

**Going beyond a long-lasting debate:  
What is behind the relationship between corporate social  
and financial performance?**

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## **I. Introduction**

For at least the last three decades research on the role and responsibilities of business in society has been searching for the business case for corporate social responsibility (CSR). The proliferation of empirical studies on the relationship between corporate social performance and economic bottom line is the result of two related shifts in the academic debate. On the one side, in terms of the level of analysis, research has gradually moved from a focus on the macro-social effects of CSR to organizational-level analysis of CSR effects on firm behaviour and performance. On the other, in terms of theoretical orientation, researchers have moved from explicitly normative and ethics-oriented studies to implicitly normative and performance-oriented analysis. In fact, by the late 1990s CSR has also been associated with strategy literature and its relationship with market outcomes has been made more explicit (Hart, 1997; Kotler & Lee, 2005; Orlitzky, Schmidt, & Rynes, 2003; Porter & Kramer, 2006; 2002).

As a result, an increasing number of studies on the corporate social performance (CSP) – corporate financial performance (CFP) link have emerged. There is convergence toward defining CSP as the outcome of implementing CSR activities and behaviours, which articulates principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firms' relationships with stakeholders (Wartick & Cochran, 1985; Wood, 1991). In other words, CSP refers to the observable and measurable outcomes of the corporate social actions (Wood, 1991). Paralleling the increasing legitimacy of the business case for CSR, business actors have progressively embraced CSR as part of their business credo, integrating corporate social and environmental responsibilities into their strategies, operations and relationships

with stakeholders (Perrini, Pogutz, & Tencati, 2006; Perrini, Russo, & Tencati, 2007).

Yet, looking backward at the last thirty years of empirical research, the business case for social responsibility and the related link between CSP and CFP remain the most controversial areas in the business-in-society field (Barnett, 2007).

Though different in their approaches to CSP definition and measurement, existing studies tend to share an often unstated assumption: The stronger the firm's involvement in CSR programs and activities, the higher the economic and financial value firms will be able to obtain. However, a substantial inconsistency in the results obtained emerges, in terms of both existence and direction of the correlation between the constructs (Margolis & Walsh, 2003; Orlitzky et al., 2003; Salzmann, Ionescu-Somers, & Steger, 2005).

Margolis and Walsh (2003) counted 127 studies devoted to exploring the CSP-CFP relationship in the period 1972-2002. Their results are somewhat puzzling: In spite of the fact that the majority of inquiries found a significant positive relationship, conflicting results were reported even in cases based on the same sample of firms. As a consequence, the relationship should be recognized as ambiguous, complex and nuanced, not allowing for much theoretical generalization on the strategic implications of responsible business conduct.

On the contrary, with the explosion of conventions, publications, and tools to manage and evaluate CSP, CSR has moved from the margins of corporate agenda to the mainstream. Increasingly, companies are demonstrating their commitment to CSR by providing clear and verifiable data and information, similar to more traditional documents. Such trend is the main reflection of the accountability paradigm: *If you want to manage it, you need to measure it* (Norman & MacDonald, 2004). Reporting practices are no longer restricted to sectors with high environmental impacts or large companies: Increasingly small- and medium-sized enterprises and sectors with an apparent low environmental impact (banks and insurance, for example) are now energetic reporters (Kolk, 2003).

As a consequence, and in order to keep research aligned with business practice and growing practitioner interest in CSR, the shift away from a simplistic

assumption over the link between social and financial performance is increasingly stringent, together with a growing request to reorient empirical investigation toward a deeper understanding of what it means to succeed in CSR, disentangling its specific dimensions (Barnett, 2007; Harrison & Freeman, 1999). Starting from the analysis of existing literature on the link between CSP and CFP, this work represents a further step into the debate over the consequences of the voluntary integration of CSR into business operations and relationships with stakeholders. Deepening the different dimensions underlying the relationship between specific CSR-related behaviour and company performance, this study answers the call for a more detailed understanding of the mechanisms linking certain activities to certain performance outcomes. There is no doubt that CSR may be beneficial for firms adhering to it (Barnett & Salomon, 2006; Margolis & Walsh, 2003). Less clear is what dimensions firms can leverage to improve their abilities to benefit from responsible behaviour.

Starting from these premises the remainder of the paper is structured as follows. First, the literature on the link between CSP and CFP is reviewed, in order to highlight the basis of the academic debate and the competing perspectives. Then we shift from academic to practitioner perspective, showing how, despite often-fierce competition, private companies voluntarily allocate resources to social activities as an almost universal practice. In an attempt to reconcile theory and practice, the fourth section goes beyond CSP-CFP dichotomy, stressing the importance of disentangling the main dimensions of corporate performance in order to reach a deeper understanding of how companies may benefit from CSR. The paper ends with conclusions and implications for the debate on the impact of CSR and related activities.

## **II. The business case for CSR: Between theoretical debates and empirical investigations**

Over time the business case for CSR has been approached in many different ways to prove or disprove the sound economic rationale for moving beyond shareholder value maximization. In fact, in an attempt to justify CSR as rationally aligned with profit maximization objectives, studies have chased the

dream to prove a universally favourable rate of return to CSR (Barnett, 2007), trying to demonstrate CSR theoretical superiority looking for a significant positive correlations with economic and financial performance measures. As a result, a huge amount of quantitative analyses on the performance consequences of CSR have been conducted, differing in measures, approaches and results, but sharing the same view of CSR as a strategic and profit-driven corporate response to social and environmental pressures coming from the external context of reference.

Since the first two studies published in 1972 (Bragdon & Marlin, 1972; Moskowitz, 1972), an increasing number of empirical investigations have been undertaken to address the economic and financial impact of CSR-related actions, tools and behaviours. Researchers have examined the economic performance of groups of companies which differed on a variety of measures of social performance including pollution (Bowman & Haire, 1975; Bragdon & Marlin, 1972; Fogler & Nutt, 1975), the existence of social responsibility or environmental practices (Christmann, 2000; Clarkson, 1988; Kedia & Kuntz, 1981), the overall social-responsibility reputation (Alexander & Buchholz, 1978; Cochran & Wood, 1984; Preston & O'Bannon, 1997) or, more recently, the third-party social and environmental evaluation (Graves & Waddock, 2000; Hart & Ahuja, 1996; McWilliams & Siegel, 2000; Russo & Fouts, 1997; Waddock & Graves, 1997a).

Instead of measuring corporate social and environmental performance directly or relying on third-party evaluation, part of the studies has assumed performance from corporate social and environmental voluntary disclosure (Abbott & Monsen, 1979; Anderson & Frankle, 1979; Blacconiere & Northcut, 1997; Blacconiere & Patten, 1994).

Such variety in measurement perspectives has been paralleled by a comparable variety in measures of financial performance: From investor returns to accounting returns or a combination of the two (Cochran & Wood, 1984; Margolis & Walsh, 2003).

Part of these studies supports a negative impact of CSR-related activities and behaviour on performance. Rooted in the neoclassic maxim: "*The business of business is business*" (Friedman, 1970), research on the negative impact of CSR considers socially responsible practices as unnecessary costs to be avoided in order to preserve companies from competitive disadvantages (Barnett, 2007). On the contrary, resources devoted to social programs or actions could be put to better use in improving the efficiency of the firm, or could be returned to shareholders. It is not the role of firms to address societal problems. Rather they should be left to governments and public sector organizations. Moreover, those countering the need for CSR stress the risk of de-focalization due to the broadening of managers and directors' objective functions in the shift from single to triple or multiple goals (Jensen, 2001). Competitive breakdowns due to the governance challenges of maximizing multiple objectives simultaneously are the expected impacts from the integration of CSR into company strategies and value propositions.

Despite criticism, the much richer number of studies supporting a positive relationship between social and economic performance seems to rule out misappropriation and misallocation concerns (Margolis & Walsh, 2003). In fact, a huge amount of studies reports a positive relationship between social and economic performance as the result of a stronger ability of firms to manage the expectations of their social context of reference (Orlitzky et al., 2003; Waddock & Graves, 1997a). As a whole such studies assume, often implicitly, that answering the expectations emerging from firms' stakeholder network lowers transaction costs, improves trust and legitimacy and sustains the ability of firms to face competition (Barnett, 2007).

In this context, stakeholder theory (Freeman, 1984) has emerged as the cornerstone of the business case for CSR, highlighting the importance of a firm's relationships with critical stakeholders as conducive to better performance.

At the end of 1970s Carroll (1979) described CSR as encompassing "the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (p. 500). Nearly 25 year later, Whetten, Rands and Godfrey (2002) defined CSR as:

“Societal expectations of corporate behaviour; a behaviour that is alleged by a stakeholder to be expected by society or morally required and is therefore justifiably demanded of business” (p. 374).

In this definition the broad term society has been narrowed down to stakeholders. Societal expectations are thus represented, translated, and delivered at the company's gate by stakeholders (De Bakker, Groenewegen, & Den Hond, 2005).

Instead of focusing on a generic responsiveness toward society, the stakeholder management approach turns on the importance of locating and classifying stakeholders defined as “any group or individual who can affect or is affected by the achievement of the organization's objectives” (Freeman, 1984, p. 46). Accordingly, it becomes necessary for firms the detection and scanning of, and response to, the social demand to achieve social legitimacy, greater social acceptance and prestige (Garriga & Melé, 2004) and, in turn, support long-term value creation. According to stakeholder theory (Donaldson & Preston, 1995; Freeman, 1984) the adoption of CSR behaviour is in firm's best interests.

In other words, the stakeholder theory of the firm is about creating value for stakeholders through the integration of business and societal considerations. It remains a managerial theory about how business works, in terms of interactions and value creation. In order to catch these multiple dimensions, Freeman and Velamuri recently (2006) proposed the expression *company stakeholder responsibility*, in order to extend the stakeholder approach to value creation to all businesses, regardless of size and nature, and to stress the inseparability of business from ethics.

To be more specific and in an attempt to summarize the different approaches that have been adopted over time, the distinctiveness of the stakeholder theory domain can be traced back to the following assumptions. First of all, firms are open systems that interact with a wider system – the external environment of reference – on a continuative basis. The external environment or, alternatively, context of reference is not treated as an aggregate construct, but in its constituent groups – stakeholders – that affect and are affected by firms'

decisions and operations (Freeman, 1984). Stakeholders have been classified in different ways (for a review see: Mitchell, Agle, & Wood, 1997) as having a legal, moral or presumed claim on the firm, as well as the ability to affect its processes, decisions and so on (Clarkson, 1995).

Moreover, they have been treated either as resource providers or as risk bearers and residual claimants for the value created by the firm (Jones, 1995). In this context, CSR contributes to the bottom line via its favourable influence on the firm's relationships with relevant stakeholders.

Management and strategy research has long emphasized the internal stakeholders such as employees, customers and stockholders, that is, those who have a direct stake in the firm's activities and operations. However, secondary stakeholders (e.g., community activists, public institutions, media, and other non-governmental organizations), namely, those that do not have a formal contractual bond with the firm or direct legal authority over the firm, are increasingly raising research attention in the name of their ability to pressure the firm (Eesley & Lenox, 2006), imposing either operational costs (e.g., public relation expenses) or losses in terms of intangible resources (e.g., trust and reputation).

The second crucial assumption is that the interests of all legitimate stakeholders have intrinsic value: No set of interests is assumed to dominate the others (Clarkson, 1995; Donaldson & Preston, 1995; Phillips, Freeman, & Wicks, 2003). This means that stakeholder theory is different from other theories because it is driven by taking morals and values (i.e., ethics) explicitly into consideration, as a central feature of the organization. Such assumption defines stakeholder theory's normative foundation, namely, each stakeholder is considered "for its own sake and not merely because of its ability to further the interests of some other groups, such as the shareowners" (Donaldson & Preston, 1995, p. 67). According to this perspective, relationships with stakeholders are not means to an end but the end themselves.

However the assumption above does not imply that stakeholders are the same for each firm, as well as that relationships are treated in the same way by all firms. Here comes the third main feature of the stakeholder theory: Its concern

is with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. The instrumental and descriptive traditions (Donaldson & Preston, 1995) of the stakeholder theory are focused on these issues, the former on the link between responsiveness to stakeholders and success or performance (Jones, 1995; Wood, 1991), the latter on investigating the way firms and stakeholders interact in actual terms. The power, legitimacy and urgency framework, developed by Mitchell et al. (1997) in order to explain stakeholder identification and prioritization is a leading example of the descriptive side of entrepreneurship research. What is worth emphasizing at this point is what emerges from the many studies on processes and outcomes: Even though the interests of all stakeholders are normatively legitimated, firms have to be able to develop a balancing ability between often conflicting, costly interests, in light of the respective contributions, costs and risks of each stakeholder group.

The overall logic is that CSR increases the trustworthiness of a firm and so strengthens relationships with stakeholders (e.g., increased employee satisfaction), which decreases transaction costs and so leads to financial gain (e.g., decreased employee turnover, more eager talent pool, strike avoidance). CSR can differentiate a firm's products (Porter, 1991), reduce its operating costs (King & Lenox, 2000), and serve as a platform for future opportunities, as well as a buffer from disruptive events (Fombrun, Gardberg, & Barnett, 2000). From this angle, one can view CSR as an investment, perhaps with sizable financial returns, in addition to or despite any benefits that might accrue to society.

Looking backward to the whole picture, there is no doubt that CSR empirical accounts have improved over time, offering stronger theoretical rationales, more relevant operationalizations, and more and better controls for previously omitted variables. This process of progressive sophistication has been the most direct result of the accumulation of reviews of this CSP-CFP research published since 1972. The reviewers have identified problems of all kind. The use of different measures for social and economic performance and incomparability among different time periods have been identified as the most relevant flaws in empirical research (Arlow & Gannon, 1982; Aupperle, Carroll, & Hatfield, 1985;

Cochran & Wood, 1984; Orlitzky et al., 2003). Additionally, sampling problems have been highlighted, together with lack of validity in measures of social responsibility (Arlow & Gannon, 1982; Cochran & Wood, 1984; Griffin & Mahon, 1997; Pava & Krausz, 1996). On a partly related side, some studies have stressed the need to overcome an intrinsic mismatching in variables, through disentangling which stakeholders are relevant to which kind of measures, thus relying on stakeholder theory to define appropriate causal relationship (Wood & Jones, 1995). Finally, some reviews have pointed out the opportunities to test mediating mechanisms and moderating conditions (Barnett & Salomon, 2006) such as, for example, R&D investments (McWilliams & Siegel, 2000), the industry firms belong to or the organizational size (Arlow & Gannon, 1982), or the moderating effect of measurement issues (Orlitzky et al., 2003).

As a whole and despite a general positive attitude and optimism toward CSR, periodic reviews have spread the perception of an intrinsic imperfect nature of such studies and reinforced the tension surrounding the business case.

In the words of Barnett (2007, p. 796):

“Yet the improved rigor has only produced rigor mortis. ...Twenty-five years of research has not produced a solution but, rather, isolated islands of partial insights about an unseen larger picture”.

Given the lack of universal measures for social performance, the effect on financial performance could be due to the method adopted to evaluate social results. These studies share the assumption that efforts to universally prove the business case are doomed to failure, no matter how ingenious the theory, crystal clear the terminology, or rigorous the data and methodology (Rowley & Berman, 2000). CSR is contingent to many factors at the team, firm and industry levels (Ullmann, 1985). In fact, as suggested by recent reviews of quantitative studies (Margolis & Walsh, 2003; Orlitzky et al., 2003; Salzmann, Ionescu-Somers & Steger, 2005) the general inconsistency in the results obtained has to be ascribed to the fact that the relationship between social and economic performance is complex and contingent to situational, company- and plant-specific factors that are difficult to detect through most analytical approaches. Accordingly, theory would benefit from moving beyond simple correlations and

both look at the many contingencies that could explain the variability in return to CSR and search for more detailed analyses addressing the many facets that characterize CSR and its related performance areas.

The need for an alternative and more advanced approach emerges as increasingly stringent, based on less simplistic research questions and able to reorient empirical research towards the mechanisms underlying the ability of firms to integrate stakeholder requests and benefit from it.

### **III. The practitioner perspective on responsibility**

Rather than justifying CSR as significantly and positively correlated to CFP, companies tend to explain their engagement in responsible practices as the unavoidable consequence of the critical interdependencies that exist between them and their relevant stakeholders. Adopting the practitioner point of view, there is convergence toward considering CSR as a strategy for dealing with stakeholders (Cummings & Doh, 2000; Perrini, 2006a; Post, Preston, & Sachs, 2002b).

Social, environmental and sustainability reports are placed in the context described above: On the one hand, they substantially contribute to both formalizing firms' positions on CSR and providing a viable opportunity to assert commitment to good business practices; on the other hand, reporting practices, that is, pulling and collecting information from business units with different priorities, represent not only a step towards evaluating and measuring the overall corporate responsibility performance, but also, and most important, a concrete opportunity to identify strengths and weaknesses across the whole spectrum of corporate responsibility (Nitkin & Brooks, 1998) and stakeholder relationships.

As firms recognize a sort of parallelism between CSR behaviour and their aptitude to systematically provide better responses to the social, economic and environmental requests of their interlocutors, as an unavoidable consequence of the critical interdependencies between the firm and its social context, CSR reporting activities become crucial, helping firms to effectively take on social

responsibilities and at the same time permitting society to effectively control business activities in the CSR field.

In this sense CSR reporting represents the external and systematic result of companies' thought about what CSR is and how it can be shared with the social context. Since each context often differs and influences the firm in different ways, it will be characterized by a different level of corporate responsiveness and, in turn, by different areas of CSR disclosure. If this is true, then adopting a stakeholder setting when analyzing CSR reporting practices has to be recognized as necessary.

Ulmann (1985) provides a conceptual framework in response to the inconsistency of previous studies on the relationships among corporate social disclosure and economic and social performance. In his contingency model, social performance and disclosure manage the dependence relationships between companies and their stakeholders. To focus in more closely, different levels of stakeholder power, or alternatively of stakeholder pressure, together with a range of strategic posture from passive to active and different levels of past economic performance, determine corporate strategy in terms of social performance and disclosure.

Ulmann's theoretical model provides the reference theory for Roberts' (1992) empirical study on the determinants of social responsibility disclosure. Although proxy measures are used for the operationalization of the stakeholder power construct, results provide strong evidence about the usefulness of a stakeholder framework in overcoming the consistency issue of previous studies of CSR actions. The appropriateness of stakeholder theory as a basis for reporting is also affirmed by Roberts in a more recent contribution (1998), focused on the opportunities of stakeholder engagement in developing a corporate single audit. Cormier, Gordon and Magnan (2004) also focus on the role of stakeholders in determining managers' actions relevant to CSR. The authors develop a stakeholder model of environmental reporting, where disclosure represents the information set communicated to stakeholders in order to foster firms' legitimizing process.

As a whole, such research has its theoretical underpinning in stakeholder theory in that stakeholder dialogue not only enhances a company's sensitivity to its environment but also increases the environments' understanding of the dilemmas facing the organization (Kapstein & Van Tulder, 2003; O'Dwyer, 2005). This approach offers several benefits. On the one hand, each subject of the evaluation and reporting process will be able to immediately recognize her/his role and weight within the company's strategies and operations. On the other, companies will be able to constantly monitor the changing and multidimensional environmental system in which they operate. In fact, on the basis of this approach, it will be possible to measure stakeholder satisfaction and better understand what still needs to be done and where to fully integrate the socially responsible action (Sirgy, 2002).

The link between CSR strategy, CSR reporting and performance implies that if companies want to obtain their stakeholders' trust, they must not only communicate, but also give concrete evidence that they are committed to continual, long-term improvement (Preston, 1981) in specific CSR-related areas. Therefore, a sustainable and responsible company must identify, measure, monitor and report all social, environmental and economic effects of its operations on society at large (Epstein, Flamholtz, & McDonough, 1976), in order to increase both external and internal dialogue with constituencies and improve "managerial awareness of and control over social impact of corporate activity" (Preston, 1981, p.257).

As a consequence, non-financial reporting practices have become an integral part of the business operations of most corporations, with companies most directly identifying CSR with a sort of corporate citizenship, tied in with stakeholder relations (especially focusing on human resources and customers) and meeting the concerns of environmental interest groups and the communities they operate in (Perrini, 2005, 2006a). In these reports, companies tend now to focus on specific CSR-relevant themes and subjects, but with a clear interest in enlarging their vision and their sphere of responsibility, within both local and global contexts.

More specifically companies seem now to rely on the reporting process as a signal of their attractiveness to stakeholders (Jones & Murrell, 2001), to show dynamism, inclination to innovate, and orientation toward developing and nurturing people skills, making them the driving force of the company success and superior competitive positioning.

#### **IV. Reconciling theory and practice: Unpacking CSP-CFP link**

The obsession with the search for a universal rate of return to CSR has left unexplored questions about what it is firms are actually doing in response to their actual and perceived renewed role into society and with what effects.

In fact and in contrast with the direction of mainstream quantitative research, business practice shows how firms actively engaged into CSR are enlarging their sphere of responsibility and accountability, moving beyond bottom line as an all-inclusive tool for performance evaluation. In other words, firms themselves tend to consider social and environmental performance not as univocal constructs, but increasingly decline it into specific stakeholder-firm relationships and related CSR areas.

In this sense, if CSR is considered as a new governance model based on the crucial value of stakeholder relationships and on the capacity of a firm to meet stakeholder needs beyond mere legal compliance, then a clear understanding of CSR performance consequences should disentangle different management areas and investigate how specific activities translates into organizational, managerial or market gains according to a multiple-bottom-line thinking (Perrini & Tencati, 2006; Tencati & Zsolnai, 2009).

In an attempt to answer this quest for reorienting business in society research toward a deeper understanding of the drivers of CSR-related performance, recent research has been appreciating the impact of CSR at different level of analysis (Aguilera, Rupp, Williams, & Ganapathi, 2007) and in specific management domains and stakeholder interactions (Perrini et al., 2006; Tencati, Perrini & Pogutz, 2004). Current empirical and theoretical perspectives are presented below.



***CSR-related organizational drivers***

Along with the growing importance of intangibles for company success, especially in terms of the ability of firms to create, manage and transfer knowledge, the quality of the workforce has become a critical source of competitiveness for companies. As a result, a number of studies have addressed the impact of CSR values, beliefs and activities on internal organization.

Firms are increasingly relying on values and specific projects to affect employee's behaviour and the integration of CSR and related issues into the organization. In more detail, CSR-oriented organizational values, more or less integrated into specific organizational arrangements (e.g., codes, rules or procedures), have been recognized as the antecedents of the creation of an ethical climate and organizational ethics profile (Victor & Cullen, 1988). Additionally, values and beliefs have been linked to the development of an organizational attitude toward CSR (Aupperle et al., 1985; Hemingway & Maclagan, 2004).

On a partly related side, engagement into ethics-oriented practices as perceived by employees has been frequently associated with positive organizational outcome (Frank, 2004; Tencati & Zsolnai, 2009). In this context, Jones (1995) drew on the frameworks of agency theory, transaction cost economics and team production to argue that an organization whose managers were perceived as acting with integrity and honouring their commitments would be an efficient contractor and would incur in beneficial effects like lower agency costs, transaction costs, and costs associated with team production. Similarly, Pfeffer (1994) argued that firms whose relationships with their employees were trusting and cooperative in nature would outperform those that are not. On this basis, empirical analysis (Davis & Rothstein, 2006; Prottas, 2008) has found a positive impact of acting ethically and with integrity on employee attitudes (e.g., job satisfaction and life satisfaction), well-being (stress and health) and behaviour (e.g., lower absenteeism).

Both perceived and actual CSR have also been shown to have an impact on organizational commitment, that is, employees' identification with the objectives and goals of their organization and willingness to remain with their organization. Studies in this context have found out the positive impact of ethically-related

elements such as fairness at work, care and concern for employees, trust in employees, and reputation of the organization on organizational commitment (Maignan, Ferrell, & Hult, 1999; Vitell & Singhapakdi, 2008). Similarly, authors have shown a stronger organizational commitment for employees working for organizations with ethical codes of conduct (Valentine & Barnett, 2003).

Additionally, through the implementation of CSR-related activities such as the prevention of non-discriminatory behaviour or the practices of diversity management firms may gain in attractiveness as a potential employer (Greening & Turban, 2000; Turban & Greening, 1996). Overall, achieving a reputation as a good place to work is explicitly associated not only to positive labour market outcomes but also to superior competitive positioning and financial gains (Davis, 1973; Fombrun & Shanley, 1990; Waddock & Graves, 1997b).

Finally, more recent research has started to investigate the impact of job design on employees' motivation and behaviour, adopting a relational perspective (Grant, 2007).

In summary, research on the organizational return to CSR shows how prosocial and ethical values and beliefs, translated into specific projects and programs (e.g., initiatives to manage occupational health and safety risks, training and learning projects, programs on work-life balance, and so on), may have an impact on employees' attitude and behaviour, strengthening their commitment to the organization, their job satisfaction and work motivation. Such organizational gains turn into operational benefits such as increased productivity, stronger brand value and attractiveness and efficiency through reduced costs due to absenteeism or turnover (Paine, 2003).

### ***CSR-related customer drivers***

Paralleling the growth of the consumerism movement, and the increasing demand for more than a quality product at a low price (Bhattacharya & Sen, 2004), CSR practices and related information have become quality indicators, strengthening company and brand positioning (Singh, del Mar Garcia de los Salmones Sanchez, & del Bosque, 2008). In this context, CSR practices such as the reliance on social and environmental labels, transparency and reliability in communication, and product diversification strategies, represent useful heuristics

on which individuals can focus when evaluating a firm (Jones & Murrell, 2001: 63).

At the same time, CSR behaviours and programs have been shown to have significant impacts on perceived quality (Folkes & Kamins, 1999), corporate attitude and consumer product responses (Berens, Riel, & Bruggen, 2005; Brown & Dacin, 1997), purchase intentions (Murray & Vogel, 1997), and customer-company identification (Bhattacharya & Sen, 2001).

The effects described above becomes even stronger when corporate engagement in CSR becomes not only perceived (Becker-Olsen, Cudmore, & Hill, 2006) but also salient to customers (Marin, Ruiz, & Rubio, 2009).

Though different in their focus, empirical and theoretical studies share the assumption that strong and visible corporate commitment to CSR fosters the development of a favourable consumer attitude toward the firm (Bhattacharya & Sen, 2001; Brown & Dacin, 1997). In other words, research suggests that CSR initiatives induce customers to develop a sense of affective, emotional connection to the company (Marin et al., 2009), which turns out in improved satisfaction (Bhattacharya & Sen, 2003; Lichtenstein, Drumwright, & Braig, 2004).

Furthermore, engaging in CSR may allow firms to understand their customer needs better through open dialogue and transparent interaction, and thus improve customer-specific knowledge (Bhattacharya & Sen, 2001). Together with identification, better consumer knowledge leads to improved customer satisfaction and long-lasting customer relations (Luo & Bhattacharya, 2006; Marin et al., 2009).

Finally, focusing on the impact of CSR initiatives on consumer markets, studies have highlighted the mediating role of corporate reputation (Greening & Turban, 2000), which in turn affects the accumulation of intangibles in terms of trust and market reciprocity (Smith, 2003). In other words, firms that integrate CSR in their relationship with customers have better chances to enhance their reputation as reliable, open, able to innovate and trustworthy exchange partners (Castaldo, Perrini, Misani, & Tencati, 2009; Perrini, 2006a). If so, socially oriented firms can

successfully leverage their reputation in those business areas where trust is crucial in determining consumer choices, thus gaining consumer loyalty (Frank, 2004).

### ***CSR-related society drivers***

With reference to the local and global community in which firms operate, implementing procedures of stakeholder dialogue, interaction, and collaboration with society at large supports consensus management, strengthening firms' license to operate (Kern, Sachs, & Rühli, 2007; Russo & Tencati, 2009). Accordingly, studies have recognized the importance of CSR as lowering transaction costs (Rigling Gallagher & Gallagher, 2007), generating a durable competitive advantage through reputation- and trust-based linkages (Freeman, Martin, & Parmar, 2007), designing, producing and delivering more value-added, environmentally friendly and socially cohesive outcomes (Brugmann & Prahalad, 2007; Porter & Kramer, 2006; Post, Preston, & Sachs, 2002a).

Within the above theoretical context, many authors have considered the role of CSR as fostering social capital accumulation (Maak & Pless, 2006; Perrini, 2006b). A growing number of sociologists, political scientists, economists, and organizational theorists have investigated the concept of social capital (for a synthesis of theoretical research undertaken in various disciplines on the concept of social capital, see Adler & Kwon, 2002). Social capital is a multidimensional concept (Paldam, 2000) which has been investigated by distinct approaches prevalently in terms of trust and reciprocity norms (Putnam, 1993), relation networks (Burt, 1992; Coleman, 1988, 1990), and relational competences (Araujo & Easton, 1999; Glaeser, Laibson, & Sacerdote, 2000).

Social capital relates to various important aspects of business ethics, such as transparency, goodwill and good citizenship (Spence, Schmidpeter, & Habisch, 2003), thus representing a strong rationale for firm engagement into CSR (Ortiz Avram & Kühne, 2008). Moreover, stocks of social capital, such as trusts, norms, and networks, tend to be self-reinforcing and cumulative. Virtuous circles result in social equilibria with high levels of co-operation, trust, reciprocity, civic engagement, and collective well-being. In summary, social capital accrues

through formal engagement, networking within sectors, networking across sectors, volunteerism, and giving to charity (Spence et al., 2003).

Finally, based on a sustainable approach, firms might find it more practical to anticipate future CSR issues in their supply chains and integrate CSR supply chain standards into daily operations (Maloni & Brown, 2006; Perrini et al., 2007). In this context, research on supply chain management processes and practices tends to converge on the importance of managing relations to improve performance and competitiveness (Burgess, Singh, & Koroglu, 2006; Li, Rao, Ragu-Nathan, & Ragu-Nathan, 2005; Robinson & Malhotra, 2005).

Studies have started to show the benefits associated with long-term buyer-supplier relationships based on the ability to share knowledge and competences among partners (i.e., strategic supplier partnership). Accordingly, a relational approach to supply chain management, together with the ability to monitor supply chain performance based on a set of indicators broader than cost reduction, has proven to be successful in improving customers satisfaction (Shepherd & Gunter, 2005). These studies are based on the analysis of communication flows and processes in different stages (i.e., plan, source, make & deliver), on an investigation of what kind of information is exchanged among partners, and on implemented practices to minimize wastes in time and resources.

As a whole there is a growing recognition of the advantages associated with collaboration and transparency in setting objectives and strategies, through the implementation of practices such as multi-functional teams, relation-based incentives, joint business plans and so on. Moreover, the benefits of joint innovation processes and of broadening performance evaluation processes are acknowledged.

Moreover, paralleling the growing attention to the economic, social and environmental impacts of increasingly global supply chains, the debate is moving toward whether and how firms are extending their role and responsibilities beyond economic ones outside corporate boundaries. For the last decade, research has been addressed to the incorporation of corporate social

responsibility (CSR) issues within supply chain management studies. This has given rise to the emergence of new research areas, that is, logistics social responsibility (Carter & Jennings, 2002a), purchasing social responsibility (Carter & Jennings, 2002b), and sustainable supply chain management (Teuscher, Grüninger, & Ferdinand, 2006).

The most recent debate has been focused on the environmental impacts along the supply chain (Carter & Carter, 1998; Carter & Dresner, 2001; Murphy, Poist, & Braunschweig, 1994); on the benefits associated with human resource management and human right protection along the chain through the adoption of ad hoc tools and procedures (Emmelhainz & Adams, 1999; Rivoli, 2003; Roberts, 2003); on impacts associated with procurement policies (Carter, 2000a; Carter, 2000b; Carter, Auskalnis, & Ketchum, 1999; Razzaque & Hwee, 2002; Tencati, Russo, & Quaglia, 2008), and on describing CSR-based policies and practices implementation in specific industries (Maloni & Brown, 2006) and in comparison with alternative supply chain models, such as fair trade movement (Levi & Linton, 2003; Moore, 2004).

Overall these studies show how firms interested in extending their range of responsibilities to social and environmental impacts beyond legal requirements are shifting from anonymous purchases in anonymous markets to relational approaches based on health and safety at the different levels, traceability and solid partnerships with involved actors.

This turns both into a systematic ability to think about the effects of company operations, by adopting a cross-boundary perspective and taking into consideration the resulting actions by all the actors variably involved in the production processes. CSR-driven value chains brings to improved performance in terms of lower operating and coordination costs, improved collaborations, higher innovation potential, higher value to final market (Frank, 2004).

### ***CSR-related natural environment drivers***

Contrarily to the scarce empirical evidence of the negative financial performance impact associated with environmental management (Lothe, Myrtveit, & Trapani, 1999; Walley & Whitehead, 1994), most of existing research agrees in

associating pollution prevention and environmental strategies to the creation of sustainable competitive advantage through increased revenues due to product and process innovation, as well as the identification of new market opportunities (Hart, 1995; King & Lenox, 2000; Porter & Reinhardt, 2007; Porter & van der Linde, 1995; Shrivastava, 1995). In this context, empirical research has shown that reducing pollution, improving waste management and implementing practices to minimize environmental impacts act as a reputation signalling exercise. This becomes crucial as it opens new markets, especially in spite of the growing interest in green public and private purchasing (Ambec & Lanoie, 2008; Carter & Dresner, 2001). At the same time, adopting more stringent environmental standards or innovating into environmental domains has been linked to competitive advantages, due to the differentiation potential of green production processes (Hoffman, 2000; Porter & van der Linde, 1995).

Additionally, efforts directed to prevent pollution are positively associated with operating and financial performance (e.g., ROE, ROS, ROA) within one or two years of start (Hart & Ahuja, 1996), with pollution prevention leading to financial gains (King & Lenox, 2000).

In this context, differential performance may accrue in many different ways. As for social initiatives, behaviours and tools, corporate commitment to strengthen environmental performance has been shown as linked to better, long-lasting relationships with stakeholders due to lower risks. In this context, less pollution induces lower liability costs, avoiding potentially costly litigation and fines (Schaltegger & Wagner, 2006). At the same time, reducing pollution and other environmental impacts has been linked both to productivity gains in terms of lower costs of materials, energy and services (Gollop & Roberts, 1983; Porter & van der Linde, 1995) and to financial market gains in terms of easier access to capital (Bauer, Derwall, & Otten, 2007; King & Lenox, 2001). Though conflicting evidence remains (Margolis & Walsh, 2003), the large majority of the portfolio analyses, event and long-term studies converge on the positive financial returns to environmental performance. On the contrary, long-term studies support the hypothesis that lower environmental performance leads to lower financial performance, and thus to a higher cost of capital.

***CSR-related innovation drivers***

Though still emerging, literature on the effects of CSR tools and behaviours has started to consider them as a potential source of innovation. Studies increasingly demonstrate a strong relationship between research and development and CSR programs. Accordingly, firms can use social programs as a way to foster product and process innovation (Kanter, 1999), with a link between CSP improvement and new technology introduction (Phillipmore, 2001).

Therefore, CSR still represents a non-traditional area to search for commercially viable product and service innovations, unserved markets and new business models (Grayson & Hodges, 2004).

Since Porter & van der Linde (Porter & van der Linde, 1995), environmental goals have started to be acknowledged as potentially fruitful innovation drivers. More recently, the same notion has been extended to social and ethics goals. Porter & Kramer (2006) argue that integrating CSR into the corporate value proposition has the potential to benefit society, while at the same time boosting competitive advantage.

In this sense, implementing CSR practices and behaviours aimed at, for example, reducing environmental impacts, increasing safety or recycling of materials, necessarily implies more or less extensive changes in ongoing operations and activities (Bansal, 2005; Sharma & Vredenburg, 1998). Accordingly, as CSR becomes integrated into daily operations and interactions with stakeholders firms are fostered to carry on organizational and technological changes, repositioning themselves by the transformation of their activities toward others that reduce their impacts or take social and environmental issues as strategic, competitive options (Porter & Kramer, 1999; 2002). Such results are subject to the ability of firms to adapt production processes and product design suitably (Vollebergh & Kempfert, 2005).

***CSR-related governance drivers***

The adoption of CSR practices can be beneficial in managing the relationship with financial community. Companies can, in fact, adhere to CSR practices to manage and ideally eliminate risks associated with misconduct, carelessness or

insensitivity. CSR can reduce risks at different levels: From the easily identifiable (e.g., environmental risk, the risk of customer dissatisfaction, insurance or legal expenses and so on) to the hidden risks such as decreased productivity, damages to corporate image, deterioration of the relationships with company stakeholders, and so on. Studies in this context shows positive benefits associated with the fact that potential investors and lenders would perceive firms engaged in CSR as less risky than the others. More than in other CSR-related areas, the ability to benefit from positive financial markets outcome is strictly related to the ability of firms to disclose social and environmental information. Disclosure plays a fundamental role in this process: With the visibility gained through disclosure, shareholders and financial partners at large can interpret CSR activities as signal of a firm's successful attempts at satisfying stakeholder groups (Orlitzky & Benjamin, 2001).

Finally, the positive impact of CSR on the financial community and on the different constituencies can be exerted via the development of a better ability to govern the firm (Bowie, 2006; Ghoshal, 2005). Increasingly, under the umbrella of corporate governance, companies are encouraged to promote ethics, fairness and transparency (Jamali, Safieddine, & Rabbath, 2008) in all their dealings, pursuing the highest standards of governance internally.

Literature on the systems by which firms are controlled and directed increasingly tends to share a focus on the notions of compliance, transparency and accountability as driving company growth and value creation (MacMillan, Money, Downing, & Hillenbrad, 2004). Such conception clearly points out the relevance of CSR, with specific reference to stakeholder management approaches (Elkington, 2006; Perrini et al., 2006): Good governance entails responsibility and due regard to the needs and requests of all critical stakeholders, while ensuring companies are answerable to all stakeholders (Dunlop, 1998).

Accordingly, companies who put in place effective corporate governance systems are shown to implement solid and integrated CSR approaches more easily than others (Rosam & Peddle, 2004). In this sense, companies who share more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and

performance (Tencati & Zsolnai, 2009) have also better chances to increase shareholders' loyalty and voice, reduce exits, encourage relationship investing and empowering other groups (e.g., employees, suppliers, and so on) to have long-term relationships with the firm (Letza, Sun, & Kirkbride, 2004).

## **V. Conclusions**

Different from the past, CSR is an almost universally accepted practice. Looking at what firms are currently doing, CSR orientation seems to converge around a range of issues covering a diversified set of firm-stakeholder relationships and related areas (Perrini, 2006a).

However, contrarily to the sophistication of firms' practices and in an attempt to legitimize or discredit the business case for CSR (Barnett, 2007; Rowley & Berman, 2000; Ullmann, 1985), academic research has mainly addressed the extent to which a link exists between aggregate measures of CSP and various measures of financial performance.

As a consequence, the underlying drivers of the performance impact associated with CSR have been mainly overlooked treating CSP as an overall score. Rejecting and going beyond this approach and adopting a multiple-bottom-line perspective (Perrini & Tencati, 2006), our study aimed at disentangling the many facets of the CSP-CFP performance, showing the multiple levels of analysis at which performance consequences can be appreciated and evaluated.

Figure 1 provides a summary picture of the main mechanisms linking CSR-related drivers to specific performance areas, as emerging from the literature depicted above.

Despite recent advancements toward a deeper understanding of the mechanics linking CSR activities to more specific performance measures, organizations still tend to be considered as black boxes in which stakeholder pressures are

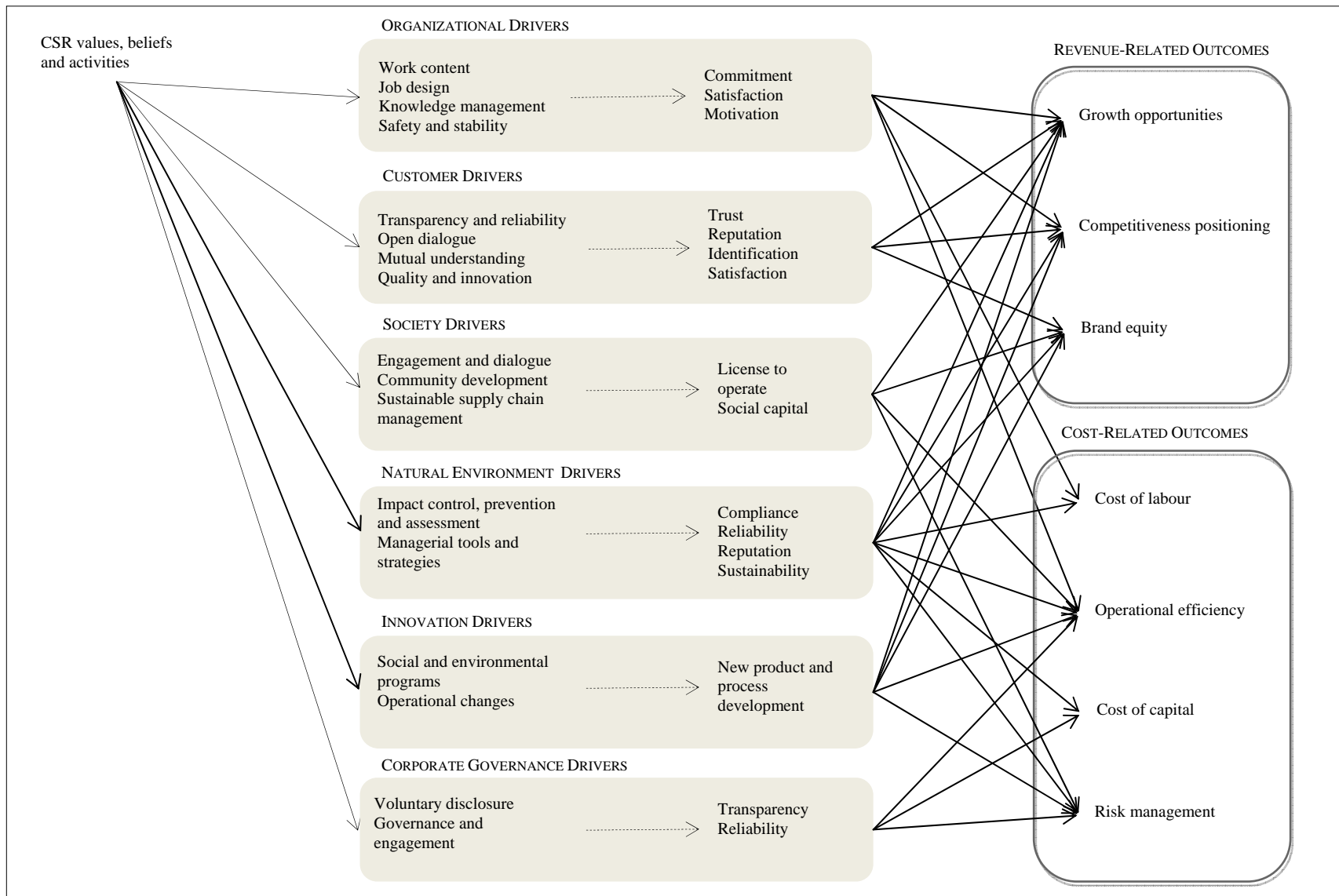
automatically translated into stakeholder-related performance consequences (Sharma & Vredenburg, 1998).

Disentangling specific dimensions of the CSP-CFP link offers insights into the driving factors explaining variability in performance. In other words, as firms broaden and deepen their engagement in CSR, treating it as an aggregate score could prevent a comprehensive understanding of specific performance impacts. Our paper points out the relevance of setting clear boundaries and specifying levels of analysis in order to generate comparable results. CSR many facets have to be consistently mapped into measures and expected outcomes.

These tendencies toward disentangling CSR-related performance mechanics are starting to emerge from the literature. In fact, as highlighted in the paper, literature is moving to specific CSR areas distinguishing among activities implemented at different levels: From organizational settings and human resource management to customer-oriented initiatives, from programs addressed to the local and global communities of reference to environmental strategy setting, and from cross-cutting innovation processes to the implementation of supportive corporate governance systems.

Our analysis suggests the need to go beyond considering CSR as a univocal concept: There is more than a single way in which improving company social and environmental performance can turn into performance differentials. Though not exhaustive, Figure 1 allows to define a taxonomy of the conditions under which one can expect certain results, as well the mechanisms by which specific activities can relate to performance outcomes.

Figure 1: CSR-related performance drivers



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