A review of the theories of corporate social responsibility: Its evolutionary path and the road ahead

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This study aims to trace the conceptual evolutionary path of theories on corporate social responsibility (CSR) and to reflect on the implications of the development. The retrospection has revealed that the trend has been a progressive rationalization of the concept with a particular focus on tighter coupling with organizations’ financial goals. Rationalization involves two broad shifts in the conceptualization of CSR. First, in terms of the level of analysis, researchers have moved from the discussion of the macro-social effects of CSR to organizational-level analysis of CSR’s effect on profit. Next, in terms of theoretical orientation, researchers have moved from explicitly normative and ethics-oriented arguments to implicitly normative and performance-oriented managerial studies. Based on the retrospection, the limitations of the current state of CSR research that places excessive emphasis on the business case for CSR are outlined, and it is suggested that future research needs to refocus on basic research in order to develop conceptual tools and theoretical mechanisms that explain changing organizational behavior from a broader societal perspective.

Introduction

Most academics and business pundits have noticed how corporate social responsibility (CSR) has been transformed from an irrelevant and often frowned-upon idea to one of the most orthodox and widely accepted concepts in the business world during the last twenty years or so. Even until the late 1970s, CSR was derided as a joke, an oxymoron and a contradiction in terms by the investment and business community (Lydenberg 2005).

However, by the late 1990s, the idea of CSR became almost universally sanctioned and promoted by all constituents in society from governments and corporations to non-governmental organizations and individual consumers. Most of the major international organizations such as the United Nations, World Bank, Organization of Economic Co-operation.

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and Development and International Labor Organization not only endorse CSR, but have also established guidelines and permanently staffed divisions to research and promote CSR. In 1977, less than half the Fortune 500 firms even mentioned CSR in their annual reports. By the end of 1990s, close to 90% of Fortune 500 firms embraced CSR as an essential element in their organizational goal, and actively promoted their CSR activities in annual reports (Boli and Hartsuiker 2001). The change has been so dramatic that the CEO of General Electric, Jeffrey Immelt, declared that ‘the world has changed’ (Gunther 2004), and the former CEO of HP-Compaq, Carly Fiorina, claimed that a ‘new reality of business’ has emerged (Fiorina 2001).

Although many experts noticed the outward growth of CSR, few have noticed that CSR has also been changing internally in meaning – an exception is Carroll’s study of the definitional changes of CSR (Carroll 1999). The concept of CSR, particularly in terms of how it relates to other organizational goals, has been steadily evolving ever since the concept was introduced half a century ago. The purpose of this study is to trace the conceptual developmental path of theories on CSR and to reflect on the implications of the change.

Conceptual Shifts in CSR

In 1917, when Henry Ford stood in a Michigan courtroom defending his decision to reinvest Ford Motor company’s accumulated profits on plant expansion while slashing the price of Model T vehicles, he stated the purpose of his company this way: ‘To do as much as possible for everybody concerned, to make money and use it, give employment, and send out the car where the people can use it ... and incidentally to make money ... Business is a service not a bonanza’ (Lewis 1976, italics added). Ford’s idea of business as a service to society was not only derided by the shareholders, but also by the court which granted Dodge brothers’ request for maximum dividends (Supreme Court of Michigan 1919). In 1999, 80 years later, Henry Ford’s great-grandson, William Clay Ford Jr took the helm of the company and tried again to convince his company’s stakeholders of the importance of business as a service to society: ‘We want to find ingenious new ways to delight consumers, provide superior returns to shareholders and make the world a better place for us all’ (Meredith 1999). This time around, however, the younger Ford not only faced no lawsuits, but also received considerable support from various stakeholders of the company, including shareholders.

Why did the shareholders of Ford Motor Company respond so differently in the two periods? There has perhaps been a cultural shift in favor of social responsibility during the intervening 80 years, especially during the 1960s. However, the more critical reason is because the meaning and business implication of CSR in 1999 was much more palatable to shareholders than the one advocated in 1919. In 1919, the concept of social responsibilities of a corporation was vaguely framed in moral and macro-social terms such that shareholders could not see how it served their interest or how it was related to the performance and management of the corporation. Therefore, like Adam Smith (1976), Dodge brothers saw no tangible benefit in running a business with the greater public goods in mind. Considering that there is no established logical linkage between CSR and profit and that most shareholders invest in a company not to make a difference in society but to gain a sizeable financial return on investment, Dodge brothers’ decision to sue Ford was perfectly rational behavior.

During the ensuing three decades, however, the concept of CSR went through a progressive rationalization. Rationalization of CSR entails two broad shifts in the conceptualization of CSR. First, in terms of the level of analysis, researchers have gradually moved from the discussion of macro-social effects of CSR to organizational-level analysis of CSR’s effect on financial performance. Secondly, in terms of theoretical orientation, researchers have moved from explicitly normative and ethics-oriented studies to implicitly normative and performance-oriented studies. By the late 1990s,
CSR had also been coupled with strategy literature and its relationship with market outcome had been made more explicit (Hart 1997; Kotler and Lee 2005; Orlitzky et al. 2003; Porter and Kramer 2002, 2006). Although empirical evidence for market outcome of CSR is still inconclusive at best (Margolis and Walsh 2003; Vogel 2005), there was enough rationalization of the account that a growing number of shareholders and institutional investors began to accept the idea that strategic adoption of CSR could lead to financial rewards in the long run. What made the difference in shareholders’ attitude regarding CSR are the changes in their perception or rationalized myth (Meyer and Rowan 1977) regarding CSR and its relationship with the bottom-line performance of organizations.

The shift in conceptualization of CSR did not occur instantly. Instead, it was a gradual and arduous process. It is well known that public intellectuals such as Milton Friedman vehemently opposed the idea of CSR on the grounds that it imposes an unfair and costly burden on shareholders (Friedman 1962, 1972b). Similarly, because most mid-level managers saw CSR as a cost with highly uncertain outcomes, there was significant resistance from managerial ranks within corporations against implementing CSR until the late 1970s. They were simply not ready to jump on the CSR bandwagon (Ackerman 1973; Klepper and Mackler 1986). One of the reasons that Friedman (1962) was so opposed to CSR was because he saw the danger of shareholder funds being misappropriated by opportunist executives in the name of CSR for the enhancement of their own personal social status. Moreover, he did not believe that corporate managers had the right skills and expertise to deal effectively with social problems.

During the last two decades, however, the concept of CSR has been progressively rationalized and became associated with broader organizational goals such as reputation and stakeholder management. Furthermore, the vast majority of studies and popular literature on CSR argue that CSR positively affects the bottom-line performance of a corporation (for a review of empirical studies, see Margolis and Walsh 2003; Orlitzky et al. 2003). As a consequence, the environmental aspect of CSR has even gained the wide support of institutional investors. Recently, the Coalition for Environmentally Responsible Economies (CERES) has successfully mobilized four-dozen leading US and European institutional investors with assets of over $2.7 trillion to address collectively environmental, social and corporate governance issues. The core argument of CERES and its members is that proactive environmental management eliminates the unnecessary risks associated with potential regulatory and legal actions and improves competitive advantage for businesses. Thus, as Vogel argues, if Friedman were to revisit the subject today, ‘he would find much less to concern him’ (Vogel 2005).

Although the degree of their conviction may vary (The Economist 2005), with the rationalization of CSR as a concept, more and more corporate managers are also convinced that CSR can positively influence the financial performance of corporations. According to a recent survey conducted by The Conference Board, nearly 90% of corporate managers report that their companies take CSR as a part of core business principles, and 70% report that their companies have a corporate foundation that advances social causes (Muirhead et al. 2002). Today, CSR has been sufficiently rationalized and institutionalized in the business community that most of Fortune 500 firms not only mention but also actively promote CSR in their annual reports (Boli and Hartsuiker 2001).

How did the conceptualization of CSR change? What is the general direction of the change? The conceptual shift took place on multiple aspects (see Figure 1). Broadly, the changes can be characterized as greater rationalization of CSR.

In the 1950s and 1960s, the theoretical focus of CSR research was on the macro-social institutions for promoting CSR (Bowen 1953). Bowen conceived CSR as a part of his broader vision of better American society where economic and social goals reinforce...
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each other. Consequently, Bowen (1953, 14–21) suggested CSR as a complementary and corrective measure for some social failures inherent in laissez-faire economy. Opponents of CSR, on the contrary, envisioned much more segregated roles of economic and political actors. They argued that corporate managers’ first and foremost responsibility was to maximize shareholder wealth, and thus should leave the social problems to politicians and civil society to deal with (Friedman 1972a; Levitt 1958). Moreover, focusing on the potential agency problems, Friedman argued that corporate managers would make unreliable and inefficient agents of social responsibility. His behavioral assumption of corporate managers as self-interested homo economicus simply did not allow him to see that CSR and corporate financial performance (CFP) could be simultaneously and effectively pursued by corporate managers. Because of the vast differences in theoretical orientation and assumptions, the two sides went into an intellectual stalemate for nearly two decades.

In the early 1970s, an attempt towards new theoretical development that could reconcile the two sides was initiated. The reconciliation effort inevitably brought the discussion of CSR to a more concrete and observable level of organizations and engaged the question of the financial ramifications of CSR. Although the motivation for research still stems from a normative concern, researchers have attempted to make the managerial outcomes more explicit, while shifting the ethical arguments to the background. The goal of rationalization efforts during this period was to establish a positive linkage between CSR and CFP. Most researchers in the 1970s and 1980s, however, tried to find the relationship between CSR and CFP without explaining the relationship. To use Weick’s language, the concepts of CSR and CFP became more responsive, but maintained their own identity and logical separateness by being only loosely coupled (Weick 1977). In order for tighter coupling to occur, there needed to be a broader theoretical framework explaining the mechanisms that link CSR and CFP. Such a theoretical framework was developed gradually in the 1980s and applied in the 1990s. The next section traces the theoretical development of CSR in greater detail.

The Evolution of the Theory of CSR

Social Responsibilities of Businessmen: The 1950s and 1960s

Corporate social responsibility is a relatively modern concept and, over the years, it has been progressively developed through several groundbreaking studies (see Table 1). Most scholars point to Howard Bowen’s Social Responsibilities of the Businessman (1953) as the first attempt to theorize the relationship between corporations and society (Carroll 1979; Preston 1975; Wartick and Cochran 1985). It does not mean that no thinking on the relationship between corporations

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| Theoretical Orientation | Ethical/Obligation | Managerial |

| Ethical Orientation | Explicit | Implicit |

| Relationship between CSR & CFP | Exclusive/No discussion | Tight coupling |

Figure 1. Trends in CSR research.
and society existed. Many industrialists and writers commented on the relationship, including Henry Ford, George Perkins of US Steel and sociologists such as C. Wright Mills (1956). As Bowen indicates by providing a long list of bibliography in the Appendix, the idea of businessmen requiring social responsibility had long been a particular interest to many Puritan and Protestant writers. In fact, Bowen’s book was commissioned by the Federal Council of the Churches of Christ in America, which was an interdenominational agency made up of 29 Protestant and Orthodox Church bodies. The book was part of a larger six-volume study of Christian Ethics and Economic Life, and was meant to be ‘an investigation of economic life and its relation to spiritual and moral values’ (Bowen 1953). Bowen took the opportunity to produce what turned out to be the first systematic and rationalized account of CSR.

Bowen makes his position on CSR unmistakably clear. Although he acknowledges that CSR is no panacea that will cure the society of all its ills, he considers it a welcome development that needs to be encouraged and supported. The main question he grapples with in the book is not whether businesses have social responsibility or not. For Bowen, the answer is obvious. He contends that the position of great influence and the far-reaching scope and consequences of their decisions obligate businesses to consider social consequences and responsibilities. The questions that Bowen is more interested in are ‘What exactly are the responsibilities of businesses?’ and ‘How can society make institutional changes to promote CSR?’ He does not try to hide his normative orientation, which is clearly evident in his definition of the social responsibilities of businessmen: ‘It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society’ (Bowen 1953). From the normative standpoint, he provides an institutionally oriented explanation for why a growing number of business managers are concerned with their social responsibilities. Bowen (1953, 69–106) argues that institutional changes in the first half of the twentieth century ‘forced’, ‘persuaded’ and made it easier and ‘favorable’ for corporate managers to be concerned about their social responsibilities. Interestingly, his three-part explanations sound almost identical to the regulative, normative and cognitive mechanisms in new institutional theory (Scott 2001).

Chronologically, Bowen’s seminal publication coincided with the pivotal New Jersey Supreme Court ruling that legalized corporate contributions for purposes other than a direct benefit to businesses. The legal environment in the US was becoming more and more favorable to CSR. Bowen’s book provided the intellectual springboard to reflect on the rapidly changing social environment during the ensuing two decades. During the late 1950s and 1960s, numerous legislations were enacted to regulate conducts of businesses and to protect employees and consumers (e.g. Textile Fiber Products Identification Act of 1958, Fair Packaging and Labeling Act of 1960, Equal Pay Act of 1963, National Traffic and Motor Safety Act of 1966, National Environmental Policy Act of 1969, Truth in Lending Act of 1969, Clean Air Act of 1970 and so on). Moreover, an increasing number of consumer protests led to the creation of the consumer rights movement that directly challenged corporate power. The events of the 1960s have dramatized the seemingly eroding relationship between American corporations and the public. The widespread public prejudice against corporations has put corporate executives on the defensive. Consequently, CEOs rarely made public statements without giving CSR prominence (Zenisek 1979), and hundreds of books and articles were published on the subject (Elkins 1977). However, the fanfare of CSR was mostly a reflection of public relations strategy taken by corporations at the top level (Burt 1983). Corporate social responsibility was rarely embraced by all levels within organizations and implemented consciously. Most mid-level managers considered CSR to
be damaging to the bottom-line financial performance of the organization, so they only paid cursory attention to CSR (Ackerman 1973).

Moreover, the growing trumpeting of CSR drew heavy criticism, creating bitter controversy. The most prominent objection to CSR was the classical economic argument proposed by Milton Friedman. He argued that the social responsibility of a corporation is to make money for its shareholders, and considered CSR a ‘subversive doctrine’ that threatened the very foundation of free enterprise society (Friedman 1962). While many researchers accepted Bowen’s assumption of corporate obligation to society and simply moved on to address Bowen’s two key questions regarding the content and process of CSR (Fitch 1976; Murray 1976), opponents of CSR went back to Bowen’s basic assumption and challenged its validity (Levitt 1958). The two decades following Bowen’s publication were characterized by acrimonious controversies over the political as well as social legitimacy of CSR (Wartick and Cochran 1985). In spite of the dynamic interactions, however, the two sides could not carry out a constructive dialogue, and very little theoretical advancement was achieved beyond what Bowen had already laid down (Elkins 1977; Preston 1975). The primary cause of such intellectual stalemate over CSR was because their underlying assumptions about firms, economic behavior of corporate managers and CSR were radically different, and neither side was willing to consider the question from alternative perspectives.

**Enlightened Self-Interest: The 1970s**

A breakthrough in conceptual development did not come until 1970, when a new study on CSR was commissioned by the Committee for Economic Development. The resulting publication, *A New Rationale for Corporate Social Policy*, reshaped the debate by providing a wider lens to examine the issue (Baumol 1970). In particular, the last article written by Wallich and McGowan had presented a new paradigm that made a lasting impact on the
debate on CSR. As Wallich and McGowan state, the main purpose of the article was to ‘make an effort to provide a reconciliation’ between the social and economic interests of corporations (Wallich and McGowan 1970). The authors recognized that, without demonstrating that CSR is consistent with stockholder interests, CSR will always remain controversial. Therefore, they took on the task of providing a ‘new rationale’ that upholds CSR without compromising stockholder interest.

In order to provide a ‘new rationale’ for CSR, Wallich and McGowan go back to the fundamental question of whether corporations should engage in CSR. They agree that, in the narrow sense of utility maximization for stockholders, Friedman is right in asserting that corporations should not engage in CSR. Yet, the modern corporate equity holding patterns became so diversified that the meaning of stockholder interest has also been significantly altered. By 1970s, most stockholders owned shares in not just one company, but in many companies to spread the risk. Therefore, they were not interested in maximization of profit in just one company at the possible expense of the other companies in which they owned shares. In other words, owners of diversified portfolios would want to achieve social optimization through joint profit maximization, and would want to spread ‘social expenditures evenly over all firms to the point where marginal cost equals marginal appropriable benefits’ (Wallich and McGowan 1970).

The ‘new rationale’ that Wallich and McGowan offered was that it is consistent with stockholders’ long-term interests for corporations to be socially minded. Most of the research that followed in the decade conceptualizes CSR as supporting the corporation’s long-term interest by strengthening the environment which corporations belong to. For instance, Davis (1973) argued that a firm has an obligation to ‘evaluate in its decision-making process the effects of its decision on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks’.

The underlying assumption was that, if the surrounding society which businesses belong to deteriorates, businesses lose their critical support structure and customer base. Therefore, it is in corporations’ long-term interests to support the well-being of their environment.

This so-called enlightened self-interest model has generated renewed enthusiasm and research in the field of CSR in the 1970s (Elkins 1977; Fitch 1976; Keim 1978; Moyer 1974). Since the publication of A New Rationale for Corporate Social Policy, the orientation of research in the field has radically shifted from normative to positive. The main research is no longer focused on whether corporations should engage in CSR or not, albeit the controversy still remained. Instead, most studies that were published in the 1970s focus on the content and the implementation process of CSR that does not conflict with corporations’ fundamental interest (Ackerman 1973; Fitch 1976; Murray 1976).

The enlightened self-interest model, however, was more of a concept than a full-blown theoretical model. It clearly pointed to a new direction, but offered no theoretical framework to build upon. Social and economic interests that Wallich and McGowan tried to reconcile became only loosely coupled together without a clear specification of the mechanisms that make up the causal links between CSR and CFP. To be sure, the concepts of CSR and CFP became more responsive, but still maintained their own identity and logical separateness (Weick 1977). In order for tighter coupling to occur, there needed to be a more clearly specified theoretical framework linking the two concepts and empirical evidence for the association.

**Corporate Social Performance Model: The 1980s**

Even until 1975, Preston (1975) argued that the field of business and society still lacked a generally accepted theoretical paradigm, and called for more tangible progress in conceptualization, research and policy development in CSR. The first fruit of such effort was produced
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by Carroll in his 1979 *Academy of Management Review (AMR)* article. His three-dimensional conceptual model of corporate social performance (CSP) immediately gained acceptance and was further developed by others (Miles 1987; Ullmann 1985; Wartick and Cochran 1985; Wood 1991). The main thrust in Carroll’s three-dimensional model is the combination of three dimensions in CSP, which are CSR, social issues and corporate social responsiveness under one rubric. The purpose of the model was to help clarify and integrate various definitional strands that have appeared in the literature. It became one of the most widely cited articles in the field of business and society.

The most important contribution of the model is that the three-dimensional model does not treat the economic and social goals of corporations as incompatible trade-offs. Rather, both corporate objectives are integrated into the framework of total social responsibility of business which includes economic, legal, ethical and discretionary categories. The magnitude of each category can differ in that economic responsibility may carry more weight than ethical responsibility, but each category of responsibilities is an integral part of a corporation’s total social responsibility. For each category of social responsibility, corporations can choose one of four possible strategies of action: reactions, defense, accommodation or pro-action. As such, the model offers a framework through which a corporation’s strategic response to a social issue can be identified and assessed. Carroll wrote the article with very pragmatic goals in mind. For academics, he intended to provide a comprehensive framework to understand various thoughts on CSR. For managers, he wanted to provide a tool to aid them in systematically thinking through the major social issues they faced. Because of his practical objectives, Carroll avoided discussing the abstract relationship between business and society, and rather focused on the relationship between a firm and its immediate surrounding environment.

The model was further elaborated in 1985 by Wartick and Cochran (1985). While arguing that the CSP model can sufficiently incorporate the three main challenges to the concept of CSR, Wartick and Cochran modified Carroll’s model to consist of dimensions of principles, processes and policies. The last dimension of policies (or issues management) was a significant development from Carroll’s model, which stopped at just identifying the issues. The model was further extended in 1991 through another *AMR* article (Wood 1991). Wood tried to link CSP with various related theories in organizational studies such as organizational institutionalism, stakeholder management theory and social issues management theories. By incorporating a number of other theoretical traditions under the rubric of the CSP framework, she aimed to formulate a more practical and managerially useful model.

Despite all the efforts put in to make the CSP model more useful for both researchers and managers, the model did not succeed in widespread application. The shortcoming of the CSP model was that it lacked one critical aspect needed for implementation: the capacity to measure and empirically test the model (Wood and Jones 1995). Without a clear and objective measurement of CSP, the level of uncertainty in outcome as a result of engaging in CSR could not be significantly reduced. Moreover, the lack of objective and behavioral measurement made it difficult to compare the social performance of different firms. The findings from attempted empirical studies on that relationship between CSR and CFP were generally positive, but contain many methodological problems (Margolis and Walsh 2001). In order for tighter coupling between the two concepts to occur, there had to be more objective measures and clearer theoretical mechanisms linking the two. The economic and social interests within organizations came closer and became much more responsive in the 1980s, but could not yet be tightly coupled together.

*Strategic Management: The 1990s*

Peter Drucker claims that the management revolution which began in the 1950s finally
came to full fruition in the 1990s (Drucker 1993). In particular, the question of why some companies persistently perform better than others has produced a vast amount of research on strategic management. One strain of strategic management research, stakeholder analysis, is found to be applicable to CSR. The stakeholder model of CSR was developed mainly by management scholars who were frustrated by the lack of practicality of the previous theoretical models. The stakeholder model solved the problem of measurement and testing by more narrowly identifying the actors and defining their positions and function in relation to one another. Tighter specification of the model has a clear advantage in terms of usefulness. From managers’ perspective, their responsibilities to employees, customers and government are much easier to envisage and manage than their responsibilities to society. Moreover, most companies, whether intentionally or unintentionally, have already been managing these relationships and keeping records of their transactions or interactions. Therefore, data gathering and analysis is much more tractable (Clarkson 1995).

The concept of stakeholders first surfaced in the management literatures in the 1960s. By the 1970s, several variants of stakeholder theory were already being tested by major corporations such as General Electric. The stakeholder approach, however, remained mostly scattered and peripheral to management scholarship until the mid-1980s. In 1984, Freeman gathered various eclectic ideas on the stakeholder approach and constructed a coherent and systematic theory of stakeholder management (Freeman 1984). A unique feature of stakeholder theory is that it envisions a corporation’s purpose in a wholly different way. Within the stakeholder framework, the difference between the social and economic goals of a corporation is no longer relevant, because the central issue is the survival of the corporation. Survival of a corporation is affected not only by shareholders, but also various other stakeholders such as employees, governments and customers. Because of its emphasis on relationships and the normative foundation that recognizes the intrinsic value of the interest of non-shareholding stakeholders (Donaldson and Preston 1995), stakeholder theory had some obvious implications to CSR.

The theory was applied to the field of CSR by two AMR articles published in the same year (Clarkson 1995; Jones 1995). Clarkson applied the stakeholder model to his ongoing research on CSR. Based on his empirical research experience, he makes a few enhancements to the model to adapt it better for the CSR field. First, he argues that it is necessary to distinguish between stakeholder issues and social issues. Social issues are defined as sufficiently substantial public issues that prompt eventual legislation or regulation. If no such legislation or regulation exists, it may be a stakeholder issue, but not necessarily a social issue. Once the nature of issues is identified, he then argues that it is necessary to define appropriate levels of analysis (institutional, organizational and individual). Only then, can managers effectively analyze and evaluate the social performance of the corporations and managers. He also incorporates categories of various new measurements in the model.

Jones’s (1995) paper is more instrumental in nature. His unique contribution is that he relates the stakeholder model of CSR to a number of economic theories such as principal–agent theory, team production theory and transaction cost economics. Jones’s objective is to construct an ‘instrumental stakeholder theory’ with strong predictive capacity. He relies heavily on economic theories to lay out basic behavioral assumptions of firms and actors, and presents a number of testable hypotheses. His focus on relationship-based mid-range theories makes the link between actions and outcomes much clearer. Jones argues that the stakeholder model has a great potential to become the central paradigm for the field of CSR.

Since the publication of Clarkson and Jones’s studies, stakeholder theory has gradually moved to the center stage of research in business and society relations, and further
developed through a number of innovative studies. For example, by linking stakeholder theory with social network studies, Rowley (1997) proposed a network-based model of CSR for predicting corporate responses to multiple stakeholder influences. An empirical study by Berman et al. (1999) articulates and compares two distinct perspectives in stakeholder theory: the strategic stakeholder model and the intrinsic stakeholder model. Their findings suggest that the strategic stakeholder model, which is based on business case logic of CSR, has more empirical support than the intrinsic stakeholder model, which emphasizes the moral aspect of CSR. Jones and Wick’s (1999) study published in the same year proposed a ‘convergent’ stakeholder theory that integrates strategic and intrinsic perspectives in one broader theoretical framework.

The attempt to adapt CSR to the stakeholder framework forced researchers to specify CSR more clearly according to the particular stakeholder relations that a firm is engaged in. Ironically, specification of CSR for each stakeholder relation has resulted in broadening of the meaning and scope of CSR. Instead of one aggregate category of social responsibility, the stakeholder framework induced creation of many new categories of CSR to reflect the wide range of stakeholder relations and interests. With the creation of more and more categories of CSR, such as environmental responsibility, diversity, affirmative action and transparent accounting practices, the meaning of CSR was expanded to account for the new categories as well as new stakeholder relations.

Corporate social responsibility has also been advanced with more practical applications in mind by strategic management scholars such as Philip Kotler, Nancy Lee, Michael Porter, Rosabeth Moss Kanter and Stuart Hart. Porter and Kanter exhorted corporations to become shrewder in their philanthropic expenditure, because philanthropic expenditures have the potential to become valuable investments that can help the firms’ bottom line. They argue that adoption of strategic philanthropy offers new opportunities for innovation, opens up a previously undiscovered market, and develops of valuable social relations that can help with the firm’s reputation (Kanter 1999; Porter and Kramer 2002). Hart (1997) argues that, considering the immense environmental challenges that the world faces today, if the sustainability concept is linked to strategy or technological development, corporations can gain significant competitive advantage. Kotler and Lee (2005) developed an elaborate framework that explains why charitable activities are good for business from a marketing perspective. In strategic CSR, there is no longer a conceptual break separating corporations’ social and economic performance. The concept of CSR is stretched and applied to ‘all the activities a company engages in while doing business’ as well as the competitive context of the company (Porter and Kramer 2006). Consequently, at least in theory, CSR has significant implications for a firm’s financial performance.

Trend: Tighter Coupling between CSR and CFP

The institutionalized conceptions of CSR as reflected in management scholarship during the last forty years have changed substantially. Corporate social responsibility is no longer conceived as a moral ‘responsibility’ of corporate managers for greater social good or executives’ discretionary expenditure that could hamper a corporation’s profitability, but as strategic resources to be used to improve the bottom line performance of the corporation (McWilliams et al. 2006). The shift is aptly illustrated by Vogel’s example of Dow Chemical’s interaction with activists:

The antiwar activists who, during the 1960s, pressured Dow Chemical to stop producing napalm, framed their arguments exclusively in moral terms: they neither knew nor cared whether producing napalm would affect Dow’s earnings. In contrast, the contemporary environmental activists who are working with Dow to reduce its carbon emissions argue that doing so will make Dow more profitable by lowering its costs. (Vogel 2005)
The claim of contemporary environmental activists is that corporations that behave in a socially desirable manner will also do better financially. Moreover, it is interesting to note that carbon emission which was not on CSR advocates’ agenda three decades ago has become one of the most important CSR issues today (Guggenheim 2006). The contemporary conceptualization of CSR has clearly expanded to include carbon emission control, and the corporate decision to reduce carbon emission was construed as a rational and strategically prudent decision. Taking the cue from the changes in institutional and social environment, researchers have also progressively rationalized CSR by focusing on managerial issues at the organizational level and broadening the scope of CSR to cover all types of business activities that intersect with the interests of a corporation’s various stakeholders.

Alongside the conceptual evolution of CSR, a parallel development in the meaning and assessment of corporate performance was taking place. From the perspective of strategic management, the notion of corporate performance was shifting away from single-minded financial performance to a broader one that includes both financial and social dimensions (Gray 2000; Paine 2003). Newly developed measurements for evaluating corporate performance now include quality of output, customer satisfaction/retention, employee turnover, R&D productivity, new product development, market growth and environmental competitiveness (Brancato 1995). Successful management of a large firm now requires paying closer attention to the various aspects of corporate performance and engaging its internal and external stakeholders strategically (Kaplan and Norton 1992; Porter and Kramer 2002).

Thus, the convergence between the concepts of CSR and corporate performance occurred in both directions. On the one hand, the concept of CSR expanded to envelop both economic and social interests on macro-political as well as organizational levels. On the other hand, the concept of corporate performance also broadened to cover economic as well as social interests on institutional as well as organizational levels. Within this expanded meaning of corporate performance, successful management of a firm requires the development of CSR as resources for reducing non-market risks and improving the overall performance of the firm. Therefore, the mechanism for internalization of newly institutionalized beliefs did not require radical changes in the attitude or rationality of organizational actors. What has changed is the institutionalized belief itself in a way that is acceptable and usable from the organizational actors’ point of view.

Rationalization of CSR and the convergence between CSR and corporate performance made the concept of CSR much more attractive to corporate managers at all levels, and helped the diffusion of CSR among corporate actors (Vogel 2005). It was only two decades ago that managers felt CSR did not mesh well with overall corporate goals and values (Ackerman 1973; Klepper and Mackler 1986). Even if CEOs wanted to implement CSR for personal reasons, mid-level managers resisted because they simply did not see a clear business objective behind CSR. Today, 82% of companies surveyed by the US Chamber of Commerce and Corporate Citizenship Center at Boston College in 2004 believe that good corporate citizenship helps the bottom line (Rochlin et al. 2004). A similar survey by the Conference Board also yielded almost identical findings (Muirhead et al. 2002). Moreover, 82% of companies also believe that corporate citizenship needs to be a priority in their business agenda. Such enthusiasm in favor of CSR not only comes from companies that are doing well, but also from companies that are not doing well financially. The same survey mentioned above reports that 23% of companies that underperformed financially in the previous year have actually increased investment in CSR. The motivation is that investment in CSR will eventually pay off.

More recently, there has also been a conscious effort to tie CSR and CFP together more tightly from theoretical angles. Richardson
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and his co-authors have tried to develop a model specifying the mechanisms through which CSR generates capital market responses (Richardson et al. 1999). Schuler and Cording (2006) advanced a model explaining the linkages between CSR and CFP, which is measured by consumer purchasing behavior. Barnett (2007) introduced a stakeholder influence capacity model to specify further the mechanisms linking CSR and CFP and to explain the between-firm heterogeneity in the financial returns to CSR. Others have argued that doing good can improve their reputation and consumer loyalty (Kanter 1999; Kotler and Lee 2005), attract socially conscious consumers as well as good employees (Laszlo 2003; Turban and Greening 1997), increase the market value of publicly traded firms (Mackey et al. 2007) and develop new markets (Hart 1997; Porter and Kramer 2002), while significantly reducing the risks of becoming the target of lawsuits or consumer boycotts. From a theoretical point of view, it is not an exaggeration to say that the coupling between CSR and CFP has been made as tight as it can be.

Discussion and Assessment

Although theoretical development has brought CSR and CFP ever closer, the relationship has not yet been unequivocally verified through empirical studies. As illustrated in the detailed literature review above, with the shift in theoretical concerns, the direction of empirical studies has also moved from basic researches on what CSR is and how and why corporations implement it (Ackerman 1973; Davis 1973; Murray 1976) to applied studies that attempt to prove and explain the tight association between CSR and the financial performance of corporations. Despite the prolonged effort to prove the positive relationship between CSR and CFP, however, the results still remain largely inconclusive (Margolis and Walsh 2001; 2003).

The reasons for inconclusive findings may stem from measurement errors, model misspecification and insufficient scope of the data set (Igalens and Gond 2005), which may be solved in the future. I argue, however, that the current empirical focus of CSR research on the business case faces other theoretical issues than just inconclusive findings. Business case studies only examine a small portion of the whole phenomena of business–society interactions. The interactions between businesses and society and the organizational changes occurring as a result of corporate adoption of CSR are immensely rich and dynamic phenomena, but they have not been adequately explored yet. Although I believe business case studies of CSR are still very valuable and should be continually pursued, I outline their three shortcomings mainly to suggest that they are not enough on their own.

First, it is not clear what the business case research will achieve in the end. There is no doubt that the argument that CSR is good for business has attracted some corporate managers to rethink CSR. However, given that the last 30 years of research found no definite causal link between CSR and profit, it is not apparent what the continued business case research will offer in the future (Vogel 2005). As Margolis and Walsh wondered, it is doubtful whether ‘the financial impact – positive, negative, or neutral – of CSP necessary or sufficient either to support or to invalidate the involvement of firms in the range of activities classified as social performance’ (Margolis and Walsh 2001). Moreover, even if a business case for CSR does exist, economics of supply and demand suggests that, as more corporations become socially responsible, the marginal value of social responsibility will decrease. If the marginal value of CSR becomes smaller than the cost of implementing CSR, the business case for CSR disappears, and malfeasance becomes more attractive based on the business case logic.

Secondly, on its own, business case research has little explanatory power to account for the recent organizational changes with respect to CSR. To be sure, instrumental reasoning has undoubtedly played a key role in the diffusion of CSR in the business community.
However, in addition to the instrumental reasoning, there are a number of institutional as well as personal factors that affect managers’ decision regarding CSR. The current state of CSR research has paid much less attention to these other factors. For instance, the personal ethics of managers can play an important role. Managers are also social beings with personal ethical standards. As Gioia (1999, 231) argued, the central challenge for managers is ‘how to arrive at some workable balance’ between instrumental and other moral criteria. Pressures from social movements also weigh in managers’ decisions. One of the world’s largest oil companies, Shell, had to change its decision because of social pressure during the Brent Spar oil storage disposal crisis (Baron 2003). Corporations may also be influenced by institutional changes (Campbell 2007; DiMaggio and Powell 1983; Galaskiewicz 1985b) and just making ceremonial adjustment to gain legitimacy in the shifting institutional environment. The recent rise of the socially responsible investment movement also has had a significant impact on corporate behavior (Davis and Thompson 1994; Johnson and Greening 1999). In order to account fully for the intriguing phenomenon of corporate adoption of CSR, it is necessary to consider a much broader spectrum of factors affecting corporate behavior. 

Lastly, business case driven CSR falsely assumes that what is good for society should also be good for corporations. As Vogel (2005) argued, the assumption is true only under certain conditions where there are coherent institutional supports and a big enough market for virtues. For instance, until the enactment of various environmental laws and widespread public support for environmentalism in the 1970s, environmentally responsible behavior such as pollution control was simply considered as cost and disadvantage in terms of market competition (Ruckelshaus 1993). Moreover, business case driven CSR will bias how corporations select their CSR strategy, because not all socially responsible behaviors have equal potential profitability or market demand. The bias will result in increased corporate attention to certain social needs that are less costly and potentially profitable, while other more costly social misery will be conveniently ignored. From the perspective of society, the social problems ignored by corporations may well be much more urgent issues that require corporate expertise and operational capacity. Conceiving CSR as discretionary business practices dilutes the meaning of social responsibility in CSR.

Implications for Future Research

Based on the retrospection of the field of CSR research, I argue that it is about time to renew the basic research in CSR. By basic research, I mean the kind of research that attempts to explain what CSR is and how and why certain CSR-related changes in organizational behaviors take place. Partly, it entails going back to the drawing board and asking questions that Bowen asked half a century ago: ‘What exactly are the responsibilities of businesses?’ and ‘How can society make institutional changes to promote CSR?’ It also means creating conceptual materials and tools from which to build theories that can explain changes that have been taking place in the corporate world. I argue that the investment in basic research will even enable the field of CSR to propel the applied research beyond the current state of seeking evidence for the financial rewards of CSR.

What type of basic research is still needed today? First, there is a clear need for continued development of better measurements for CSR. In particular, current research on CSR still lacks objective behavioral measures that can be used to compare the social performance of different corporations. Most widely used measures such as KLD Research & Analytic indicators and Fortune magazine’s most admired corporations list are indeed very useful measures of CSR. However, they are somewhat limited in that they are still subjective measures based on opinions and eclectic data (Harrison and Freeman 1999; Vogel 2005).
Corporate social responsibility is not about rhetoric or public relations. Until the scandal broke out, Enron was considered one of the model corporate citizens and most admired companies in America (Read 1999; Sebastian 1998), and its shares were widely held by socially responsible funds. No one really saw what was coming. Without objective and behavioral indicators of CSR, research in CSR will not have the capacity to predict the direction of the socially responsible business practices of a corporation. After all, what counts in CSR are the actions, not the words. Therefore, it is critical to develop objective and behavioral indicators that could verify whether corporations are 'walking the talk'.

Legislative activities in the US during the last twenty years have created a vast amount of objective and detailed data on corporate behavior. On environmental aspects, the Toxics Release Inventory (TRI), which began in 1986 with the enactment of the Emergency Planning and Community Right-to-Know Act, has created an extremely rich database of corporate behavior in terms of industrial pollution emission. Similarly, the Home Mortgage Disclosure Act of 1975, which is implemented by the Federal Reserve Board’s Regulation C, made a vast amount of information on banks’ local lending practices publicly available. The original intention of making the data available was to determine whether financial institutions are serving the housing needs of their communities, and to monitor whether they are engaging in discriminatory lending practices. I suggest that the data can be used to measure banks’ social responsibility in terms of their willingness or effort to meet equally the needs of all the members of the community they operate in. More recently, the Public Company Accounting Reform and Investor Protection Act (also called the Sarbanes–Oxley Act), which was passed in 2002, made public detailed corporate governance data such as executive compensations and insider trading. In Europe, the French Government went even further by making social and environmental reporting on a number of standardized indicators mandatory for all large companies in 2001 with the establishment of New Economic Regulations Act.

These data sources are by no means perfect. Problems of inaccuracies and bias still exist. However, they possess some merits in that they are collected by an independent third party with enforcement authority, contain a broad range of behavioral indicators, and offer much more specific measures for various CSR categories. As such, they provide a good starting point for evaluating corporations’ objective social performance comparatively as well as on their own merit (Lydenberg 2005). Social movement groups and activist investors have already been using the data to identify irresponsible corporations and have been making demands on the corporations to change their behavior. For instance, a Washington-based environmental organization, Green Media Toolshed, created a website (www.scorecard.org) that presents a digested version of TRI, which evaluates each corporation and community in comparison with others in terms of environmental hazard contribution or risk. The Scorecard.org website is widely used by grassroots environmental organizations to articulate their demands. I suggest that researchers can also take advantage of these data sources to understand better the relative extent of the social responsibility of a corporation as well as its impact on society.

Secondly, I suggest that researchers in CSR need to pay more attention to the ‘social’ side of the equation. Most of CSR research up to now has examined CSR from the perspective of corporations. The ‘social’ perspective and its effect on corporations have rarely been explored. Interestingly, as noted above, many leading CEOs such as Jeffrey Immelt and Carly Fiorina point to the changes in social and political environment in which their corporations operate as the reasons for engaging in CSR. The idea is that corporations are not completely autonomous actors, but are sensitive to the changing rules of the game in society and make behavioral adjustments vis-à-vis society in order to maintain a stable relationship with the society.
Recently, a number of studies using the New Institutionalism in Organizational Studies (NIOS) framework have examined the effect of institutional changes on various socially oriented corporate behaviors. New institutional scholars have, for example, shown that cognitively based institutional pressures have induced corporations to make socially oriented changes in environmental behavior (Hoffman 2001; Lyon and Maxwell 2004), internal organizational structure (Edelman 1992; Edelman and Suchman 1997), in internal labor market processes such as promotion procedure and job descriptions (Dobbin et al. 1993; Sutton et al. 1994), and in corporate–community relations (Galaskiewicz 1985a, 1997; Guthrie and McQuarrie 2004).

The NIOS framework, however, should be applied to CSR studies with a caveat. As Stinchcombe (1997) has pointed out, the NIOS framework in its original formulation was devoid of actors and thus lacked clear causal substance, and could not explain non-isomorphic changes or variances between firm (Hoffman 1999; Lounsbury 2001). Interestingly, new institutional scholars did not even try to defend against this criticism. On the contrary, they blatantly rejected an actor-oriented model and turned towards ‘cognitive and cultural explanations’ with a focus on the ‘properties of supra-individual units of analysis’ (DiMaggio and Powell 1991). Owing to its intentional diminution of actors, the research focus of earlier NIOS had been limited to diffusion or institutional isomorphism, which account for a subset of dynamic interactions between institutions and social actors with diverse interests. New Institutionalism in Organizational Studies initially took institutions as given and studied the effect of institutions on organizational actors’ behavior, such as adoption of particular practices. Thus, it did not explain how the institutions were created in the first place, and the processes through which organizations internalized institutions (Greenwood and Hinings 1996). Moreover, NIOS did not explain how the institutions were being enforced, or how violators were being sanctioned.

Recent theoretical developments in NIOS, however, have attempted to overcome the challenges by reconsidering the question of agency within an institutional framework. In particular, researches on institutional entrepreneurship and institutional changes have offered some creative solutions to integrating institutionalism and agency perspective (DiMaggio 1988; Dorado 2005; Greenwood and Hinings 1996; Seo and Creed 2002). Their application to CSR, however, still remains ‘embryonic’ (McWilliams et al. 2006).

Swedberg (2005) defines institutions as ‘durable lock-ins or amalgamations of interests and social relations’ (emphasis in original). As such, an institution is a product of repeated interactions between rational and highly interested social actors (Nee 2005). Once an institution is legitimized and accepted by the majority, it takes on a life of its own, as the studies in NIOS have repeatedly shown (Dobbin et al. 1993; Edelman 1992; Edelman and Suchman 1997; Sutton et al. 1994). However, even after the normative pendulum has shifted in favor of a particular institution, the institution requires interested social actors to continue to enforce the institution and sanction violators, if necessary (Lawrence and Suddaby 2006).

Corporations are social actors, and their economic actions are often embedded in concrete social relations (Granovetter 1985; Uzzi 1997). If their economic actions are guided by social relations, their socially oriented actions are even more likely to be shaped by their social relations (Aguilera et al. 2007; Campbell 2007). Consequently, the corporate perspective on CSR and the resulting behavioral change are often products of the corporation’s interactions with other external stakeholders. As one of the early proponents of CSR, James Post, argued more than two decades ago, ‘any theory that would deal with this field [of business and society] must ultimately confront the reality of extensive and continuing corporation–society interaction’ (Post 1978). The future research in CSR can and should attempt to unravel the intricate web and dynamics of...
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social interactions between corporations and their direct or indirect stakeholders, including government, consumers, employees, communities, competitors, and investors.

Interestingly, the importance of social interactions in CSR is indirectly confirmed by several key studies using the NIOS framework. For example, in his second phase field-study of the Minneapolis–St Paul urban grants economy, Galaskiewicz (1997) found that the effect of the CEO’s personal social network on contributions was significantly weaker when firms came under the control of large outside investors who exert greater pressure towards better financial performance (Galaskiewicz 1997). The implication is that, as new social relations develop through growing interactions with large institutional investors (Margotta 1989), the new institutional forces that are transmitted through relations with outside investors begin to affect the corporations’ decision on contributions differently.

Similarly, Edelman showed that firms that have contractual relations with government are much more likely to adapt to a new normative environment in labor practices: organizations closer to the public sphere are more open to public scrutiny and more dependent on public support for survival. They are more vulnerable to public and federal pressure to treat workers fairly because they are evaluated more by their conformity to institutionalized norms than by the quality or quantity of their output. (Edelman 1990)

The reason is precisely because the institution is transmitted and enforced through concrete relations – in this case, with the government.

In order to investigate social mechanisms that lead to socially responsible business practices by corporations, we need to focus on middle range theories that link macro institutional effects and micro behavioral changes. As Merton (1968) argued, the objective of middle range theories is to make sense of certain empirical uniformities by logically connecting a number of ‘minor but necessary working hypotheses’. Institutions, particularly informal institutions, become effective when they are transmitted and enforced by interested social actors who mobilize various social forces to check and balance corporate power. A recent theoretical initiative of linking institutionalism and social movement theory in organizational studies has already taken an important step towards theoretical development in this direction (Davis et al. 2005). I argue that the focus on evolving corporate social relations with actors possessing different material or ideal interests and the accompanying interactions creates an opportunity to examine a hitherto unexplored territory of corporation–society relations that is teeming with potentially robust middle range theories.

Lastly, I suggest expanding the empirical scope of CSR research beyond existing boundaries. Currently, the vast majority of CSR research focuses almost exclusively on large publicly traded corporations (e.g. Fortune 500) in a uniform institutional environment. There is very little reflection on what CSR means for small and medium enterprises (SMEs) and firms with different ownership structure. The ubiquitous presence of SMEs and their more intimate interactions with communities mean that the social influence of SMEs cannot be ignored. In order to understand the social behavior of SMEs, however, researchers need a whole new set of theoretical and conceptual tools that can deal with the unique competitive challenges and institutional constraints that SMEs face. For instance, SMEs are often more economically oriented than large firms and lack the long-term strategic vision. Therefore, they are less likely to invest in expensive pollution reduction technology voluntarily or commit to elaborate long-term strategic relations with stakeholders. In other words, they may be interested in local reputation management through various forms of sponsorship programs, but may lack the resources or institutional pressure to provide adequately for employees or to show leadership in environmental performance. For SMEs, the ethics of owners and managers may play a much greater role in engaging CSR than in large enterprises. As
such, an innovative theoretical reasoning is needed to study the CSR of SMEs and answer questions such as: What does CSR mean for SMEs and private firms? How are the social and institutional constraints they face different from those faced by large public corporations? How can a society create institutional environments that promote CSR for all firms, including SMEs?

Another important aspect of CSR research that has lacked rigorous scholarship is its comparative aspect. Recently, theoretical research on CSR has expanded its focus to look beyond North America (Aguilera et al. 2007; Campbell 2007), but empirical research is yet to keep in step with the theoretical advances (Maignan and Raston 2002). With the expansion of the global economy, CSR has also gone global. As the controversies involving Shell’s human rights practices in Nigeria and Nike suppliers’ labor practices in South Asia show, a corporation’s practice in a distant part of the world can affect its business and social status in its home country. The proliferation of CSR-related international certifications such as the ones created by International Standardization Organization (e.g. ISO 14000) and Social Accountability International (e.g. SA 8000) reveal that the need for managing CSR globally is increasing. However, research in CSR still remains largely local or a few comparative case studies. There are a number of important questions that researchers have not even begun to address yet. How is CSR shaping the international trade and behavior of firms in other parts of the world? How is CSR conceived and practiced differently under diverse institutional contexts? As Hall and Soskice (2001) have argued through their ‘varieties of capitalism’ theory, business and society relations in different countries can vary significantly. Each country has a distinct social structure, dominant issues, institutions and interests, shaped by its unique history and cultural tradition. So, even at the face of rapid globalization of economy, different societies maintain distinctive economic systems that structure business–society relations. The differences in social and institutional contexts, in turn, determine how corporations interact and cooperate with other actors in society. Corporate social responsibility researchers are yet to delve into this critical dimension of CSR.

Conclusion

The purpose of this paper has been to trace the conceptual evolution of CSR in management theory. The concept has evolved in multiple aspects, which can be broadly termed as rationalization of CSR. The level of analysis has moved from the macro-societal level to the organizational level, and the ethical orientation has been made more implicit than explicit. With the shift in analytical focus, researchers have laid greater emphasis on managerial and strategic issues regarding CSR. In particular, during the last 30 years, the central quest in CSR research has been finding the link between CSR and CFP. The retrospection has revealed that, at least in theory, the relationship between CSR and CFP has progressively become tightly coupled. As Marc Van Ameringen, executive director of the Global Alliance for Improved Nutrition boldly states, ‘the new wave in business is, forget corporate social responsibility and philanthropy – how do you integrate this into your core business?’ (Prasso 2007). Empirical studies that have attempted to verify the theory, however, still remain largely inconclusive.

Based on the retrospection, this study suggested several limitations in the current state of CSR research that tends to overemphasize the business case of CSR. This study is not alone in sounding the alarm. Recently, several leading scholars in the field, such as David Vogel (2005), Joshua Margolis and James Walsh (2003) have expressed similar concerns regarding the direction in which CSR research is moving. Given the limitation of markets for virtue and the frequently misaligned interests between corporations and society, the field of CSR needs a broader perspective that examines not just corporations’ social responsibility, but also society’s responsibility in keeping
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corporations accountable. After all, corporations have become indispensable members of our society who need to be ‘incorporated’ socially as well as legally. Recent institutional changes have made social as well as environmental sustainability an important source of institutional legitimacy of corporations (Hoffman 2001). The concept of sustainability bolstered by a cadre of committed scientists and policymakers is radically reshaping organizational choices and priorities. The time is ripe for researchers to examine these highly intriguing interactions between society and businesses. I also suggested expanding the focus of research to include smaller and medium-sized firms as well as CSR in the context of globalization. Future investigations in CSR hold enormous possibilities. I hope this study has been an important stepping stone towards new exploration in CSR research that can greatly enrich our understanding of business–society relations.

Acknowledgements

The earlier version of this paper benefited greatly from conversations with my mentors at Cornell University: Victor Nee, Richard Swedberg, David Strang and Michael Lounsbury. I also want to thank the special editor for this paper and the anonymous reviewers who offered extraordinarily detailed comments that pointed out many areas that I have previously overlooked.

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