

# Corporate Social Performance as a Business Strategy<sup>★</sup>

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**ABSTRACT.** Having the ambition to contribute to the practical value of the theory on corporate social performance (CSP), this paper approaches the question whether CSP can contribute to the competitive advantage of firms. We adopted an explorative case-study methodology to explore the variety of positive and negative effects of CSP on the competitiveness of organizations. As this study aimed at identifying as great variety of these effects as possible, we selected a diversified group of respondents. Data was thus collected through embedded units of analysis in a petrochemical company, and triangulated with the opinions of experts on CSP. Overall, we found various positive and negative effects of CSP on the competitiveness of organizations. CSP is therefore not an innocent adventure for executives, but rather a strategy for achieving corporate objectives. If not carefully implemented, the CSP strategy may harm the competitive advantage of the firm, as our results have suggested.

**KEY WORDS:** competitive advantage, corporate social performance, instrumental approach, strategy, triangulation

## Introduction

Many companies demonstrate an interest and actively participate in initiatives that contribute to society and the natural environment. CSR Europe, a non-profit organization that promotes corporate social performance (CSP),<sup>1</sup> is a good example of the

active corporate participation in such initiatives. At the beginning of 2004, CSR Europe had 65 company members and 18 national partner organizations. CSR Europe claims the ability to reach more than 1500 companies around Europe. Another good example for the corporate involvement in CSP is the global reporting initiative (GRI): a framework for corporate reporting on the social and environmental performance of businesses. GRI reports that 418 organizations in 43 countries have participated in this initiative with a report.<sup>2</sup> While observing the corporate interest in CSP, some would rise the question what the strategic relevance is of corporate social performance.

Strategy denotes the deliberate choice of activities that enable organizations to meet their objectives (Porter, 1996). A strategic perspective questions the practical value of CSP for organizations or the contribution of CSP to the achievement of corporate goals. However, the relevant literature proclaims a moral idealism in its advocacy of the social performance of business (Boatright, 1996). Established authors in the field of corporate social performance admit that theories on this subject do not have much practical value and prove deficient in proposing business rationales for corporate initiatives with attention to social and environmental problems (e.g. Gioia, 1999; Wood, 2000). A critical reading will clearly identify the gap between the pragmatic orientation of strategic management practice and a great deal of moral idealism in CSP theories. If CSP is to have any practical relevance, we need to consider research questions that bridge this gap.

The purpose of our paper is to fill this void in the CSP literature by addressing the research question of whether CSP can contribute to the competitive advantage of firms. Instead of measuring the competitive advantage as a result of CSP, our research focuses on the identification of the variety of

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strategic opportunities and threats (positive and negative effects) associated with corporate social performance. This paper is to be situated among the (few) instrumental perspectives in the relevant literature and contributes to expanding, at least in part, the instrumental knowledge of our field.

Our contribution is organized in four sections. In the first, we discuss the literature on the contribution of CSP to the competitive advantage of organizations. This literature review underpins our choice to conduct an explorative research. The second section contains an explanation of the research method we have used and a description of the considerations that have determined our methodological choices. The third section provides a discussion of the results of our study that identifies a variety of positive and negative effects of CSP on the competitive advantage of firms. We conclude this paper by discussing the implications of its finding on future research.

### **The literature on corporate social performance as a source of competitive advantage**

Competitive pressures urge managers to consider the effect of organizational actions (including performance with concern for society and the natural environment) on the competitive advantage of their firms. Competitive advantage denotes the ability of a company to outperform others. Superior performance may result from successful differentiation from rivals' actions (Porter, 1996). Moreover, competitive companies establish a "strategic fit" between the outside environment and their internal resources and capabilities (Hoskisson et al., 1999). Another way to outperform competitors, the resource-based view (RBV) of strategic management argues, is the possession of valuable, rare, inimitable and non-substitutable resources (Barney, 1991, 2001; Wernerfelt, 1984). Overall, competitive advantage results in superior financial results, as indicated by various measures of profitability. However, the literature leaves a mixed impression with respect to the contribution of CSP to the competitive advantage of firms. Contradictory results are drawn from the direct relationship between corporate social performance and profitability. Simultaneously, broader approaches to the strategic

importance of CSP are either inconsistent with other studies or find no empiric support. The literature on (1) corporate social performance and profitability and (2) on broader approaches to the strategic importance of CSP is discussed in further detail in the following two subsections.

#### *CSP and profitability*

The relationship between corporate social performance and corporate financial performance (CFP) has received much research attention (for an overview, see Margolis and Walsh, 2001). Margolis and Walsh (2003) counted 127 studies devoted to exploring this relationship in the period 1972–2002. In these studies, researchers have used aggregate measures of CSP (e.g. the KLD index) and various ratios of profitability, but the authors have reported inconsistent results: some conclude that CSP and CFP are positively related, while others report a negative correlation. Still another group of researchers empirically demonstrates that there is no relationship to be established.

In spite of the fact that a significant positive relationship was found in the majority of inquiries, reviewers of studies on the CSP-CFP link tend to conclude that the relationship must be regarded as inconclusive, complex, and nuanced (Arlow and Gannon, 1982; Griffin and Mahon, 1997; Margolis and Walsh, 2001; Roman et al., 1999). This evidence contributes little to the knowledge of the strategic importance of corporate social performance.

Jawahar and McLaughlin (2001, p. 399) find that in most of those studies "the reasons for expecting a relationship are not clearly articulated." This suggests that the majority of CSP-CFP relationship studies are not concerned with the strategic importance of business contributions to society and the natural environment. Instead, as Margolis and Walsh (2003) argue, these studies wish to abolish the tension between CSP theory on the one hand, and the neo-classical theory of economic growth on the other. As the latter tradition is convinced that the social responsibility of business is maximizing its profits (Friedman, 1970), the rival theory, corporate social performance, seeks to prove its superiority. Such a theoretical superiority is reached when

showing that CSP is significantly and positively related to CFP could prove that business contributions to social and environmental concerns help companies in their profit-maximization strategies. Although the multitude of empirical studies have contributed with many valuable propositions and revealed important methodological issues, the contradictory results on the CSP–CFP relationship do not allow for much theoretical generalization on the strategic implications of responsible business conduct. Hence, more recent literature elaborates on broader approaches to the strategic importance of business conduct.

#### *Broader approaches to the strategic importance of CSP*

In general, two approaches highlight the strategic importance of CSP and have a broader perspective than the mere correlation between corporate social performance and profitability. One departs from the strategic importance of corporate stakeholders for the development of idiosyncratic resources and capabilities. The other, developed by Burke and Logsdon (1996), argues that a strategic implementation of social responsibility will result in five strategic outcomes: viz. customer loyalty, future purchases, new products, new markets, and productivity gains. A discussion on these two perspectives follows below.

*The strategic importance of corporate stakeholders.* Stakeholders are seen in the literature as determinants of corporate resources, and this explains their strategic importance for organizations. Corporate contributions to the value chain are impossible without stakeholder support, effort and collaboration with other constituents (Freeman and Liedtka, 1997). Yet, the question is how stakeholders influence the firm in its processes of value creation. Frooman (1999) approaches this question from a “power/dependence” perspective and came up with a classification of the strategies through which a stakeholder influences the firm. He concludes:

High dependence of the stakeholder on the firm implies the stakeholder will employ usage strategies; low dependence implies the use of withholding. High dependence of the firm on the stakeholder implies the

use of direct strategies; low dependence implies indirect ones. (Frooman, 1999, p. 203)<sup>3</sup>

In a response to these stakeholder influence strategies, Clarkson (1995) would argue that companies need to distribute value to their constituents. In this context, he makes the distinction between primary and secondary stakeholders. Such a distinction is based on the importance of corporate constituencies for the organizational survival. An efficient value distribution to primary stakeholders is per definition an instrumental act directed at improving corporate performance. Value distributed to primary stakeholders motivates them to take resource-related decisions, which are favorable for the organization. Similar motivation does not apply in the case of secondary stakeholders, since corporate resources are not automatically dependent on them. Hence, Clarkson argues that there is no instrumental logic in the distribution of organizational wealth to secondary stakeholders. In support, Hillman and Keim (2001) assert that:

Building better relations with primary stakeholders like employees, customers, suppliers, and communities could lead to increased shareholder wealth by helping firms develop intangible, valuable assets which can be sources of competitive advantage. On the other hand, using corporate resources for social issues not related to primary stakeholders may not create value for shareholders. (Hillman and Keim, 2001, p. 125)

In conflict with this largely accepted line of reasoning,<sup>4</sup> research demonstrates the strategic importance of secondary stakeholders. Recent empirical evidence shows that corporate philanthropy – discretionary allocation of corporate resources to issues not related with business – is becoming increasingly strategic (Saiia et al., 2003). Consistent with the generally accepted definition, these authors use “strategic” to denote the deliberate choice of participating in community issues that benefit the firm’s competitive position. Earlier research has shown that corporate philanthropy results from profit motivation and is largely used as a complement to advertisement (Fry et al., 1982). In addition, participation in regional networks is another example of value distribution to secondary stakeholders, according to the Clarkson’s definition. McEvily and Zaheer (1999) found that corporate participation in

networks with regional institutions is positively related to the assimilation of competitive capabilities. They defined regional institutions as “locally-oriented organizations that provide a host of collective support services to firms in the region” (e.g. technical assistance centers, university outreach programs, vocational training centers and local research institutes). These studies suggest that value distribution to secondary stakeholders may also lead to an improved competitive advantage of firms.

Complementary to the strategic importance of stakeholders, the way in which CSP is implemented constitutes a topic with managerial relevance. The following subsection discusses thus the strategic implementation of corporate social performance, the second broad approach to the contribution of CSP to the competitiveness of firms.

*A strategic implementation of CSP.* Burke and Logsdon (1996, p. 495) stress the problem of contradictory results in the CSP–CFP link research and pose the question “under what conditions does a firm jointly serve its own strategic business interests and the societal interests of its stakeholders?” They approach this question from a theoretic analysis, identifying five strategic dimensions – centrality, specificity, proactivity, voluntarism, and visibility – relevant to corporate social performance. Centrality refers to the fit between CSP and the mission of the firm. Specificity requires the ability to capture private benefits from initiatives concerned with social and environmental problems. Proactivity is the tendency of a company to act in anticipation of emerging social and environmental issues. Voluntarism denotes a discretionary decision to engage in CSP and is opposed to legal compliance. Finally, visibility refers to the extent to which internal and external stakeholders can observe and recognize CSP. Under these strategic conditions of CSP, Burke and Logsdon (1996) argue, companies benefit from five strategic outcomes: customer loyalty, future purchases, new products, new markets, and productivity gains. The Burke and Logsdon’s (1996) contribution to the literature is their strategic approach to CSP and a broader articulation of the benefits acquired from responsible conduct than a simple measure of profits.

Husted and Allen (2004) have most recently presented a first test of most of the above-discussed

propositions introduced in Burke and Logsdon’s (1996) work. This recent study measures the effect of the strategic approaches to CSP (i.e. centrality, specificity, proactivity, voluntarism, and visibility) on the capability of firms to create value, seen the context of Spanish firms selected on size.<sup>5</sup> Value creation, the dependent variable, is measured in Husted and Allen’s (2004) study by questioning the contribution of strategic CSP to increased customer loyalty, future purchases, new products and new markets. It should be noted that this study does not regard productivity gains as a value creation variable. Husted and Allen (2004) report that specificity and visibility were significant. Voluntariness was also significant, but in the direction opposite of the expected one. Yet, the authors were surprised at the insignificance of centrality and proactivity. They explain this finding by pointing out the close relationship of centrality and proactivity to specificity, and the specificity of the Spanish business context, to conclude that further research is required to understand the strategic relevance of CSP.

In sum, these findings suggest that certain important principles of responsible business conduct – i.e. centrality and proactivity – might not contribute to strengthening the competitive advantage of firms under certain conditions. Moreover, the principle of voluntariness in CSP even proves to have a negative effect on the competitiveness of organizations (under the conditions of Husted and Allen’s (2004) study).

#### *The strategic relevance of CSP?*

The strategic relevance of CSP to business is still in its infancy. The above-discussed approaches prove incomplete in their explanations on why and under what conditions CSP would have strategic relevance. Yet, two findings of the above-discussed research suggest considering the possibility that corporate social performance may have negative effects for organizations: viz. the contradictory evidence from studies on the CSP–CFP link and the significant negative effect of voluntariness reported in Husted and Allen (2004). Such negative effects of CSP on the competitiveness of organizations need to be explained theoretically.

Keim (1978, p. 33) regards social prosperity as a public good, “consumed or enjoyed by a number of individuals without regard to cost sharing.” In addition, Keim argues that business contributions to social prosperity, i.e. the corporate social performance, are partially an investment in a public good. As the possibility of “free-riding” or “enjoying but not contributing to social prosperity” is clearly present, CSP can be seen as an additional cost for firms, when compared with companies with lower or no effort to enhance social prosperity. Therefore, Keim (1978, p. 38) concludes, “if there are no clear private benefits associated with certain investment alternatives, corporation will be less likely to pursue such options.” Otherwise, investing in CSP is likely to have negative effects for the company, constituting a resource reallocation not related to the corporate objectives. Moreover, it is not enough to have a strategy (e.g. on CSP), but the good implementation of that strategy is also critical. These arguments and the above-mentioned empirical evidence suggest that CSP may be a source of competitive disadvantage. Now, we will explore the possible positive and negative effects of corporate social performance on business.

## Method

We have used an explorative case-study methodology to research the variety of positive and negative effects of CSP on organizations. The choice of this research method was determined by the current knowledge of corporate social performance. The instrumental tradition is still underdeveloped in the research on CSP. Except the association of corporate social performance with improved corporate reputation (Fombrun, 2001; Fombrun et al., 2000), employee attractiveness (Backhaus et al., 2002; Greening and Turban, 2000; Turban and Greening, 1996) and customer relations (still limited due to the low demand for products with CSR attributes) (Mohr et al., 2001), there is not much evidence on other instrumental effects of corporate social performance. Besides, there are no studies, apart from the critics of business and society literature (e.g. Boatright, 1996; Friedman, 1962; Levitt, 1958) concerned with the negative effects of CSP on organizations. We have therefore formulated for this study an explorative research question: “Can

CSP contribute to the competitive advantage of firms?”

## Sampling

Conducting an explorative case-study led to the defining the units of analysis for our case. Two factors were considered essential in defining – in the words of Yin (1993) – this most important part of the study. First, respondents at different positions, inside and outside a company are likely to have different opinions on the positive and negative CSP effects, since they interpret this issue from the perspective of their interest (Dutton and Webster, 1988) and their experience (Daft and Weick, 1984). Hence, we have aimed at questioning a diversified group of respondents in the context of a company. Secondly, value-laden research topics, such as corporate social performance, are often associated with the problem of a social-desirability response bias (Randall and Fernandes, 1991). This problem consists of asking respondents questions that they perceive as threatening to their person or their prestige (De Pelsmacker and Van Kenhove, 1996). As a result, respondents either refuse to collaborate or provide answers that do not correspond to their opinions. Two strategies have been adopted to minimize these implications of the social desirability response bias: we have used a proxy of CSP and triangulated two data collection samples.

On the one hand, we have applied “indirect data collection” (De Pelsmacker and Van Kenhove, 1996, p. 197), studying a proxy of the sensitive CSP topic, by asking the opinions of employees and external stakeholders within a company context. In fact, we have chosen the Health, Safety and Environment (HSE) performance as a proxy of CSP. We have respected criteria to ensure the appropriateness of this proxy for our study. We have looked for a proxy (i) that simultaneously covers social and environmental issues; (ii) that reaches beyond the legal compliance and thus has a degree of voluntarism and proactiveness (Carroll, 1979); (iii) that is central and specific to the actions of a visible company (cf. Burke and Logsdon’s (1996) criteria). On the other hand, we have triangulated this knowledge by questioning Belgian experts<sup>6</sup> in corporate social performance as to what the positive and the negative

TABLE I  
Affiliation of interviewees – experts

No.	Affiliation	Organisation	Respondents ( $n = 18$ )
1.	<i>Academics in the field of:</i>		$n = 8$
	Corporate social performance	Vlerick Leuven Ghent Management School	2 Senior research assistants
	Sustainable development	Catholic University of Louvain	1 Assistant professor
	Environmental economics	Antwerp University	1 Associate professor
	Business ethics	Ghent University	4 Full professors
2.	Business networks (with or without academic participation)	Business and Society	$n = 5$
		Flanders Network for Business Ethics	Network coordinators
		Trivisi	
		Kauri	
		Koning Boudewijnstichting	
3.	Other organizations	Ethibel – Consultancy bureau for ethical investment	$n = 5$
		UNIZO – Syndicate of entrepreneurs	1 Integral product policy advisor
		ABVV – Labor-union	2 Heads of education department
		Greenpeace – NGO	2 Executive directors
		Bond Beter Leefmilieu – umbrella of environmentalist organizations	

effects of CSP could be. This second strategy implied that experts' opinions were solicited, not about their own behavior, but about the behavior of companies in general. Therefore, driven by the above-mentioned considerations, our sample consists of two different respondent groups.

The empirical study started by interviewing 18 experts (see Table I), who were selected according to two criteria: (1) their knowledge on CSP; (2) their varied perspectives on it.

The questions asked in telephone interviews were:

- What are, in your opinion, the corporate benefits as a result of CSP?
- What are, in your opinion, the dangers for a company as a result of CSP?

We have also asked the experts for their definition of CSP as verification on their expertise and on the answers to the two questions. We conducted these telephone interviews in November 2002. This study was used as a pilot, since advocates of CSP did not take into account any negative effects of corporate social performance on organizations. It

has led us to modify our questions in the company related study.

The main study started 4 months later, in March 2003. We studied a multinational in the petrochemical industry, using its Health, Safety and Environment (HSE) policy and performance as a proxy for CSP. The following, indicates the prominent integration of CSR principles in the organization selected for study:<sup>7</sup>

- the company is listed in the indexes Dow Jones Sustainable Performance Group; FTSE4-GOOD Indexes (Global Index; Europe Index; and UK Index); and Fortune Reputation Index,
- the company is an endorser of the Global Sullivan Principles,
- the company is a member of CSR Europe,
- the company participated in the CAUX Round Table.

From March till June 2003 we questioned 27 respondents with “theoretical relevance” (Glaser and Strauss, 1967) for our research objective. Our research questions required interviewees at different levels in the company, so we talked to 22 employees varying

TABLE II  
Affiliation of the company related interviewees

No.	Units of analysis	Respondents
1	Policy – group level	4
2	Advisory – group level	3
3	Execution – group level	3
4	Policy – operational level	4
5	Advisory – operational level	4
6	Execution – operational level	4
7	External stakeholder	5

form the top-management to the shopfloor levels. In addition, five external stakeholders were interviewed – government official, NGO representative, contractor,<sup>8</sup> transportation firm, representative of the community council in the company (cf. Table II).

Face-to-face interviews were conducted here, addressing the questions:

- What kinds of benefits are associated with the HSE objectives of the company?
- Did improvements in the HSE performance always lead to a positive stakeholder reaction?

The second question was stated in more general terms, so we could explain why negative effects of CSP occur.

Yet the units of analysis in our case-study have been identified, we will discuss the quality measures taken to secure the reliability and the validity of this research.

#### Quality measures

**Reliability.** Case study research is reliable if the data collection can be repeated with the same results (Yin, 1994, p. 33). We have attempted a careful documentation of the data collection procedures and the questions asked to the respondents. In addition to this case study protocol, we have organized the interview notes and documents in a database (Yin, 1994). Since taping interviews might damage the quality of the collected data due to the social-desirability response bias problem, we have preferred to take notes during our case study. We have asked respondents, before the interviews, that we want them to review an electronic form of the notes sent by an e-mail. This tactic has not only contributed to

heighten the interviewee's desire to collaborate, but has also provided physical confirmation of the occurrence of the interviews.

**Validity.** Explorative studies are confronted with two types validity measures: constructive and external (Yin, 1994). Two tactics have been used in our attempt to guarantee the *constructive validity* of this study, i.e. the correctness of the operational measures being studied: (1) triangulation of data collection methods (interviews, internal documents and external documents); (2) verification of the case study report by interviewees (three employees of the petro-chemical company and three experts), where they judged the accuracy of data collected, though not its conclusions. In addition, we have attempted interviews with a minimum of 18 respondents, following Sandberg (2000) and Heugens (2001) who reported variance saturation of the studied phenomenon at respectively 15 and 17 research participants. In this study, we observed repetitive answers at the 12th respondent in the population of experts and at the 18th respondent in the company related interviews. As to the *external validity*, the results of this study remain limited in their generalizability, irrespective of the triangulation between company related opinions (on HSE policy and performance) and general opinions on CSP.

#### Results

The analytical tactics recommended in Miles and Huberman (1984) have guided us in analyzing our data and organizing the findings of this study. The use of these tactics have led to more than the mere identification of positive and negative effects of CSP on business organization. We have been able to propose two causal chains of evidence on the positive and negative reaction of employees on CSP measures. The results discussed below are organized in three subsections: (1) discussing the positive and then (2) the negative effects of corporate social performance, followed by (3) the proposed "chains of evidence" (Miles and Huberman, 1984).

#### Positive effects

The most supported positive effect of CSP is the improvement of stakeholder relations. The experts

(14 out of 18) refer to a great extent to “stakeholder relations” in general, while only few specify better interaction with existing and potential employees, customers, legal authorities (government) and the community. In contrast, the company-related interviewees (19 out of 27) are much more specific in their answers. Only 2 out of these 19 refer in general to improved stakeholder relations, while the vast majority of these respondents have a concrete idea about improved relationships with one or more of the following stakeholder groups: existing and potential employees, customers, contractors, investors/shareholders, legal authorities (government) and the community. As to the relationship improvements with stakeholders, respondents argue that CSP results in motivation, satisfaction, loyalty, and confidence (especially in the cases of employees and customers). Relations should not only improve, but also be sustained over time. Interviewees refer to the very continuity of their existence or of their “license-to-operate,” which is provided in their perception by local communities and government officials.

Both experts (10 out of 18) and company related interviewees (13 out of 27) mention, with the second highest frequency, that contributing to society and the natural environment results in a good corporate reputation. This finding is in line with the literature on corporate reputation (Fombrun, 2001; Fombrun et al., 2000). Corporate reputation is defined as a signaling activity (Shapiro, 1983) and a stakeholder interpretation or perception of the available information on corporate actions (Fombrun and Shanley, 1990). In that sense, corporate social performance signals favorable information to stakeholders. Moreover, the signaling capacity of CSP can result, according to 5 out of 18 experts, in a differentiation of corporate activities. This implies that companies (1) position themselves as a business that makes decisions conforming to the principles of social responsibility, or (2) supply products (and services) with CSR attributes.

Respondents also think that CSP is helpful in improving business models (10 out of 18 experts and 7 out of 27 company-related interviewees). CSP is seen as an institutionalization of a search for problems with negative impact on stakeholders, which results in additional knowledge of the core business of firms. This knowledge contributes to a continuous

rethinking of the value chain, which in turn leads to new, innovative ideas of business organization. In addition, 6 out of 18 experts think that CSP can help companies fight uncertainty, owing to the strategy of anticipatory action toward potential problems and/or disruptive changes.

These positive effects imply the contribution of CSP to a better organization of business activities. Yet this is in most cases difficult to demonstrate with hard data, such as profitability. Concrete indications for the CSP–CFP link are “cost savings” and “profit generation,” which some respondents argue should result from the social performance of firms. Cost savings can be realized, according to 4 out of 18 experts, by lower energy use, less industrial waste, and relatively more opportunities to finance business activities (i.e. lower cost of capital). In the company related case study, 10 out of 37 interviewees attributed cost savings to less asset damage, less spillage and lower energy use. As to the profit generation of business, 10 out of 27 interviewees from the petrochemical company argue that HSE performance (our proxy of CSP) improves the efficiency and effectiveness of the company and ensures the continuity of profit generation.

The positive effects of CSP on the organization of business are summarized in Table III.

#### *Negative effects*

As expected, we have found various negative effects of CSP on organizations. 8 out of 18 experts argue that corporate social performance can harm the “core business”. Conform the perspective on public goods, the social performance of firms is resource consuming and can divert managerial focus from the core business to CSP. Moreover, some experts argue that giving stakeholders the authority to decide is likely to have negative effects on the core business. In this particular situation, the conflict of interests between managers and stakeholders is stressed. Another reason for harming the core business by ‘good performance’ is the poor implementation of CSP, associated with insufficient knowledge of its implications for business organizations. Some of the interviewees think that this indicates lack of focus and thus influences negatively the core business of the firm.



TABLE III  
Positive effects of CSP  
**Experts**

Stakeholder relations	Corporate reputation	Business model improvement	Cope with uncertainty	Differentiation	Cost savings
14/18	10/18	10/18	6/18	5/18	4/18
Employee motivation and satisfaction		Long term vision	Anticipate problems	Positioning as socially responsible	Lower energy use
Attraction of new employees		Better informed about the core business	Anticipate disruptive changes	Introducing new products with CSR attributes	Less industrial waste
Customer loyalty		Stronger competitive position			More opportunities to corporate finance
Government					
Community					
Company related interviewees					
Stakeholder relations	Corporate reputation	Profit generation	Cost savings	Business model improvement	
19/27	13/27	10/27	10/27	7/27	
Employee motivation and satisfaction		Ensure the continuity of business	Less asset damage	Aware of the essence of business	
Attraction of new employees		Efficiency and effectiveness	Less loss of product	Feasibility of the value chain	
Customer loyalty, satisfaction, confidence			Lower energy use	Renewal	
Contractors				Innovation	
investors/shareholders					
Government					
Community					

Many experts (12 out of 18) argue that CSP could damage corporate reputations. This might be the case if corporate social performance proves less than stakeholders have expected and managers have promised, or if CSP is perceived as a window-dressing device. In this line of reasoning, 8 out of 27 company related respondents argue that stakeholders can have a wrong perception of CSP due to lack of information, lack of knowledge, or lack of credibility. An interviewee supports these arguments:

Rc7: If our engineers perceive something as an improvement, external stakeholders might not perceive that improvement as an improvement, since they lack the knowledge. Sometimes they do have the knowledge ... Be aware that not the fact counts, but the perception of the fact!

In addition, corporate social performance might be perceived as an insufficient improvement, according to 7 out of 27 company interviewees, because expectations are too high (or tend to rise over time) and because transparency changes the attitude of stakeholders towards the company. It is ironic that transparent companies might be punished for their good performance, as it is equally ironic that safety measures may be perceived as a threat to the community:

Rc16: Flaring is a safety measure: you want to get rid of the extra pressure in the process. But people are frightened. They think that we are losing control, which is not true.

An important factor for negative reactions of stakeholders to improvement in CSP is the interference with the interests or values of corporate constituents, according to the majority of interviewees in our HSE case (15 out of 27). Such interference was observed in the relationships with employees, contractors, and customers, as one respondent notes:

Rc6: Provided the diversity of stakeholders and their interests, I would doubt if they ever could be satisfied all.

Finally, it should be mentioned that 4 experts (out of 18) and 5 interviewees in the HSE case (out of 27) claim that CSP has no negative effects. The negative effects of CSP on the organization of business are summarized in Table IV.

#### *Chains of evidence*

The scope of our HSE case study provides us with an opportunity to propose two “chains of evidence” (Miles and Huberman, 1984), or preliminary con-

TABLE IV  
Negative effects of CSP  
**Experts**

Reputation damage 12/18	Harm the “core business” 8/18	NO negative effects 4/18	
Unrealized promises	Let stakeholders decide		
High expectations	Lose commercial focus		
Moral hazard (window dressing, green washing)	Insufficient understanding on CSP implications		
<b>Company related interviewees</b>			
Interference with interests or values 15/27	Wrong perception 8/27	Insufficient improvement 7/27	NO negative effects 5/27
Employees	Information availability	Rising/high expectations	
Contractors	Lack of knowledge	Transparency changes attitudes	
Customers	Lack of credibility		

ceptual frameworks related to how employees might react to CSP measures. As already mentioned above, we have interviewed 22 employees ranging from the top-management to the operational level (cf. Table II) in that particular part of our study. The insights collected from this diversified group provide understanding on their positive and negative attitudes toward HSE measures.

The Health, Safety, and Environment policy of the firm studied contains two aspects directly associated with the corporate employees. Namely, health and safety are items largely aiming at improving the work environment in the corporation.<sup>9</sup> In other words, the HSE policy of the firm is translated into specific measures taken to ensure employees' health and safety. Corporate care for the health and safety of employees is related to the productivity of the firm. At group level in the corporation, members of the management level explain respectively the impact of HSE performance on employees:

Rc2: You have proud people in the company. It is a self-fulfilling thing, and you do a better job as a result.

Rc9: ... if your employees are in hospital, they cannot work for you.

However, the perception of top management that HSE performance is likely to enhance the productivity of the firm, is a necessary yet insufficient condition. In addition, employees at the operational level also need to perceive HSE measures positively. Our data indicates that measures taken to improve employees' health and safety are interpreted as attention to the labor force. These measures increase both the satisfaction and the motivation of workers (see Figure 1).

In support of these observations, two employees on the production process at operational level state:

Rc18: Safety – no one is interested to work in a place where people die... The productivity and the satisfaction will be much better. I personally work much better in nice environments than in bad ones.

Rc19: As to my health, I can say that we are not exposed to smelly or dangerous chemical elements. And if we have to work with these, there is plenty of information and materials to protect you. As to the safety measures of the process, you have a more secure feeling while working on an installation. Well, I prefer to work in nice environments. And the production

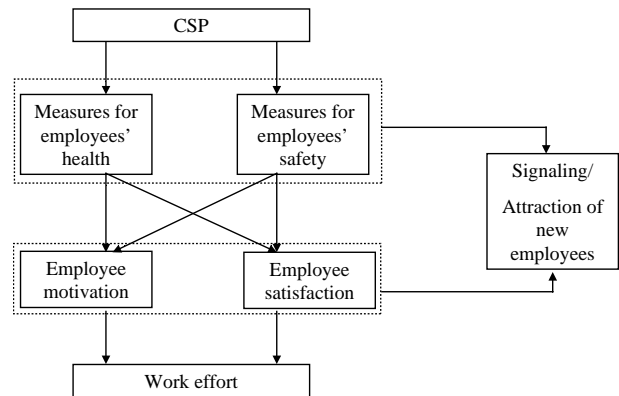


Figure 1. Positive reaction of employees.

plant is built according to modern norms, so you are sure of your safety.

In turn, corporate care for employees' health and safety constitutes a positive signal to new employees. This positive signal is also intensified by the effect of HSE policy measures – satisfied and motivated employees and this attracts employees sensitive to such matters.<sup>10</sup>

Although HSE measures are intended to improve the quality of work, they may, however, unintentionally invoke exactly the opposite perception – employee dissatisfaction and demotivation. This is in line with the already reported unexpected negative effects of CSP resulting from the interference of the policy with stakeholders' interests. In the case of employees, an HSE advisor at group level says:

Rc5: We indeed introduced safety improvements for employees and there was quite some resistance. They thought that those measures were not necessary. Besides, they perceived that wearing that equipment could give a negative image to customers. We have some work to do on the employee perception.

In many ways, care for employees' health and safety is associated with the use of additional working equipment meant to protect them in incidents. Although the function of this equipment is supposed to improve the quality of work, there are at least four situations in which employees perceive exactly the opposite (cf. Figure 2).

First, the managerial prescription to use safety equipment might contradict the employee's opinion on whether such measures are necessary in that particular situation. Second, safety equipment would

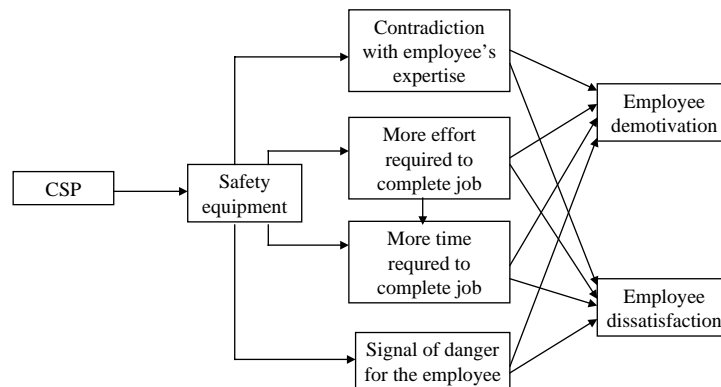


Figure 2. Negative reaction of employees.

require more effort to complete a specific task. Third, by using of safety equipment efforts are increased, resulting in more time needed to complete the task. Finally, the obligation to use safety equipment signals to employees the existence of a risk or a danger. As a result of these four perceptions, employees are likely to become less satisfied and less motivated in their work. Each of the four arguments is stated respondents at the operational level respectively as:

Rc21: ... what is said to employees is not immediately accepted. People are very critical, they are able to think, and they express their opinions.

Rc17: Working safely is sometimes difficult and it takes more time.

Rc18: Inside, the work is becoming more difficult. You make the work harder, and I can guarantee that the reaction will be quite negative.

Rc19: You are not eager to work with safety equipment! When I need to use materials to prevent accidents, means that I'll be working in a situation with a high risk-factor for me. And this is what I don't want!

## Discussion

As expected, corporate social performance has a variety of positive and negative effects on the competitiveness of organizations. In general, these effects are much broader than the simple measure of profitability that was the main object of earlier many studies on CSP. The variety of positive and negative

effects found suggests that future research can contribute to the strategic relevance of CSP. We think it will take three broad avenues: (1) theoretical explanation of CSP as a source of competitive advantage; (2) empirical identification of other positive and negative effects associated with CSP; and (3) empirical analysis of the conditions under which CSP has a strategic importance.

We see a first opportunity for research in the theoretical explanation of why CSP might contribute to the competitive advantage of firms. As discussed in the literature review above, the most comprehensive explanation was approached from a resource dependence theory (Pfeffer and Salancik, 1978). Yet, authors using this theory (Clarkson, 1995) are in a sense guided to conclude that secondary stakeholders have no strategic importance, which is inconsistent with recent empirical research (McEvily and Zaheer, 1999; Saiia et al., 2003). Even more recently, Hart and Sharma (2004, p. 7) have argued that "focused on managing powerful stakeholders, firms fan out to identify voices at the fringe of their networks to both preempt their concerns and generate imaginative new business ideas." These authors simply suggest that information asymmetries exist (Akerlof, 1970) and companies would be better informed by focusing on secondary stakeholders. Information asymmetry occurs when (at least) two persons have different information on one phenomenon. The problems of information, as discussed by Stiglitz (2000), are associated with scarcity, selection and incentives. Scarcity of information simply refers to its availability, while the problem of selection results from a particular (lack of) knowl-

edge. Central in the incentives problem is the moral hazard attitude (Mirrlees, 1997) of ignoring previous commitments.

Some of the results in our study support such attention to the theory of information asymmetry. On the positive side, CSP can lead to improved stakeholder relationships, enhance corporate reputation, and strengthen the business model of the firm. On the negative side, CSP can lead to reputation damage, misunderstandings and wrong perceptions. Note that wrong perceptions as well as the negative attitudes toward safety equipment in the chains of evidence, were for a great deal the result of a lack of knowledge, lack of credibility and lack of information. As these very well correspond to the problems of information (Stiglitz, 2000), we suggest that the theory on information asymmetry may complement the resource dependence theory in explaining the strategic importance of CSP.

The other two avenues for future research reside in empirical investigation of questions concerned with the practical value of CSP for organizations. In this context, we see a second opportunity for research by further identifying and testing specific positive and negative effects of CSP. Especially the negative effects of CSP for organizations are at yet under-researched. Some might have objections to studying the negative effects of CSP on the competitiveness of firms, due to a possibility of concluding that companies should not initiate activities with a concern to society and the natural environment. However, such objection is irrelevant for two reasons. One is the descriptive accuracy of CSP theories: if there are indications of negative effects as a result of corporate social performance, then we had better study and try to explain them. The other reason has to do with the practical value of a CSP theory: such value is not only associated with increasing the positive effects, but also with minimizing the negative effects of CSP, which apparently exist.

A final research avenue is, in our opinion, the study of the different conditions in which corporate social performance has strategic importance (suggested earlier by Burke and Logsdon, 1996; Rowley and Berman, 2000). This avenue is the most difficult, and therefore the most fertile for future research. It requires a careful description of these conditions and a systematic data collection technique that allows the comparison of conditions. As such,

experimental designs and comparative case-studies seem to be adequate research methods.

In the context of these three research avenues, the limitations of our research open some other opportunities for future research. It is worth mentioning that even our broad variety of positive and negative effects is probably limited by three of our methodological choices. First, we have questioned Belgian experts on CSP, and not the most renowned experts. Therefore, there is an opportunity for future research in approaching established experts and ask their opinion on the strategic contribution of CSP on organization. Our second limitation was the sector we have chosen, viz. a petrochemical company. Respondents active in other sectors will most probably have different views on the positive and the negative effects of CSP. And the third limitation of our study was the proxy we have used: viz. the HSE performance.

## Conclusion

The majority of literature on corporate social performance has taken a prescriptive stance, criticizing business conduct that is not morally adequate. Proponents of CSP are thus concerned with how business can contribute to the social good and prevent social harm. As a result, this branch in the theory appears rather idealistic without much of practical value. If CSP literature is to inspire managers in their practice, research needs to address pragmatic questions.

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## Notes

<sup>1</sup> Cfr. <http://www.csreurope.org>.

<sup>2</sup> Data collected from the GRI website on 23 April 2004: <http://www.globalreporting.org>.

<sup>3</sup> In a withholding strategy, stakeholders choose not to allocate resources to the firm. A usage strategy, on the contrary, denotes a continuous supply of resources from the stakeholder to the firm (cf. Froomean, 1999, pp. 196–198).

<sup>4</sup> The work of Clarkson (1995) is cited in 72 Social Science Citation Index articles (this information is collected on 23 April, 2004).

<sup>5</sup> Husted and Allen, (2004) have selected the 500 largest firms from the Dicodi Database of Spanish companies on the criteria sales and number of employees. After sending surveys to the chief executive officers of these companies, they received 110 responses that provide information for the conclusions of their study.

<sup>6</sup> Budget limitations have determined our choice to interview Belgian experts only and not established experts from elsewhere (mostly located in the USA).

<sup>7</sup> This information was collected on 18 December, 2002.

<sup>8</sup> A contractor is an organization that works on building or maintenance at the production site of the company.

<sup>9</sup> Safety is an item that also influences, together with environmental pollution, the quality of life of a local community.

<sup>10</sup> We refer the reader to the work of Backhaus et al. (2002), Greening and Turban (2000) and in Turban and Greening (1996) for an in depth discussion on the effect of CSP on employee attraction.

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