Implementing CSR:
The Role of Organizational Structures
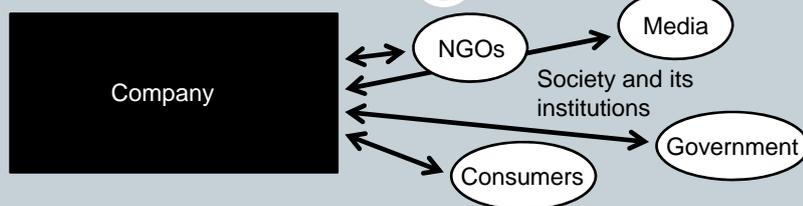
HOW CAN COMPANIES BE GOOD CORPORATE CITIZENS? AND HOW CAN WE EVALUATE THEIR COMMITMENT?

PAMELA GHILARDI AND EMILIO MARTI

**PRESENTATION IN THE SEMINAR ON „CORPORATE SOCIAL RESPONSIBILITY"
BY CHRISTIAN VÖGTLIN AT THE UNIVERSITY OF ZURICH**

ZURICH, APRIL 5TH 2011

---

1. Introduction
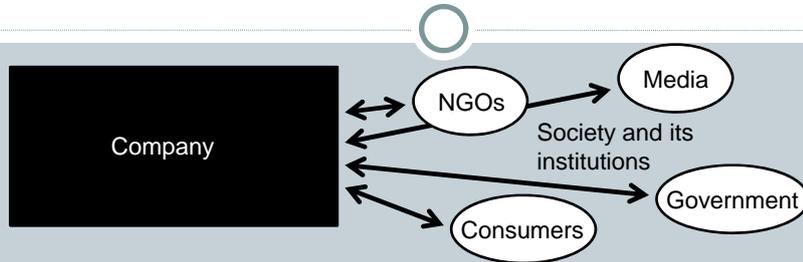

Research focus: Relation between **companies and society** (question of the *theory of the firm*)

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)
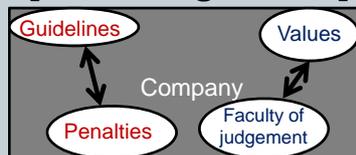
Level of analysis: **Meso**-level

1. Introduction

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

1. How can companies be good corporate citizens?

Compliance-based approaches — Guidelines, Values, Company, Penalties, Faculty of judgement — **Integrity-based approaches**

2. How can we evaluate their commitment?

Analyzing their CSR activities — CSR reports, Justifications, Company, Budget for CSR, Identity — **Analyzing how companies make sense of their world**
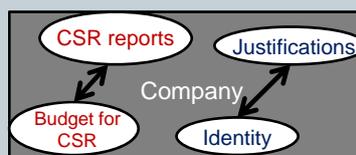
1. Introduction

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)

2. Paine on compliance- versus integrity-based approach

– 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

○

– 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

11/24

○

– Considered influencing factors and findings:

Ethics/ Compliance Management	Unethical Conduct	Ethics Awareness	Advice Seeking	OK to Deliver Bad News	Likely to Report Violations	Employee Commitment	Better Decision Making
Program Orientation							
Values	−40	45	49	48	48	59	56
Compliance	−36	41	44	31	41	37	49
External Stakeholder	−18	32	32	26	26	38	39
Protect Top Management	34	−23	−31	−43	−36	−39	−27
Formal Program Characteristics							
Code Familiarity	−08	23	21	11	22	16	27
Refer to Code	−06	20	19	09	18	16	26
Formal Report Mechanism	−32	43	47	39	44	43	54
Performance Appraisal	−30	44	39	39	37	42	50
Program Follow–Through							
Detection of Violators	−42	45	49	41	49	44	59
Follow–up on Reports	−48	47	59	54	57	54	60
Consistent Policies/Actions	−56	54	61	55	62	69	67
Ethical Culture							
Executive Leadership	−52	54	59	65	60	70	65
Supervisory Leadership	−55	56	59	67	61	66	63
Fair Treatment	−54	45	55	72	59	76	56
Ethics Talk	−43	54	58	60	58	61	62
Ethics in Decisions	−41	49	54	52	50	52	58
Ethical Behavior Rewarded	−54	47	51	61	59	63	55
Unethical Behavior Punished	−45	41	49	37	49	42	52
Obedience to Authority	44	−37	−45	−62	−52	−58	−44
Employee Focus	−42	40	46	62	50	67	49
Community Focus	−36	39	45	44	42	55	47
Self–Interest Focus	45	−36	−40	−55	−45	−57	−43

Table from Treviño et al. (1999, p. 136f.) 12/24

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)
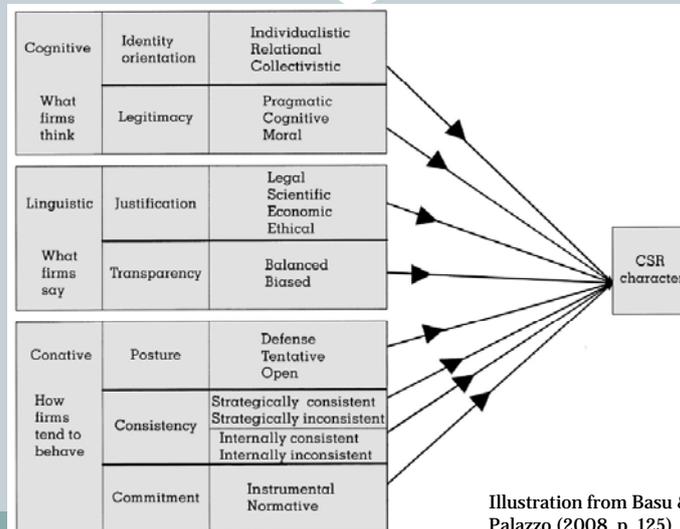
---

4. Basu & Palazzo on CSR as sensemaking

- 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

Cognitive	Identity orientation	Individualistic Relational Collectivistic
What firms think	Legitimacy	Pragmatic Cognitive Moral
Linguistic	Justification	Legal Scientific Economic Ethical
What firms say	Transparency	Balanced Biased
Conative	Posture	Defense Tentative Open
How firms tend to behave	Consistency	Strategically consistent Strategically inconsistent Internally consistent Internally inconsistent
	Commitment	Instrumental Normative

CSR character

Illustration from Basu & Palazzo (2008, p. 125)

---

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

Basu, K., & Palazzo, G. (2008). Corporate Social Responsibility: A Process Model of Sensemaking. *Academy of Management Review, 33*(1), 122-136.

Hayek, F. A. (1945). The Use of Knowledge in Society. *The American Economic Review, 35*(4), 519-530.

Khurana, R. (2007). *From Higher Aims to Hired Hands : The Social Transformation of American Business Schools and the Unfulfilled Promise of Management As a Profession.* Princeton: Princeton University Press.

McDowell, J. (1998). Two Sorts of Naturalism. In J. McDowell (Ed.), *Mind, Value, and Reality* (pp. 167-197). Cambridge, Mass.: Harvard University Press.

Paine, L. S. (1994). Managing for Organizational Integrity. *Harvard Business Review, 72*(2), 106-117.

Scherer, A. G. (2003). *Multinationale Unternehmen und Globalisierung : Zur Neuorientierung der Theorie der multinationalen Unternehmung.* Heidelberg: Physica-Verlag.

Stone, C. D. (1975). *Where the Law Ends : The Social Control of Corporate Behavior.* New York: Harper & Row.

Trevino, L. K., Weaver, G. R., Gibson, D. G., & Toffler, B. L. (1999). Managing Ethics and Legal Compliance: What Works and What Hurts. *California Management Review, 41*(2), 131-151.

Tyler, T. R. (1990). *Why People Obey the Law.* New Haven: Yale University Press.