The Evolution and Models of Corporate Social Responsibility

Prof. J. C. Visagie*  
North-West University Potchefstroom, South Africa

Dr. V. Sibanda  
National University of Science and Technology P. Bag AC, 939 Ascot, Bulawayo Zimbabwe

Dr. R. Coetzee  
42 Philips Avenue, Discovery, Gauteng, South Africa

Abstract

Purpose: Consequently, the purpose of this review paper is to trace the historical and conceptual evolution of CSR. Design: Literature review Findings: Company must respond to meet demand in order to be more reputable and remain profitable. Contesting views have given birth to a myriad of theories on CSR over the past decades as a clear testimony that the concept of CSR is dynamic and continues to evolve. Practical implications: This paper traces the key milestones in the evolution of CSR from the earliest debates between Dodd and Berle in the 1930s followed by arguments on CSR by Friedman in the 1970s up to the current theories Social implications: Trends have moved from corporate social responsibility (CSR) programmes, to sustainable development, to sustainability, to social responsibility Original value: Since the 1950s, many scholars have been researching CSR from different points of view. In order to understand CSR’s impact on organisational behavior, it is necessary to comprehend its progression. Keywords: Corporate social responsibility; CSR drivers; CSR theories; Evolution of CSR.

1. Introduction

Over the past several decades, corporate social responsibility has evolved from a narrow and often marginalised notion into a complex and multi-faceted concept, which now lies at the heart of much of today’s corporate decision making (McWilliams and Siegal, 2011; Porter and Kramer, 2011). Since the 1950s, many scholars have been researching CSR from different points of view (Žėkienė and Ruževičius, 2011). For instance, scholars such as Davis (1960); Frederick (1960); Davis (1973); Sethi (1975); Ackerman and Bauer (1976) and especially (Carroll, 1979;1991;1999;2016) made serious attempts to define and study the concept of CSR. Carroll developed a hierarchy that identified four major types of CSR that began with economic, moved to legal responsibilities, then forward to ethical responsibilities, and finally with discretionary responsibilities (Gee and Norton, 2013). Furthermore, social responsibility in business has also been conceptualised as corporate citizenship and philanthropy, followed by corporate social responsiveness, corporate performance and stakeholder management (Lindgreen et al., 2009). Of late, strategic corporate social responsibility is strongly advocated (Gee and Norton, 2013; Werther and Chandler, 2011).

One of the earliest scholarly debates on CSR was between Dodd (1932). In his classic paper “For whom are corporate managers trustees?” Dodd argued that the change in public opinion towards the social obligation of business would drive corporations to assume responsibility towards employees, consumers and general public. Dodd had reacted to, whose work foreshadowed that of Milton Friedman (1970). Berle on the other hand, had argued that the sole purpose of business corporations should be to generate profits only for their stockholders. Later, Friedman (1970) would argue that CSR could only be justified if it was entirely in the interests of the corporation in which case it could not be defined as CSR but merely as profit maximisation. This gave prominence to Friedman’s position that the responsibility of business is to make profits for the shareholders and nothing else (Friedman, 1970). This further gave impetus and prominence to CSR debates and theories which can be chronicled from Jensen and Meckling (1976) on the ‘Agency Theory’; Freeman (1984) ‘Stakeholder Theory’; on Sustainable Development Theory; Carroll (1991) on The Pyramid of CSR; Davis et al., (1997) on The Stewardship Theory; Elkington (1998) on Triple Bottom Line; Aras and Crowther (2009) on The Sustainable Development Model; Visser et al., (2010) on The DNA of CSR 2.0; up to the recent debates by Gholami (2011) on Value Creation Model of CSR; and Claydon (2011) on Consumer Driven Corporate Responsibility. These theories are briefly discussed below.

1.1. The Agency Theory

Friedman (1970), famously asserted that the social responsibility of business is to increase its profits. Friedman anchored his argument that corporations cannot have social responsibility on three reasons: that only human beings can have a moral responsibility for their actions; it is the business manager’s obligation to act purely in the interests of shareholders; and social issues are the province of state, not the corporation (Friedman, 1970), and therefore, the business of business is business. Agency theory holds that each individual will work rationally to maximise his/her
utility function, which will ultimately lead to the maximisation of personal income by minimising expenditure (Jensen and Meckling, 1976). Individuals act in an opportunistic way and are self-interested (Eisenhardt, 1989; Forsyth, 2016). Consequently, CSR is an extra expenditure that needs to be avoided to maximise the utility function of both managers and shareholders. Due to the natural assumption that agents know more of a corporation than the principal does, Hamidu et al. (2015) aver that some agents inevitably exercise their discretion to maximise their utility at the expense of the principal – a position also affirmed by Salazar and Husted (2008). As further observed by Shogren et al. (2015), agents are self-determined people driven by volitional action wherein they make conscious choices based upon one’s preferences. Therefore, to ensure compliance with the principal’s directive, there must be a provision for agency cost, bonding costs and monitoring to motivate the agent in delegating on behalf of the principal. Since delegation of responsibility and contractual obligation is vested on the shoulders of the agent, all his actions are considered acts of the principal and, if within the legal framework being conducted, it is deemed acceptable (Hamidu et al., 2015).

1.2. The Shareholder Theory

The shareholder theory advocates that a firm should maximise the present value of all future cashflows (Danielson et al., 2008). These scholars argue that it is unnecessary and unwise to spend shareholder money on unprofitable social causes. Saleem et al. (2016), support this view by arguing that the shareholders have made an investment and are dependent on the firm to provide them with a return. Steve Milloy, a mutual fund manager and critic of CSR, proclaimed the following: “Shareholders do not hire CEOs to be the UN, to act like a government or to be a charity. They were hired to make money for shareholders. Business is society’s wealth creation machine” (Weiss et al., 2008). Milloy’s argument is similar to the reasoning of Adam Smith and Milton Friedman. The business of business is to make money. By serving the needs of shareholders, businesses generate wealth that benefits society. If CSR initiatives increase the bottom line, then shareholder theory advocates recommend implementing such initiatives. However, using shareholder money in an unprofitable manner is viewed as wrong. No matter how noble the cause, it is inappropriate to be generous with another’s money (Saleem et al., 2016).

1.3. The Stakeholder Theory

The stakeholder theory maintains that a business’ obligations go beyond the traditional fiduciary duties toward shareholders but extend to other groups, including the customers, employees, suppliers, financiers, competitors, media and neighbouring communities (Camilleri, 2015; Rojas et al., 2017; Skilton and Purdy, 2017). Freeman was one of the first academics to reject Friedman’s perception that a company only has social responsibilities towards its shareholders and instead argued that managers actually “bear a fiduciary relationship to stakeholders” (Freeman, 2002). Without stakeholders’ engagement, knowledge, skills, talent and loyalty, the organisation cannot achieve its objectives (Nikolova and Arsić, 2017). A characteristic of CSR is the idea that the business is accountable to the various stakeholders who can be identified and have a claim, either legally mentioned or morally expected, on the business activities that affect them (ibid). Nowadays, more and more authors place the stakeholder approach at the core of CSR theories (Cohen, 2010), while Holmes and Watts (2000) see the engagement of the stakeholders as ‘the essence of CSR’.

Freeman (2002), further argues that, from a legal perspective, there are more groups (stakeholders) with a stake in the corporation with legally binding contracts and expectations placed on the organisation. He also contested the laissez-faire aspect of economic theory that the free market is self-regulatory and needs no intervention from government. Therefore, the stakeholder theory ensures that such regulation of a company’s actions towards all of its stakeholders, including shareholders, is legal (Camilleri, 2015; Claydon, 2011). Stakeholders have various and sometimes incongruent interests that compete for organisational resources. Firms on the other hand, are unlikely to fulfil responsibilities of some primary stakeholders; hence, the need for stakeholder management strategies (Nikolova and Arsić, 2017). According to stakeholder theory, increased CSR makes firms more attractive to consumers. Therefore, CSR should be undertaken by all firms (Saleem et al., 2016).

1.4. The Pyramid of CSR

Carroll opines that four kinds of social responsibilities constitute total CSR, namely economic, legal, ethical and philanthropic, and these four categories or components of CSR may be presented as a pyramid, as shown in Figure 1 (Carroll, 2016).
More like Abraham Maslow’s and Carroll argues that all other business responsibilities are predicated upon the economic responsibility of the firm, without which the rest become moot considerations. This position is in line with Friedman (1970) traditional view that the responsibility of business is to increase profits for its shareholders. Profits are necessary both to reward investor/owners and for business growth when profits are reinvested back into the business. CEOs, managers, and entrepreneurs will attest to the vital foundational importance of profitability and return on investment as motivators for business success. Virtually all economic systems of the world recognise the vital importance to the societies of businesses making profits. While thinking about its economic responsibilities, businesses employ many business concepts that are directed towards financial effectiveness – attention to revenues, cost-effectiveness, investments, marketing, strategies, operations, and a host of professional concepts focused on augmenting the long-term financial success of the organisation (Carroll, 2016).

The next layer is the legal aspect. Carroll argues that society has not only sanctioned business to operate according to the profit motive; at the same time, business is expected to comply with the laws and regulations promulgated by the state and local governments as the ground rules under which business must operate. As a partial fulfilment of the ‘social contract’ between business and society, firms are expected to pursue their economic missions within the framework of the law (Carroll, 2016). It is therefore, not an accident that compliance officers now occupy an important and high-level position in company organisation charts.

The next layer is the ethical aspect, being the responsibility of business to do the right things to its stakeholders. Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair, just or in keeping the respect or protection of stakeholders’ moral rights. Although ethics are not codified into law, they are expected nonetheless (Carroll, 2016).

Carroll’s last layer of the pyramid is the philanthropic aspect; this is how the business is responsible for delivering contributions to the community as a good citizen. Philanthropy includes actively engaging in acts or programmes to promote human welfare or goodwill and will include business contributions to financial resources or executive time, such as contributions to the arts, education or the community. Carroll further distinguishes between philanthropy and ethical responsibilities by arguing that the former is not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities and employee time to humanitarian programmes or purposes, but they do not regard the firms as unethical if they do not provide the desired level. Therefore, philanthropy is more discretionary or voluntary on the part of businesses, even though there is always the societal expectation that business provides it Carroll (2016).

1.5. The Stewardship Theory

The stakeholder theory was further developed into the stewardship theory by Davis et al. (1997). The stewardship theory is equally a response to the agency theory postulated by Jensen and Meckling (1976) to answer the agency problem. The theory states that the managers are no longer the agents, but stewards who act in the best interests of shareholders (Forsyth, 2016; Krisnawati et al., 2014). Managers are not motivated by individual goals, and act as stewards of the principal in order to pursue the objectives of the firm. Davis et al. (1997), argue that the equilibrium of the relationship can be reached when managers’ goals are in accordance with the interests of all stakeholders. Davis et al. further argue that managers can attain their goals by serving well for the achievement of company’s performance and satisfying all stakeholders. Consequently, corporate performance can be achieved by achieving individual performance that is in accordance with the company’s goals.
The stewardship theory holds that managers have “firm-specific knowledge and managerial expertise and are believed to gain an advantage over firm owners who are largely removed from the operational aspect of the firm” (Forsyth, 2016). Therefore, managers are inherently trustworthy and not prone to misappropriate corporate resources. A steward is pro-organisation, intrinsically motivated, identifies with the organisation they work for by acting on its behalf, and accepting its vision, mission and objectives (Davis et al., 1997; Krzeminska and Zeyen, 2017). Their efforts are dedicated towards meeting goals by completing the required tasks and assignments, taking credit for the firm’s success and feeling frustrated when the objectives are not achieved (Forsyth, 2016; Krzeminska and Zeyen, 2017).

1.6. The Triple Bottom Line

The triple bottom line (TBL) consists of three Ps: profit (economic), people (social) and planet (environment), and has been widely used to characterise the sustainability of human activities over the past few decades (To and Lee, 2017). It aims to measure the economic, social and environmental performance of the corporation over a period of time. Only a company that produces a TBL is taking account of the full cost involved in doing business. The TBL is a form of corporate social responsibility dictating that corporate leaders should tabulate bottom-line results not only in economic terms (costs versus revenue), but also in terms of company effects in the social realm. Together, these three notions of sustainability – economic, social, and environmental – guide businesses towards actions fitted to the conception of the corporation as a participating citizen in the community, and not just as a money machine (Rahman, 2011). Therefore, a socially responsible company can be considered an institution for economic prosperity, social equity and environment protection. This means that what is good for the environment and what is good for society are also good for the financial performance of the business (Rahman, 2011).

1.7. The Sustainable Development Model

According to ISO 26000, sustainable development refers to meeting the company needs, respecting the environment of this planet without endangering future generations’ needs (Popa, 2015). This makes the link between the two concepts, CSR and sustainable development, very tight as both are based on the company’s challenge to allocate and use resources efficiently. If sustainable development considers the performance of present activities without compromising the future ones, at corporate level, social responsibility is mainly aimed at “minimising compromise and maximising synergies” resulting from company interactions with the economic, community and natural environment where it operates (Hediger, 2010). This link is also emphasised by the World Bank through its definition of social responsibility: “Social responsibility is the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development” (Popa, 2015).

According to Aras and Crowther (2009), sustainability means life will just carry on unchanged. They then developed the sustainable development theory of environment and development into a further model largely based on the stewardship model (Davis et al., 1997). Aras and Crowther argue that, in achieving corporate performance, management of an organisation must concern stewardship of financial and environmental resources. The stewardship of both resources of society and organisation is an effort to guarantee sustainability. Aras and Crowther adopt the triple bottom line concept into their model for the synergy of financial, social and environmental aspects (Krisnawati et al., 2014). They affirm that sustainability does not merely focus on the environment, but that social and financial matters can also play important parts in sustainability. Environmental and financial performances are mutually exclusive rather than dichotomous. Related to sustainability, Aras and Crowther also allude to the internal interests of a company by asserting four aspects of CSR, namely: the economic aspect, to be the reason for the company’s existence; the social aspect, to eradicate poverty and safeguard human rights; the environmental aspect, to preserve the nature for future generations, and finally, the organisational culture, to align the corporate and social values with individual values (Krisnawati et al., 2014). This model has further given birth to new models: The DNA of CSR 2.0 model by Visser et al. (2010), followed by the model of consumer-driven corporate social responsibility by Claydon (2011).

1.8. The DNA of CSR 2.0

Visser (2011), argues that if corporate sustainability and responsibility are to be realised, then a transformative CSR or CSR 2.0 is needed, which represents a new holistic model of CSR. The essence of the CSR 2.0 DNA model is the four DNA responsibility bases, namely: value creation; good governance; societal contribution and environmental integrity. These are summarised in Table 1 below:

<table>
<thead>
<tr>
<th>Strategic Goals</th>
<th>Key Indicators</th>
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<tbody>
<tr>
<td>Value Creation</td>
<td>Economic development</td>
</tr>
<tr>
<td></td>
<td>Capital investment (financial, manufacturing, social, human and natural capital).</td>
</tr>
<tr>
<td></td>
<td>Beneficial products (sustainable and responsible goods and services).</td>
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<td></td>
<td>Inclusive Business (wealth creation, bottom of the pyramid markets).</td>
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<tr>
<td>Good governance</td>
<td>Institutional effectiveness</td>
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<tr>
<td></td>
<td>Leadership (strategic commitment to sustainability and responsibility).</td>
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<td></td>
<td>Transparency (sustainability and responsibility reporting, government payments).</td>
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<tr>
<th>Societal contribution</th>
<th>Stakeholder orientation</th>
<th>Ethical practices (bribery and corruption prevention, values in business).</th>
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<tbody>
<tr>
<td>Environment integrity</td>
<td>Sustainable ecosystems</td>
<td>Ecosystem protection (biodiversity conservation and ecosystem restoration).</td>
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Source: Visser (2011)

The principles of CSR 2.0 are: creativity/connectedness; scalability; responsiveness; glocality/duality and circularity. CSR 2.0 combines the concept of Connectedness for “C”, Scalability for “S”, Responsiveness for “R”, Duality for “2” and Circularity for “O” (Krisnawati et al., 2014). Connectedness is to explain that a company has relations with multi-stakeholders. Scalability is to explain that CSR programmes must be carried out by a company on a big scale and for a long-term duration. Responsiveness is to explain that a company must be responsive to deliver the needs of the community. Duality is to explain that a company is not only responsible for the economic aspect, but also for both economic and social aspects. Circularity is to confirm the aspect of sustainability. Visser (2011), further argues that:

“circularity would according to cradle-to-cradle aspirations, create buildings that, like trees, produce more energy than they consume and purify their own waste water; or factories that produce drinking water as effluent; or products that decompose and become food and nutrients; or materials that can feed into industrial cycles as high-quality raw materials for new products”.

Visser further argues that circularity need not only apply to the environment. Business should be constantly feeding and replenishing its social and human capital, not only through education and training, but also by nourishing community and employee well-being. Therefore, CSR 2.0 raises the importance of meaning in work and life and to equal status alongside ecological integrity and financial viability. In conclusion, the DNA of CSR 2.0 model can be summed up in the words of Visser et al. (2010) as:

“spiralling, interconnected, non-hierarchical levels, representing economic, human, social and environmental systems, each with a twinned sustainability/responsibility manifestation: economic sustainability and financial responsibility; human sustainability and labour responsibility; social sustainability and community responsibility; and environmentally sustainability and moral responsibility” (Krisnawati et al., 2014).

1.8.1. A Practitioner-Based Model of Societal Responsibilities

Pedersen (2010) focuses on a manager’s perceptions of CSR and argues that some of the managers still view CSR from narrow perspectives. According to Pedersen, some managers only focus on people, products and planet. Pedersen incorporates the triple bottom line concept of Elkington into his practitioner-based model of social responsibilities. Managers have varied views of CSR wherein some of them are concerned with CSR in the reactive approach that CSR is carried out merely to comply with responsibility and avoid risk, while others take the proactive approach to perceive CSR as an effort to make wider changes in society. Through his model, Pedersen demonstrates that, overall, managers take CSR as about producing good-quality products without posing any harm to the environment to create value for the company and society. Pedersen further argues that the responsibilities of a company for products, people and the environment are not only taken at its internal operations but are also meant to create value for the stakeholders rather than only shareholders (Krisnawati et al., 2014). Pedersen adopts Freeman (1984) stakeholder theory into his model. However, his model does not take all stakeholders’ interests as equally important, as postulated by Freeman. Instead, managers perceive that employees and customers are more important than the other stakeholders are.

1.8.2. The Value Creation Model of CSR

Gholami (2011), value creation model emphasises value creation for an organisation and society as there is a mutual dependence between them. The model considers the main elements of a value cycle as strategy, resources and processes, business propositions and interactions with stakeholders. The model is a further development of the stakeholder theory. Gholami (2011), moulds his value creation model by adopting the four CSR dimensions of Carroll’s pyramid model, i.e. economic, legal, ethical and philanthropic as responsibilities that must be delivered by a company in its value creation for organisation and society. As in Carroll’s pyramid model, the economic aspect still stands out as the most fundamental matter of the company (Krisnawati et al., 2014). Personal savings rate, business savings rate, inflation rate and manufacturing lead-time are indicators of economic dimension in Gholami’s model. The indicators of the legal aspect are the anti-trust law, labour training law, taxation law and human rights. Ethical aspects deal with codes of conduct, corruption and money laundering matters (Krisnawati et al., 2014). Gholami suggests donor acquisition, donor attrition, stewardship calls and gift processing time as key indicators of the philanthropic aspect. Gholami suggests economic, legal, ethical and philanthropic aspects as independent variables in his value creation model, while culture, technology, centralisation and training are the control variables.
Financial corporate performance, including return on investment (ROI), return on equity (ROE), return on asset (ROA), operating income (OI) and non-financial corporate performance as well as access to capital, business value, business savings, social value being considered dependent variables (Krisnawati et al., 2014).

1.8.3. Consumer-Driven Corporate Responsibility

Like Gholami’s model of value creation, Claydon (2011) model of consumer-driven corporate responsibility is influenced by Carroll’s pyramid model of CSR for the reason that it takes economics as inevitably the main aspect of a company. The model also adopts sustainable development theory by Aras and Crowther (2009) for the sustainability concept. Claydon (2011), posits that sustainability and profitability are positively correlated. This sustainable profitability can only come through ethical and responsible behaviour to stakeholders. The model further assumes stakeholder theory wherein it takes consumers as the most important stakeholders, whose interests must be well taken care of. The gist of the matter is that, of late, consumers demand more of CSR, and the demands must be met to maintain profitability and to get a good reputation for the company (Krisnawati et al., 2014). The model is shown on Figure 2 below:

![Figure 2. The model of consumer driven corporate responsibility](image)

The model explains that CSR can be an invaluable tool adopted by a company if its customer base is not yet established to attract more customers from its competitors. When the customer base is already established, the existing customers will keep demanding CSR from the company (Claydon, 2011). Therefore, the company must respond to meet demand in order to be more reputable and remain profitable. The model, as illustrated in Figure 2 above, therefore, shows a cycle that CSR adopted by a company will lead to the increased customer base, which results in more profitability. The profitability from CSR, in turn, leads to a greater reputation, which has potential to increase the customer base. The increased customer base, in turn, leads to increased consumer demand for CSR and this will eventually increase CSR adopted by the company (Krisnawati et al., 2014).

2. Discussion

What can be concluded from the above discussion on theories of CSR is that, as equally observed by Blowfield and Frynas (2005); Carroll and Shabana (2010) and Bani-Khalid and Ahmed (2017), the concept of CSR and its philosophy has not only continued to grow but has also evolved to become a global trend in the last decades. Organisations should be concerned about ‘doing good’ beyond making profits and maximising shareholder wealth. The author observes that, as globalisation gains momentum, the concept of CSR has expanded and raised the bar for businesses. They are now expected by the masses to be among the frontier in battling global evils such as poverty, hunger and the like. Traditionally, the best companies have been those generating the highest sales, gaining the most customers and declaring the largest profits. However, it has become a complete misnomer to believe that the purpose of business is to be profitable as postulated by Friedman, or to serve shareholders as proposed by the shareholder theory. Based on current trends, the purpose of business is to serve society, through the provision of safe, high quality products and services that enhance our wellbeing, without eroding our ecological and community life-support systems.
3. Conclusion

Since these early debates and transformative moments, social responsibility has gained traction and credibility. Trends have moved from corporate social responsibility (CSR) programmes, to sustainable development, to sustainability, to social responsibility. The most striking argument on CSR came from Milton Friedman who argued that socially responsibility is a fundamentally subversive doctrine in a free society and believed that the only responsibility a corporation has is to the shareholder. Elkington (1998), came up with a counterpoint to Friedman’s perspective and introduced the concept of the ‘triple bottom line’, making the case that, concern for society and environment can coexist with an ambition for profits. These contesting views have given birth to a myriad of theories on CSR over the past decades as a clear testimony that the concept of CSR is dynamic and continues to evolve. Businesses are accepting the new reality of shifting from local to global rules, from traceable to randomised because risk might no longer be quantifiable and consequences might no longer be calculated; from micro to macroeconomic environment, from confidential to transparent in their approach to issues, from legal to societal implications of their actions and from tangibles to intangibles because increasingly, corporations are trading not on products or services but on their reputations, brand value, ‘goodwill’, and ‘intellectual capital’. These are termed ‘intangibles’ and have an actual numerical value on the company balance sheet.

References


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