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Bringing Values Back into CSR

Hamish van der Ven[1]

A COMMENT ON Christian R. Thauer (2013), "Goodness Comes from Within: Intra-Organizational Dynamics of Corporate Social Responsibility," ***Bus & Soc*** OnlineFirst (April): 1–34, http://dx.doi.org/10.1177/0007650313475770

ABSTRACT

Why do companies pursue CSR? I concur with Christian Thauer that intra-organizational dynamics are important, but find his focus on managerial dilemmas unconvincing. I counter by suggesting that a renewed focus on managerial values can help explain CSR when external conditions are held constant.

CHRISTIAN R. THAUER is the latest in a string of authors seeking to explain what drives corporations to pursue corporate social responsibility (CSR). The topic is increasingly timely given the growing role of corporations in global governance and the stagnation of inter-state attempts to confront pressing issues like climate change and poor labour conditions in the developing world. Thauer takes a novel approach by focusing on the intra-organizational determinants of CSR. Indeed, he has sound reasons for doing so. Despite more than two decades of optimism about the potential of CSR to revolutionize global business, take-up remains erratic both within and across industrial sectors. Thauer correctly recognizes that focusing on the external determinants of CSR can only take us so far. He seeks to move beyond theories that look outside the firm by holding external conditions

[1] University of Toronto. Email: hamish.vanderven@utoronto.ca

constant while examining the inner workings of eleven South African firms in the textiles and automotive sectors.

While I agree with the overall objective of Thauer's paper, the theory offered therein is ultimately too limited to afford much analytic purchase on the broader drivers of CSR. I offer three critiques of Thauer's work. First, the theory offered in Thauer's paper has limited generalizability. Second, the hypothesized causal relationships presented are indeterminate. Third, the assumptions underlying his analytic model (asset specificity theory) do not pass an empirical correspondence test. What is lacking from this story, I argue, is an acknowledgement of the role that managerial values play in driving CSR. Further attention needs to be paid to the value systems of managers and how these values affect decision-making. This, I argue, is the key to understanding what motivates CSR.

Thauer (2013: 2) defines CSR, somewhat narrowly, as: "firms voluntarily reintegrating negative externalities of production or contributing to the common good by adhering to environmental, health, or social standards." The crux of his argument is that firms pursue CSR to resolve internal managerial dilemmas (Thauer 2013: 2). Specifically, Thauer (2013: 3) sees labour-related CSR as a response to the human resources dilemma and environmental CSR as a response to the technological specialization dilemma, both of which are inherent in asset specific resource allocation. These dilemmas arise when a firm invests heavily in job-specific training for employees or highly specialized equipment. In such situations, a managerial dilemma arises because the leveraging power of management is reduced *vis-à-vis* employees or sub-units, since these investments are non-transferable. Both management and the sub-unit know that it will be costly to recruit and train new employees or relocate a specialized manufacturing facility to a new location. Thus, once an investment in either of these undertakings is made, employees or sub-units have considerably more bargaining power and may pursue opportunistic renegotiation of production agreements.

CSR helps management circumvent these power imbalances by reducing information asymmetries and lowering uncertainty (Thauer 2013: 7-8). For example, a firm that invests in labour-related CSR is better positioned to reduce turnover and mitigate social problems that could affect productivity. Similarly, a firm that invests in environmental CSR, for example by implementing an environmental management system, can better control production process standards and introduce strict monitoring and sanctioning mechanisms to ensure production goals are met (Thauer 2013: 11). In sum, a higher degree of asset specific allocation of resources leads to a greater managerial dilemma which, in turn, increases the probability of CSR.

While Thauer's logic is compelling, his theory is somewhat limited in the range of CSR it can explain. This shortcoming is particularly evident in Thauer's theory of labour-related CSR in emerging economies. Recall that Thauer suggests that firms with a skilled workforce will be more likely to invest in things like fair wages and workplace health and safety programs since skilled employees are an asset specific allocation of resources. Within the narrow context of skilled manufacturing, this line of reasoning makes a lot of sense. However, the majority of the workforce in emerging economies consists of *unskilled* labour that requires no asset specific investment in human resources on behalf of management. For example, in 2011 only 25.3% of employed South Africans worked in skilled occupations (Statistics South Africa 2012: 4–15). If South Africa is typical of other emerging economies, as Thauer (2013: 12) suggests it is, then we must conclude that his theory only applies to a fraction of the developing world's workforce.

Moreover, Thauer's theory says little about some of the greatest advances in labour-related CSR in the developing world. I refer to the burgeoning movement towards Fairtrade certification. Most of the industries involved in this movement, namely the coffee, cotton and cocoa industries, principally employ unskilled labour. Asset specificity theory cannot explain why firms would invest in CSR that benefits unskilled labourers. Consequently, one of the largest developments in contemporary labour-related CSR falls outside the scope of Thauer's argument. While Thauer acknowledges that his theory intends to complement, not supplant, existing theories of CSR, his silence on this issue throws into question how much value asset specificity theory adds to explaining CSR in the developing world. If one accepts that the value of theory is at least partially determined by its generalizability to related phenomena, then Thauer's theory is somewhat limited by its inability to explain both the most common and the most significant instances of labour-related CSR in emerging economies.

A second issue is that Thauer's causal relationships are somewhat vague and lead to indeterminate outcomes. This point is best explained by unpacking Thauer's explanation of why firms pursue environmental CSR. Thauer (2013: 11) sees production process-oriented environmental CSR as resulting from the technological specialization dilemma. This dilemma occurs when a commitment of asset specific resources to a production unit leaves management vulnerable to information asymmetries resulting from concentrating expert knowledge about processes, specialized machinery, and production techniques in a single sub-unit (Thauer 2013: 10). Subsequently, the representatives of the production unit try to renegotiate the terms and conditions of the agreement from a better bargaining position once these production-specific assets have been created (Thauer 2013: 11). To counter this move, management insists on CSR standards with strict monitoring and sanctioning mechanisms to ensure the production unit fulfills its commitment. Thauer (2013: 11) suggests that this scenario leads firms to process-oriented environmental CSR standards like ISO 14001 or VDA 6.1.

However, why firms would choose environmental CSR over a range of other options is unclear. In the scenario under consideration, management is interested in preventing opportunism within its production unit and counters by requiring strict monitoring and sanctioning mechanisms. This task could just as easily be achieved by implementing a quality management system, as Thauer (2013: 11) notes, or by creating an iron-clad contract with the production unit. No environmental improvements to the production process are necessary. Hence the causal leap from the technological specialization dilemma to environmental CSR is indeterminate. Put another way, there appears to be no environmentalism in Thauer's theory of environmental CSR.

One final, and more fundamental, problem with this explanation of CSR is its assumption about the power dynamic between management and the production unit. In asset specificity theory, the allocation of asset specific resources fundamentally alters the power balance between managers and producers (Thauer 2013: 5). In the managerial dilemmas Thauer lays out, all the risk lies with management and the power shifts towards the production unit. However, this conception of the bargaining game is sharply at odds with the empirical reality of most purchaser-supplier relationships in emerging economies. Thauer implies that developing world producers, unions, or governments have considerable leverage over purchasers once an initial investment in production facilities has been made. However, given the increasing mobility of capital, the stark realities of the labour market in most parts of the developing world, and the super-abundance of willing suppliers (especially in manufacturing and textiles) this account seems at odds with empirical reality.

As Dauvergne and Lister (2010: 147) note, multinational retailers wield an increasingly 'big stick'; no supplier wants to risk being 'switched' with another supplier which, in most cases, is easy since switching costs tend to be relatively low and new suppliers easy to find. Admittedly, investing heavily in immovable assets may give rise to some additional concern for CSR, but certainly not enough to fundamentally transform the bargaining game between transaction partners (Thauer 2013: 4). The balance of power between management and labour and between developed and developing countries remains unchanged, notwithstanding asset specificity. Consequently, there are reasonable grounds to question the assumptions underlying the bargaining game that Thauer presents in his article.

In spite of my reservations about its theoretical conclusions, Thauer's article represents a good step towards explaining variation in levels of CSR within similar socio-economic contexts. Moreover, Thauer is absolutely correct in asserting that a combined focus on the external and internal drivers of CSR is where future research should be headed (Thauer 2013: 28). However, given the limitations on the generalizability of Thauer's argument, the ambiguity of its causal narrative, and the questionable nature of some of its assumptions, it would appear that we still have some way to go before we reach a more complete theory of CSR.

One potentially fruitful alternative would be to focus on the value systems of management teams and how such value systems are constructed. To date, very little research has examined how managerial values shape the direction of CSR initiatives within a given company (an exception is Egri and Herman 2000). Thauer makes a cursory attempt to control for a number of conditions that may affect these values, such as NGO pressure campaigns and membership in associations, but discards this line of reasoning rather too quickly. This is unfortunate, since a growing chorus of scholars in political science have found analytic leverage in using values, and particularly the impact of socialization on values, to explain decision-making (see, e.g., Checkel 2005). Instead of conceiving of managers as exogenously-driven by a constant need to safeguard their power position *vis-à-vis* employees or sub-units, a value-based theory of CSR conceives of managerial interests as dynamic and focuses attention on the forces that shape these interests. Externally, it matters that firms engage with external stakeholders (e.g., NGOs, CSR networks) that share different values about the corporation's role in society. Internally, it matters that the persons involved in such engagements are in positions of power and are capable of driving CSR values down through their organizations.

In short, a narrow focus on strategic CSR can only take us so far, both in explaining why companies adopt CSR and in counseling them how to pursue it. At its core, CSR stems from shared human values and a common sense of responsibility to our communities and our planet. Only by better understanding how these values come to be internalized in certain management teams can we explain why some firms pursue CSR and others do not.

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