Corporate Social Responsibility: Competing Views from Three Theories of the Firm

Ana-Maria PETRACHE
Bucureşti, România
Hanna.petra@gmail.com

This paper compares three theories of the firm used to interpret firms' corporate social strategies in order to derive new insights and questions in this research area. Firms can strategically allocate resources in order to achieve both long-term social objectives and competitive advantages. Individuals' values also interact and interfere with the means used to attain the company's goals. Each company has its own stock of measurable resources, pool of people characterized by diversity – however the factor which adds value to a company is the knowledge. Is there a perfect mix of the three above items which can expand the firm's value and the social welfare?

Keywords: *corporate social responsibility, corporate social strategy, competitive advantage, knowledge.*

The focus of strategy has become vastly broader than the traditional product/market approach of Adam Smith's day. It now engages managers in considering a complex array of factors of which the social context in which the company operates is an integral part. It also requires the value-generating function of the company to be thought of as constituting a set of relationships-with employees, customers, suppliers, and community interests as well as shareholders-which can add or subtract value and from which the company derives its ability to go on creating value. Related to this is the ability of shareholders and other stakeholders to appropriate the value they have created. Kay (1993) argues: "Who benefits from the firm's success in adding value depends partly on the decisions of the firm, partly on the structure of the markets which it faces, and partly on the sources of the value added itself ... it is generally necessary to share at least part of the returns among all the stakeholders in the business and to achieve their agreement, or at least acquiescence, in that distribution" (McGee, 1998). Kay identifies three ways in which corporate social responsibility is linked to strategy and strategic management: corporate social responsibility is an input to strategy: a source of information and understanding about key elements in the business environment, and a source of strategic choice and actions to go into the strategic plan; corporate social responsibility as a support activity: part of the infrastructure that supports the value chain; corporate social responsibility as a mainstream management task; that is, an activity which as much as any other must be managed well.

Firms must decide how to respond to the competitive threats and opportunities inherent in engaging with social issues. Husted and Allen (2000) describe this decision as "corporate social strategy", or the "firm's plan to allocate resources in order to achieve long-term social objectives and create a competitive advantage". (Bowen, 2007)

What are the drivers towards investing into socially responsible measures? There have been identified three theories of the firm: *behavioral theory* (an approach to judgement and decision with focus on subjective expected utility[1]) with reference to the organizational slack and managerial set of values; *resource-based theory* with reference to the human, informational, technical and financial resources; *knowledge-based firm's theory* with reference to identifying, gathering, multiplying the firm's knowledge.

The behavioral and resource-based theory views provide different answers to central questions as whether corporate social strate-

[1] http://www.encyclopedia.com/doc/1O87-behaviouraldecisiontheory.html

gy is really “corporate” (resource-based), or is an individual or group level phenomenon (behavioral) (Bowman, 2007). Even though both theories are good candidates for explaining corporate social strategy, particularly in comparison with neoclassical economic thesis on firms’ socially performance, they all preserve the same hypothesis: organizations face the problem of allocating resources under scarcity; the deliberate attempt of the organizations to mobilize resources in order to react to opportunities and threat within its environment. Neoclassical theories, which are characterized by an analytical approach of the business landscape, treats firms as a black-box, a perfectly rational entrepreneur which arranges inputs as to achieve internal efficiency and profit maximization (Mahoney, 2005). Within this view, social issues are separate from the core business of the firm and are treated as externalities (Bowen, 2007).

The rational (analytical) approach assumed one-man decision making, where the decision maker uses a classical economic approach to reach the optimal solution. This is a normative model that focuses on analysis. It assumes that all necessary information is available or can be obtained. All possible alternatives can be revealed along with reasonable costs and its consequences can be precisely measured. With the use of appropriate quantitative methods, usually the optimal profit-maximizing decision can be made.

The model of behavioral science (intuitive) decision theory investigates decision makers who are not able to rationalize and make decisions that enable them to win time and somehow "muddle through." This approach requires sound preparedness in the phase of problem identification. Usually, an environment that is changeable and highly uncertain dominates the strategic decisions of the organization. Decision makers do not have enough time and resources for a comprehensive problem analysis. Solutions mostly rely on previously acquired experience and the detailed analysis is frequently replaced by intuitive solutions.

The rational (analytical) approach characterizes analytical thinkers while the model of behavioral science characterizes intuitive thinkers. It is evident from the short introduction of the major characteristics of the two models that an organization which can create its decision-making mechanism according to the optimizing (analytical) model of the normative decision theory can gain a competitive edge over other organizations (Paprika, Wimmer, 2008). However, descriptive decision theory points out that in real decision-making situations, especially in case of complex company decisions that are accompanied by a high level of uncertainty, several factors can hinder the surfacing of the normative model in its clear form. Important causes of differences between the ideal and the real are eliminated by other models.

Resource-based theory approaches the firm as a collection of productive, tangible or intangible assets. The development and the performance are achieved by the effective use of the existent resources (Nicolescu, 2005). However, as currently the transparency of the resource allocation is no longer an issue, moreover the results of the research and development are visible still from testing phases, there can be foreseen a shift in the focus from resources towards the knowledge to juggle and get the best of them. The same shift registered in the past from product-based competition to resource-based competition.

The knowledge-based[2] theory of the firm considers knowledge as the most strategically significant resource of a firm. Its proponents argue that because knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms are the major determinants of sustained competitive advantage and superior corporate performance. This knowledge is embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. Originating from the strategic management literature, this perspective builds upon and

[2] http://en.wikipedia.org/wiki/Knowledge-based_theory_of_the_firm

extends the resource-based view of the firm.
Significant differences between the three theories of the firm have important implications for our understanding of corporate social strategy (see Table I). Divergent assumptions made about managerial rationality, organizational goals, solution search, resources and inertia have particularly strong implications for research and practice.

Given that the theories of the firm have been treated separately as a basis for describing corporate social strategy, I intend to extend empirically the research. I will explore significant relationships among theories applied in companies by using ANOVA-tests built on the results of a survey.

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Table 1. Implications of the competing theories of the firm for corporate social strategy

Dimension	Behavioral Theory	Resource-based theory	Knowledge based theory
Managerial rationality	Corporate social strategy is evaluated by a broad consideration of whether it allows firms to meet performance aspirations. Managerial values, availability of slack resources and attitudes to risk are important	Corporate social strategy is evaluated by an economic cost-benefit decision, but these calculations are not necessarily flawless	Corporate social strategy is designed on a long-term perspective; partial externalization of some CSR-related activities
Organizational goals	Firms do not have corporate strategy goals, individuals do. Corporate social strategy goals depend on individuals' priorities and values	Firms can have a single corporate social strategy goal. Corporate social strategy goals depend on the opportunities and threats in the firm's environment.	Firms have multiple integrated corporate social strategy goals.
Strategy search	Corporate social strategy is derived by responding to particular social problems, or through slack research. Firms can simultaneously support many (conflicting) social strategy	Corporate social strategy is derived through the firm's attempts to mobilize existing resources to gain competitive advantage. Firms will support a single overarching social strategy	Corporate social strategy is derived both from the maximization of the profit and of the stakeholders' utility. Firms can support many (integrated) social strategies.
Resource characteristics	Corporate social strategy is most effectively based on generic resources. Managers will seek social strategy options which can best use discretionary organizational slack	Corporate social strategy is most effectively built on unique resources. Managers will seek social strategy options which can enrich the firm's competitively valuable resource base	Corporate social strategy is built on knowledge, as essential resource of the organization, core stock, major input, main constituent of the intellectual capital, output.
Inertia	Corporate social strategy can be inhibited by inertia. Factors inhibiting corporate social strategy include departmental politics, cognitive myopia, embedded routines and path dependency	Corporate social strategy can be inhibited by inertia. Factors inhibiting strategy include capabilities gaps, inadequate strategic vision and core rigidities.	Corporate social strategy is not inhibited by inertia, as the relationship with stakeholders represents one of the core focuses of the business. Some external stakeholders are even integrated into the intellectual capital and the value chain of the firm.

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