COMPANIES ENGAGING IN CSR: A PROPOSED MODEL TO PREDICT BOARD STRUCTURE

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ABSTRACT

Numerous forces are pushing corporations into corporate social responsibility (CSR) projects. The increase in these activities raises the question of corporate governance. Do the current theories explain these activities and are there other processes and variables that are not being considered?

Finding the current theories narrow in focus, the paper proposes a new model of board governance that includes what is driving the activity, whether the activity is proactive or reactive, and then concludes with suggested board governance processes for the different combinations of the above variables.

To determine applicability of the model five companies were analyzed. Many of the companies spent significant amounts of money on CSR projects. Many had outside directors and at least one female director. Surprisingly many were involved in totally altruistic projects.

INTRODUCTION

Because many of today's corporations are engaging in socially responsible projects, the paper raises the question of how should boards and executive directors govern these projects? In order to answer this question the paper examines definitions of social responsibility and the reasons companies engage in social responsibility.

Definitions of Social Responsibility

The term corporate social responsibility dates back to Adam Smith [5][6] and today encompasses projects involving sustainability, environmental protection, human rights, diversity, ethics, and/compliance [3]. Wan-Jan [6] combines other others and identifies three types of CSR: ethical, altruistic, and strategic. Forbes Magazine [2] adds that public sources demand more transparency, desire quality products that are accurately represented, and corporate disclosure of potential impacts on their communities.

Why do companies engage in corporate social responsibility?

Some firms engage in reactive CSR to mitigate adverse publicity and some engage in proactive CSR to enhance public opinion, their market value [1][4], employee morale, and community perceptions.

A proposed CSR process model

The authors propose a model of the CSR process that encompasses three separate process components. The first is the "driver" of the CSR – is it legal considerations, the marketplace, stakeholders, or internal activists?

The second process component is the nature of the decision. Is the decision required legally, required ethically as seen by the marketplace, considered important by the stakeholders or does the company have an internal champion or person with expertise in the proposed area?

The third process component is what type of board activity is necessary to govern the CSR? If the activity is legally required, then board governance would include an overview to determine if management performed legal due diligence. If the force behind the activity is the marketplace, a board oversight committee and board involvement in strategic planning would be required. If stakeholders push for these CSR projects, then board governance should include: making evaluation of the CSR part of some managers' evaluations, monitoring the financial costs and community benefits, and more measures of CSR effectiveness. If the force behind the activity is driven by an internal activist, a more active and diverse board governance protocol would be required such as separate committees to oversee CSR activities, inclusion of the CSR into organizations' missions, and annual CSR reports.

A QUALITATIVE ANALYSIS OF BOARD GOVERNANCE

Qualitative research is being increasingly used to determine the underlying components and processes that are not well understood, inadequately researched, or not covered by existing theories. Therefore the paper analyzed the applicability to CSR activities of the three prominent theories of board governance: agency theory, stewardship theory, and resource dependence theory. These theories are concerned with the number of inside or outside directors and the directors' links to the external communities. The authors conclude that the narrow focus of the theories do not encompass the broad range of reasons and forces in the external environment that drive organizations into CSR activities.

Methodology

To test the model, the paper reviewed five of the companies listed as part of the top CSR companies in the United States. This analysis found support for the proposed model: all five reported CSR activities, the drivers of their activities were identifiable, and many cited CSR benefits as "the right thing to do" that would be beneficial to stakeholders.

Results

Three of the companies devoted significant amounts of funds to CSR and all were driven by the benefits to not just stockholders but various stakeholders. Every company had at least one or more female board directors. However, only one company had a separate CSR report. Each had several outside directors (agency theory) and only a few inside directors (stewardship theory). Significantly all were involved in their communities with ethical projects that had both short term and long term consequences. An unexpected finding was that all the companies engaged in altruistic CSR projects. This result in particular is not easily explainable with the current board governance theories. The article concludes that more research is needed to determine the applicability of the model.

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