1. Introduction

Research focus: Relation between companies and society (question of the theory of the firm)

Research question: Why is CSR necessary?
(Basu & Palazzo, 2008, p. 130)

Level of analysis: Macro-level
1. Introduction

Research focus: Organizational structures **within companies** (question of *corporate governance*)

Research question: **How** can we implement CSR and keep track of implementation? (Basu & Palazzo, 2008, p. 130)

Level of analysis: **Meso-level**

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1. Introduction

Our goal: Raising **two fundamental questions**...

1. **How** can companies be good corporate citizens?

   - **Compliance-based approaches**
     - Guidelines
     - Penalties
     - Values
     - Faculty of judgement

   - **Guidelines**
   - **Penalties**
   - **Values**
   - **Faculty of judgement**

2. **How** can we evaluate their commitment?

   - **Analyzing their CSR activities**
     - CSR reports
     - Justifications
     - Identity
     - Budget for CSR

   - **CSR reports**
   - **Justifications**
   - **Identity**
   - **Budget for CSR**

   - **Analyzing how companies make sense of their world**
1. Introduction

Overview:
1. Introduction
2. Paine on compliance versus integrity
3. Empirical evidence by Trevino et al.
4. Basu & Palazzo on CSR as sensemaking
5. Critical discussion of the papers

2. Paine on compliance- versus integrity-based approach

- Compliance-based approach: a legalistic approach
  - Underlying assumption: homo oeconomicus
  - Emphasis: deterrence of illegal conduct
  - Leadership: lawyer driven
  - “If it’s legal, it’s ethical” (Paine, 1994, p. 109)
  - Narrower, formal focus: prevention through control and punishment
  - Main driver: 1991 U.S. Sentencing Act
2. Paine on compliance- versus integrity-based approach

– Compliance-based approach: problems
  – Assumption on homo oeconomicus does not hold
  – “Legal” is not a sufficient condition for “ethical”
  – Implicit message: strive for “ethical mediocrity”!
    (Paine, 1994, p. 111)
  – May be perceived as a “protect top management from blame”-strategy
  – “Obedience to the law is strongly influenced by a belief in its legitimacy and its moral correctness.”
    (Tyler, 1990)

– Integrity-based approach: a value-based approach
  – Underlying assumption: people are reciprocal and strive for moral legitimacy
  – Emphasis: to cultivate what is already there and encourage ethical conduct
  – Leadership: management driven
  – Strategy: create the right environment in order to support ethically sound behaviour, instil a sense of accountability, and give life to organization’s guiding values
  – Self-governance: ethics as a driving force and values to shape organization’s design and decision making process.
2. Paine on compliance- versus integrity-based approach

- Integrity-based approach: difficulties of implementation
  - Not as easy to implement as the compliance-based approach
  - Broader, deeper, and more demanding
  - Work of management, not of lawyers

2. Paine on compliance- versus integrity-based approach

- A fundamental difference between the two approaches:
  
  Organization → Compliance-based ethics program
  
  Integrity and values → Organization
3. Empirical evidence by Trevino et al.

- Research goal:
  - Measuring the accomplishments of corporate ethics and legal compliance programs

- Method:
  - Survey on over 10,000 employees in six large U.S. Companies from different industries

- Studied Outcomes:
  - Unethical conduct; Ethics awareness; Advise seeking; OK to deliver bad news; Likely to report violations; Employee commitment; Better decision making

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### Table from Treviño et al. (1999, p. 136f.)

<table>
<thead>
<tr>
<th>Ethical Compliance Management</th>
<th>Unethical Conduct</th>
<th>Ethics Awareness</th>
<th>Advise Seeking</th>
<th>OK to Deliver Bad News</th>
<th>Likely to Report Violations</th>
<th>Employee Commitment</th>
<th>Better Decision Making</th>
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</thead>
<tbody>
<tr>
<td>Value</td>
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<td>0.35</td>
<td>-0.15</td>
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<td>0.19</td>
<td>0.30</td>
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<td>0.57</td>
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<tr>
<td>Control</td>
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<td>0.10</td>
<td>0.23</td>
<td>0.01</td>
<td>-0.12</td>
<td>0.39</td>
<td>0.39</td>
</tr>
</tbody>
</table>

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3. Empirical evidence by Trevino et al.

- Considered influencing factors and findings:

Table from Treviño et al. (1999, p. 136f.)
3. Empirical evidence by Trevino et al.

- Prescriptions for actions
  - Follow an integrity-based approach: ethics management is foremost a cultural phenomenon
  - It is first of all a management work, do not put it under the responsibility of the legal department
  - Make sure you follow through: what matters is how employees perceive the program

4. Basu & Palazzo on CSR as sensemaking

- Question: How can we evaluate the CSR commitment of companies?
- Traditional approach: Evaluate their CSR activities and their impact on society
  - Focus on CSR reports, size of CRS budgets, impact-assessment by stakeholders etc.
  - “Content-driven analysis of CSR activities”  
    (Basu & Palazzo, 2008, p. 124)
4. Basu & Palazzo on CSR as sensemaking

- Critique: Traditional approach fails to detect...
  - ...”decoupling” between CSR commitment and actual business practices
  - ...when CSR is used as a mere “façade”
  - “simply documenting CSR-related activities without understanding their precipitating causes is unlikely to reveal real differences among firms, given the trend of rising homogeneity and near standardization in CSR reporting” (Basu & Palazzo, 2008, p. 123)

- Alternative approach: Analyze how a company “goes about making sense of its world”
  (Basu & Palazzo, 2008, p. 124)
  - Focus on what companies “think”, what they “say” and how they “tend to behave” (Basu & Palazzo, 2008, p. 125)
  - This reveals their “character” (Basu & Palazzo, 2008, p. 123)
  - From there we can judge whether “a particular pattern of behavior” is likely (Basu & Palazzo, 2008, p. 123)
4. Basu & Palazzo on CSR as sensemaking

- Basu & Palazzo propose to investigate whether certain “sensemaking dimensions” cluster together and whether they are related to certain “CSR outcomes” (Basu & Palazzo, 2008, p. 131)

- This would help to outline “the nature of authentic CSR engagement” (Basu & Palazzo, 2008, p. 132)

- For example, we could investigate “if there were significant shifts in underlying sensemaking dimensions” after major scandals in companies (Basu & Palazzo, 2008, p. 132)
4. Basu & Palazzo on CSR as sensemaking

Fundamental difference between the approaches

- Traditional approach:
  - Empirically observe the actions of a company
  - Evaluate whether this company is a good corporate citizen

- Approach of Basu & Palazzo:
  - Empirically observe the sensemaking process in a company
  - Predict the actions that are most probable given this "character"

5. Critical discussion of the papers

A first strong point...

- In a globalized economy often only companies have the knowledge that is required to adequately resolve local problems (Hayek, 1945; Stone, 1975; Scherer, 2003)

- By building on the faculty of judgement of its employees this local knowledge can be mobilized to resolve ethical problems

- In contrast, guidelines developed in distant headquarters do not build on this local knowledge
5. Critical discussion of the papers

A second strong point...
- There often is a “business case” for CSR, but what happens in case of a conflict with the bottom line?
- Under these circumstances responsible actions can only be expected if companies and their employees have developed a certain “integrity” or “CSR character” that they are not ready to reconsider in case of a conflict.

5. Critical discussion of the papers

A second strong point (continued)...
- “[C]ourageousness is primarily a matter of being a certain kind of person. One cannot be that kind of person but stand ready to rethink the rational credentials of the motivations characteristic of being that kind of person, on occasion when acting on those motivations is in some way unattractive; part of what it is to be that kind of person is not to regard those credentials as open to the question on particular occasions.”

(McDowell, 1998, 192)
5. Critical discussion of the papers

A limitation...

- The concepts of “integrity” and “CSR character” raise many fundamental questions, such as:

- Is the required “integrity” just a product of a normal socialisation or do managers have to cultivate some specific virtues? (Khurana, 2007)

- How does a “CSR character” emerge in an organization and how does it evolve over time?

References


