CORPORATE SOCIAL RESPONSIBILITY AND FIRMS

Edited by
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PREFACE

In the last decades, the traditional concept that considers the firm a private and profit-oriented property has changed in favour of the idea that considers individuals and groups influenced by business decisions the so-called stakeholders. In fact, firms are increasingly required to safeguard and contribute to the welfare of society. Corporate planning and entrepreneurial policies are the basis for good entrepreneurial action. The stakeholder theory suggests that the understanding of the perspectives of various social actors interacting with the firm play a crucial role above all outside.

Aguinis (2011, p.855) defines Corporate Social Responsibility (CSR) as the "context-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance". So in this definition many fields are included.

In reality, while firms are increasingly aware of the social implications that their choices have, the managerial results can be very different. CSR is an important aspect of entrepreneurial strategies. In particular, the social impact of entrepreneurial activity is becoming increasingly important not only for profit firms but also for non profit. CSR has a strong moral imperative and even in most corporate social choices it involves balancing competing values, interests and costs. You should make a moral calculation necessary to evaluate a social benefit against another or against its financial costs. But today it is not yet possible to do it. Sustainability calls for personal interest based on economic, social and environmental performance. Therefore, companies are asked to act in such a way as to safeguard long-term economic performance and to avoid socially harmful short-term behaviour. In this context, it finds the corporate reputation as the founding character of a good corporate social responsibility.

A competitive and innovative market system based on strong competitiveness offers great social benefits. However, since not all are entrepreneurs and not all entrepreneurs are able to operate not only gaining profit but also offering social benefits, clearer indications on CSR would allow to move with greater assumption of responsibility under conditions of uncertainty.

The information gap between company and stakeholders represents a limitation of the reputational mechanism. The need to converge towards shared management models and the introduction of CSR would limit the reputational mechanism in which firms operate.

Morals, ethics and social well-being are just some of the elements in which the entrepreneur's actions have a good behaviour. The CSR contains all these aspects.

1. CORPORATE SOCIAL RESPONSIBILITY OVER TIME*

Marilene Lorizio and *Antonia Rosa Gurrieri*

1.1. Introduction

Corporate Social Responsibility has become increasingly important in global markets. By characterization, it denotes a shift from the aim of maximizing profit to that of satisfying the necessities of a wider variety of stakeholders. In recent years, many studies on the choice of Corporate Social Responsibility (CSR) in firms have been published across many field of study, including economics, finance, law, management, and accounting. The CSR of firms has greatly interested policymakers, investors, practitioners, and the wider community. Initially, it was considered primarily an issue of reputation and marketing, but later became a useful mean to administer and moderate risks, corroborate competitiveness and limit costs. Gradually, some relevant trends, such as responsible consumption, have fostered the spread of CSR among firms. In fact, the number of "responsible" firms is increasing, due to pressure from investors, institutions and the market, as well as to the obvious benefits linked to CSR activities. Those that consider investment in CSR as a medium to-long term competitive advantage are increasing. The growing relevance and role of CSR in the current economy can be confirmed in several ways. For example, some firms have started to control not only their responsibility towards the environment, but also the responsibility of the whole supply chain. Entrepreneurs have recognized that this is an added value for their firm, which can enhance production processes, while, at the same time, generating interest in their brand. This interest extends beyond the limited sphere of the workforces, embracing both the local communities

* The paper is the result of the joint research of the authors. A.R. Gurrieri was responsible for the final editing of Section 1.2 whereas M. Lorizio was responsible for Sections 1.1, 1.3, 1.4, 1.5, 1.6, 1.7.

and the local market when a firm trades across borders. Responsible "choice" implies the adoption of an approach that takes governance, strategies, innovation of processes and products into account, and is characterized by the importance of all stakeholders, from employees to suppliers. The evolution of CSR in business strategies confirms the dynamism, the "organic" nature and multidimensional interests of firm, and often transform into a social and political nature. It also embraces those areas that are of instances no longer served by the public sector or by the non-profit sector. The expansion of the interests of the firm in this sense changes the nature of the relationships between the public and private sector, those within the private sector, and, between profit and non-profit firms, levelling the boundaries and favoring intersections and interactions. Based on these considerations, this work has tried to verify how the concept of CSR evolved over time (section 2), the relative interpretations in the literature on the topic (paragraph 3) and its applications by the firms (par.4), through the recognition of interests that go "beyond" their boundaries and others objectives with regard to profit maximization. It is however necessary to consider that an increase in the spread of CSR has undoubtedly been determined by the growing globalization of the economy and the spread of the economic crisis, which, in different ways, have favored a more inclusive and more ethical business strategy (paragraph 5), which has been expressed in a more distinctive ways in Europe and, above all, in Italy (paragraph 6). The conclusions (paragraph 7) highlight how the ability to adapt, to interact with the social and political framework, and to incorporate the new ethical and social issues are becoming the main characteristics of drive and success of a firm.

1.2. The origin and definitions of CSR

The concept of social responsibility emerged for the first time in the United States in the late 1800s, in the firms of the most important leaders of industry such as Andrew Carnegie and John Rockefeller. On becoming aware of the housing conditions, health and social security of their workers, they developed the first forms of corporate welfare (Heald, 1970; Carroll, 2008, Gond e Moon, 2011). In 1920, recourse to a type of social responsibility was by American managers in stewardships and trusteeships, i.e., in management and trust administrations, as a response to the trade unions, the church and the moral authorities (Bowen, 1953; Carroll, 2008; Heald, 1970). This gave rise to the development of social responsibility in the USA, based essentially on the development of awareness and philanthropic analysis

(Murphy, 1978). CSR was first mentioned in the United States in 1953. It was a business logic, which went beyond the charity of a nineteenth-century matrix, with which firms sometimes operated in favor of the social sector. In the same, in one of his articles, Howard Bowen encouraged firms to operate responsibly towards society. It was from this new concept of the role of the firm that CSR evolved later, later expanding in Europe and to Italy only in the 90s. The basic idea is to induce firms to take charge of social welfare and avoid actions consequences on the environment, workers and enterprises. One of the most well-known definitions of social responsibility was suggested by Carroll at the end of the 1970s: social responsibility of firms "*... encompasses ethical and discretional expectations that society has of organizations at a given point in time*". In 1991, Carroll specified that the four factors of CSR are necessarily placed in hierarchical order of importance, and developed the famous Pyramid of Corporate Social Responsibility. Among the various types of responsibilities predicted by the pyramid, those of an ethical and philosophical nature have only begun to taken into consideration more recently. At the first level – the base of the pyramid – of corporate social responsibility are the economic responsibilities (*be profitable*). Since society presumes that firms obey the law, they have a legal responsibility (*obey the law*). Conformity to social values and norms not codified by the legal system represents ethical responsibility (*be ethical*). In the highest segment of the pyramid is the philanthropic responsibility, which involves discretionary investments – in favor of the community (*be a good corporate citizen*) without – as in the case of ethical responsibility – any "expectation" on the part of the community.

In this concept, the social tendency of the firm is determined by the value that is conferred on the aspects that go beyond the economic and legal responsibility. The spirit of CSR is found above all in ethical and philanthropic responsibilities (Carrol e Shabana, 2010). Other approaches are closer to the strategic dimension of CSR. According to Steiner (1971), social responsibility must be examined in close correlation with the strategy of the firm. In the view of Perrini (2008), CSR "*is a new strategic approach to firms management, based on a relational idea of the same*". Social responsibility, according to the various interpretations and the conditions considered, is:

- the driver of sustainable development patterns;
- the differential factor for superior competitive models;
- the basic of new relationships between public entities, firms and civil society.

In a scientific context, the topic of CSR is neither new nor relatively recent, both nationally and internationally. This relative approach highlights, first and foremost, that firms produce effects on the territory, through their activity, and *vice versa*, since the people with whom firms interact affect firm behavior in turn. In fact, for almost the last seventy, in the national context, and even earlier in the international one, doctrinal studies have identified a broader function of the firm, that goes beyond the idea that they generally only want to make a profit. For the traditional capitalist firm, capital is the dominant factor, while the social dimension is an accessory element, which takes the form of philanthropy or corporate social responsibility, which therefore represents a secondary factor in these contexts. Even when the capital firm operates for social concerns, as in the case of social business, profit inclination predominates. For years, the attention given to social issues has only been a means to improve reputation. As early as 2001, the Green Paper of the European Commission described CSR as “the voluntary integration of the social and environmental concerns of enterprises in their commercial operations and in relations with the stakeholders”. The word “voluntary” does not bind firms in any way. However, the more far-sighted firms soon understood that the money spent in CSR is not a lost fund, but rather that investments that produce profits in terms of image, evolution of customers, gratification of workers and consequently more productivity. These considerations highlight the social impact of a “responsible production”, given the ability of the responsible firms to produce positive externalities. When considering the shareholder aspect only, diverse perspective, that focus more on various types of stakeholders have been associated by firms over time. The objective is no longer to exclusively maximize profits for investors, although; this aspect still remains, but within a more complete eco-system. This new approach also produces greater benefits for shareholders, in the medium and long term. Social responsibility becomes an integral part of the business. The social responsibility issue – which for years has only represented a way to improve reputation – has gradually transformed in a structural factor, due to the collective changes deriving from the crisis, and is not influenced by the predisposition of the individual entrepreneur or the communication strategies of the firm. The focus on social issue becomes an ethical-cultural choice (in some Countries, the recognition of CSR involves a number of issues, i.e. Appendix).

Three major needs arise in the transitional phase of a new model of social and economic development:

1) the need to invigorate social parties and recognize their independent and primary function;
2) the need to contextualize the economic dimension within the social dimension;

3) the consideration that in economic behaviors the role of trust is more important than the role of rationality, contrary to what the classical theory of the market asserts.

This is a business model that places respect for the environment and social well-being at its core. It is a fairer economy, less interested in the sole objective of profit, a new entrepreneurial mindset that refuses the model based on the exploitation of nature and man in favor of a system based on reciprocity. Therefore, it is not only a social commitment, but also civil one. Social responsibility requires firms not to exploit the environment, not to alter the market with evasion, corruption and so on. Sharing, redistribution and social responsibility, transform the legitimate profit from an obscure, selfish and short-term element into an objective that is compatible with other interests and is capable of producing benefits for workers, society and the environment. In the succession of numerous theories on the subject, corporate social responsibility has been the object of multiple definitions. The World Business Council for sustainable development defines CSR as "the continuous commitment of the company to behave in an ethical manner and to contribute to economic development, improving the quality of life of employees and their families, of the local community and, more generally, of society ". In the European Commission's Green Paper of 2001, CSR is defined as "the voluntary integration of social and ecological problems in commercial operations and in the relationships of firms with stakeholders" (European Commission, 2002). A further Community definition was forwarded in 2011 in order to remodel the concept. The communication from the European Commission on 25th October 2011 establishes that a firm is socially responsible when it: "… adopts approaches and tools to integrate aspects of environmental, ethical, respect for human rights and consumer rights issues into its management, with the aim of maximizing the creation of shared value with stakeholders and of preventing or mitigating the negative impacts of its activities" (European Commission, 2011) This new definition therefore includes not only the firm's ability to cope with the most common CSR issues (already contained in the previous Community definition) but at the same time with the importance of respecting the other stakeholders (consumers, the environment, human rights) in order to maximize its value and improve its visibility on the outside. The 2011 definition of the Commission is focused on corporate responsibility and its impact on society. To fully meet their social responsibility, therefore, the firms must be able to integrate social, environmental, ethical, human rights and consumer demands into their business operations and their strategies, in close cooperation with their stakeholders, with the purpose of:

- creating a shared value between the owners / shareholders and other stakeholders and society in general;
- recognizing, preventing and mitigating potential negative effects (European Commission, 2011)

Furthermore, in the Guiding Principles of the "Proposed Draft Corporate Social Responsibility Rules under Section 135 of the Companies Act, 2013" CSR is defined as: "the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adopting appropriate business processes and strategies. Alternatively, "a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that only increases their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth" (Company Act 2013). CSR initiatives vary over time and depend on the country, so the definition of corporate social responsibility has different aspects and contents. In fact, as yet there is not univocal and comprehensive definition of social responsibility. Identifying a common definition of corporate social responsibility has become especially important in recent times, in which there have been numerous financial scandals caused by deficiencies in this area.

1.3. Literature

The true concept of corporate social responsibility was developed in Anglo-Saxon countries. Howard R. Bowen is considered the inventor of modern corporate social responsibility (Wood, 1991, Carroll, 1999 and 2008) thanks to his book *Social Responsibility of the Businessman*, the first study on the development of a social conscience in the businessman. The literature on Social Responsibility in the stricter sense began with the publication of Bowen, was developed in the 1970s and continues to the present day. Initially CSR studies focused mainly on two issues:

- the responsibility of businessmen and firm managers;
- the analysis of the externalities of firm management.

Studies on social responsibility greatly increased around the 1970s, in particular in France (Matacena and Del Baldo, 2009) and in England, where the concept of Corporate Social Responsibility evolved into the concept of Corporate Social Responsiveness, focusing more on the internal factors of the firm (Cantele, 2006). In 1979 Carroll elaborated the previously mentioned so-called pyramid, which leads to a definition of CSR based on four factors:

- the economic factor: it is important for the enterprise to produce economic value;
- the legal factor: it is important that the enterprise always operates in conformity with the law;
- the ethical factor: it is essential that the enterprise operates according to criteria of fairness, justice and impartiality, in conformity with social values;
- the philanthropic factor: it is essential that the enterprise decide to carry out social investments without preconceived expectations from the community.

In the 1990s, Friederich (1994) introduced the study of business ethics and the phase of the so-called Corporate Social Rectitude. Business ethics is the segment of applied ethics characterized by the application of moral principles and norms in the valuation and government of economic institutions and performances (Sacconi and Fasano, 1997). Further evolution occurred in the 1990s, when Carroll developed the concept of Corporate Social Performance, which embraces both the concepts of traditional CSR and Corporate Social Responsiveness as well as the whole field of the firm's social activities (Carroll, 1991). In the studies on how to apply CSR that followed, much of the attention is focused on the relationship between the firm and its stakeholders. Edward Freeman, in the 80s, published the first formal research on the theory of stakeholders. The author suggests a strategic evolution of Igor Ansoff's theory; this assumes a continuously evolving business strategy, which seeks to balance the relations of power between the management and the stakeholders of the firm: customers, suppliers, workforce, financiers, government and the community. Since the seminal paper by Freeman (1984), stakeholder theory grown and developed as the dominant paradigm in CSR literature (Margolis and Walsh, 2003). Although stakeholder theory presents a solid moral basis (Freeman et al., 2010), its instrumental version obtains more consensus (McWilliams and Siegel, 2001; Surroca et al., 2010). Instrumental stakeholder theory considers corporate social activities as a way (an instrument) to realize the fundamental objective of maximizing shareholder value (Donaldson and Preston, 1995; Jones 1995). Relations with stakeholder inspired by CSR principles can have an instrumental value if they are able to generate value for shareholders (Mitchell et al., 1997; Ogden and Watson, 1999). As a result, a firm has an interest in having positive relationships with its stakeholders if such social benefits have an influence on productivity and business profitability (Berman et al., 1999). Furthermore, thanks to CSR activities, firms develop solid relationships with the main stakeholders; the relational capital thus built has a positive impact on the capability to produce new technologies, elaborate new products and enter in new markets (Thomson and Heron, 2006; Tsai and Ghosha, 1998; Chan, et al. 1997). Moreover, better innovation capabilities facilitate positive social and environmental strategies (Sharma and Vredenburg, 1998; Buysse and Verbeke, 2003). In this way, the relations with stakeholder become an important source of competitive advantage, which is difficult for rivals to copy and imitate (Barney 1991; Surroca et al. 2010). Therefore, firms can positively involve stakeholders by improving the efficiency of the production process. In a highly active and competitive framework (Goll and Rasheed, 2004), the strategies aimed to generate shareholder value involve a fair and uniform conduct towards all stakeholders (Berman et al., 1999). In this regard, social-exchange theory (Eisenberger et al., 1986; Whitener, 2001) argues that fair relations with stakeholders favor mutual trust and collaboration, which translates into an effective commitment by stakeholders towards the firm and to a reciprocal loyalty (Bosse et al., 2009). In addition, CSR activities can be a successful way for firms to acquire social legitimacy (Suchman, 1995; Jamali, 2008; Du and Vieira, 2012; Jones, 1995). An evolution of stakeholder theory is the shared value theory. In 2006, Michael Porter and Mark Kramer argue that the firm-society relation should not be a zero-sum game, but an occasion to gain mutual development opportunities. The key idea of the theory is to incorporate firm social responsibility within the firm management. This approach is based on the consideration of the firm as a system. According to this view, the successful firm gains from social output in terms of efficient use of productive resources, training, good governance, health care, and efficient government. In the same way, society benefits from the activities of innovative firms, better working conditions and better economic fairness. Meadows (Mit of Boston) had already advanced these hypotheses in the 1970s, postulating new and different balances between man, the environment and economic systems. More recently, economic literature has also developed the theme of sustainability and CSR. The economic considerations focused on three aspects:

1) Firstly, the definition of CSR (Garriga and Mele, 2004 – Dahlsrud, 2008 – Beurden and Gossling, 2008) and its measurement (Turker, 2008);
2) Secondly, the motives which conduct firms to implement responsible behavior (Sotorrio and Sanchez, 2008 – Detomasi, 2007 – Udayasankar, 2007);
3) Thirdly how CSR can affect the economic and financial system (Beurden and Gossling, 2008 – Sotorrio and Sanchez, 2008).

As to the first aspect, to make CSR – which is not measurable – applicable and concrete (Maron, 2006), the economic literature has created the concept of Corporate Social Performance (CSP). Beurden and Gossling (2008) define CSP as "a set of three elements":

- diffusion of social concerns (Wu, 2006 – Orlitzky et al, 2003);
- firms initiatives, such as pollution limitation, philanthropy, social projects;
- valuation of corporate reputation or social indicators developed by social rating institutions.

Regarding the second aspect, the literature identifies various ways in which CSR can contribute to the profitability of firms. One of these, which is usually not desirable from a social point of view, is the use of CSR for publicity or public relations objectives (Baron, 2007), in order to prevent public regulation (Maxwell et al., 2000; Lyon and Maxwell, 2004), or to discourage any claims (Baron, 2001; Baron and Diermeier, 2007; Baron, 2009). The firm can decide to engage in CSR activities for others, different reasons: on the one hand, it can be driven by a truly altruistic / social motivation and, on the other, by a strategic reason, linked to its reputation and attraction of consumers focused on social aspects. The principal factors that lead firms to CSR are associated to value creation (Alexander and Buchholz, 1978 – Belkaoui, 1976 – Clarkson, 1995 – Harrison and Freeman, 1999 – Preston and O'Bannon, 1997 – Kohers and Simpson, 2002 – Vance, 1975 – Waddock and Graves, 1997). Sotorrio and Sanchez (2008) recognize various "starting points":

- disclosure of social communication (Belkaoui and Karpik, 1989 – Brammer and Pavelin, 2006 –Sotorrio and Sanchez, 2008 – Roberts, 1992 – Stanwick and Stanwick, 2006);
- the different causes of social spending, such as donations, philanthropy (Adams and Hardwick, 1998 – Amato and Amato, 2007 – Brammer and Millington, 2005 – Navarro, 1988);
- the set of policies, principles, programs, procedures and consequences deriving from the relationship between the firm and the society (Beliveau et al, 1994 – Brammer at al., 2005 – Hilmann et al., 2001 – Johnson and Greening, 1999 – Mahoney and Thorne, 2005 – Moore, 2001).

For the third aspect, recent studies have underlined that social responsibility is affected by the level of economic development. Recent research draw attention to this:

- the number of firms adopting CSR initiatives has increased significantly. This fact demonstrates that Corporate Social Responsibility is an extremely important choice which necessitates more studies and research;

- the largest number of enterprises adopting CSR initiatives come from the United States and the European Union, i.e. two of the most developed economic areas. This evidence, albeit approximate, suggests that GDP is a critical variable for the improvement of ethical awareness and therefore of CSR.

With regard to this last aspect, although in the EU there are less CSR firms than in the United States, they increase at a faster rate, probably due to the a catch-up phenomenon.

1.4. From the compliance with law to CSR

The social function of the enterprise has long been recognized in various studies. As previously mentioned, first scientific reflection was made by Bowen in 1953; he highlights that it is fundamental for the firm to include the social impact factor in its decision-making processes, in addition to economic aspects, which should also be elements of evaluation. In Italy, Gino Zappa, in 1956 states that "the notion of a firm, while it is all built in adherence to the economic aspect of human life, does not conflict with the necessary vision of all the non-economic aspects of this life: religious, ethical, social, political, legal, technical … "so much so that" the predominant value of moral elements must also be recognized in many economic problems. The rules of action of morality are not subordinate to personal advantage. Man is a moral being and often in his quest for well-being there are feelings of altruism". In subsequent studies, several authors (Davis, 1960, Frederick, 1960; McGuire, 1963) begin to highlight the relationship between corporate social responsibility and legislative obedience (an aspect that will then be explicitly included in the definition of the European Commission). These authors strengthen the idea of the existence of a responsibility of the "firm" institution towards society, in addition to the economic aspects: for the firm to be socially responsible means to go beyond compliance with the law. This concept is reiterated by Davis in 1973, when he states that CSR starts where the law ends; the firm that solely observes the legislative rules is not socially responsible. In the seventies, many studies analyzed this issue; among the CSR definitions of this period that of Carroll (1979) prevails. It combines economic objectives with social objectives: "the social responsibility of business encompasses the economic, legal, ethical, and discretional expectations that society has of organizations at a given point in time". It underlines the influence of the *territory* with respect to the entrepreneurial conduct that is configured as a socially responsible behavior. The first reflections emerge that assert that social responsibility, if not specifically related to the territory, is sterile: in fact, entrepreneurial behaviors affect the territory and the territory likewise influences the firm. Thus, a concept of CSR gradually became more specific. The doctrine also seeks to identify a more specific and precise definition of the characteristics of socially responsible entrepreneurial behaviors, to trace their peculiarities and facilitate their identification in concrete situations (Carroll, 1979). The analysis of the characteristics of socially responsible conduct is associated to an analysis of the *motivations* that induce the firm to act according to the principles of social responsibility. Research focuses on the factors that are at the origin of the entrepreneurial action in terms of social responsibility, the elements for which the firm operates responsibly (Wood, 1991). An acceptance of the principles of CSR that is substantial and not only exterior, for image purposes, requires the firm to have instruments, processes and procedures that are specific and suitable to respond to requests, wishes and feedbacks communicated by the various subjects affected directly or indirectly by the firm activity. It thus becomes necessary to identify the methods useful for guiding firms in the design and implementation of these mechanisms; in this regard, in the studies proposed the awareness of the need for a coherent and structured non-random approach emerges, and thus the concept of Corporate Social Responsiveness (Frederick, 1994). Even the following decade, the 1980s, is particularly rich in ideas and doctrinal modeling. In particular, the main areas of study identified during this period are the theory of stakeholders (stakeholder theory), the studies of Business Ethics and the concept of Corporate Social Performance.

Stakeholder theory, business ethics and corporate social performance

The stakeholder theory was developed by Freeman (1984) and it is decisive for the conception of social responsibility. The strong element, which indicates a break from previous periods, is the focus on "stakeholders" who belong to the territory in which the firm works, and on the relationships that the firm has with these subjects. The previous theory considered the impact that the firm could produce in the social context of reference as undifferentiated; in particular, it did not consider the fact that this context comprises different types of subjects. With stakeholder theory, the prospect becomes more centered and specific: the firm interacts with different subjects, who can be single people, as well as groups of individuals, with distinct degrees of structuring and organization. The emphasis is on the subjects on whom the firm activities produce consequences and who, in turn, influence the firm