Jumping on the corporate social responsibility bandwagon, or following your own path

Firms’ social practices are often driven by pressures to conform, instead of pressures to perform. Even firms that want to be innovative can be forced by stakeholders to adopt passive and imitative behaviour.

There are two types of corporate social responsibility (CSR) – convergent and divergent. Divergent CSR – Firms try to obtain competitive advantage through superior social performance or differentiation in satisfying stakeholder requests. The firms work to preserve their uniqueness and to build barriers to imitation. Convergent CSR – Firms do not use social performance or stakeholder satisfaction as a means to achieve competitive advantage. They focus on social practices that are both efficient and legitimate, and are open to collaboration with rivals in order to avert shared risks or to defend the reputation of their industry or their reference group.

Firms need to establish which type of CSR best fits their needs before they address the issues raised by stakeholders.

A business case exists for embracing socially responsible behaviour. Theory suggests that CSR can add to a firm’s bottom line, thanks to the beneficial influence that CSR can exert on the relationships with stakeholders. When stakeholders observe a firm’s responsible behaviour they will consider that firm a preferred party to transact with. Stakeholder goodwill allows the firm to get easier access to strategic resources, to reduce operating and transaction costs and to boost its reputation in the market place.

Socially responsible firms should compete for stakeholder goodwill and try to differentiate themselves from competitors to achieve a competitive advantage. Even when a firm invests in CSR because of ethical considerations, and not with an immediate profit objective, the firm should rationally try to do so in ways that combine business opportunities and social welfare.

A CSR-based strategy can yield above-average returns only when rivals can’t imitate it. However, many socially responsible firms don’t actively differentiate their social behaviours from the ones adopted by rivals. Instead, they converge on a well-defined set of practices.

Why do many firms that invest in CSR make no claim to being unique?

A possible answer to this question is that firms may not have fully grasped their strategic potential yet. This conflicts with the fact that some industries, such as the chemical industry and the steel industry, have been under pressure from stakeholders for decades and still do not show signs of competition in CSR practices. These are industries where the social issues are deeply ingrained in the value chain, where chances for differentiation clearly exist but firms prefer to converge on industry schemes or certification standards. Therefore, the reasons for the convergence must
be deeper.

**Theories**

There are at least three theories about the kinds of pressure that push firms to converge:

1. **Herd behaviour.** The uncertainties and ambiguities that surround social issues and the correct way for a firm to respond to them drive convergence and companies follow the herd.

2. **Institutional isomorphism.** Convergence is the result of legitimacy-seeking efforts by firms who try to conform to what regulators, non-governmental organizations (NGOs) and other stakeholders define as appropriate behaviour.

3. **Strategic cooperation.** When stakeholders can't observe firms actual social or environmental performance, single offenders in an industry can damage everyone's reputation. To avoid indiscriminate penalties from stakeholders, industry members will try to build informal private regulatory schemes and will share knowledge and best practices with under-performers in order to facilitate convergence.

**Herd behaviour: is CSR a fad?**

The growth of interest in CSR has led to a proliferation of management tools. Firms that want to become more socially responsible can adhere to a range of programmes sponsored by states, NGOs or industrial associations.

These programmes allow firms to address serious issues and to improve their performance in environmental protection, human rights etc., contributing to firm reputation. But they don't allow a firm to be unique or to appropriate exclusive resources and protect them. The most that firms can expect from these programmes is alignment with their industry's best practice.

CSR practices are ripe for bandwagons, since they are ambiguous. How firms address social issues and what penalties the stakeholders will impose on whoever fails to address those issues properly is typically uncertain. What is ethical or not in business is subject to the vagaries of media scrutiny and political interpretations. Whether or not certain practices satisfy stakeholders is unknown, and accidents can change the public perceptions of a firm in unexpected ways... Firms that have to deal with a given social issue will take the safest route and align their behaviours to the practices already adopted by rivals who have had to address the same issue in the past.

**Convergence as the result of institutional isomorphism**

Institutional theory sees CSR as the consequence of a political process whereby NGOs, states and other stakeholders put pressure on firms to adopt given social practices and apply legal, social and economic penalties to non-adopters. Firms’ convergence is homogeneous as they’re embedded in the same institutional environment.

**Convergence as the result of strategic cooperation**

Reputation is strategically important when observers aren’t informed about a firm’s “type”. Each player knows its own type, but it is uncertain about the types of the other players. All players will try to judge the type of rivals on the basis of past observations and other signals.
Reputations are built on information about a firm's activities originating from the firm itself, from the media and other sources. But it’s common for observers to try to judge firm type on the basis of information about other firms that they think are in the same class as the one in which they are interested.

The stakeholder can interpret the information involuntarily revealed by an offending firm as a signal about the other firms in the industry. High profile accidents damage the reputation of entire industries, and players can find themselves “tarred with the same brush”.

One of the ways to avoid this is to privatize reputation. The socially responsible firms may try to distance themselves from the rest of the pack by cultivating uniqueness by allying themselves with reputed stakeholders or forming elite clubs with other above-average performers.

An alternative solution is to pressurize other firms in the industry to improve their performance and come up to scratch by benchmarking networks and other forms of knowledge and information sharing. This can help laggards to adopt the best social practices. However, coercion or other institutional devices such as private regulation may be required. Private regulation allows firms to divide the industry reputation between “good” and “bad apples”, so that the benefits of improved reputation created by the regulatory scheme aren’t extended to firms riding on other company’s coat-tails. Private regulation is also a means to provide credible information about the actual social performance of firms, because external parties manage and monitor the scheme. Finally, private regulation avoids socially responsible firms finding themselves at a market disadvantage, because the scheme forces all the firms to adopt the same practices and sustain the costs connected with improved social performance. The result of private regulation is that firms converge on reputable social practices imposed or adopted by industry charters or other self-regulatory bodies. This kind of convergence is strategically motivated.

Final thoughts

It’s important to remember that not all firms converge. There are some well-known firms that have been building their unique ways to serve stakeholder needs for years and have strenuously protected their innovations from imitation. Take a look at Ben & Jerry's, Body Shop et al.

It’s tempting to see the firms that limit themselves to adopt standard social practices as “responsive” rather than “strategic”. Strategic CSR firms want to go beyond best practices and do things differently from competitors. Responsive CSR firms want only to create goodwill and improve relationships with stakeholders. Their typical attitudes include acting as a good corporate citizen and trying to mitigate the adverse effects on society of their business activities.

There is a clear distinction between strategic and responsive CSR, but both assimilate strategic behaviour with the quest for uniqueness. On the other hand, socially responsible firms may be strategically motivated to avoid uniqueness in order to allow imitation by sub-performing peers. A firm can even strategically decide to avoid adopting an efficient practice because the practice would be beyond the reach of their peers and would risk disbanding a self-regulatory scheme.

As far as CSR is concerned, strategy does not necessarily mean trying to outperform competitors.

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