

CHAPTER ONE

INTRODUCTION AND PROBLEM STATEMENT

1.1 INTRODUCTION

The increasing amount of power and impact that corporations wield within society has become a growing concern for many people. These concerns have been expressed in many forms by various sectors such as civil society, academia, environmental groups, governments, as well as the private sector. Many of these concerns have arisen from a stronger awareness of the numerous negative impacts that certain corporate activities are having on people as well as the environment. Two recent examples of these harmful impacts have been the worldwide economic recession (in 2008), largely caused by the irresponsible policies and actions of certain dominant financial institutions, as well as the disastrous oil spill (in 2010) by BP in the Gulf of Mexico. One consequence of corporations' often damaging effects on society, has been the creation of systems whereby society can better control or manage corporate actions, which necessarily entails different types of continued **measurement** and thereby also **monitoring** of corporations' conduct.

Since the existence of corporations as legal entities (or 'persons' under law), society had to develop and implement various **standards** of behaviour/performance (through different gauging mechanisms) which corporations need to achieve or comply with in order to be accepted and accommodated as being part of the citizenry. These standards have come in numerous forms such as *rules, laws, principles, codes* and *guidelines* or even *benchmarks*; and it has played a vital role in providing the frameworks (or boundaries) within which companies must operate.

In human terms, it is widely assumed that behaviour is largely driven by psychological factors such as individual personalities or certain mental conditions. When, for instance, an individual behaves in a manner that is inconsistent with certain accepted standards or norms, the conclusion is often made that the individual suffers from an 'abnormal mental state' such as a psychological disorder. In a very similar way, society has come to view

certain types of corporate behaviour as **acceptable / normal behaviour**, while other types are seen as **unacceptable / abnormal behaviour**.

It has therefore become important for society to develop the **measuring instruments** that will help to determine certain 'psychological' characteristics of companies in order to better evaluate, understand and predict corporate behaviour.

1.2 CENTRAL THEORETICAL ARGUMENT

A little more than a century ago (in 1893), Emile Durkheim argued that because society is becoming more specialised, the **division of labour** has made people become more dependent on each other (Ritzer & Goodman, 2003:82). Naturally, the increased amount of interdependence in society has led to a greater need for, and often blind, mutual trust - as society's 'divided labourers' have steadily decreased the amount of direct contact with one another during the completion of different tasks (*compare* Greenwood & Van Buren, 2010:425; Norén *et al.*, 2004:5). Due to the fact that organisations such as corporations are made up of groups of people who share certain specialised labours or responsibilities; the increase in dependence and trust eventually began to apply to them (corporations) as well.

Nowadays, this dependence and trust are becoming less indiscriminate, since it is increasingly based on the evidence that labourers and especially organisations can show about their performances and contributions to the rest of society (see Fitzgerald & Cormack, 2006:7). In this regard, Rasche and Esser (2006:253) contend that the readiness to provide justifications of one's actions, to be judged by others and to accept responsibility for errors and misjudgements, makes organisations of any kind **accountable actors** within the global economic system. In line with this argument, Joyner and Raiborn (2005:526) indicate that the stakeholders of organisations are demanding more and more information regarding the activities companies are undertaking in an attempt to **perform roles** of public responsibility and to **assume the mantle of good corporate citizenship** (*also see* Noland & Phillips, 2010:40; Hoeffler *et al.*, 2010:78; Wood, 2007:6; Clement, 2005:256; Norén *et al.*, 2004:5). As a result, the notions of Corporate Social Responsibility (CSR) and Corporate Citizenship

(CC) are globally on the increase in companies' narratives towards the public, regarding their general policies and practices.

The term **Corporate Social Responsibility (CSR)** was first formally introduced by Bowen in 1953, when he stated in a normative way that *"...it refers to the obligations of businessmen to pursue those politics, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of society"* (Falck & Heblich, 2007:248; Andriof & Waddock, 2002:21). The concept CSR, and particularly its application by business practitioners and academic scholars, has then been steadily evolving ever since its introduction a half a century ago (Fifka, 2009:312; Lee, 2008:54) and it has influenced the development and use of other related concepts, such as Corporate Citizenship (CC) and Corporate Personality (CP).

According to Glavas and Piderit (2009:54), **Corporate Citizenship (CC)** means caring for the well-being of others and the environment, resulting in the creation of value for business. It is manifested in the strategies and operating practices that a company develops in its relationships with and impacts on the well-being of all of its key stakeholders and the natural environment. Romme and Barret (2010:94) indicate that CC implies an expectation for legitimising the role of business in society, participation in the wider global and social world, and more accountability to the polity. As such, the notion of citizenship is no longer limited to state membership or national territory. Carroll (1998:1) explains that corporate citizenship involves four 'faces' which organisations can portray - which many might interpret as referring to four distinct 'corporate personality characteristics'. These are: the **economic** face, the **legal** face, an **ethical** face and a **philanthropic** face (*also see* Carroll, 1991:40). Each face, characteristic or responsibility reveals an important feature that contributes to the whole. This reflects the sentiment of Fekete (2000), who believes that just as private citizens are expected to fulfil their responsibilities in society, companies are as well. Successful and enduring companies have at their core a 'personality' that we connect with and understand. In support of this opinion, Lee (2008:70) believes that corporations have become indispensable **members of society** who need to be incorporated socially as well as legally.

Flott (1998:59) elaborates on this argument by explaining that when the term *corporate culture* is defined as the totality of socially transmitted behaviour patterns, arts, beliefs, institutions and all the other products of a company's work and thought, then another way of looking at corporate culture is to think of it as corporate personality (*compare* Serrat, 2009:1; Keller & Richey, 2006:74; Medved, 2004:54). **Corporate Personality (CP)** can therefore be defined (Flott, 1998:59) as the total collective qualities and traits, as of character or behaviour that is peculiar to a specific organisation, and refers especially to those distinguishing characteristics that make it socially appealing. A century ago, Machen (1911:363) expressed the view that the doctrine of corporate personality is a natural, though figurative expression of actual facts and that the conception itself is a natural one. We do not need to be instructed to regard a corporation as an entity and to regard that entity as a person: our minds are constituted in such a way that we cannot help taking that view. *Decision Technology Group* in association with the University of Warwick, UK, have been applying psychological research to the investigation of whether companies, like people, have personalities; finding that they do and that the two main components are honesty and creativity. They also indicate that corporate personality predicts some important financial indicators, including profitability, growth and share performance (Decision Technology Group, 2005).

When it is accepted that corporations have personalities, certain useful analysis can be made when studying corporate behaviours, especially their CSR behaviours. It is therefore argued by this study that the ideal corporate personality is that of *Corporate Citizenship*; which implies a **proper balance** between, and a **sufficient amount** of all four CSR dimensions (or 'personality factors'), namely the economic, legal, ethical and philanthropic responsibilities. In view of this, a healthy organisation must have a **balanced scorecard** (Flott, 1998:59-60) with a variety of characteristics that fundamentally also include a developmental, social and environmental responsiveness and dedication. Once this balance is reached, sustainable development will be enhanced.

Consequently, companies will need methods that will help them discover their personalities by determining their own state of CSR balance. In order for this discovery to take place, the use of efficient measurements of a company's priorities and behaviour is essential.

1.3 PROBLEM STATEMENT AND MOTIVATION

The associations between corporations and communities are increasingly becoming more complex, involving frequently changing expectations of each other. As already mentioned above (see 1.1 & 1.2), it is especially the expectations of the roles and performances of corporations that have been rising steadily and have, of late, been placed under much scrutiny (Jain *et al.*, 2011:619; Bruce & Shelley, 2010:3; Kanji & Chopra, 2010:119; Norén *et al.*, 2004). This stronger focus on corporate behaviour is in large part due to the fact that the global economy is increasingly being dominated by only a few corporations – as the turnover of the top five multinational corporations is **more than double** the gross domestic products (GDP) of the 100 poorest countries in the world (Anderson & Cavanagh, 2000). Globalisation has made it very clear that multinational corporations have no master, and it has brought into sharp focus: income inequities, dire poverty, human rights abuses, environmental degradation, and so much more (Wood, 2007:4-5). The recent global economic downturn – since the end of 2008 - has also ensured that much more attention may in the future be given to broad issues such as corporate governance and ethical investing, as well as more specific (though critical) issues such as fraud and corruption.

Because of this changing nature of societal expectations towards organisations, management and other role players are often left confused about finding ways to establish if corporate citizenship and their '**social licence to operate**' (a symbolic certification of this citizenship), have been achieved. In this regard, Johnston and Beatson (2005:5) found that for many managers, CSR conceptualisation is elusive and hard to articulate and that the variation in CSR conceptualisations generally reflects the lack of consensus provided by literature. McWilliams *et al.* (2006:8) also explain that there are numerous unresolved theoretical and empirical issues relating to the strategic implications of CSR. These include: defining CSR, identifying institutional differences in CSR, determining the motivations for CSR, describing CSR strategies, determining the effects of leadership and corporate culture on CSR activity, assessing the effect of CSR on the firm and stakeholder groups, measuring the demand for CSR, measuring the costs of CSR and assessing the current knowledge base.

Lee (2008:65) thus argues that there is a **clear need for continued development of better measurements for CSR** (also see Visser, 2008a:494). In particular, current research on CSR still lacks objective behavioural measures that can be used to compare the social performance of different corporations. Without objective and behavioural indicators of CSR, research in CSR will not have the capacity to predict the direction of the socially responsible business practices of a corporation. McWilliams *et al.* (2006:2) point out that researchers are starting to move beyond just defining and identifying CSR activities, to examining the strategic roles of CSR in organisations. Unfortunately for both academicians and practitioners, the analysis of CSR is still developing and theoretical frameworks, measurement and empirical methods have not yet been resolved. It therefore appears as if **CSR is fertile ground** for theory development/construction and empirical analysis (McWilliams *et al.*, 2006:2). One very important method, whereby further development and enhanced practical application of the CSR concept is taking place at the moment, is the identification and standardisation of best practices – or *benchmarking*.

Benchmarking has long been used as a tool whereby a company measures its performances or processes against other companies' best practices, determines how those companies achieved their performance levels, and uses the information to improve its own performance (Stigson, 2007). Because results tend to remain confidential, much of the benchmarking information in the public domain is circumstantial and issue specific. More systematic comparisons tend to be owned by specialist consultancies, sector bodies, companies and regulators. Some of the different international norms and standards available to promote CSR benchmarking include: the **UN** (United Nations) **Global Compact**, the **OECD** (Organisation for Economic Co-operation and Development) **Guidelines for Multinational Enterprises** and the **Global Reporting Initiative** (Stigson, 2007). Then there are also some standardised systems, such as **ISO 9000**, **ISO 14000** and **ISO 26000**. These voluntary set of standards aim to facilitate international exchange of goods and services, as well as simplify business-to-business operations (Castka & Balzarova, 2008a:75).

The Bench Marks: Principles for Global Corporate Responsibility, Bench Marks for Measuring Business performance (Bench Marks Foundation, 2003), is one of the most comprehensive sets of social and environmental criteria and business performance

indicators available. The *Bench Marks* document is the result of over 12 years of collaboration between an international group of faith-based organisations and of consultation with business and non-governmental organisations (NGOs). It offers over **340 different indicators** that can assist companies who are serious about responsible corporate behaviour. It consists of a) **Principles** – that are statements of business philosophy fundamental to a responsible company's actions; b) **Criteria** – that are particular company policies and/or practices that can be compared for consistency with the Principles; and c) **Bench Marks** - which are specific reference points of measurement to be used in assessing the company's performance in relation to the Criteria. The *Bench Marks* offer an ethical standard of measurement on which to base decisions about global corporate social responsibility, for example, when policies about investment and the management of investments are being developed. These unique characteristics of the *Bench Marks* make it, in view of this study, the best CSR framework to utilise as an evaluation instrument of Corporate Social Performance.

However, up until now, there is no standard measuring tool (in terms of a questionnaire or any other form) that has been developed from the *Bench Marks* in order to assess organisations' CSR performance. In its regular form as a CSR framework, companies may find it too time consuming and unpractical to identify indicators that are relevant to the company's performance. Organisations are also not able to 'score' and compare their own performances to previous scores or with other companies' scores, by using the tool in its traditional format. For this reason and because of its comprehensive nature and international stature, the *Bench Marks* was ideally suited for further development. Consequently, the need arose from the *Bench Marks Foundation* - in collaboration with the *Bench Marks Centre for Corporate Social Responsibility at the North-West University* – to develop the *Bench Marks CSR Tool* into a proper measuring instrument.

The **contribution** of this research is therefore embedded in the **fulfilment of the need to develop such a CSR instrument** that uses the *Bench Marks* as a basic point of reference. The instrument developed by this study, is further unique in the sense that it can also be used as a 'Corporate Personality Measuring Instrument' and therefore provides companies with an indication of their status of being true corporate citizens. In the development of the analysis framework of a company's personality, this research makes use of the four

dimensions of CSR (*economic, legal, ethical, and philanthropic*) as originally identified by Carroll (1991:40; 1998:1), as well as the three dimensions of Sustainable Development (*economic, environmental and social*). These theoretical descriptions of the dimensions of CSR have specifically been chosen because of the comprehensive manner in which it explains what the CSR concept entails. The different combinations of these CSR dimensions in conjunction with the Sustainable Development (SD) dimensions, serve as the foundation of the descriptions for the different *Corporate Personalities*.

This makes it possible for an *organisation*¹ to articulate in a unique manner its positions in a variety of CSR areas, including its measurement on the dimensions of corporate citizenship (economic, legal, ethical and philanthropic), as well as the on domains of sustainable development (social, economic and environmental). Subsequently, it assists the company in providing more complete, comprehensive and meaningful information to its *stakeholders*² as they (the stakeholders) will also be able to apply this instrument.

There are **three main advantages** (Joyner & Raiborn, 2005:532) to having and utilising such a measure:

- Firstly, by reporting the score obtained on the measure, the public receives the information it needs to make **informed decisions** about the organisation.
- Secondly, members of the organisation join in the effort to develop and provide such information, leading to a stronger **culture of responsible performance** (i.e. a stronger sense of corporate citizenship).
- Finally, in setting up this kind of measurement and assessment system, organisations begin to **address their own performance issues** in these areas. By setting up a system that keeps longitudinal data, companies can identify trends in performance, compare their performance with other firms and set high goals for performance in these important areas.

¹ The same as the original *Bench Marks* document, organisations of any size (small, medium large and multinational corporations) will be able to use this instrument. In this study, the terms *organisation or corporation* therefore refers to a company of any size.

² The specific themes and stakeholders considered by the *Bench Marks* are divided into two categories, each of which forms one part of the *Bench Marks* document. Part 1 deals with the *Wider Community*. This includes stakeholders and issues external to the company including neighbouring communities, the environment and the wider society in which the company operates. Part 2 deals with the *Corporate Business Community*, which refers to stakeholders and issues connected to the company's internal structures. This part of the *Bench Marks* considers employees, suppliers, the company's customers and its business partners.

Furthermore, the information that will emanate from measurements like these, should inform further research and work to be done on CSR conceptions, frameworks or models, particularly in developing countries. CSR in developing countries is a rich and fascinating area of enquiry, which is becoming ever more important in CSR theory and practice. Since it is **profoundly under-researched**, it also represents a tremendous opportunity for improving the knowledge and understanding of CSR (Visser, 2008a:494). Weighing in on this argument, Bezuidenhout *et al.* (2007) believe that CSR measures need to become **more meaningful and rigorous, less cosmetic and ideological**, and more dedicated to fundamental transformation, before South Africans can trust private-sector collaboration in the business of effecting greater social and environmental justice.

Against the afore-mentioned theoretical argument, problem statement and motivation, the following **research question** has been assumed:

How can an efficient measuring instrument be developed from the Bench Marks framework, in order to meaningfully contribute to the overall evaluation process of an organisation's CSR performance?

1.4 RESEARCH OBJECTIVES

Derived from the problem statement and research question, the following **general objective** has been identified:

To develop a Corporate Personality measuring instrument from an established CSR framework (the *Bench Marks*) that can be used to assess an organisation's CSR performance and Corporate Citizenship status.

Considering the above general objective, certain **specific objectives** for this research have been outlined as follows:

- To contextualise CSR by defining and exploring certain related concepts from literature
- To define and systematically analyse the concept CSR from the literature

- To explore some of the most important CSR codes/guidelines available and to provide a detailed background and discussion on the *Bench Marks* CSR tool
- To describe the concept *Corporate Personality* and to formulate the explanations and descriptions for the different ‘CSR personalities’, including *Corporate Citizenship*
- To develop a Corporate Personality measuring instrument based on the Principles, Criteria and Bench Marks as outlined in the *Bench Marks Tool*
- To test and determine the validity and reliability of the measuring instrument
- To determine if the instrument will be efficient as a measuring tool which will guide or sufficiently support the evaluation process of companies’ CSR performances

1.5 RESEARCH METHODOLOGY

1.5.1 Research Approach

In large part, this study followed a quantitative approach, which would place it within the positivist tradition (or ‘positivism’) of social enquiry. *Positivism* refers to the tradition which holds the belief that the social and natural worlds are sufficiently similar to enable the study of phenomena by using the same general methodological and logical principles (Mouton, 2001:17). However, during both the pre-testing (see 6.4) and revision phases (see 6.6 & 6.7) of test development, the researcher also utilised phenomenological methods by relying on the face validity of test items as well as the opinions of respondents. *Phenomenology* or ‘*interpretivism*’ refers to the research approach that aims to *understand* (not explain or analyse) human beings as individual entities that are continuously engaged in the process of making sense of their worlds (e.g. interpreting, justifying, explaining and rationalising) (Mouton, 2001:19). In this regard, the perceptions and interpretations of the researcher as well as those of the respondents had an influence on the empirical outcomes. It can therefore be stated that an **eclectic approach** has been utilised in which both positivist and phenomenological methodologies informed the study. In all, the study aimed to accomplish two **research purposes**, namely *exploration* and *description*. Firstly, it explored and

investigated different CSR issues and how they relate to Corporate Personality, including their roles in influencing organisations' overall CSR performances; and secondly, it describes the different sets of personalities, emanating from use of the *Corporate Personality Measuring Instrument*.

1.5.2 Research Procedures

The research purposes and objectives have been achieved by utilising three main procedures, namely a **literature review** (or historical procedure), the **development of the measuring instrument** and the **survey procedure**.

1.5.2.1 Literature Study

In the **literature study**, the focus fell on previous research that has been done on Corporate Social Responsibility (CSR) and its components, as well as related concepts, such as sustainable development, stakeholder engagement, human rights, corporate governance, etc. Data bases which have been consulted included the Internet and online scientific search engines (e.g. EBSCOhost & Science Direct), scientific journal articles, popular articles, books and other research studies (e.g. studies conducted by NGO's).

1.5.2.2 Development of the Measuring Instrument

As indicated above (see 1.3), the measuring instrument was developed in the form of a '**company personality test**'. The ultimate aim for an organisation is to have the 'personality' of *Corporate Citizenship (CC)* – which implies that there is a high CSR score, as well as a balance between the dimensions (legal, ethical, economic and philanthropic) of CSR and Sustainable Development (economic, environmental and social).

Each type of personality (i.e. different combinations of the dimensions of CSR and sustainable development) received a unique description; therefore any measured company's CSR-personality is described in order to see where improvements might be made. The original headings and sub-headings of the *Bench Marks* framework were still used as the **primary indication** of CSR performance. The items of the *Bench Marks*

framework have therefore been marked or 'coded' (see 6.6) to show which dimension it measures.

During the development of the measuring instrument, the following **steps in developing a measure** (Foxcroft & Roodt, 2005:46-55) were used as guidelines:

- The **planning** phase (specifying the aim of the measure; defining the content of the measure; developing the test plan)
- The **item writing** phase (writing the items; reviewing the items)
- **Assembling** and **pre-testing** the experimental version of the measure (arranging the items, finalising the length, answer protocols, developing administration instructions and pre-testing the experimental version of the measure)
- **Item analysis** phase (determining discriminating power; preliminary investigation into item bias; establish validity and reliability; establish norms and set performance standards)
- **Revising** the final version of the measure (revising the items and test; selecting items for the final version; refining administration instructions and scoring procedures; administering the final version)
- **On-going revision and refinement**; compiling the test manual and on-going research into the efficacy of the instrument

1.5.2.3 Survey

As earlier implied (see 1.5.1), the empirical research has been conducted from the **quantitative research paradigm**. This was done during the testing phase, as well as during the implementation phase of the measure. Data was collected by administering a **questionnaire** (CSR measuring instrument) on a random sample of **350 respondents** - who represented different organisations' employees (including management personnel), as well as other stakeholder groups such as clients or suppliers in the North-West and Gauteng Provinces of South Africa (see Chapter 6 for a detailed discussion of the results).

Data analysis was done by statistically analysing the information obtained from the questionnaires (or preliminary measuring instruments). This included the use of computerised statistical programmes such as **SPSS** (*Statistical Package for the Social Sciences*).

1.6 ETHICAL CONSIDERATIONS

The North-West University (NWU) considers research ethics a high priority. The Research Ethical Committee of the NWU was developed in order to serve as the gatekeeper of ethical considerations in research. At present, the Research Ethical Committee is in the process of developing structures within the Faculty of Arts for the approval of students' research. Currently, post-graduate students are expected to complete a *Research Ethical Application Form* before they commence with their respective projects. The nature of the form, communicates the scope of the research and to what extent ethical considerations should be taken into consideration with regard to people, animals, etc. Only after the form has been completed, will the Research Ethical Committee of the NWU approve the research. This process safeguards the ethical manner in which research is conducted. Additionally, the following ethical considerations were continuously kept in mind while conducting this research:

- *Voluntary participation* (no participant was forced to take part in the research and participants were free to withdraw from the research at any moment)
- *No harm to participants* (the researcher ensured that no physical or psychological harm was done to the participants as a result of the study)
- *Anonymity and confidentiality* (all information gathered during the study has been handled confidentially and permission from the participants was obtained for all information to be shared publically)
- *Not deceiving the subjects* (participants were informed about the aim, the purpose and the procedures of the study and were not deceived in any way)

1.7 CHAPTER LAYOUT

Chapter One: Introduction and Problem Statement - Provides a theoretical background and orientation on the research problem and objectives, including a summary of the methodologies used to carry out the research.

Chapter Two: Conceptual Context - Clarifies the conceptual framework and context of CSR by exploring selected CSR-related concepts from the literature.

Chapter Three: Corporate Social Responsibility: A Theoretical Overview - Defines and analyses the concept CSR and its theoretical dimensions from literature.

Chapter Four: CSR Codes and Guidelines - Provides an overview of the most important CSR initiatives in the form of codes and guidelines, including the *Bench Marks Tool*.

Chapter Five: Corporate Personality - Describes the concept *Corporate Personality* by placing it within the context of *Corporate Citizenship (CC)*; and presents descriptions for the different 'corporate personalities' to be measured by the CSR instrument.

Chapter Six: Empirical Research: Measuring Corporate Citizenship - Represents the empirical part of the research, which included: the test development phases; the results/findings from the quantitative data; as well as an assessment of the instrument's reliability and validity, taken from statistical analysis.

Chapter Seven: Conclusion and Recommendations - Concludes the research by outlining certain implications and practical suggestions regarding the use of the measuring instrument.