

# Corporate social responsibility in the food sector

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## Abstract

Corporate social responsibility (CSR) is of high relevance for food companies as this sector has a strong impact and a high dependence on the economy, the environment and on society. CSR's threats and opportunities are increasingly shifting from the single-firm level to food supply chains and food networks. This induces substantial challenges for the future due to firm heterogeneity and the associated diversity in CSR approaches.

**Keywords:** corporate social responsibility, food sector, supply chain

**JEL classification:** Q1, M14

## 1. Introduction

Corporate social responsibility (CSR) has a long tradition in many countries (e.g. Carroll, 1999; Jones *et al.*, 2007). Its growth over the last decade is seen to have emerged as a response to perceived failures or limitations of governmental regulation following privatisation, globalisation and reforms of the welfare state. In addition, a shift in values and preferences of more affluent citizens especially in Western societies as well as the revolution in communication technology that have eased the rapid and wide spread of information can explain its rising relevance (Moon and Vogel, 2009; Bénabou and Tirole, 2010). Civil society and media increasingly request companies to consider the social and environmental consequences of their activities and to provide more transparency and openness with respect to their action (Freeman *et al.*, 2010). Thus, it is not surprising that CSR has developed to one of the top priorities of businesses over the last decade having been ranked in 2011 as the number one focus of managers in the global retail and consumer goods sector (The Consumer Good Forum, 2011).

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In the context of CSR the food sector faces specific challenges in particular for three reasons. First, the food sector has a high impact and strongly depends on natural, human and physical resources (Genier *et al.*, 2009; GfK *et al.*, 2009). Second, as food covers basic human needs people have strong views on what they eat. This leads to a complex set of requirements for the food sector regarding the production of the raw materials (animal welfare), the environmental (e.g. energy and water use; waste) and social (labour conditions) conditions along the whole value chain as well as the quality, healthiness and safety of products (e.g. Maloni and Brown, 2006). Third, the food chain has a unique and multifaceted structure. Since small and large enterprises differ in their approach to CSR, this implies potential conflicts regarding CSR involvement in the food supply chain.

Though the environmental impact of food production, processing and distribution as well as the food safety and quality aspect or animal welfare issues has long received considerable attention in the agricultural economic research arena (see e.g. Maloni and Brown, 2006), the scientific discussion of the CSR concept with a focus on the food sector is still scarce.

The objective of the paper is to link the rich body of literature on CSR to the food sector. The paper starts out with a definition of the concept and a synopsis of selected economic frameworks linked to CSR (Section 2). Section 3 provides an overview to the empirical literature on the impact of CSR on companies' financial performance, and on selected stakeholders' perception and behaviour. This discussion of potential 'incentives' for CSR in the food sector is followed by an analysis of 'pressure' as motive for firms to get involved in CSR differentiating between small and medium enterprises (SMEs) and large enterprises. The paper concludes with an outlook regarding the future relevance and direction of CSR for the food sector and future research needs.

## 2. Economic theory and CSR

According to ISO 26000 (ISO, 2010), a newly introduced guideline on social responsibility of organisations which is the result of a 5-year discussion of multiple stakeholder groups from 99 countries CSR is defined as<sup>2</sup>:

... the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including health and welfare of society, takes into account expectations of stakeholders, is in compliance with applicable law and consistent with international norms of behaviour and is integrated throughout and practiced in an organization's relationships.

1 Stakeholders are those individuals or groups who have a stake in the company and thus are influenced and can be influenced by the company (Freeman *et al.*, 2010).

2 For a discussion of numerous alternative CSR definitions see e.g. Carroll (1999) and Dahlsrud (2008).

This definition closely relates to the fundamental principle of ethics that 'ought implies can'. Thus, with a company's space of freedom it owes an equal amount of ethical responsibility (Enderle, 2004). Although not contested in ethics, the question whether firms should engage in CSR has led to a controversial debate in economics over the last 40 years. CSR can be considered as the provision (reduction) of a good (bad) with at least some public good characteristic or of a positive (negative) externality. However, according to critics of CSR the production of goods or the prevention of bads is the domain of democratically legitimised governments (Kitzmueller, 2008; Bénabou and Tirole, 2010). According to this neoclassical view of the firm, with Friedman as the most prominent advocate, a firm's only social responsibility is to increase profits as long as it stays within the legal framework (Friedman, 1970). Taking a principal-agent perspective, Friedman sees CSR to be a misuse of resources by managers and thus a sign of moral hazard towards shareholders.

This criticism has initiated the search for an economic justification of CSR. In fact, extending standard motivational assumptions of central stakeholders such as consumers, employees or investors from pure pecuniary aspects to non-pecuniary ones (e.g. warm glow feeling, social prestige) allows profit maximisation to be an argument for CSR (Kitzmueller, 2008; see Figure 1). This is referred to as the 'business case of CSR' or 'strategic CSR' (Baron, 2001; Wood, 2010). In this case consumers or employees may reward firms (for example, pay higher prices or accept lower wages) for their CSR activities or firms are able to attract a shareholder clientele that prefers responsible firm conduct. The opposite would hold in the case of firms' irresponsible conduct. Beyond having a direct effect, those preferences can have an indirect impact via regulation. The latter holds if citizens' preferences for environmental or social goods not taken up by firms are translated into governmental intervention (Kitzmueller, 2008).

Regarding the product market the existence of non-pecuniary motives provides an incentive for firms to compete for 'ethical' consumers by differentiating their products and services via their CSR involvement. Various theoretical studies show that a positive provision of the public good (CSR) can be observed in a market equilibrium if (some) consumers value CSR (e.g. Bagnoli and Watts, 2003). Other authors arrive at the business case of CSR by linking it to transaction cost economics and principal agent theory. Firms with a positive CSR record are more able than opportunistic rivals in attracting morally motivated employees, customers or supply chain partners. As a consequence moral hazard and thus agency and transaction costs are reduced (Jones, 1995; Frank, 2004).<sup>3</sup> Also in the case of external pressure from organised citizens which can take effect via governmental policies or through NGOs, CSR can be an integral part of profit maximisation. The study by Baron (2001) shows that this holds for firms facing the threat of a

3 This line of argument is closely linked to the 'stakeholder theory' (Jones, 1995; Freeman *et al.*, 2010).

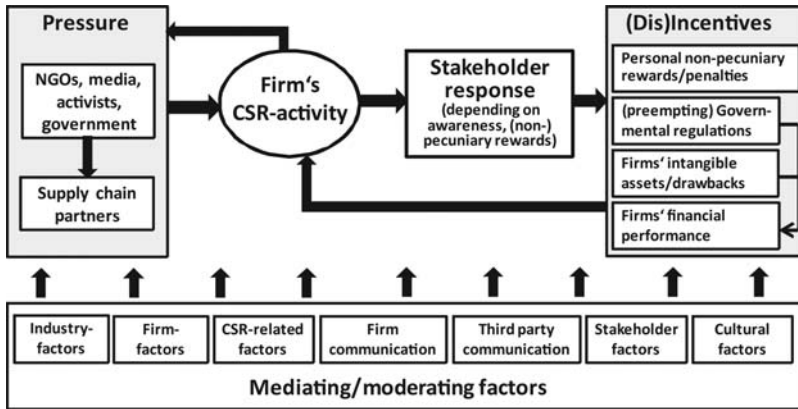


Fig. 1 Framework for firms' decision to engage in/abstain from CSR.

potential campaign by activists.<sup>4</sup> In addition, Maxwell *et al.* (2000) identify under which conditions it is profitable for firms to preempt government regulation (see Figure 1). Barnett (2007) introduces the notion of stakeholder influence capacity (SIC) which he defines as 'the ability of a firm to identify, act upon, and profit from opportunities to improve stakeholder relationship through CSR'. Past interaction of a firm with its stakeholders lead to *intangible assets* (e.g. reputation, loyalty; see Figure 1) which Barnett (2007) refers to as SIC stock. The SIC construct explains why firms vary in their CSR activities and points to the contingency of the business case of CSR, an issue discussed in more detail in Section 3.

### 3. Do well by doing good? Empirical evidence and relevance for the food sector

#### 3.1. CSR and corporate financial performance (CFP)

The question whether there is a 'business case' for CSR has been analysed in a large number of empirical studies over the last four decades. The results of four mathematical meta-analyses (Frooman, 1997; Orlitzky and Benjamin, 2001; Orlitzky *et al.*, 2003; Margolis *et al.*, 2007) indicate a positive relationship between CSR<sup>5</sup> and corporate financial performance (CFP). The investigation by Frooman is based on 27 event studies, all of which examined stock market reaction to socially irresponsible or illegal behaviour. The results show that revealed corporate misdeeds negatively impact on shareholders' wealth, an effect which is significant and substantial across these

4 For a comprehensive model of CSR linking product markets, capital markets and the market for social pressure see Baron, 2009.

5 In all four meta-analysis, the authors use the term corporate social performance (CSP) and not CSR. Though both terms are often used interchangeable they differ. CSR investments can lead to CSP (see Barnett, 2007).

studies. The meta-analysis by Orlitzky *et al.* (2003) is based on 52 studies while the one by Margolis *et al.* (2007) covers 167 research papers. Both investigations consider – apart from event studies – also econometric and portfolio approaches with the latter comparing the financial performance of two groups of firms that differ in their environmental and social performance.<sup>6</sup> The results hint at a positive albeit small relationship between CSR and CFP. The size of this effect depends on the area of CSR (e.g. environmental or social), as well as the performance indicator employed. In addition, event studies point to a stronger relationship between CSR and CFP compared with other methods (Margolis *et al.*, 2007). The meta-analysis of Orlitzky and Benjamin (2001) differs from the previous ones in that the authors investigate the relationship between CSR and firm risk. The study which is based on 18 research papers suggests that CSR lowers a firm's market and internal-accounting-based risk, though the former more than the latter. This fact points to the relevance of increased reputation due to CSR. All these studies but the one of Frooman show that the association between CSR and CFP is bidirectional. This suggests that slack resources and thus the financial ability of enterprises seem to be relevant – if not necessary – for firms' investments in CSR and may be the starting point of a 'virtuous circle' between CSR and CFP. According to Barnett (2007) there exists, however, some upper bounds to CSR activities, as firms' SIC (see Section 2) is declining in CFP.

It can be concluded from the results of the four meta-analyses that irresponsible or illegal corporate action is costly to companies and that 'doing good' does not have to be at the expense of 'doing well'. But, the variation in results across studies, types and measures of CSR and CFP also demonstrate that not all firms that 'do good' have to 'do well'. Though inconsistencies in research results can partly be attributed to methodological problems such as time lags, omitted variables in determining CFP (e.g. R&D), problems of and differences in measuring CSR and/or CFP and small sample sizes, it is recognised that mediating variables and contingencies influence the CSR–CFP relationship. Thus the research question has been moving from 'whether' to 'when' firms do well by doing good (e.g. Barnett, 2007; Carroll and Shabana, 2010; Wood, 2010). Several empirical studies indicate that the link between CSR and CFP depends on firm and industry characteristics as well as timing (see Figure 1). While, for example, a positive impact on performance is generally found for consumer industries and especially for experience and credence goods, this does not hold for other sectors and goods (Siegel and Vitaliano, 2007; Baron *et al.*, 2009; Hoepner *et al.*, 2010; Lev *et al.*, 2010). In addition, it is acknowledged that the link between CSR and CFP goes via the impact firms' CSR activities have on its relationship with relevant stakeholders (see Figure 1). Thus, it seems worthwhile to examine *how* companies' responsible conduct impacts on specific stakeholder groups (Peterson, 2004).

6 For example, measured based on the adoption of the 'European Eco-Management Standard (EMAS)' and/or of the 'Global Social Accountability Standard for decent working conditions (SA 8000)'.

Financial actors are one such *key stakeholder group*. Investments that take social, environmental and ethical issues into consideration fall into the group of Socially Responsible Investments (SRIs). SRIs, though still a niche market, are rapidly growing (Dlott *et al.*, 2006; Millington, 2009) thereby indicating that at least some shareholders prefer to invest in firms that have a record of acting responsible. According to PwC and SAM (2010) 10 per cent of assets under management in the USA were in 2007 invested according to sustainable criteria. Though this percentage is with 7 per cent somewhat lower in Europe, it also exhibits high growth rates (Kitzmueller, 2008; Sweeney, 2009; PwC and SAM, 2010). Governments have played some role in promoting SRI. Financial assets under their control are in general obliged to consider various social or ethical criteria in allocating the capital (Moon and Vogel, 2009). The following review regarding the results of empirical research studies on the impact of CSR on stakeholders, however, will not deal with financial actors, seeing that they are primarily of relevance for large enterprises. Instead, it will focus on the other two *key stakeholders* of businesses – consumers and employees – as they play a central role for large companies and SMEs alike.

### 3.2. Consumers' perception and behaviour?

Over the past 15 years a research stream has gradually evolved investigating the impact of CSR on consumers' attitude and behaviour (see Table 1). The studies provide evidence that responsible firm conduct has the potential to influence a number of consumer related outcomes such as customer loyalty, product consideration, company and product evaluation, purchase intention and willingness to pay (WTP). The results reveal that the strength and in some cases even the sign of those links are mediated by company, consumer and CSR-related factors as well as the interaction between those (see Figure 1 and the last column in Table 1). Lee *et al.* (2011) point, for example, to the relevance of perceived fit between consumers' lifestyle and consumers' value on the one hand and CSR activities on the other hand. Other studies identify the importance of mediating factors for consumers' perception, purchase intention and/or WTP. To those belong ethical behaviour (e.g. Creyer and Ross, 1997), demographics (Auger *et al.*, 2003), cultural differences (Maignan, 2001), timing (pro-active versus reactive, e.g. Becker Olsen *et al.*, 2006) and distance (domestic versus foreign CSR activity, e.g. Russell and Russell, 2010) of CSR strategy, as well as information source (e.g. Groza *et al.*, 2011). Furthermore, several findings indicate that CSR initiatives do not *per se* lead to positive effects (e.g. Sen and Bhattacharya, 2001). Becker Olsen *et al.* (2006) show, for example, that initiatives with a perceived low CSR-company fit or those that seem to be profit motivated may negatively impact on consumers' beliefs, attitudes and purchase intentions. In addition, the results of quantitative (e.g. Folkes and Kamins 1999; Sen and Bhattacharya, 2001; Luo and Bhattacharya, 2006; Berens *et al.*, 2007)

**Table 1.** Impact of CSR and product social responsibility on consumers' perception and behaviour: results of empirical research<sup>a</sup>

Item analysed	Direct link	Indirect link or conditional support
Attitude/evaluation/reputation of company or brand	Bigne-Alcaniz <i>et al.</i> (2011); Brown and Dacin (1997) (two studies); Folkes and Kamins (1999); Klein and Dawar (2004) (two studies); Marin <i>et al.</i> (2009); Mohr and Webb (2005); Sen and Bhattacharya (2001) (two studies); Sen <i>et al.</i> (2006); Sweeney (2009)	Becker Olsen <i>et al.</i> (2006) (two studies); Folkes and Kamins (1999); Groza <i>et al.</i> (2011) (two studies)
Credibility of the company		Becker Olsen <i>et al.</i> (2006) (two studies)
Product evaluation	De los Salmones <i>et al.</i> (2005)	Barone <i>et al.</i> (2007) (three studies); Brown and Dacin (1997) (three studies)
Insurance factor	Eisingerich <i>et al.</i> (2011) (two studies); Klein and Dawar (2004) (two studies)	Creyer and Ross (1996)
Consumer-company identification	Du <i>et al.</i> (2007); Lee <i>et al.</i> (2011); Lichtenstein <i>et al.</i> (2004) (four studies); Marin <i>et al.</i> (2009); Sen <i>et al.</i> (2006)	
Consumer or customer loyalty	Du <i>et al.</i> (2007); Lee <i>et al.</i> (2011); Lichtenstein <i>et al.</i> (2004) (two studies); Maignan <i>et al.</i> (1999) (two studies); Sweeney (2009)	Marin <i>et al.</i> (2009); Pivato <i>et al.</i> (2008); De los Salmones <i>et al.</i> (2005); Vlachos <i>et al.</i> (2009)
Consumer trust	Pivato <i>et al.</i> (2008)	Vlachos <i>et al.</i> (2009)
Consumer satisfaction	Lev <i>et al.</i> (2010); Luo and Bhattacharya (2006)	
Product purchase intention	Creyer and Ross (1997); Maignan (2001); Mohr and Webb (2005); Pracejus and Olsen (2004) (two studies); Sen <i>et al.</i> (2006)	Barone <i>et al.</i> (2000); Barone <i>et al.</i> (2007); Becker Olsen <i>et al.</i> (2006) (two studies); Berens <i>et al.</i> (2007); Bigne-Alcaniz <i>et al.</i> (2011); Creyer and Ross (1996) (three studies); Du <i>et al.</i> (2007); Ellen <i>et al.</i> (2006); Groza <i>et al.</i> (2011) (two studies); Klein and Dawar (2004) (two studies); Lichtenstein <i>et al.</i> (2004) (three studies); Russell and Russell (2010) (three studies); Sen and Bhattacharya (2001) (two studies)
WTP	Pracejus and Olsen (2004) (two studies)	Creyer and Ross (1996) (three studies)
Sales	Lev <i>et al.</i> (2010)	
Firms market value		Luo and Bhattacharya (2006)

<sup>a</sup>In most studies the impact of CSR-association on various consumer related outcomes is analysed.



as well as qualitative studies (Mohr *et al.*, 2001) provide evidence that most consumers are unwilling to trade off quality for CSR.

Ample empirical evidence exists that consumers' evaluation of companies is far more sensitive to negative than to positive CSR information (e.g. Creyer and Ross, 1996; Folkes and Kamins, 1999; Sen and Bhattacharya, 2001; Klein and Dawar, 2004; Mohr and Webb, 2005). Prospect theory from psychology can be used for explaining this negativity bias in moral judgement of firms pointing to two features of human perception (Kahneman and Tversky, 1979): First, outcomes are evaluated as gains or losses from a reference point and second, losses are weighed more heavily than equally sized gains. Thus, the results of the empirical studies indicate that consumers expect firms to behave ethically. A poor record on social responsibility is seen as a failure in attaining this reference point and can be asymmetrically more damaging than the credit a firm receives for responsible conduct. It also leads to the conclusion that only exceptionally positive behaviour is valued by consumers (Creyer and Ross, 1997).

Finally, several experimental studies show that responsible firm conduct can help firms build up general goodwill linked to Barnett's (2007) concept of SIC stock introduced in Section 2. The findings suggest that a firms' prior positive CSR record leads to resistance regarding negative information with the success of CSR as an 'insurance' factor being mediated by e.g. consumer- and CSR-related factors. The studies also stress that a negative CSR reputation can turn out to be a considerable burden for firms facing a crisis (e.g. Klein and Dawar, 2004; Eisingerich *et al.*, 2011).<sup>7</sup>

Despite the considerable research addressing the link between responsible firm conduct on the one hand and consumer perception, evaluation and purchase behaviour on the other hand, there still is no clear answer 'when, how and why' consumers respond to corporate responsibility. Their reaction to CSR seems to be complex and highly contingent on a large variety of factors (Smith, 2009). Since most studies in this research field have been of a hypothetical nature, the results likely suffer from the abstractness of the situation for consumers. In addition, given the issues investigated responses probably overstate the 'true' relevance of CSR due to a socially desirability bias (e.g. Smith, 2009; Devinney *et al.*, 2010). Attitude and (intended) behaviour may change once things become more concrete (Bénabou and Tirole, 2010). Field research is needed to determine when and to what extent CSR induced behaviour indeed materialises (Mohr and Webb, 2005). Nevertheless, the results of the empirical studies cited in Table 1 and the findings of qualitative research (Mohr *et al.*, 2001; Szmigin *et al.*, 2009) allow drawing some hints about the motivation for ethical consumerism. Consumers have to strike a balance between intrinsic rewards, non-monetary extrinsic rewards and expected tradeoffs between ethical values and traditional purchase criteria

7 Wagner *et al.* (2009) show, however, that if a positive reputation is based exclusively on firms' own statements and is followed by detrimental firms' behaviour this likely leads to perception of corporate hypocrisy on the side of consumers, thereby adversely affecting their CSR beliefs.



such as prices, quality and convenience. Intrinsic rewards refer, for example, to the feeling of improved self-esteem which is especially high if the CSR area is of considerable personal value to the consumer, while extrinsic rewards arrive due to, for example, social prestige linked to the purchase of products from firms with a CSR record (e.g. [Szmigin et al., 2009](#); [Bénabou and Tirole, 2010](#)).

In summary, the results suggest that consumers' reaction to firms' responsible conduct is an important incentive for companies to engage in CSR. Though the studies are, in general, not linked to the food sector they provide interesting insights for food companies. [Lev et al. \(2010\)](#) show in their investigation that the potential positive impact of CSR on customer satisfaction and sales holds especially for firms in sectors where not the government or other firms but individual consumers are the predominant customers as those are highly sensitive to public perception. It is obvious that the EU food sector falls into this group. It has a substantial consumer closeness and visibility as it supports daily requirements of about 500 million consumers in Europe and many more through international markets ([CIAA, 2010](#)). The theoretical and empirical studies also indicate that CSR allows firms to differentiate. As food enterprises operate in highly saturated markets pursuing a differentiation strategy via CSR can enhance a firm's competitiveness ([McWilliams and Siegel, 2001](#); [Heyder and Theuvsen, 2009](#)). In addition, many food attributes have important experience (e.g. taste) or credence (nutritional value, animal welfare) attributes. As far as firms' are able to create with the support of their CSR policy a reputation of being reliable and honest, products from such companies will be assumed to have high product and process attributes ([McWilliams and Siegel, 2001](#); [Siegel and Vitaliano, 2007](#)). Finally, food production has been repeatedly in the dock over the last decades. Scandals on rotten meat, dioxin or inadequate labour conditions have gained considerable media attention and put the reputation of the whole sector at risk ([Albersmeier and Spiller, 2009](#)). As far as CSR can serve as a safeguard against this risk following a food safety, environmental or social incidence, a reputation for responsible conduct may be especially important for food companies.

### 3.3. Employees' perception and behaviour

*Employees* are the stakeholder group most closely integrated into the company. Empirical investigations on the link between CSR and (prospective) employees' view of firms as well as attractiveness and commitment to firms, though scarce in the past, have gained increasing attention over the last decade (see [Table 2](#)). CSR is shown to be positively related to job seekers' perceived reputation of firms, their feeling of familiarity and identification with the company and the attractiveness of the firm as employer for applicants. Other studies provide insights into the conditions under which responsible firm conduct induces these positive effects (see [Figure 1](#) and [Table 2](#) fourth column). The relationship between CSR conduct and organisations' attractiveness for job seekers, for example, holds according to [Schmidt and](#)

**Table 2.** Impact of CSR on employees (E) and job searchers (JS): results of empirical research

Item analysed	Studies focus at	Direct link	Indirect link or conditional support
Company's reputation	E	Kim <i>et al.</i> (2010); Lo <i>et al.</i> (2008); Rettab <i>et al.</i> (2009); Strobel <i>et al.</i> (2010); Sweeney (2009)	
	JS	Strobel <i>et al.</i> (2010) (two studies); Sweeney (2009)	Berens <i>et al.</i> (2007); Turban and Greening (1997)
Perceived company's morality	E	Ellemers <i>et al.</i> (2011)	
Familiarity with company	JS	Luce <i>et al.</i> (2001)	
E-company identification	E	Evans <i>et al.</i> (2011); Houghton <i>et al.</i> (2009) <sup>a</sup> ; Jones (2010);	Kim <i>et al.</i> (2010)
	JS	Sen <i>et al.</i> (2006)	
E-company commitment	E	Al-bdour <i>et al.</i> (2010); Ali <i>et al.</i> (2010); Brammer (2007); Lee <i>et al.</i> (2008); Peterson (2004); Lo <i>et al.</i> (2008); Maignan <i>et al.</i> (1999) (two studies); Rettab <i>et al.</i> (2009); Stites and Michael (2011); Turker (2009)	Ellemers <i>et al.</i> (2011); Kim <i>et al.</i> (2010); Valentine <i>et al.</i> (2006)
	JS		Berens <i>et al.</i> (2007)
E-company loyalty	E	Vlachos <i>et al.</i> (2010) (two studies)	Jones (2010)
Company's general attractiveness	JS	Sen <i>et al.</i> (2006); Strobel <i>et al.</i> (2010) (two studies)	
Attractiveness as employer	E	Sweeney (2009); Valentine <i>et al.</i> (2006); Valentine <i>et al.</i> (2011) (two studies); Vlachos <i>et al.</i> (2010) (two studies)	Jones (2010)
	JS	Backhaus (2002); Evans and Davis (2008); Greening and Turban (2000); Montgomery and Ramus (2007); Ramasamy <i>et al.</i> (2008); Sen <i>et al.</i> (2006); Strobel <i>et al.</i> (2010); Sweeney (2009);	Luce <i>et al.</i> (2001); Albinger and Freeman (2000); Strobel <i>et al.</i> (2010); Turban and Greening (1997)

E's willingness to accept lower wages	E	Frank (2004); Nyborg and Zhang (2011)	
E's CSR work role definition	E	Evans <i>et al.</i> (2011)	
	JS		Evans and Davis (2008)
E's perceived org. support	E	Valentine <i>et al.</i> (2006)	
E's work satisfaction	E	Lee <i>et al.</i> (2008); Valentine <i>et al.</i> (2006); Valentine <i>et al.</i> (2011) (two studies); Valentine and Fleischman (2008); Vlachos <i>et al.</i> (2010); Walsh and Sulkowski (2010)	Ellemers <i>et al.</i> (2011)
E's organ. Pride	E	Jones (2010)	
Group creativity	E	Valentine <i>et al.</i> (2011) (two studies)	
E's citizenship behaviour	E		Evans <i>et al.</i> (2011); Houghton <i>et al.</i> (2009) <sup>a</sup> ; Jones (2010)
Customer loyalty	E	Maignan <i>et al.</i> (1999) (two studies)	
Company's performance	E	Ali <i>et al.</i> (2010); Lo <i>et al.</i> (2008); Maignan <i>et al.</i> (1999) (two studies); Sweeney (2009)	Maignan <i>et al.</i> (1999); Peterson (2004)

<sup>a</sup>The study refers to volunteerism.

Freeman (2000) only for those applicants with a medium and high level of choices while those with only few options seem not to take firms' responsible conduct into consideration.

Several studies investigate the impact of firms' CSR conduct on its work-force and find a positive and in some cases sizeable relationship between employees' perception of CSR on the one hand and firm's reputation as perceived by employees, their organisational identification, commitment, perceived work role, work satisfaction and their intention to stay in the company on the other hand (see Table 2). Several of those effects are mediated by factors such as demographics (e.g. Brammer, 2007), employees' personal value orientation (e.g. Evans *et al.*, 2011), perceived relevance of CSR for employees (e.g. Peterson, 2004) and the CSR issue (e.g. Al-bdour *et al.*, 2010). For instance, Peterson (2004) illustrates that the link between employees' perception of responsible conduct and organisational commitment is stronger among those who value CSR as important. So far only few researchers investigated the link between employees' CSR perception and their behaviour (e.g. Evans *et al.*, 2011) and/or firms' performance (Sweeney, 2009). Two studies (Frank, 2004; Nyborg and Zhang, 2011) analyse the impact of firms' CSR reputation on annual earnings. The authors show that employees are willing to forgo pecuniary benefits to work for a socially responsible employer. This provides some indication that also employees balance the utility derived from intrinsic, non-monetary extrinsic and economic rewards such as wages. In addition, the results show that CSR can lead to an important cost advantage for firms with a responsible record.

As already discussed for consumers, also job searchers'/employees' evaluation and behaviour exhibits a strong negativity bias as their reaction is more sensitive regarding CSR weaknesses than with respect to CSR strengths (e.g. Backhaus, 2002).

In summary, research results are supportive of the view that responsible firm behaviour may not only keep employees motivated and help to increase their loyalty but potential employees may be drawn to firms with a good reputation allowing it to select the best. According to the resource based view, firms that are able to attract, select and retain highly skilled, educated and motivated employees should outperform those that do not as 'talent is rare, valuable, difficult to imitate and hard to substitute' (Barney and Wright, 1998). Thus, empirical studies support the view that CSR potentially increases a firm's ability to successfully compete in the market (Schmidt and Freeman, 2000; Backhaus, 2002). Given the high level of competition in the food sector this is of considerable relevance for food companies.

### 3.4. CSR, stakeholder appreciation and CFP: communication as an important link still missing

Most studies analysing stakeholders' perception of and behavioural reaction towards firms' CSR conduct provide CSR information to their survey participants. However, in the 'real' market situation responsible conduct of firms is

in most cases not transparent and observable, and thus is a so-called hidden quality for stakeholders. Whether a farmer, food processor or retailer really incorporates ethical issues in its management strategies needs to be 'trusted', for example, by consumers. In this regard information asymmetry becomes an issue. Enterprises can mitigate the degree of asymmetric information by signalling their superior social and ecological performance to their stakeholders (Schoenheit *et al.*, 2007). In this respect not only the visibility and accessibility of the information for stakeholders, but also its credibility is an issue. Regarding the latter, theory and empirical research on the economics of information reveal that fraudulent information is most likely and most harmful in case of credence attributes (e.g. Rubin, 2000). Thus, the dilemma is that the communication of credence attributes implies exactly what it actually wants to achieve, 'trust' (Schoenheit *et al.*, 2007). CSR is a *credence* attribute. To increase trustworthiness of CSR communication companies can involve third parties, for example backing up labels by a third party certified standard (Du *et al.*, 2010). In addition credibility of CSR communication is influenced by stakeholders' perception of a company's authenticity, commitment and motives with respect to its CSR endeavours (e.g. Fliess *et al.*, 2007; Schoenheit *et al.*, 2007) which again is closely linked to what Barnett (2007) refers to as a firm's SIC.

In fact, research findings indicate that in 'real' market situations stakeholders often do not have information on CSR (Hartmann *et al.*, 2011; Simons *et al.*, 2011). This lack of effective communication is considered by Mohr *et al.* (2001) and Du *et al.* (2010) as a critical impediment for companies to reap strategic benefits from their CSR initiatives (Mohr *et al.*, 2001; Du *et al.*, 2010). Though the vital role of communicating responsible behaviour to stakeholders holds in general, Heikkurinen and Forsman-Hugg (2011) show that as firms move from a passive, unresponsive CSR strategy to a responsive and further to a proactive one, CSR communication becomes more crucial.

Screening activities are the counterpart to signalling, implying that stakeholders search for information about the social and environmental commitment of a company. However, procuring, analysing and evaluating information on an issue as complex as companies' true responsible conduct is in general not possible for an individual stakeholder at reasonable cost. This holds especially due to asymmetric information, opportunistic behaviour of companies (agents) and bounded rationality of stakeholders (principal). For this reason the existence of intermediaries (e.g. NGOs, rating agencies) have become an important element in improving transparency with respect to CSR.<sup>8</sup> Though their credibility varies as well, being independent of the company makes the information provided by those organisations perceived to be more trustworthy. Thus, those organisations have gained an important complementary and corrective function (Schäfer *et al.*, 2006; Schoenheit *et al.*, 2007) and can exert a considerable pressure on companies (see Figure 1).

8 Screening can alternatively be facilitated by searching collectively. This has been considerably eased with the increasing use of social media, e.g. blogs, green sites and Twitter.

## 4 Pressure for CSR in the food sector

All sectors of the economy are affected by the increasing societal demand with respect to CSR. However, given the characteristics of an industry, the pressure exerted on companies to take up CSR likely differs, for example with the sectors' economic, social and economic impact. While there are sectors such as mining that have a stronger impact on the environment there is likely no other sector that is as highly dependent on natural resources as the food sector while at the same time having considerable and diverse impacts on the environment (Jones *et al.*, 2005; Maloni and Brown, 2006; oekom research, 2007). In addition, the food sector is linked to several societal concerns. Some of those are sector specific – e.g. animal welfare – while others with relevance in other areas of the economy also have a specific bearing for the food sector – for example labour rights (oekom research, 2007; Heyder and Theuvsen, 2009). Furthermore, ethical issues relating to procurement processes have been under special public scrutiny because of the danger of power abuse and unfair practices. Bargaining power in the food sector rests often with large processors and retailers while their suppliers, partly located in developing countries, can often only accept the offers they receive (Jones *et al.*, 2005; Maloni and Brown, 2006; oekom research, 2007; Fuchs *et al.*, 2009; CIAA, 2010;). Thus, the food sector is likely to be the target of a large number of requests by government, NGOs and activists.

However, the pressure regarding implementing CSR does not only differ between industries but also within an industry between enterprises. Size seems to be a crucial factor in this respect as societies' CSR requests falls disproportionately on large companies. The EU food sector is characterised by a heterogeneous structure – an atomistic structure at the primary stage, a high level of concentration in retailing and the dominance of micro and small enterprises as regards numbers but not output in food processing. This heterogeneous structure (i) implies that societal pressure regarding CSR likely differ along the food chain, (ii) influences [partly due to (i)] firms' approach to CSR and (iii) is linked to differences in bargaining power of firms along the food value chain (CIAA, 2010). Together those factors are likely to induce conflicts with respect to CSR in the food chain as will be discussed in the following.

### 4.1. Large enterprises: chain external CSR pressure

So far the attention CSR receives in the business, political and research arena is primarily focused on large, often multinational food companies as they are considered the key players in economic globalisation. It is they who are held accountable for their impact on society and the environment (Enderle, 2004). Large food processing (e.g. Coca Cola, Nestle) and retail companies suffered in the past significant losses to their brands and their overall reputation because of inadequate labour conditions and/or lack of environmentally responsible conduct in their subsidiaries in developing countries. Also

insufficient quality of products sold in those countries has led to considerable pressure from activists in Western countries and partly resulted in boycotts of products of the corresponding companies (Heyder and Theuvsen, 2009; Millington, 2009).

Given rising public scrutiny, it is not surprising that especially leading food companies with strong brands and large multinational retailers are actively involved in CSR initiatives in the realms of environmental as well as social issues (e.g. human resource management programmes). They intensively use formal communication channels such as standards, codes of conduct (CoC) and reports to inform interested parties about those endeavours (see Dlott *et al.*, 2006; KPMG, 2008; Millington, 2009). For example, all of the 23 largest European food processing enterprises provide CSR information in a stand alone or integrated report.<sup>9</sup>

With public criticism for poor performance which is no longer limited to internal firm conduct, but encompasses the entire food value chain, CSR threats and opportunities are more and more shifting from the single-firm level to supply chains and networks (Dlott *et al.*, 2006; Ciliberti *et al.*, 2009). As a consequence, large retailers and food processors are increasingly confronted with additional responsibilities. Thus, to bridge existing gaps between legal and social norms or to overcome weak legal enforcements in developing countries, food companies increasingly use standards and codes to promote environmentally and socially responsible practices not only internally but throughout their supply chains (European Commission, 2002; Dlott *et al.*, 2006; EEG, 2007; KPMG International, 2008; Genier *et al.*, 2009). This acknowledges the fact that process attributes such as ‘without child labor’ or environmentally sound activities must be determined, verified and communicated throughout the entire agri-food supply chain in order to be able to convey respective information to consumers and other stakeholders in a reliable way. From the company’s point of view, requesting, for example, the application of environmental and social conduct is a cost-effective way to safeguard against risks related to corporate reputation that could be severely damaged following a food safety, environmental or social incidence (Genier *et al.*, 2009). Beyond this, the extension of standards and codes to supply chain partners are important to validate environmental and/or social claims used for marketing purposes.

#### 4.2. SMEs: chain internal CSR pressure

SMEs, especially micro and small firms, differ in critical ways from large enterprises. They tend to be owner managed, internally financed, limited with respect to financial, personal and time resources, strongly embedded in the local community, based on personal relationships characterised by a

<sup>9</sup> Own investigation in the Internet. Selected European companies are according to CIAA (Confederation of the food and drink industries of the EU) (2011) the 23 largest ones based on European food and drink sales.



high flexibility and less formal structures, including less documentation and fewer procedural hurdles (European Commission, 2002; Fassin, 2008; Jenkins, 2009; Russo and Perrini, 2009). Those deviations from large enterprises are not without an impact on the CSR approach. (Most) SMEs are rather active with respect to CSR; however, their involvement differs and may not be measurable in the same way and to the same extent as for large (multinational) enterprises. They are most concerned with investing in social capital and securing a licence to operate in their own community (Murillo and Lozano, 2006; Russo and Tencati, 2009; Walther *et al.*, 2010). Actions taken are in general intuitive, *ad hoc*, not formalised and rarely publicised (Baden *et al.*, 2009; Nielsen and Thomson, 2009; Bader, 2011). While for large and multinational enterprises, CSR reports and advertising campaigns are essential, especially micro and small enterprises tend not to communicate their CSR endeavours and, if so, in a localised and unsystematic manner (e.g. Murillo and Lozano, 2006; Nielsen and Thomson, 2009; Owen and O'Dwyer, 2009; Sweeney, 2009). In a survey of 142 German SMEs only one firm published a CSR report (Bader, 2011). As Table 3 reveals, on a global scale only 12 per cent of all companies reporting on CSR based on the Global Reporting Initiative (GRI)<sup>10</sup> guidelines belong to the group of SMEs. For the food and beverage sector, this share is with 6 per cent even considerably lower. This holds although SMEs account for the large majority of all enterprises in the food sector of the EU and most other regions (around 99 per cent). It is personal informal communication by managers and employees, word-of-mouth or manager/owner civic engagement in the local community by which stakeholders are mainly informed about company's efforts with regard to CSR (Walther *et al.*, 2010). Also the take up of standards and CoC is much less pronounced in SMEs than in large businesses.

Thus, while in the case of large enterprises motivational pressure to engage in CSR originates primarily from NGOs and active consumers, for SMEs these sources impact only in an indirect manner. The immediate and direct pressure comes mainly from supply chain partners (see Figure 1).

### 4.3. Power imbalances and the impact for CSR provision

Analysing the relevance and impact of supply chain pressure as driver of CSR in SMEs has gained attention in research over the last decade (e.g. see Baden *et al.*, 2009; Ciliberti *et al.*, 2009; Crane and Matten, 2010).<sup>11</sup> Though these investigations are not focused on the food sector several surveys and case studies include food companies. According to power dependence theory the more suppliers (for example, small food processors) depend on their customer

10 GRI is a guidance for sustainability reporting which is by far most widely used globally. It aims to enhance the quality, rigour and comparability of disclosure on economic, environmental and social performance (Freeman *et al.*, 2010).

11 Ciliberti *et al.* (2008) take in their analysis another perspective. They investigate how SMEs can transfer socially responsible behaviours to suppliers that operate in developing countries.

**Table 3.** Overall and food sector CSR reports in 2010 differentiated by company size and assurance level

Sector	Reports according to GRI guidelines				
	Total reports	All GRI reports	Of which		
			SMEs	Third party assurance	SME with third party assurance
All sectors	4,864	1,793	212	857	103
Food and beverage producers/processors	252	108	6	39	2

*Note:* Third party assurance covers also reports checked by the global reporting initiative (GRI). Other reports are either self-declared or the companies failed to specify the degree of assurance.

*Source:* Own compilation: data in first column were provided by CorporateRegister.com Ltd on personal request, March 2011 (Copyright CorporateRegister.com 2011); Other data GRI Reporting List, 1999–2011.

(for example large retailers), the higher the power of the latter to control and influence the former. As a consequence of this power structure suppliers will likely adjust to the requirements of the customer. Power of one party over the other may arise from the fact that the relevance of sales and profits generated in the relationship is much higher for suppliers than for the buying companies. In addition, if the buying company has more alternatives and relative low switching costs this will further increase its power (Millington, 2009). Given the structure in the food sector, we can presume that especially the retail sector has considerable power to influence suppliers upstream in the chain. According to CIAA (2010) a single retailer often accounts for more than 60 per cent of the business of an SME while conversely, their business is of marginal importance to the retailer (less than 0.005 per cent). This imbalance has been further shifted to retailers due to the increasing relevance of private labels (CIAA, 2010).

In the context of CSR, powerful companies have the ability to enforce measures for improving sustainable production. There is empirical evidence that pressure of powerful companies improves SMEs uptake of environmental and/or social measures. Thus, on the positive side, requesting compliance with CSR standards and/or codes from supply chain partners by food retailers can lead to more sustainable food value chains (EEG, 2007). However, a few studies also point to ambiguous or negative effects resulting from supply chain pressure. Adopting formal CSR measures such as environmental and social management certification systems or providing formal and third party audited CSR reports requires time, money and expertise and thus resources which are in general not (easily) available to SMEs. These limitations are of special relevance to micro and small companies and those located in developing countries (Fliess *et al.*, 2007; Genier *et al.*, 2009). SMEs in the food sector often have several customers with different CSR requirements imposing an additional obstacle. This holds even more as acquiring CSR

credentials is in general linked to considerable economies of scale (European Commission, 2002; Ciliberti *et al.*, 2009). Thus, supply chain pressure might exclude especially micro and small business partners from the value chains. This also implies the danger for ‘mock compliance’ if CSR requests are not controlled. Ambiguous or negative effects of supply chain pressure can be also due to a lack of trust of the SMEs in the motivation of large organisations and/or the reduction of existing intrinsic motivation with respect to CSR due to external pressure<sup>12</sup> (Baden *et al.*, 2009; Ciliberti *et al.*, 2009; Fuchs *et al.*, 2009).

These results suggest that in their CSR endeavours, SMEs need a specific approach that takes various aspects into consideration, e.g. their informal nature, limited resources and greater proximity to stakeholders (Enderle, 2004; Murillo and Lozano, 2006; Fassin, 2008). Nevertheless, present ways of CSR and CSR communication in SMEs of the food sector are challenged as more large food processors and retailers request CSR ‘proves’ and citizens increasingly demand social and ecological issues to be considered over the whole production process (Jenkins, 2009; Nielsen and Thomson, 2009). Thus, the future will likely see SMEs move towards a stronger structuring and systematisation of CSR. Lead companies in the food sector can support this process by providing incentives to SMEs and ‘mentoring programs’ as well as through harmonising or mutually recognising different standards. In the future responsible conduct of large food processors and retailers might not simply be judged on the basis of whether they secure compliance with social and environmental requirements in their value chain but also on the procedure taken in this respect. Just outsourcing own responsibility and liability might be considered as a rather cynical way of ‘greenwash’ (EEG, 2007; Fassin, 2008; Baden *et al.*, 2009; Russo and Perrini, 2009). Genier *et al.* (2009) provide examples for developing countries that the implementation of standards with the provision of adequate support measures may result in a more responsible conduct over the whole value chain without excluding small-scale suppliers.

In addition, standards, reporting requests and rating criteria are often oriented towards large businesses and could better consider the specific characteristics of SMEs. Attempts have been made in this direction over the last decade (e.g. the set-up of a specific guide for SMEs by the GRI; Fassin, 2008). However, they might be strengthened by seeking larger participation of SMEs in standard and rating institutions of the food sector (Fuchs *et al.*, 2009). Moreover, SMEs themselves can make efforts to increase their capabilities, for example, by developing networks. This might not only allow them to strengthen their social and environmental but also their economic performance (Enderle, 2004; Murillo and Lozano, 2006).

12 Baden *et al.* (2009) show in their study based on 103 SMEs the so-called ‘ceiling’ effect which implies that mandating CSR criteria into the supply chain can result in a lower level of CSR conduct.

## 5. Conclusions and further research needs

Food companies risk public criticism in a large number of diverse areas. To neutralise the threats or exploit the opportunities due to public concerns requires a comprehensive approach to CSR by addressing environmental and social issues relevant for internal and external stakeholders and – just as important – by communicating them in an appropriate manner internally and externally (Piacentini *et al.*, 2000; Heikkurinen and Forsman-Hugg, 2011). Indeed CSR initiatives have become a core part of business activities in the food sector, in particular for companies with high-value consumer brands (Dlott *et al.*, 2006). This development shows considerable promise in improving the conduct of agri-food firms in the direction of accepting accountability for the impacts of decisions and activities over which they have control. So far, research on CSR with a focus on the food sector is scarce. However, given the special features of the sector and the increasing relevance of CSR in the food business and policy arena makes such studies of great value.

Needing further attention is the shift in focus with respect to CSR from large multinational to the whole food chain including SMEs. While SMEs individually are less powerful, their aggregate social and environmental impact is considerable (Enderle, 2004; Perrini, 2006; Jenkins, 2009; Morsing and Perrini, 2009; DTI and Planet, 2010). Thus, SMEs active in the European food sector should be aware that beyond the supply chain pressure from large companies to take up CSR, they might be well advised to engage in a more proactive strategy with respect to CSR. This holds especially if the current trend of a stronger recognition of social and environmental aspects of main stakeholders continues. While today's still small segment of conscious consumers are highly informed and critical, especially regarding large enterprises, the subsequent consumer segment – though it values social and ecological conduct – is less engaged and not as sceptical with respect to global players. It can be expected that they are more inclined to rely on cues at the point of sale (Walther *et al.*, 2010). As a consequence, the documentation of responsible conduct via third party certified labels and reports will likely gain in relevance for SMEs. Therefore, the analysis of the needs of SMEs in the food sector with respect to implementing CSR in their businesses, the role of large retailers and government in this process but also the challenges for SMEs to secure CSR compliance also from their suppliers are valuable areas for future research (Ciliberti *et al.*, 2009).

Appreciation by stakeholders of responsible firm's conduct and their determinants is another field deserving further attention in the AgEcon literature. Studies that are better able to capture true consumer preferences with respect to CSR as well as research that helps to explain remaining discrepancies between consumers' CSR preferences and their product choice would be of great value. In this respect the relevance of information and (new) communication channels on food purchase decisions regarding CSR as well as the role of NGOs and activists in influencing consumers' opinion would be

worthy of consideration (Devinney *et al.*, 2010). Studies on, for example, the relevance of CSR for employee recruitment and commitment with a focus on the food sector are so far lacking. However, as attracting and committing excellent employees is of great relevance also for food companies, this would be an additional field for future research.

Closely connected to those issues is the question what impact the increasing CSR involvement of food companies on stakeholders actually has. Have scheme developers (CoCs, standards) and rating agencies the right incentives to set and adjust their criteria to provide the best return on investment? Thus, more research on the actual impact of CSR based on different criteria is needed to indeed reap the benefits of socially responsible conduct of (food) businesses in the most efficient way (Barnett, 2007; Genier *et al.*, 2009).

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