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The Influence of Self-Regulation and Stakeholder Theories on Corporate Social Responsibility (CSR)

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Abstract

The review of the CSR literature in this paper revealed certain gaps in available knowledge. Thus, there is uncertainty regarding the actual spread of CSR activities; disagreement on the value of business case for CSR; and controversy over what drives firms to voluntarily adopt a CSR practice. This situation calls on researchers to investigate the actual policies and practices used by managers when addressing their companies' social and environmental responsibilities. This section seeks to develop a theoretical framework that will enable this study to empirically scrutinize theory and produce findings that advance existing knowledge on the topic.

Keywords: CSR; Self-regulation; Stakeholder theories

Introduction

This is achieved based on an inter-disciplinary approach, drawing on the theory of diffusion of self-regulation and stakeholder theories. Although these theories may often overlap, they offer a rich framework for exploring questions pertaining to the influence of CSR on business practice. Complementary to this approach, self-regulation and stakeholder theories sheds light on how firms adopt CSR practices nowadays compared to the companies that first adopted such practices. Comparison between early and late adopters of CSR practices is important, as research has shown that these two groups of adopters may implement business practices differently (Delmas, 2003). These theories offer additional insights as they discuss whether firms use CSR practices as symbols of conformance to societal demands. In addition, self-regulation and stakeholder theories elucidate knowledge on the significance of pressures firms face to adopt CSR practices.

The rationale for choosing an inter-disciplinary approach lies on the fact that a) the nature of CSR is interdisciplinary; b) single discipline research has encountered a bottle-neck and more than one discipline is needed to make a breakthrough; and c) the use of such an approach will enable the researcher to obtain a 'real world' insight on the implementation of CSR practices (Tait & Lyall, 2007). This paper introduces a set of testable hypotheses, which create a conceptual framework for the empirical analysis implemented in the following sections.

Self-Regulation Theory

CSR scholars have used self-regulation theory to analyze the conditions necessary for securing successful implementation of CSR practices (e.g. Albareda, 2008; Christmann & Taylor, 2006).Some authors dispute the potential of CSR self-regulatory tools, such as ICMS, to effectively control for-profit organizations (Cragg, 2005). They suggest that companies will not put the collective interest above their own and will behave opportunistically when adopting these measures. They further assert that free-riding, i.e. non-conformance with the tools' requirements, is unavoidable (Maitland, 1985).

According to this analysis, companies are not sure if posing stricter rules on their operations will mean that they will gain an advantage or a disadvantage towards their competitors. In this context, they choose to free-ride and not implement substantially the self-regulatory measures (Lenway & Rehbein, 1991).

Adherence to various requirements will only succeed when the adoption of a tool includes some benefits for the firm. As Kollman and Prakash (2002) argue, CSR measures such as ICMS need to have excludable benefits for firms, i.e. benefits that cannot be gained by competitors. Otherwise, companies will prefer to serve own interests and not fully comply with the standards' requirements (Delmas, 2004). Firms are interested in differentiating themselves from their competitors and on that basis they decide to adopt or withdraw a practice (Lenox & Nash, 2003). Given that companies pursuit increasing own profits, it is rational for them to avoid conforming to any requirements if such avoidance is compatible with retaining their ICMS certification. Businesses will attempt to minimize obligations stemming from the adoption of CSR self-regulatory tools and will only conform to requirements if to refuse would heavily influence their survival (Cradden, 2005).

There are other CSR scholars whose views echo those described in the previous paragraphs, but who approach the topic from a different angle. Their research focuses on the enforcement and auditing mechanisms of ICMS (Biazzo, 2005; Boiral, 2003b; Christmann & Taylor, 2006). They take the view that when these are weak, companies may behave opportunistically, meaning with guile to serve own interests (Williamson, 1985). A number of issues have been identified provoking the decoupling of the standards' requirements from firms' everyday operations, including commercial relations between companies and auditors and insufficient business knowledge by auditors. There are many examples of auditors' failures in literature.

For instance, O'Rourke (2003) focuses on PricewaterhouseCoopers' auditing procedures with regard to labor standards in Asian countries. He argues that although auditors identified minor violations of health and safety norms they failed to note a number of serious issues, including the use of hazardous chemicals and wage laws violations. In turn, Utting (2002) investigates two companies, Dole and Nike, and points out that they acquired ICMS certification in labor rights despite having very poor labor practices in reality. There are also examples of firms that are at the forefront of CSR application, publicly support the implementation of such measures and then breach their own codes of conduct (Christian Aid, 2004 quoted in De La Cuesta Gonzalez & Martinez, 2004).

Empirical evidence, however, demurs this proposition and suggests that the opportunistic behavior of companies leads to adverse selection, i.e. poorly performing firms will adopt CSR self-regulatory measures for gaining benefits such as signaling and legitimacy enhancement without actually putting them into effect (Lenox & Nash, 2003). For example, a study conducted by King and Lenox (2000) on the Responsible Care Program establishes that the program attracted firms with low environmental performance and high emissions.

Long and Driscoll (2008) argue that some corporations deliberately adopt CSR self-regulatory measures because they enable them to enhance their legitimacy and simultaneously leave intact their operations. Similarly, Meyer and Rowan (1977) allege that the informal constraints are not always effective and that when they do not go along with the organizational interests, companies will decouple self-regulatory practices.

They argue that businesses prefer the adoption of easily decoupled practices because they are effective as communication tools of companies' ethical performance to stakeholders and they do not demand the management's commitment.

Stakeholder Theory

Stakeholder theory is one of the most widely used theories by CSR scholars. According to it, business must satisfy a number of constituents, including employees, customers, local community organizations etc, who can influence company outcomes (Donaldson & Preston, 1995; Freeman, 1984). It maintains that apart from trying to maximize returns for their shareholders, corporations need to take into account other non-financial groups because the returns from such behavior may be significant. In addition, the theory suggests that by applying a series of CSR policies for satisfying non-financial constituencies the firm gains the acceptance and support of these constituencies and thus can continue its operations without facing any objections (Ogden & Watson, 1999).

Constituencies who possess legitimacy and power are considered as very important stakeholders and for that reason their involvement into formulating firms' policies is deemed essential. A study conducted by Post (2002) suggests that the prominence of each constituency depends on the type of demands they put forward. 'Not every stakeholder wish can be granted, but the legitimate concerns of all stakeholders require consideration, and ultimate decisions conflicting with specific stakeholder viewpoints need to be explained' (Post, et al., 2002, p. 245). Evidence from the CSR literature indicates that in some cases stakeholders have exerted significant influence on business operations. For instance, six European governments require from companies to publish social and environmental information about their operations (Vogel, 2005).

Despite of the recognition of stakeholder importance, there are CSR scholars who argue that the degree to which companies will take into account non-financial stakeholders depends on stakeholder awareness (Christmann & Taylor, 2006). For example, Christmann and Taylor (2006) focus on CSR standards like ICMS and use Transaction Cost Theory to evaluate whether the adoption of these standards is influenced by stakeholders. The scholars found that most firms behave opportunistically and that their propensity to symbolically implement a CSR standard is negatively related to the knowledge of stakeholders about management standards. In other words, low awareness may result in only a minimal adoption of the CSR standards, just enough to maintain a desirable public image.

Additionally, Elsbach and Sutton (1992) argue that in many cases companies use various techniques such as impression management techniques, which can influence stakeholders' interpretations. Firms deliberately refer to organizational design features, which are widely accepted by the institutional environment, for increasing the credibility of their actions. The level at which stakeholders are influenced by these strategies depends on their awareness on business operations. Similarly, Terlaak (2007) maintains that in cases where stakeholders do not have access to sufficient information on business operations, firms will use widely promoted CSR self-regulatory tools as symbols of corporate responsibility to reassure or even mislead their stakeholders about their operations.

Managers use the rhetorical of these practices to gain legitimacy without affecting activities at the technical core of the organization (Zbaracki, 1998). Prior evidence has shown that companies will adopt a CSR management standard in response to customer requirements and other external pressures rather than out of concern for environmental protection or quality assurance (Boiral, 2003b). The goal of these managerial practices is to demonstrate to society that companies adhere to its beliefs and expectations. The adoption of CSR self-regulatory measures enables companies to achieve that goal since through it firms symbolically become isomorphic with other companies and thus more acceptable and understandable by their stakeholders (Glynn & Abzug, 2002).

As Bartley (2003) argues certification management standards 'deal in reputation, which means they have the potential effect of 'greenwashing' reality, or cleaning up corporate images without changing practices on the ground. Stakeholders accept that situation because in reality their awareness about CSR tools is in its infancy; though they impel companies to adopt corporate responsible practices at individual level, they do not take into account corporate social performance in their decisions (Naeem, 2008). Hence, stakeholder' awareness on CSR standards' implementation plays a crucial role.

Conclusions

In the paper various testable theories have been created keeping in mind the end goal to clarify why firms willfully receive CSR instruments, how they embrace them and in what setting. By differentiation, the hypothesis keeps up that late adopters tend not to fit in with the prerequisites of the practice since they are not intrigued by increasing any operational advantages identified with it. In light of this argumentation, that late adopters of ICMS will have a tendency to apply them typically, implying that they will not truly endeavor to fit in with their necessities.

As it was explained, firms have a propensity into serving own interests and not complying with any self-constraining requirements. According to partner hypothesis, it is to organizations' greatest advantage to consider non-money related constituents as by doing as such firms might secure critical benefits. It was clarified, nonetheless, that organizations do not generally mull over their partners. By complexity, they will do as such just if partners know about firms' exercises and of the effects of these exercises. To assess this contention concentrates on partners' impact in transit firms CSR.

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