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The Choice for CSR: Strategic Rationale versus Values?

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A RESPONSE TO Hamish van der Ven (2013), "Bringing Values Back into CSR," ***Bus Ethics J Rev*** 1(16): 99–105, http://doi.org/10.12747/bejr2013.01.16

ABSTRACT

In a recent Commentary, Hamish van der Ven criticizes my *strategic rationale*-based approach to why firms decide to adopt and implement CSR standards. He argues that my approach is analytically flawed; rather than *strategic rationale*, *values* motivate firms in favor of CSR. In this response, I explain why I disagree with his criticism and approach. I maintain that *strategic rationale*, not *values*, drive firms' decision-making for CSR.

IN MY RECENT book, *The Managerial Sources of Corporate Social Responsibility* (Thauer 2014b), and my article, "Goodness Comes from Within" (Thauer 2014a), I suggested considering asset specific investments within firms, and the managerial dilemmas to which they give rise, as internal drivers of corporate social responsibility (CSR)—thereby drawing on Williamson (1975) and Miller (1993). I specified that internal drivers are:

1) investments in rare employee skills (*internal driver 1*)—for example, training programs in which workers learn firm-specific skills; or
2) investments in production facilities with long pay-off times (*internal

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> *driver 2*)—for example, when a firm invests in a new factory that requires significant upfront investments which are envisioned to pay back only after several years.

I explained that, in the case of *internal driver 1*, employees are not easily replaced in the labor market. Management must extensively train newcomers before they can be employed productively. It thus becomes dependent on its workforce, and needs to minimize staff turnover and positively motivate employees. A way to accomplish this is by offering them CSR services in the context of social benefit and health programs.

In the event of *internal driver 2*, information asymmetries emerge in the relationship between management and the production unit. These, in turn, give rise to the risk of opportunism. *Internal driver 2* also makes the firm vulnerable to developments in the investment environment. Increases in the costs of energy and water consumption and of waste management are examples of such potential developments, which may undermine the profitability calculation that motivated the original investment decision. CSR, in the form of environmental process standards, helps management in this situation to mitigate these risks. Environmental process standards structure and document production processes, thereby reducing information asymmetries. High environmental standards, which include, for example, energy, water consumption and waste reduction targets, also minimize the vulnerability of the firm vis-à-vis developments in the investment environment.

CSR emerges in the context of these arguments as the outcome of *strategic rationale*—as a risk management device adopted by management to ensure the long-term profitability of the firm.

In a *BEJR* Commentary, Hamish van der Ven (2013) criticizes my 'strategic rationale'-based approach to CSR as analytically insufficient and flawed. He proposes a 'value'-based perspective instead. Van der Ven first points out alleged weaknesses and analytical shortcomings of my 'strategic' approach. He then argues that my approach, on account of these shortcomings, does not "offer much analytic purchase" (van der Ven 2013: 100) and that "values" should be brought into the analysis of CSR.

In this response, I will explain why I disagree with van der Ven's criticism. I will first address his points of criticism one by one and then, in the conclusion, discuss the issue of ‘strategic rationale’ vs. ‘values’. ‘Values’ indeed matter, as I will argue, but in different stages of the CSR policy process than van der Ven thinks.

Criticism 1: Limited generalizability and relevance

The first allegation held against my ‘strategic’ approach by van der Ven (2013: 100) is “limited generalizability.” Van der Ven (2013: 101) claims that my approach “only applies to a fraction of the developing world’s” businesses. Proof of this, according to him, is that it is only applicable to high skills industry sectors, and not to labor intensive industries, which make up the bulk of production in emerging markets.

Van der Ven is wrong, however. My approach *does* apply to labor-intensive industries. The empirical evaluation of the arguments, which my ‘strategic’ approach makes, shows their applicability, plausibility and validity in highly diverse settings (Thauer 2014b: 52–69, 2014a: 494–495). It features firms in the car sector, and it also assesses labor-intensive industries in the context of the textile sector. Everything else being equal, varying levels of asset specificity are reflected in varying levels of CSR.

Van der Ven (2013: 101) also argues that my approach lacks relevance as it “says little about” what he counts among “the greatest advances in labor-related CSR in the developing world,” namely “the burgeoning movement towards Fair Trade.” I disagree and actually think that the opposite is true: my approach is relevant for our understanding of these phenomena. It analyzes CSR practices (Thauer 2014b: 44–48, 2014a: 503); thus when Fair Trade and other CSR norms have an effect ‘on the ground’. In the realm of CSR, what firms say they aim to do in their policies is not always – and in fact often masks – what they actually do. My approach draws our attention to such cases and thus allows us to come to terms with the fact that Fair Trade and other CSR standards did not in all cases trigger strict and demanding CSR practices.

Criticism 2: Indeterminacy

The second criticism of van der Ven (2013: 100) is that, in the context of the causal argument, which my ‘strategic’ approach makes, “the hypothesized causal relationships . . . are indeterminate.” Van der Ven thinks so because it remains unclear to him why, in the event of *internal driver 2* (asset specific investments in production facilities), "firms would choose environmental CSR over a range of other options" (2013: 102), in particular quality standards. Asset specificity, according to his understanding, may in some instances result in CSR, but not in others, such as when management chooses to opt for quality standards.

This criticism is however based on a misreading of the causal argument and logic of the 'strategic' approach. Van der Ven is right in that quality standards – for example, ISO 9001 – serve management in situations of *internal driver 2* risk mitigation functions (Thauer 2014b: 27, 2014a: 493). This driver unleashes two causal mechanisms. One consists of the emergent need felt by top-management in firms to mitigate risks in relation to future developments in the environment that may undermine the profitability of the investment. Quality standards do not allow management to do so. They do not force the firm to, for example, reduce energy or water consumption or the costs of any other input factors or social or regulatory demands that may increase in the future. Environmental CSR, by contrast, does. Therefore, in the context of this first causal mechanism, quality standards are not an outcome that can be logically deduced as resulting from asset specificity, whereas environmental CSR is.

The second causal mechanism concerns the need felt by management to mitigate the emergent information-asymmetries vis-à-vis the sub-unit that receives the asset specific investment, and the associated risk of opportunistic behavior. Both quality standards and environmental CSR (i.e., ISO 14001) serve management important functions in this situation. They structure, document, analyze and manage industrial processes and thus reduce information disadvantages. However, they do so for different aspects of the production process: quality standards define quality-related procedures; environmental CSR structures processes in relation to their potential environmental impact. In other words, quality standards and environmental CSR are not functional equivalents, and are therefore non-substitutable. They are, in the context of this second causal mechanism, composite tools of risk mitigation.

It follows that in the event of asset specificity, environmental CSR emerges *in addition to* and *irrespective of* quality management standards. Van der Ven's argument that CSR is only one of many possible outcomes of *internal driver 2* is thus theoretically unfounded.

It is also empirically misleading: Firms generally do not consider it superfluous to have quality and environmental standards. Quite the contrary, those firms that apply the highest production process-related standards usually do so in both areas, quality and the environment, and in the context of integrated environmental and quality management systems, such as TS 16949 (Thauer 2014b:201, 2014a: 493, 506, 508). From the perspective of *internal driver 2*, this observation is hardly surprising. As explained, the driver causes firms to adopt, apart from environmental CSR, also demanding quality standards. It is however contradicting the argument of van der Ven, who proposes that quality management standards emerge instead of CSR.

The criticism of "indeterminacy" is thus neither theoretically valid nor empirically supported.

Criticism 3: Managerial values as alternative explanation

Van der Ven's (2013: 100) third allegation is that my approach does "not pass an empirical correspondence test." Indeed, it does not explicitly consider managerial values as an alternative explanation to the proposed asset specificity-based one. However this is, unlike van der Ven thinks, not resulting in any inferential or other validity problems. Managerial values were included as potential factor in my empirical analysis. This analysis draws on more than 200 personal, semi-structured in-depth interviews—which allows for intensive inquiry into the opinions and values of decision-makers in firms. I thus did come across different attitudes of managers towards CSR and I followed this lead thoroughly (in particular as I believed myself in the beginning that managerial values could matter). Most of the managers I interviewed genuinely thought that firms have a responsibility towards their employees and the social and natural environment. There were also a few who disagreed. But in the end, this did not turn out to matter much. How come?

Most managers, according to my experience, are faced with an almost infinite number of problems and tasks every day. They have to set priorities in order to be able to address those issues they consider important for the survival of the firm, the sub-unit, and their personal careers. In this situation, the choice for CSR *is* a strategic one. Take the example of South Africa, where HIV/AIDS is heavily affecting firms. Businesses that run on low levels of asset specificity can easily substitute employees from the labor market if they 'disappear' without notice, which is what typically happens when employees fall sick with the disease. In such firms, realistically speaking, managers simply do not get to the point where they could spend the necessary management time and other resources on setting up and running a HIV/AIDS workplace program. Problems other than HIV regularly fill up their list of things to which, by necessity, they have to attend immediately instead. Conversely, in firms in which staff turnover has to be minimized on account of high levels of asset specificity, managers make their respective firm's HIV/AIDS response a top priority. I found this to be true even for cases in which managers did not think that their firms have a genuine responsibility for the health and wellbeing of their employees (i.e., where managers have the 'wrong' values).

Strategic rationale, according to my experience, thus trumps managerial values when it comes to CSR practices. The 'strategic' approach does not fail a correspondence test.

Conclusion: 'Strategic rationale' vs. 'values'?

Van der Ven makes the case for values *ex negativo*, that is, by arguing that 'strategic rationale' fails to explain CSR convincingly. I have tried to explain in this response why I do not find his arguments convincing. However, does this mean that I don't think 'values' matter? Not at all. I find van der Ven's suggestion of "bringing values into CSR" worth pursuing. But the question is: *how* do they matter? Under which conditions, on which level of analysis and in relation to what and why?

It seems to me that van der Ven focuses on the wrong 'dependent variable', wrong actors and wrong level of analysis. Individual managers' 'values' simply do not matter all that much in relation to CSR practices (whereas strategic considerations do). At least, this is what I have argued above. In other stages of the CSR policy cycle, however, values may indeed matter. I suggest in this respect considering the role of values in the big 'unknown' in current research on CSR, namely the effectiveness of CSR programs.

Jana Hönke and I (2014) recently made an attempt to explore the role values play here. We argued that the efficacy of CSR programs, which require the active collaboration of program addressees beyond the control of the firm, crucially depends on their normative resonance with the values and beliefs held by these addressees. Values thus matter, though not in isolation, but relationally, as social structure that shapes actor interests in interaction. It is in relation to this frontier of current research, which concerns the effectiveness of CSR programs beyond the purview of the firm, that I believe research on 'values' is promising—not as an alternative to the 'strategic', asset specificity-based approach, but complementary to it.

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