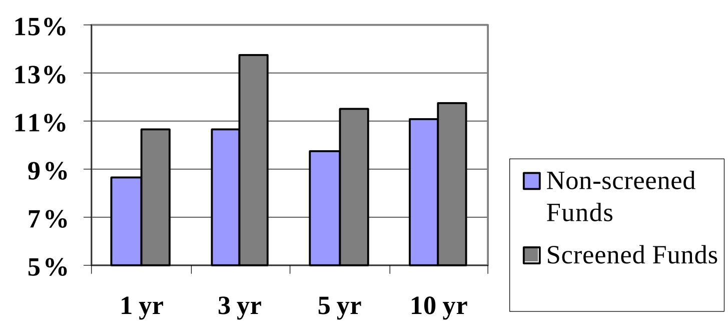
between CSR and financial performance (Figure 4), it also concluded that nearly half indicated either no apparent relationship or a negative relationship. Some studies found simultaneous evidence of positive *and* negative relationships. On the whole, the authors of the review concluded that:

> ... this debate [about links between CSR and financial performance] is far from over, and ... is certainly not settled in either the academic or practitioner community. Although numerous researchers have explored the empirical relationship between corporate social performance and corporate financial performance, no definitive consensus exists[43]

It is hard to know what to make of these ambiguous results. Are they telling us that there is no consistent relationship between CSR and financial performance? Perhaps, but it appears more likely that the problem lies with the studies themselves. The 62 studies described in the article were based on a variety of different criteria for social responsibility and financial performance. As well, most of the studies incorporated multiple industries, thereby masking industry-specific factors relevant to measurement of both corporate social performance and corporate financial performance.

Figure 5 - Returns on Socially-Screened vs. Non-Screened Mutual Funds

(Source: Social Investment Forum)



Another often-cited indicator of the impact on the "bottom-line" of CSR is the performance of companies that are "screened" for social responsibility by the various "social investing funds" that have become particularly popular in the United States (see below). Data produced by the social investing industry suggests that socially responsible portfolios tend to outperform broad market indices (Figure 5[44]). The degree to which this provides definitive "proof" of the impact of CSR on the bottom line is compromised by the limitations of the screening methodology.

For the time being, CSR practitioners can take only limited comfort from the state-of-the-art in academic research on direct links between CSR and financial performance. *There does appear to be consensus that the existing body of research can, at the very least, support the claim that good social performance does not lead to poor financial*

[43] Griffin & Mahon (1997), p. 6. This review of the research was itself challenged in a subsequent scholarly article, Roman, et. al. (1999), which re-examined the analysis in Griffin & Mahon, and revised downward the number of studies showing a negative correlation. Nevertheless, Roman, et. al. still concluded that the issue of the link between CSR and financial performance "is not yet resolved."

[44] Social Investment Forum (1998). Comparisons are as of Dec. 31, 1998. Data compare 183 socially-screened funds with 9,622 unscreened funds. Figures were calculated by combining the performance of funds within each investment category and calculating averages.

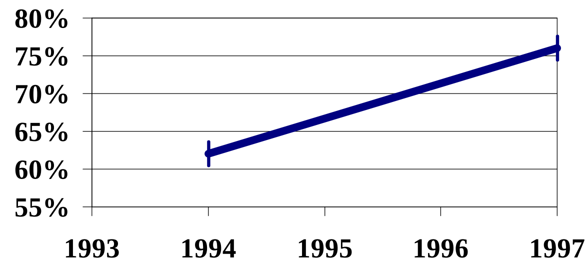
performance.[45] As of yet, however, conceptual and methodological limitations embedded in the research itself have stood in the way of definitive claims about a positive link between CSR and the bottom line.

(b) Indirect Evidence

Indirect evidence links CSR with desirable behavior by corporate stakeholders. This, in turn, would be assumed to have a positive impact on corporate financial performance. The weight of *indirect* evidence paints a compelling (if less than completely conclusive) picture of the importance of CSR to achievement of corporate business objectives. A body of surveys and studies of consumer, corporate managerial and public-sector managerial attitudes, as well as direct evidence from consumer behavior suggests that there is a high degree of "demand" from various corporate stakeholders for CSR. This in turn suggests that companies who ignore this demand do so at their peril.

Figure 6 - Consumers Who Switch Based on Perception of Community Orientation

(Source: Jones (1997))



This sub-section of the paper presents an overview of the indirect evidence linking CSR with corporate performance. Most of the literature that we were able to review within bounds set by the time and resources available for this assignment examined the impact of CSR on a company's relationships with its customers and its investors. For the purposes of this report, we break down the indirect evidence linking CSR to corporate performance into the following categories:

- consumer demand for CSR;
- consumer aversion to corporate irresponsibility;
- reputation effect;
- effect on employees;
- government demand for CSR.

Consumer Demand. The proposition is becoming increasingly well established in the literature that "many (but certainly not all) consumers value CSR attributes."[46] An

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[45] Roman, et. al. (1999).
[46] McWilliams and Siegel (2000).

American sociologist identified an emerging group of consumers that he labeled "Culture Creatives", who comprise about 25 percent of the population in the US, are well-educated and relatively affluent, and who distinguish themselves by making an increasing number of decisions based on core values. This group "looks behind the product" before it buys.[47] Firms interviewed for this study confirmed this phenomenon. One interviewee told us that the company's market research indicated clearly that "being a socially responsible company is one of the attributes that consumers tell us is most important."

Consumers who care about CSR may be attracted to a company's products or services because the company has a reputation for CSR, or because CSR is seen as being embedded in a particular product or service itself.[48] Sometimes both factors are at play simultaneously.

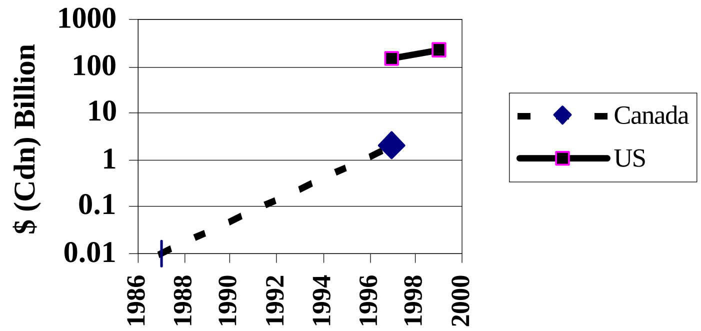


Figure 7 - Growth in Socially Screened Mutual Fund Assets

(Source: Social Investment Forum (1999) and Abbey (1999))

Opinion surveys provide evidence of this phenomenon. Data from the Millennium Poll, shown in Figure 1, indicate strong consumer expectations that companies will behave in a socially responsible manner. Similarly, a 1997 survey of 2,000 consumers in the US found that three-quarters would switch to brands or to merchants that seemed concerned about the community; the survey also found that this tendency was on the increase[49] (Figure 6). Similarly, a 1996 survey found that 88 percent of consumers were more likely to buy from a company viewed as socially responsible[50]. A 1999 survey of 214 US marketing executives found that they perceived a strong relationship between "corporate citizenship" and customer loyalty.[51]

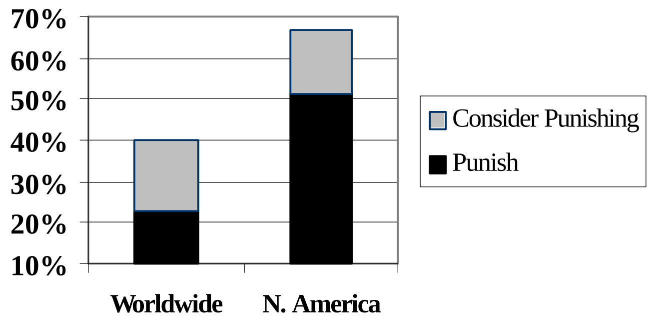
The burgeoning phenomenon of "socially responsible investing" (SRI), although directly linked to investors' rather than consumers' behavior with respect to CSR, also provides evidence of growing popular demand for CSR. (It is not unreasonable to assume that some of the same factors that would motivate an individual to invest in a socially responsible firm would also motivate him or her to buy from a socially responsible firm.)

SRI has been defined as encompassing investment practices that "integrate personal values and societal concerns with investment decisions." SRI takes account of "both the

[47] Abbey (1999).
[48] McWilliams and Siegel (2000).
[49] Jones (1997)
[50] Cited in Maignan, et. at. (1999)
[51] Maignan, et. al. (1999).

Figure 8 - Consumer Behavior Toward Socially Irresponsible Companies

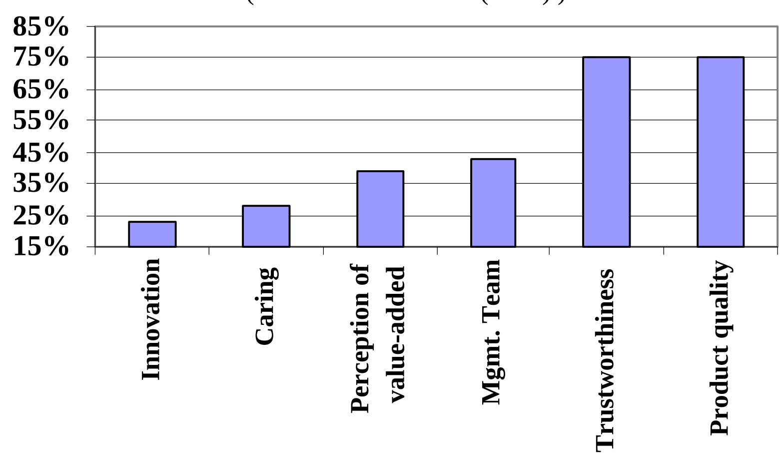
(Source: Millennium Poll)



investor's financial needs and an investment's impact on society."[52] Many investors who choose to practice SRI do so by investing in mutual funds that have been screened for social responsibility, i.e. that do not take positions in companies with poor records on issues such community relations, workplace practices, the environment, manufacture of alcohol or tobacco-related products, etc.

The growth of socially-screened mutual funds has outpaced the growth of unscreened investments by wide margins: in Canada between 1987 and 1997, growth in assets in screened mutual funds outpaced growth in unscreened mutual fund assets by a ratio of 13 to 1[53]. In the US, socially responsible investment assets grew at twice the rate of all assets under professional management during the period between 1997 and 1999 (Figure 7).[54]

Figure 9 - Basis of Corporate Reputation - CEOs
(Source: Winkleman (1999))



Consumer Aversion to Social Irresponsibility. One would expect that if consumers are willing to reward a company for socially responsible behavior, they would be prepared to punish it for socially irresponsible behavior. Recent surveys support this view. Nearly one-quarter of all respondents to the Millennium Poll reported punishing, over the preceding year, a company seen as not socially responsible. This tendency was most pronounced in North America, where half of respondents reported punishing a company (Figure 8). A separate 1995 study of Canadian consumers concluded that one-quarter were actively involved in boycotting goods of services provided by companies viewed as bad corporate citizens.[55]

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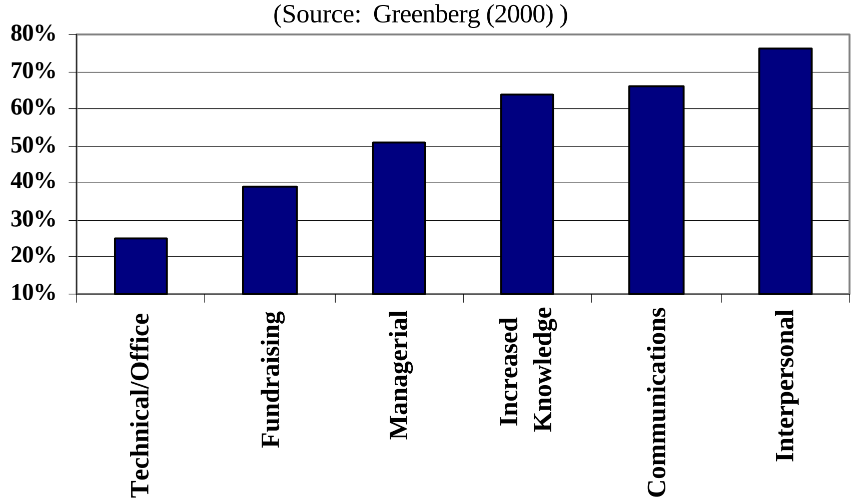
[52] Social Investment Forum. http://www.socialinvest.org/areas/sriguide/index.html
[53] Abbey (1999).
[54] Social Investment Forum (1999)
[55] Menzies (1997).

Reputation Effect. There is an expansive literature on corporate reputation and its value as a corporate asset. It is beyond the scope of this study to review that literature in detail, but it is useful to indicate the results of recent research that point to links between CSR, corporate reputation, and corporate success.

A recent poll of 650 CEOs in the US[56] found (not surprisingly, perhaps) that 96 percent saw corporate reputation as tightly tied to corporate success – they saw it as having a powerful impact on sales and on the company's capacity to attract and retain top-quality employees. Nearly two-thirds of CEOs expressed the view that "reputation management" had become an increasingly important part of their job over the past five years. Asked to name the most important factors that shape corporate reputation, "trustworthiness" emerged on a par with "product quality"; the impression that the company does business in a "caring way" was also one of the most frequently cited responses (Figure 9).

Figure 10 - Skills Gained Through Volunteer Activities

(Source: Greenberg (2000))



The frequency of responses around "trustworthiness" and "caring" suggest that CEOs see a link between the corporation's social face and its overall reputation. The Millennium Poll data, cited above, corroborate the important impact that a corporation's social reputation has on its overall reputation.

Recent academic literature also suggests a relationship between CSR and overall corporate reputation, observing that a positive reputation for CSR may create a "halo effect" around the company, leading to a the belief in the market that it is generally a reliable firm and that its products and services are of high quality.[57]

Effect on Employees. In the survey of CEOs noted immediately above, nearly two-thirds of respondents said they believed corporate reputation was a key factor in attracting and retaining top quality employees, and 40 percent said they believed a positive corporate reputation was an important factor in reducing employee turnover. These views were echoed by many of the companies we interviewed for this study: they indicated a firm

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[56] Winkleman (1999).
[57] Siegel and McWilliams (1999)

belief that a corporate reputation for CSR had a positive impact on their ability to attract and retain top-quality personnel. Many interviewees also told us that socially responsible corporate activity built employees' sense of pride in working for the company, a factor which was assumed to have a positive impact on productivity and quality of work.

Results of a recent survey on Canadian volunteerism suggest that corporate support for voluntary and community activity by employees produces benefits for the corporation, in the form of a better qualified workforce. The "National Survey of Giving, Volunteering and Participating" found that Canadian volunteers reported gaining many important job-related skills – inter-personal skills, communications skills, managerial skills, and office-related technical skills – as a result of engaging in volunteer work (Figure 10)[58]. A recent report from the US indicated that one-third of American companies have a formal policy to pay workers or give them time off for volunteer work.[59]

> **Box 2 – *CSR in the Workplace***
>
> Hotel company Marriott International wanted to reduce turnover among its 150,000 low-wage workers. It found that many were being driven from their jobs by personal problems. In 1992 it established a 24-hour employee hotline staffed by social workers. By 1997 Marriott's employee turnover rate had dropped to 35%, against an industry average of more than 100%. Marriott documented 600 cases where the hotline was a key factor in keeping an employee from quitting. "It costs us well over $1 million a year ... but it saves us more than $3 million a year in hiring, training, and other costs," observed the company's director of work/life initiatives. Apart from cost savings resulting from increased employee retention, Marriott "documented increases in productivity, morale and better relations with managers and co-workers as a result of the hotline."
>
> Source: Bennett (1999)

Internal human resource policies are also a component of their CSR. The extent to which firms go beyond minimum legal/regulatory requirements in order to create a workplace environment that supports employees needs and concerns is regarded by many companies as an important expression of social responsibility. The Royal Bank, an acknowledged CSR leader in Canada, has a detailed workplace policy covering issues such as diversity, work/family/life, workplace flexibility and wellness. The Bank sees the policy as a vehicle for addressing its "ability to gain a business advantage and distinguish ourselves as a socially responsible corporate leader.[60] Reports suggest that workplace initiatives of this nature yield tangible benefits for the corporation (see Box 2).

Government Demand for CSR. A recent study of relations between the public sector and the private sector in Canada suggested that the attitudes of senior federal public servants toward Canadian corporations are positively affected by perceptions about a company's reputation for CSR.[61] Senior public officials were found to have a high degree of respect and admiration for companies that were seen to have, among others, the following

[58] Greenberg (2000).
[59] Jones (1997).
[60] Royal Bank of Canada (1999).
[61] Schacter & Plumptre (1999).

characteristics:

- are active and unselfish players in the public policy process;
- serve as role models in areas such as workplace innovation, workplace equity and support for minority or disadvantaged groups;
- have significant involvement in community activity and philanthropy.

Corporate reputation with senior government officials is particularly important in industries that are subject to relatively high levels of regulation. Companies identified by officials as being highly respected reported that one of the results of their reputation was smoother relations with the government on issues of strategic importance. They also felt that they were able to exert more influence over the public policy process than would have been the case in the absence of a sound reputation with leading government officials.[62]

(iii) Why Bother? – Revisited

For the company whose CSR activity is motivated purely by altruism, the "why bother with CSR?" question requires little consideration. These companies approach CSR with only one idea in mind: it is the right thing to do, regardless of business considerations.

Evidence strongly suggests that Canadian corporations approach CSR with a mix of motives having to do with *both* altruism *and* corporate financial success (see Figure 3). As a major Canadian business publication recently observed, "firms are embracing a new kind of benevolence in which altruism is merged with marketing."[63]

For this vast majority of firms the answer to "why bother?" will, to a degree that varies from company to company, depend on perceptions of how CSR affects corporate success. Companies looking for objective and unambiguous "proof" of a direct link between CSR and corporate financial success will however be disappointed. The vast body of research on this subject has yet to pronounce definitively on whether or not CSR makes a positive contribution to the bottom line. Indeed, as we will suggest in the final section of the paper, the question itself – "Does CSR contribute to financial success?" – may well be the wrong question to ask.

If one strips away the altruistic motivation for CSR – which will always be present but which cannot, on its own, account for every aspect of a corporation's approach to CSR – "why bother?" appears to be a question that cannot be asked or answered in the abstract. Blanket statements about the contribution of CSR to financial success are meaningless if we accept the validity of the stakeholder management model. In other words, the "why

[62] *Idem.*
[63] Menzies (1997).

bother?" question only has meaning in the context of a particular company's set of relationships with its various primary stakeholders.

As the preceding paragraphs indicate, the research literature contains compelling evidence about CSR's positive impact on the behavior of key corporate stakeholders – such as customers, community members, employees and government officials – whose behavior, in turn, has a power influence on corporate financial performance. (Conversely, the literature also provides convincing findings about the negative impact on stakeholders of corporate social *ir*-responsibility.) But ultimately, the value to the corporation of CSR can only be determined by understanding the particular circumstances of each individual firm: its primary stakeholders, the nature of their expectations of the firm, and the degree to which various forms of CSR will satisfy stakeholders' expectations and cause them to continue participating in what Clarkson referred to as the "corporate system" (see p. 10). Answers to questions about the value of CSR to the firm cannot therefore be found in the generalized judgements of detached observers, but rather through understanding the day-to-day relationships of the firm with the stakeholder groups that are essential to its prosperity and survival.

PART 4 – PUTTING CSR INTO PRACTICE

This section provides a brief overview of how companies design and implement their approaches to CSR. It is based almost entirely on information gathered from 11 companies interviewed in connection with the study, and supplemented by published accounts of recent corporate activity. We do not claim to provide a representative or a comprehensive picture of approaches to CSR implementation; such a task would have exceeded the time and resources available for this study. Rather, we propose to describe highlights and trends that emerged from our set of interviews. Our findings will be biased by at least two important factors: (i) as noted above (p. 5), we focused primarily on service-oriented (as opposed to manufacturing) firms, with a particular emphasis on financial services; and (ii) we targeted firms that were already known for being committed to CSR.

We will examine three aspects of putting CSR into practice:

- designing corporate approaches to CSR;
- implementing CSR;
- measuring and reporting on the firm's CSR performance.

(i) Design

A recent scholarly article proposed that a CSR project or program, to be successful, would:

- reflect "local knowledge" about social issues;
- be built around an obvious link between corporate activities and the social problem it seeks to address;
- reflect a shared consensus among stakeholders about the importance of the problem being addressed and the means used to address it; and would
- have a relationship with corporate financial performance.[64]

This resonated well with the findings of our interviews regarding the design of CSR programs. Two key issues emerged. The first related to consultation; the second related to the need for a deliberately strategic approach which aimed to link CSR activity with the firm's business expertise and business interests.

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[64] Pava & Krausz (1997).

(a) Consultation

Many of the firms we interviewed described systematic efforts to incorporate the views of staff, customers and other key stakeholders into their CSR-related activities. Citizens Bank of Canada, for example, undertook consultations with customers, NGO representatives and CSR experts during the process of developing the "ethical policy" that defines its approach to social responsibility. Other approaches include:

- routinely surveying the preferences of employees, particularly with respect to charitable giving;

- surveying the preferences of customers, with respect both to charitable giving and to other forms of CSR; some organizations, such as Citizens Bank, also routinely survey customers to obtain their views on their overall approach to CSR; at the telephone company Telus, surveys of their customers revealed a high degree of concern in the fields of health and education; as a result, these two areas receive most of Telus' charitable giving and community support.

- allowing field managers and staff a wide degree of latitude in tailoring CSR activities to local circumstances;

- subscribing to the ideas of organizations representing a broader consensus on CSR; for example, the CSR strategies of many Canadian corporations have been influenced by the goals of the "Imagine" program operated by the Canadian Centre for Philanthropy.

(b) Strategic CSR

Several of the firms we interviewed, and well as several firms highlighted in recent published accounts, indicated a strong focus on incorporating CSR into their overall business strategy. This means designing CSR programs that play to the corporation's internal strengths and strategic objectives.

It is useful to note briefly the perspective of the Royal Bank of Canada, which apart from being Canada's largest bank also consistently receives the top ranking for "corporate responsibility" in the *Report on Business (ROB) Magazine's* survey of "Canada's Most Respected Corporations.[65] In a recent speech, the Royal Bank's CEO John Cleghorn spoke of a "fundamental change ... toward greater involvement by corporate donors in causes they have chosen as strategic." He pointed to a trend that emerged in the 1990s of corporate contributions meeting "both the needs of the corporation as well as those of the beneficiaries." As for the Royal Bank itself, Cleghorn's observations about his company's approach to CSR are highly reminiscent of Clarkson's theoretical perspective.

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[65] This annual survey asks CEOs of Canada's largest companies to give their views about other major Canadian companies. CEOs rate corporations in terms of investment value, innovation, financial performance, human-resources management and corporate responsibility. Royal Bank of Canada received the top ranking for "corporate responsibility from 1996 through 2000. It also fares well in the overall rankings. It placed fourth as Canada's "best run corporation" in 2000, second 1999, first in 1998, and second in 1997 and 96.

Cleghorn emphasized that the Bank's donations and community involvement activity are targeted to "causes that are thematically linked to our corporate goals and the interests of our employees, customers and shareholders."[66]

Similarly, the Canadian Imperial Bank of Commerce, which also ranks highly for "corporate responsibility" in the *ROB Magazine* survey, speaks about the strategic underpinning of its approach to CSR. A CIBC executive made a public presentation recently in which he described the "business case" for the Bank's involvement in issues related to Canadian young people. He observed that CIBC's commitment to supporting youth grew out of two driving factors: (i) the "community" in which CIBC operates deems youth unemployment to be an urgent and important concern; (ii) the CIBC's own "self-interest" – CIBC sees a link between supporting youth employment and helping build a Canadian labor force that will be better equipped to meet the Bank's own skill requirements.[67]

Nortel Networks provided a very recent example of a deliberate shift to a more strategic approach to CSR. It announced that it will spend approximately $6 million during 2000 on scholarships for engineering and computer science students – potentially its future employees – but will do so at the expense of donations to charities such as the United Way. A Nortel spokeswoman was quoted as explaining the decision in the following manner:

> I think it sends a strong message that [corporations] should give to communities, but think about their giving and where companies can add value. Rather than simply write random cheques, Nortel has focused on those areas that it has expertise to contribute.[68]

Other similar cases emerged from our interviews and our research. For example:

- We noted above, for example, that the telephone company Telus decided to focus its CSR activity around health and education. Telus sought to do this in a way that was convergent with its overall corporate strategy. They are supporting the development of "tele-health" initiatives that combine telecommunications and computer technology to deliver health-care services over distances. This initiative builds on the company's strengths in telecommunications and information technology, while helping reinforce its image as a company at the leading edge of telecommunications applications.

- Brewing company Molson's support for AIDS-related causes, which dates back to 1987, was, at the time, a risky move. An AIDS activist observed that Molson "was being asked to fund a cause that the general public found difficult to accept or even talk about." But Molson's own research at that time revealed that AIDS was a "top of mind" concern on university campuses. A Molson corporate affairs executive

[66] Cleghorn (2000).
[67] McGown (1999).
[68] Tam (2000).

> explained that "single, young males – our most important target market – were telling us that because they were sexually active, AIDS very much affected their lifestyle and it would be seen as a positive for us to get involved."[69]

(ii) Implementation

Three issues emerged in our interviews related to implementation: (i) how the firm organizes itself for CSR; (ii) how CSR is communicated and understood within the firm; (iii) how a culture supportive of CSR is created and sustained within the firm.

(a) Organizing for CSR

Several interviewees stressed the importance of avoiding "ghetto-izing" CSR within the firm. Companies that we interviewed observed that it was important to avoid the impression within the company that CSR was the sole responsibility of a particular corporate unit. If taken seriously, CSR affects the way that the corporation interacts with all its significant stakeholders. This, in turn, implies that CSR is the business of every part of the company, and cannot be isolated as the sole responsibility of a corporate affairs or community affairs unit. Ways in which this is put into practice varied across the firms we interviewed, but three devices were common:

- The person responsible within the firm for leadership on CSR also has leadership in other major functional areas, such as marketing, government relations, or public affairs. This ensures a minimum level of integration of CSR concerns and strategies with other corporate priorities.

- Firms with decentralized operations, e.g. regional offices, leave a high degree of latitude to regional offices for designing and implementing CSR initiatives.

- "Mainstream" functional units within the corporation that would not normally be thought of as responsibility centers for CSR are given responsibility for elements of the CSR program. At Citizens Bank of Canada, for example, all major corporate departments (e.g. Treasury Management, Commercial Lending, Human Relations, Finance) are now, or will soon be responsible for delivering a part of its CSR programs.

(b) Communicating CSR Within the Firm

The firms we interviewed for this study, perhaps precisely because they take CSR seriously, also took seriously the means by which the notion of CSR was communicated within the firm. The challenge is to communicate it in a way that makes clear to staff and management that CSR is not an "optional add-on" for the firm, but rather is a way of doing business and a key component of how the corporation defines itself. Clarkson anticipated this practical problem, when he wrote that:

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[69] Menzies (1997), p. 64.

> in the normal course of doing their business, corporate managers do not think or act in terms of the concepts of corporate social responsibilities and responsiveness, nor of social issues and performance ... Corporate social responsibility and corporate social responsiveness are concepts that have been generated outside business.[70]

This view was reflected in our discussions with corporate executives, several of whom said that the term "corporate social responsibility" was not meaningful within the firm and so was rarely used as a means for communicating to staff about the company's social and community oriented activities. Rather, management and staff tend to talk about these activities in terms more directly relevant to the company's own operations, practices and vocabulary. For example, at Citizens Bank of Canada, the core of its CSR activity is its "ethical policy" which requires that the Bank neither do business with nor invest in companies that fail to meet a defined set of social and ethical standards. Thus:

> Within Citizens Bank we don't call it 'corporate social responsibility.' The term isn't meaningful or motivating for us. We think in terms of our 'ethical policy', which for us has a clear meaning: 'never invest in ...' and 'never do business with ...'[71]

Similarly:

- at BC Hydro, people think in terms of "building public support"; the term "corporate social responsibility" is rarely used inside the company;

- at Vermont National Bank, where CSR is equated with forging strong ties with the local community, management and staff think in terms of "community banking;"

- at Royal Bank of Canada, its annual report on CSR activities is referred to as its "Community Report", reflecting the view that its corporate success is "tightly linked with the economic health and social conditions of the communities in which we operate";[72]

- at South Shore Bank, a Chicago-based institution that focuses on providing credit to economically underdeveloped neighborhoods, the term that is used is "developing the community" because it is more immediately relevant to Bank staff and customers than "corporate social responsibility."

(c) Building and Maintaining a Supportive Corporate Culture

Corporate culture is the unwritten set of rules and norms – the "way we do things around here" – that has a powerful impact on behavior within corporations. For CSR to take hold within a corporation, the corporate culture must be supportive of it. Our interviews

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[70] Clarkson (1995).
[71] Interview with Citizens Bank executive.
[72] Royal Bank of Canada (2000).

suggested that the following factors were important to creating and sustaining a corporate culture conducive to CSR.

Communication. This relates closely to the immediately preceding discussion. Building a common understanding within the firm of CSR is an important prerequisite for embedding in the firm attitudes and practices that are "friendly" to CSR. Sometimes, even simple slogans can be useful for this purpose. For example, at Citizens Bank of Canada, its public slogan – "A Different Kind of Bank" – its internal position statement – "Citizens' Bank is the bank for people who support ethically-sensitive and community-responsible business practices" – and its internal Consumer End Benefit Statement – "We feel really good about where we do our banking" – all serve as constant reminders to staff and management about the central position that its ethical policy holds in the Bank's business model. As one executive observed,

> "You need to have clearly understood and agreed-upon statements that define what the Bank is all about so that you can say to people, if there is backsliding to old ways of doing business: 'Remember. We agreed to this.'[73]

Reporting. As will be discussed in more detail below, a growing number of firms are producing some form of annual report on their CSR activities. Production of such reports sends an important signal throughout the firm that CSR is a priority, and that management is monitoring CSR activities and performance. BC Hydro, the provincially-owned electric utility in British Columbia, recently published its first "triple bottom line" report (see more detail below), in which the company measured itself against social and environmental "bottom lines", as well as the traditional financial bottom line. Initially, the idea of publishing such a report met resistance within the company. Ultimately, however, the report "made our senior management sit up and take notice [of the business relevance of BC Hydro's socially oriented initiatives]. Strategically, it was the best move we could ever have made," said an executive involved in preparation of the paper.[74]

Similarly, an executive of SaskTel, the provincially-owned telephone company in the province of Saskatchewan, observed that some people within the company may undervalue the importance of corporate community support, regarding it as "giving money away." SaskTel is about to launch an annual corporate report on social performance; one of the expected results of the report is that it will help affect attitudes within the company about community involvement.[75]

Leadership. Interviewees pointed to the necessity for clear leadership from the highest levels of the firm with respect to CSR. Particularly if a strong emphasis on CSR involves a shift in business model for the firm, it is critically important that strong signals constantly be sent from the firm's leaders about the link between CSR and corporate values, and CSR and corporate success. Interviewees spoke about the engagement of their CEO in promoting a culture supportive of CSR, and about the involvement of their

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[73] Interview with Citizens Bank of Canada executive.
[74] Interview with BC Hydro executive.
[75] Interview with SaskTel executive.

board of directors in monitoring CSR activity. At the Royal Bank of Canada, for example, the CEO is a well-known for his public advocacy of corporate engagement in community causes. As well, a special committee of the Bank's board of directors is dedicated to reviewing the Bank's policies related to donations and community involvement. At the insurance company The Cooperators, the board of directors takes a close and continuing interest in CSR.

Recruitment. Some interviewees indicated that their recruitment practices tended to favor bringing people into the corporation who were already sensitive to values consistent with the firm's CSR objectives.

(iii) Measuring and Reporting

As noted above, reporting on CSR is a way to help reinforce a culture within the firm that is supportive of CSR. Equally importantly, systematic and credible reporting on CSR is a way to address the concerns of external stakeholders. "When a company is able to quantify and benchmark its performance [related to CSR] and communicate confidently to stakeholders, it positively influences stakeholder perception."[76]

Pressures for more intensive corporate reporting on CSR are coming, simultaneously, from a variety of fronts: government regulators[77], investors, advocacy groups, labor unions, community organizations, the news media and customers. Evidence[78] suggests that corporations are sensitive to this pressure, and are responding in growing numbers (though the reporting remains heavily weighted towards environmental concerns):

- a 1997 study conducted in Canada for the Auditor General found that 60 percent of major Canadian corporations had voluntarily begun to incorporate sustainable development management and reporting into their operations, up from 45 percent in 1992;

- a 1997 study of US companies listed on the Standard and Poors 500 index found that 61 percent had published an environmental report; many more companies said they expected to produce their first environmental report in the coming year;

- a 1998 study of major British companies found that between 10 and 20 percent were working on the production of "social audits" (see below).

[76] Kahn, et. al. (2000).
[77] The Canadian federal government has stated that it plans to require all major financial institutions to publish annual "Public Accountability Statements" disclosing information on, among other things: (i) dollar amount of charitable contributions and examples of philanthropic activities; (ii) employee volunteer activities; (iii) examples of funding provided to local government and voluntary agencies for community projects. See Department of Finance Canada (1999). In the US, the Financial Accounting Board has proposed that companies include more non-financial information in their annual reports, including information related to ethical issues.
[78] Business for Social Responsibility (1999).

The emerging "state of the art" in reporting on CSR is the "social audit", a practice pioneered by European companies, and which has yet to take hold firmly in North America.[79] Because techniques remain fluid, and standards have yet to be developed, companies have adopted a range of approaches to social audit that have varying levels of rigor. At one end of the spectrum is self-reporting on specific corporate initiatives; at the other – modeled on a conventional financial audit – is a comprehensive audit, verified by an independent third party, that measures the full range of social and environmental impacts across a company's entire operations.

Because the field of social reporting remains in a state of flux, there is continuing debate around methodology and benchmarks. Consider the contrast with the established discipline of corporate financial reporting. There is a standard set of well-established indicators for measuring corporate financial performance – ROE, ROA, ROI, debt/assets ratio, current ratio, quick ratio, etc – and consensus on benchmarks against which to compare one corporation's performance to another or to its industry as a whole. It is only in the last several years, however, that analysts have begun to devote concerted attention to the finer points of social reporting. As a consequence, "there is still no systematic methodology for measuring [corporate social performance]."[80] Nor, because the field is so young, is there yet a consensus on benchmarks, i.e. the level of social performance that a company must attain for that performance to be regarded as acceptable.[81]

To the degree that the restricted set of corporate interviews conducted for this study may be regarded as providing a rough indication, it would appear that major Canadian corporations are only beginning to respond to the challenges of reporting on their CSR activity. The observation of a Telus executive that "we still have a lot to do" to develop reporting on social performance was representative of most of the companies interviewed. Even the Royal Bank of Canada, which in 1999 launched the production of a detailed annual "Community Report" covering the range of its CSR initiatives, observed that its measurement and reporting capacity in this area remained "very nascent." The Bank is now participating in some benchmarking exercises involving academic experts and practitioners in an effort to add more rigor and comparability to its social reporting.

Box 3 – ***VanCity Benchmarks***

VanCity's "Social Report" presents a series of benchmarks that allow easy comparison of its performance against similar institutions. For example, the report provides the following table comparing donations as a percentage of three-year average pre-tax earnings:

	1997	**1996**	**1995**
VanCity	4.7%	4.2%	5.4%
BC credit unions	2.3%	n.a.	n.a.
5 Canadian banks	0.8%	1.0%	1.1%

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79 *Idem.*

80 Ruf, et. al. (1998); see also PricewaterhouseCoopers (2000).

81 There is evidence of emerging benchmarks. For example, the *Imagine* campaign coordinated by the Canadian Centre for Philanthropy has helped establish the level of 1% of domestic, pre-tax profits as a benchmark for corporate charitable giving.

With some exceptions, reporting on social performance among the companies we reviewed remains highly anecdotal, which few references to benchmarks or quantitative standards. Two British Columbia-based corporations stood out in our small sample: VanCity Savings Credit Union and BC Hydro.

VanCity's 1997 "Social Report", published in 1998, was cited by CSR advocacy group "Business for Social Responsibility" as an international example of leadership in social auditing. The report, verified by independent social auditors, reported on the company's social performance in relation to its members, its staff, other credit unions, the community, the environment, suppliers, and its business alliances. It provides quantitative and qualitative performance indicators and performance targets for most of these areas, as well as benchmarks that relate its own performance in some of these areas against that of other similar institutions (Box 3). The choice of issues to be addressed in the report was based on opinions gathered from stakeholders. As well, the indicators and benchmarks used for measuring and evaluating VanCity's social performance were developed following management and stakeholder consultations, internal document reviews, and a review of social norms and industry best practices.[82]

BC Hydro published its first annual "Triple Bottom Line" Report in late 1999. The title signifies that the company intends to be held accountable not only for its financial performance, but also for its environment and social performance. The lengthy report contains detailed descriptions and anecdotal accounts of the company's financial, environmental and social performance in relation to four core lines of business: resource management, power generation, transmission and distribution, and account management. The report provides a wealth of information regarding the company's achievements and broad objectives with respect to each of the three "bottom lines." Unlike the VanCity report, however, the BC Hydro report was not externally audited, and it provides few performance benchmarks or forward-looking performance targets.

Apart from devoting increasing attention to imposing social performance measurement on themselves, some companies are beginning to ask the community organizations to which they provide support to furnish performance targets and performance information. In an environment where community requests for corporate support exceed corporate resources allocated for CSR, performance data supplied by requesting organizations provide an objective basis for rationing CSR resources. An executive at the Royal Bank of Canada said that the Bank is beginning to ask organizations that request funding to provide performance targets for their proposed projects (as a basis for the Bank to decide on initial funding) and performance information during and at the end of a project (as a basis for the Bank to decide on continuing funding).[83] For example, in the case of an after-school program that it supported, the Bank asked for evidence that the program was making a difference in terms of numbers of young people dropping out of school. In the case of an anti-poverty campaign supported by the Bank in south-western Ontario, the

[82] VanCity Savings Credit Union (1998), p. 4.

[83] Interview with Royal Bank of Canada executive. The Bank received 18,000 requests for donations in 1999.

funding decision was influenced by the fact that the project had a measurable target: to lift 2,000 families out of poverty by 2000.[84]

[84] Cleghorn (2000).

PART 5 – PRACTICAL IMPLICATIONS

A key message running through this paper – it is found in the theoretical overview in Part 2, the review of evidence of the impact of CSR on the corporation in Part 3, and in the review of recent corporate experience in Part 4 – is the growing acceptance and attraction of the stakeholder management model of CSR.

An important implication of the stakeholder-management model is that neither the precise nature of the corporation's "social responsibility" nor the value to the firm of CSR can be understood in the abstract. Answers to the "why bother with CSR" question cannot be found by seeking generalized relationships between CSR and financial success. An approach of this nature is misguided, because it takes CSR out of the only context (apart from altruism) that gives it meaning, namely the needs, demands and expectations of the firm's stakeholders.

What might this mean, in practical terms, to the way that a corporation approaches the design and implementation of a strategy for CSR? Consider a metaphor. Suppose an automobile manufacturer was deciding whether to introduce a new model of car. The question, "Would the introduction of a new model contribute to our financial success?" could not be answered in the abstract! Indeed, the question would have no meaning in the abstract. It would only make sense when reviewed in the context of critical "stakeholder" groups: customers, suppliers, car dealers, corporate marketing department, etc. In making its decision, the automobile manufacturer might examine questions such as:

- what segment of the market are we seeking to attract through this change?
- how large is the potential demand for the proposed model?
- how much would the target market be willing to pay for the car?
- what are the implications for our manufacturing capacity?
- what are the implications for our supplier network?
- what are the implications for our dealer network?
- how would our marketing people respond?

The decision about introducing the new car model breaks down into a series of decisions about the demands, needs, capacities and objectives of all the affected parties. Decisions about the car model differ from decisions about CSR in only one sense: even for the vast majority of firms whose approach to CSR is less than fully altruistic, there will probably always be some measure of altruism underlying CSR. To degrees that will vary from firm to firm, companies will engage in CSR simply because it is the "right thing to do" (see p. 16). But to the extent that the motivation for CSR is rooted in business concerns, the decision-making process ought not to differ substantially from the case of our hypothetical car manufacturer.

(i) "Opportunistic" CSR

Small wonder, then, that the research on the general question of whether CSR has an impact on financial performance has yielded an ambiguous batch of results (see Figure 4, p. 17). The answers can only be found in the specificity of industry sectors and sub-sectors, and their attendant stakeholder groups.[85] The answer to "why bother with CSR?" cannot be found in general propositions about the value of CSR to the firm, any more than the auto maker can rely on general propositions about the attractiveness of a new car model. As was proposed in one recent scholarly article, "firms respond to the demand for CSR, on the part of numerous corporate stakeholders, in a manner that is consistent with their response to the demand for other product attributes."[86] CSR, in other words, may be regarded as a response to opportunities (and threats) that the firm finds in its environment. For convenient shorthand, we will refer to this as the "opportunistic" approach to CSR.

Bearing this in mind, we would suggest that, increasingly, firms' decisions related to CSR will be driven by:

- their objectives with respect to various stakeholder groups, and

- their understanding of the demands, needs and expectations of those same stakeholders.

Translating the opportunistic approach into action involves understanding CSR as (i) a product attribute; (ii) a corporate attribute; and (iii) a corporate function.

(a) CSR as Product Attribute

Understanding CSR as a product attribute means seeing it from the perspective of one particular stakeholder group: customers. Although it may at first sound odd, CSR under certain circumstances is a "product feature" for which there is a clearly definable market. It is something that can be bought and sold. The phenomenon of "social investing" noted above (p. 18) is a spectacular recent example of the emergence of CSR as a product feature, or attribute. Investors in growing numbers are choosing to buy investments that have CSR as an attribute (and are, equally, choosing to *avoid* investments that do not have this attribute).

An interesting recent example in Canada of a vendor of CSR is Citizens Bank of Canada. Citizens Bank's "ethical policy" amounts to a promise to customers that their funds will not be used in ways that are socially irresponsible. Citizens Bank promises only to lend to and invest in companies that meet ethical screens. This business model – based on focus groups and other market research techniques – was deliberately designed to appeal

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[85] Sen & Bhattacharya (1999).
[86] Siegel & McWilliams (1999).

to a segment of the market that wants *not only* to purchase financial services, *but also* to purchase CSR when it does its banking. None of this takes away from Citizens Bank's genuine desire to use banking as a way to promote social objectives; nevertheless, its approach was based on the same marketing principles that firms use for developing many kinds of products and services. As one Citizens Bank executive told us, "the message we heard in the focus groups was 'we don't need just another bank'". Citizens Bank, established in 1997 and therefore a newcomer to the Canadian financial services industry, needed to differentiate itself from other well-established financial institutions in order to establish a market niche. CSR was its differentiation strategy.

(b) CSR as Corporate Attribute

Some companies may either not be in a position to "sell" CSR, or they may choose not to enter that market. Even so, they may still choose to strengthen relationships with stakeholders by developing CSR as a corporate attribute. The distinction between CSR as a product attribute and CSR as a corporate attribute is as follows: As a product attribute, CSR is something that consumers buy. As a corporate attribute, CSR is not bought and sold. Instead, as an overall attribute of the corporation, it is something that may affect consumers' willingness to buy a corporation's goods and services, and may also affect the attitudes toward the firm of other stakeholders.

A contemporary Canadian example that exemplifies CSR as a corporate attribute is the Royal Bank of Canada. The Bank is a perennial first-place finisher in a major annual survey of CSR (see p. 27); its reputation as a CSR leader in Canada is well established. The Bank regards this reputation as an asset that generates positive returns in terms of relationships with key stakeholders. An executive of the Bank observed that having CSR as a well recognized corporate attribute creates strengthened relationships with:

- federal government regulators;
- customers, who expect the Bank to support the communities in which it operates;
- employees, who "feel good" about the Bank because of its reputation for CSR.[87]

BC Hydro's experience with its Triple Bottom Line report (p. 34) provides a similar example. Publication of the report helped consolidate in the minds of key external stakeholders that social and environmental responsibility were significant corporate attributes at BC Hydro. As a result, it helped strengthen dialogue and understanding between the company and its stakeholders. Said one BC Hydro executive:

> The report has given BC Hydro a reputation it's never really had. It's had an impact on our regulators and helped us get into the heads of people who really matter to the company. The Triple Bottom Line report was the price of admission to having a certain kind of conversation with senior government policy-makers.[88]

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[87] Interview with Royal Bank of Canada executive.
[88] Interview with BC Hydro executive.

(c) CSR as Corporate Function

Whether regarded as a product attribute, a corporate attribute, or both, CSR when viewed from the "opportunistic" perspective is a corporate asset that needs to be managed as any other asset would be. Hence the notion of CSR as a corporate function. The logical consequence of the opportunistic approach is that the firm needs to have a set of structures and processes for:

- managing/maintaining relationships with key stakeholder groups;
- assessing the relative importance to the firm of different stakeholder relationships in relation to challenges and opportunities faced by the firm;
- articulating the benefits that the corporation hopes to achieve from particular stakeholder relationships;
- assessing how the firm needs to handle its relationships with different stakeholders in order to realize the hoped-for benefits; in particular, assessing the extent to which involvement in socially-oriented activities will help the firm realize the potential benefits to be had from relationships with particular stakeholders;
- assessing the kinds, and volume, of socially-oriented activities that make most sense for the firm, and how the firm will organize itself to deliver them;

The CSR function within the corporation, whether it be identified with a particular organizational unit, or dispersed across organizational units, or implemented through some combination of those two options, is the means by which these tasks are handled.

Table 2 presents a simple framework for putting the opportunistic approach to CSR into action. It suggests that key challenges or opportunities faced by the firm will be linked to particular groups of primary stakeholders; these linkages, in turn, will imply particular CSR responses.

Table 2 – Operationalizing "Opportunistic" CSR

	Relative Priority	***Relevant Stakeholders***	***CSR Response***
Operational Challenge/Opp'y	?	?	?
Market Challenge/Opp'y	?	?	?
Political Challenge/Opp'y	?	?	?

(ii) Concluding Note

In this final section we introduced the concept of an “opportunistic” approach to CSR. We based it on evidence and ideas generated from our theoretical overview of CSR in Part 2, findings concerning the impact of CSR on the corporation in Part 3, and the review of recent corporate experience in Part 4.

Some may find the “opportunistic” perspective repugnant, because it would appear to strip away the moral or ethical content of CSR, reducing it to the level of any other decision about product development or marketing. In fact, there is no reason why a “moral” and an opportunistic approach to CSR must be mutually exclusive. As we have suggested throughout the paper, the two points of view co-exist in most firms because most firms approach CSR with a mixture of altruistic and “bottom-line” motives. To varying degrees, depending on the values and culture of different firms, CSR will be driven by altruistic motives that are separate from business concerns. But rarely will altruism be the sole or even the dominant motivation. The opportunistic approach necessarily picks up where altruism leaves off.

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