Stakeholders drive CSR.
So let's look at their driving record

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Why, oh why, would a for-profit firm allocate its private wealth to the public good?

- Regulation – government requires it
- Ethics – feel that it is the right thing to do
- Guilt – feel bad if they don’t do it
- **FOR PROFIT** – it’s definitional
  - They believe there’s money to be made

- **So how do you profit by giving things away?**
Show me the money!

• **Firms need resources**
  – To operate, must obtain inputs & sell outputs

• **Stakeholders control resources**
  – Labor, capital, custom, etc.

• **Stakeholders determine resource allocations**
  – Can favor some firms; avoid others

• **If firm gains stakeholder favor, can profit**
  – Get inputs for less; sell outputs for more

• **So how to gain stakeholder favor?**
(What’s a stakeholder?)

Not exactly . . .

Those groups without whose support the organization would cease to exist.

- Stanford Research Institute, 1963
Stakeholders favor socially responsible firms

- Activists
  - Advocacy
- Investors
  - Lower cost of capital
- Employees
  - Commitment
- Media
  - Favorable press coverage
- Community
  - Legitimacy
- Partners
  - Collaboration
- Regulators
  - Discretion
- Customers
  - Loyalty

Adapted from Fombrun, Gardberg & Barnett, 2000
Stakeholders punish socially irresponsible firms

- Activists: Boycotts, Capital crunch
- Investors: Turnover
- Employees: Difficult to attract
- Community: NIMBY, Increased oversight
- Regulators: Withdrawal
- Customers: Firm
- Partners: Firm
- Media: Unfavorable press coverage

Adapted from Fombrun, Gardberg & Barnett, 2000
Rewards and punishments shown in many studies

- Socially responsible firms have easier access to quality workforce (Greening & Turban, 2000)
- Firms that reduce polluting emissions increase their ROE (Hart & Ahuja, 1996)
- Banks that invest heavily in their communities have higher ROAs (Simpson & Kohers, 2002)
- Petrochemical firms suffer significant market value declines when unsafe working conditions lead to worker injury and death (Barnett & King, 2008)
- And so on . . .
And so that’s the business case for CSR

- CSR now broadly accepted as a wise business decision, even for the largest, most profit-driven firms

At Walmart, we know that being an efficient and profitable business and being a good steward of the environment are goals that can work together.

High ideals don’t have to conflict with the bottom line... When we reached out through community programs, people bought more of our coffee. Values can actually enhance value, as revolutionary as that may sound... Our shareholders think so, too.
Then aren’t we done?

- For-profit firms have a perfectly rational reason to be socially responsible; they accept it; they even advertise it . . .
Why, oh why, do we still see corporate social irresponsibility?

• Firms sometimes still behave irresponsibly
• Given well-known “win-win” logic of business case, how can a firm still choose to be socially irresponsible?

• *I pin the blame on stakeholders*
Why pick on poor ‘ol stakeholders?

- **Simple learning model underpins business case:**
  - *Stakeholder reaction conditions firm action*
    - Firms do good things in expectation of reward
    - Firms don’t do bad thing to avoid punishment

- **Firms learn from stakeholder reactions**
  - Extinguish bad; habituate good
Stakeholders are imperfect

• Stakeholders are people, and most people most of the time have no idea what’s going on at most firms
  – We’ve better things to do (e.g., attend neat conferences)

• Stakeholders miss some things that firms do
  – May fail to punish firms for some bad acts
  – May fail to reward firms for some good acts

• Result: firms may learn to habituate bad acts & extinguish good acts

• So we need to better understand stakeholder behavior
Toward the cognitive case

- **Recognize centrality of stakeholders in business case**
  - Their reactions are the alchemy transforming CSR into profit, and lack of it into punishment – they drive CSR

- **Assess how stakeholders react, or not, to firm actions**
  - What do they attend to? What do they ignore? How do they evaluate? When do they choose to punish or reward?
So what are stakeholders thinking?

- **They judge CSR relative to the firm engaging in it**
  - So the same CSR generates different reactions for different firms
    - Barnett (2007); Barnett & Salomon (2012)

- **They assume firms to be like their rivals**
  - So firms are often “tarred by the same brush”
    - King, Lenox & Barnett (2002); Barnett (2006); Barnett & King (2008)

- **They have plenty of other things to pay attention to**
  - So they have certain biases in what they notice, how they interpret events, and how they decide to respond
    - Barnett (2013)
History matters to stakeholders

• Stakeholders view CSR relative to their perceptions of the firm engaging in it
  – Can’t just suddenly be seen as a socially responsible firm if your history is otherwise; not believable
    • Lack adequate “stakeholder influence capacity”

• How would stakeholders respond to these same acts of CSR?
  – Donating $10 million to fight obesity
    • McDonald’s vs. Subway
  – Donating $10 million to Alaskan wildlife fund
    • Exxon vs. Ben & Jerry’s
  – Donating $10 million to hospitals in Bhopal
    • Union Carbide before & after Bhopal disaster

[From Barnett, 2007]
Anecdotes about the effects of history

• “John Hyde, a retiree in Placerville, CA, says it’s hard to believe Philip Morris is a ‘good guy just because it donates water to flood victims, or helps the hungry’” (Alsop, 2002: 1).

• “There is a lot of skepticism out there when a company like McDonald’s starts to talk about salads, because people know McDonald’s is not especially concerned about the health of America” (Rich Polt, consultant, quoted in Dressel, 2003: 1).
Implication of history mattering for CSR

- **Social-financial performance relationship is curvilinear**
  - It pays to be good AND it pays to be bad
  - But it doesn’t pay to be a sorta’ nice guy: you get stuck in the middle
    - Suffer costs without accruing fully offsetting benefits

[From Barnett & Salomon, 2012]
Stakeholders lump firms together

- Firms are judged by the company they keep
  - Industries share a “reputation commons” because stakeholders assume similar firms capable of same behavior
    - Ex: All accountants are crooks after Enron scandal
  - One firm’s actions can lead to punishment for entire industry
    - Ex: Sarbanes-Oxley added costs to all firms

[From King, Lenox & Barnett, 2002]
Tarring – and untarring – by the same oil brush

• “We are still an oil company, and we still have to live with the sins of our brothers. We were doing fine until Exxon spilled all that oil. Then we were painted with the same brush as them” (Amoco exec.)

• “Bhopal was the wakeup call. It brought home to everybody that we could have the best performance in the world but if another company had an accident, all of us would be hurt” (Dow Chem VP)

Firms must work together to protect shared reputation
• This “communal strategy” carried out through trade associations, via industry self-regulatory programs [From Barnett, 2006]
  • Ex: Chemical industry’s Responsible Care program able to mitigate shared problems that followed Bhopal disaster [From Barnett & King, 2008]
Stakeholders are busy & easily distracted

• Before stakeholders can decide to punish or reward a firm for its actions, they must have noticed the actions
  – If a corporation falls in the woods . . .

• Stakeholders have limited attention
  – Unlikely to be aware of most things most firms do

• Individual and situational factors influence likelihood of particular firms actions attracting stakeholder attention
  – Whether it falls within stakeholder field of vision
  – Whether it is salient to a particular stakeholder
  – How the stakeholder interprets the firm action
  – Whether the stakeholder is motivated to act
Result: much misconduct goes unpunished

[From Barnett, 2013]
In a nutshell . . .

• **Stakeholders drive CSR**
  – They reward and punish firms for their actions and so underpin the business case for CSR

• **They are imperfect at this task**
  – Swayed by firm’s history
  – Judge firms by the actions of others
  – Distracted by other demands on their attention

• **Need to know more about stakeholders to advance our understanding of CSR**
  – Further develop cognitive underpinnings of business case
For more detail (than you may want):


