Journal of Business Ethics (2009) 84:325–339
DOI 10.1007/s10551-008-9712-5

Philanthropy, Integration or Innovation? Exploring the Financial and Societal Outcomes of Different Types of Corporate Responsibility

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ABSTRACT. This article argues that previous research on the outcomes of corporate responsibility should be refined in two ways. First, although there is abundant research that addresses the link between corporate responsibility (CR) and financial performance, hardly any studies scrutinize whether the type of corporate responsibility makes a difference to this link. Second, while the majority of CR research conducted within business studies concentrates on the financial outcomes for the firm, the societal outcomes of CR are left largely unexplored. To tackle these two deficiencies, this article extends the different conceptualizations of corporate responsibility and elaborates both the financial and the societal outcomes of different types of CR.

KEY WORDS: corporate responsibility, corporate social responsibility, financial performance, corporate social performance

Introduction

The negative side-effects of a globalized market economy and the ever-increasing power of multinational corporations have become more and more evident during the past decade (Korten, 1995; Stiglitz, 2002). The ability of nation-states to tackle disparities in wealth distribution and other inequalities by traditional legal and regulatory means has proved inadequate. As international regulatory bodies have not been able to form a sufficiently strong counter-force to corporate power either, high hopes are now being placed on a complementary mechanism: self-regulation of companies in the form of voluntary corporate (social) responsibility (Jenkins, 2005; Zadek, 2004). Governments expect this trend to advance social justice and to slow environmental degradation, while companies usually hope that it will allow them to retain their licence-to-operate and minimize mandatory intervention by external parties. Another continued interest of business managers is in how voluntary corporate responsibility influences performance that is 'the bottom line'. This interest is also reflected in much of the corporate responsibility research, where studies of the influence of corporate social responsibility (CSR) on financial performance (FP) form a distinct line of inquiry. The results of these studies, however, remain mixed (Aragón-Correa and Sharma, 2003; Barnett and Salomon, 2006; Halme and Niskanen, 2001; McWilliams and Siegel, 2000; McWilliams et al., 2006; Porter and van der Linde, 1995; Orlitzky et al., 2003; Salzmann et al., 2005; Schaltegger and Figge, 2000; Simpson and Kohers, 2002), although two recent meta-analyses provide some evidence of a positive relationship between corporate responsibility and financial performance (Margolis and Walsh, 2003; Orlitzky et al., 2003).

One of the explanations offered for the inconsistent results in previous research is that much of the research on the influences of CR on FP frames CR as a monolith (Barnett and Salomon, 2006). Consequently, more variables that relate to industry, culture, national systems and context must be introduced to this genre of research (Aguilera et al., 2007; Goll and Rasheed, 2004; Salzmann et al., 2005; Simpson and Kohers, 2002). There is some evidence to suggest that financial performance outcomes of responsible corporate behaviour vary depending on firm-specific (Lankoski, 2000) and industry-related factors (Lankoski, 2000; Reinhardt, 1999; Simpson and Kohers, 2002) and, furthermore, are influenced by environmental dynamism and munificence (Goll and Rasheed, 2004). As an extension to this list, we would like to suggest yet another intervening factor that has received too little attention in CR–FP discussions. Namely, irrespective of the industry or other contextual factors, corporate responsibility can be implemented in different ways.

The way in which CR is implemented will in all probability influence its outcomes, including the financial ones (Porter and Kramer, 2006). All CR activities do not contribute positively to financial performance, but some do (Barnett, 2007; Lankoski, 2007). In other words, the question is not only whether companies practise corporate responsibility or not, but also what kind of responsibility they practise. Even though several conceptualizations have been presented of distinctive CR types, empirical research on the link between the type of CR practised and its influence on performance has been rare. This means that the conceptual development in the entire field of CR has not been incorporated into research on financial performance. It also means that those who have recognized different types of CR in their conceptualizations have not problematized the societal and financial outcomes of these types (cf. McWilliams et al., 2006). One exception is the study by Hillman and Keim (2001), which offers quantitative empirical evidence to demonstrate that the content of CR makes a difference in corporate financial performance. Similarly, evidence from mutual funds that practise socially responsible investing indicates that the financial returns from these investments differ depending on the operationalization of social responsibility used by the fund (Barnett and Salomon, 2006). The present study moves forward from these works by suggesting ways how the types of corporate responsibility practised by the firm may influence financial performance.

Further progress in this area also requires that research on the performance outcomes of CR should be extended to cover the societal realm as well. At present, most research on CR policies, programmes, initiatives and the like seldom scrutinizes their societal outcomes. Hence, the amount of attention dedicated to the financial outcomes of corporate responsibility is disproportional compared to societal outcomes, even though few would dispute that a major rationale behind CR lies in the latter. To date, business scholars in particular have dedicated little effort to investigating the value of CR to various societal stakeholders (Margolis and Walsh, 2003; McWilliams et al., 2006), although the effects of corporate responsibility actions on society remain dubious (Blowfield and Frynas, 2005). If, however, we take seriously the recommendation that business scholars should not lose their grip on broader societal issues (Ferraro et al., 2005; Ghoshal, 2005; Rocha and Ghoshal, 2006), we must improve our understanding on the societal outcomes of CR. In the same vein, Aguilera et al. (2007) urge that future research should give attention to different types of CR, as well as their differential effects on social outcomes. Hence, rather than repeating the question of whether CR improves financial performance, we ought to refine the question and ask "what type of CR is associated with what types of financial and societal performance and under what particular circumstances?" To provide some preliminary answers, but especially to pave way for further research in this domain, our article will provide a framework on the relationships between different types of CR and their financial and societal outcomes.

The article proceeds as follows. First, we examine and elaborate existing CR conceptualizations. From this vantage-point, we sketch three broad pragmatic CR action-orientation types that are intended to clarify how and the extent to which different ways of implementing CR deviate from each other. From this we move on to discuss the financial and societal outcomes of these different CR action-orientation types. We expect this to be one of the first attempts to connect the way in which CR is implemented with its financial and societal outcomes.

Conceptualizations of corporate responsibility: an examination and an extension

It is widely agreed that corporate responsibility (CR) is a concept that not only defines the duties of business enterprises towards societal stakeholders and the natural environment, but also describes how managers should handle these duties (cf. Windsor, 2006). It assumes that companies have responsibilities that sometimes go beyond legal compliance (McWilliams et al., 2006) and that they have responsibility for others with whom they do business (Blowfield and Frynas, 2005). Beyond this general level, interpretations of CR differ vastly. In this article, CR is treated as policies and activities that go beyond mandatory obligations such as economic responsibility (being profitable) and legal responsibility (obeying the legislation and adhering to regulation). In a market economy these two issues can be considered to form a baseline for business activity. An unprofitable business will usually cease to exist, and an enterprise that breaks laws or regulations will be dealt with by the legislative mechanism (Carroll, 1996). That said, we acknowledge that there are local contexts where the formal written law is not enforced. In such contexts, despite the fact that legislation exists, situations arise in which corporate actions enter the area of "voluntary responsibility" rather than being codified by law (Fox, 2004).

Corporate responsibility is a complex phenomenon. One of the reasons for this complexity is that CR is inherently a concept that relates business to society. Since societies are different, conceptions about CR are bound to differ, too. Different national, cultural and social contexts call for different sorts of responsibility from companies (Midttun et al., 2006). For instance, in countries where the government or non-governmental organizations do not provide for social necessities, the corporate sector tends to come under heightened requirements and expectations. The complexity of the CR phenomenon has also led to a proliferation of concepts. Corporate responsibility has a number of sister concepts such as corporate social responsibility, corporate sustainability, 'business in society', corporate citizenship, social issues in management, corporate accountability and the like (Garriga and Melé, 2004; Meehan et al., 2006; Waddock, 2004). This article applies the term corporate responsibility in order to stress the focus on voluntary responsibilities that go beyond the mandatory ones, and to emphasize the equal importance of the social, environmental and economic responsibilities of corporations.[1]

Previous corporate responsibility typologies

Attempts to understand the complex phenomenon of corporate responsibility have led not only to a proliferation of sister concepts, but also to multiple typologies that are used to describe it. Most often these typologies seem to serve research purposes rather than the needs of business practice. This is because the majority of them remain at a conceptual level and therefore do not easily translate to practitioners interested or involved in companies' CR efforts. We recognize three main types of typologies that will be briefly elaborated next.

First, it is possible to distinguish CR typologies based on the firm's motivation to undertake CR efforts. Here the term motivation refers to 'the reason why a firm engages in CR'. For instance, Husted and De Jesus Salazar (2006) distinguish three CSR types based on the firm's motivation. They differentiate between altruism, enforced egoism and strategic intent. Windsor (2006), on the other hand, makes a distinction between economic and ethical CSR and the corporate citizenship conception. In Windsor's terms, in economic CSR, the firm's rationale would be utilitarian, i.e. it is motivated by competitive and market gains. In contrast, ethical CSR corresponds to altruistic motives. Finally, corporate citizenship refers to the strategic use of philanthropy as a motivational lever. Like many other motivation-based CR typologies, the ones mentioned here are conceptually deduced categories. Motivation for CR has also been studied in the form of qualitative empirical analysis, but the results from these studies are mainly case descriptions that are not easily converted into typologies. Also, quantitative empirical studies on the motivation of corporations for responsibility are difficult to conduct because such motivation tends to be a complex bundle of principles and attitudes that are furthermore conditioned by various contingencies.

Second, some authors approach corporate responsibility by scrutinizing the responsibilities expected of business firms. This results in normative responsibility typologies. Among the most well-known of such typologies is Carroll's (1996) pyramid that consists of four types of responsibilities. The first two types include the economic responsibility of being profitable and the responsibility to conform to legislation and regulations. Failure to fulfil these responsibilities usually leads to some sanction – either a legislative one or extinction because of economic failure. In Carroll's typology, beyond the necessary economic and legislative responsibilities are ethical responsibilities. These refer to the activities that are expected or prohibited by members of society, even if they are not codified in the law. These responsibilities are reflected by norms, standards and expectations of society. Finally, the fourth type in Carroll's pyramid refers to philanthropic responsibilities, comprising those responsibilities that from a business point of view are purely voluntary. The contribution to humanitarian programmes is an example of philanthropic responsibilities. The difference between ethical and philanthropic responsibility is that the latter is not expected, although it is appreciated by societal stakeholders. According to Carroll's (1996) typology, a company is usually not considered unethical if it does not engage in philanthropy, whereas if it goes against an ethical norm, accusations of immoral behaviour tend to arise.

Third, stage typologies are based on the idea that companies can be at different levels or stages in their CR activities or awareness. These typologies tend to begin with a stage labelled 'defensive' or 'reactive/compliance'. These first stages refer to behaviour patterns where firms defend themselves against demands for CR by external constituents, or where they react to these demands reluctantly. The models then move towards the other stages characterized by a strategic and transformative orientation to CR, referring to going beyond legislation or other requirements and integrating responsibility with their business strategy (Mirvis and Googins, 2006; Post and Altman, 1992; Zadek, 2004). Some of these models explicitly adhere to a dynamic view, presenting firms as agents that move from one stage to another (for instance from a lower level of CR awareness to a higher one), whereas others at least implicitly see 'defensive', 'reactive' or 'proactive' CR-orientations as static states characterizing different organizations (see e.g. Carroll, 1979).

We have already argued that previous literature has omitted to address the varying outcomes that result from each type of CR activities. One possible reason for this is that the typologies most often encountered in the corporate responsibility literature do not easily lend themselves to empirically observable linkages with financial or societal outcomes. Motivation-based CR typologies are in this sense difficult because there tend to be so many intervening factors between motivation and financial and societal outcomes that it would be far too complex an exercise to conduct empirical research on these factors. Husted and De Jesus Salazar (2006), for instance, have proposed a micro-economic model that seeks to link altruistic versus egoistic CR motivations with profitability and social performance. Despite its theoretical merit, the model would be difficult to apply in an empirical study because studying links between motivations and outcomes is problematic. This is particularly true of research designs that involve more than a single case. As far as responsibility typologies are concerned, the responsibilities assigned to firms are categories based on legal and moral obligations and as such are somewhat difficult to link to performance. On the contrary, stage typologies comparing the outcomes of reactive versus strategic CR would appear to be a promising, but also cumbersome starting point for outcome comparisons. These have not yet, however, been systematically applied.

An extension: a suggestion for an action-oriented corporate responsibility typology

The above indicates that previous CR typologies do not provide a sound basis for comparative research on the financial and societal outcomes of CR activities. Instead, we need a CR typology that is grounded in a more pragmatic perspective. In order to assess the impact of different types of corporate responsibility on the firm's financial and societal outcomes, the content of the CR types should be empirically distinct (see Aguilera et al., 2007; Lankoski, 2007). To that end we suggest an action-oriented CR typology. Moreover, examining the type of CR action from a managerial perspective is informative. With this approach we hope to add a missing component to the assessment of the relationship between different ways of practicing CR.

The seminal work of Wood (1991) urged researchers to assess corporate responsibility in a comprehensive fashion. To that end she introduced the corporate social performance (CSP) model, which captures "the principles of CSR, processes of corporate social responsiveness and outcomes of corporate behaviour" (pp. 692–693). Thus, a part of her model tackles corporate responsibility actions[2] and their outcomes. This is an often-cited model, although it has not been applied in empirical studies on the relationship between CR action and outcomes. In an attempt to understand the CR action-orientation of companies, we can draw on some of the questions asked by Wood (1991), such as: ''what action orientation does a company bring to its relations with the external environment?'' and ''what methods does a company use to respond to environmental conditions and social demands?'' (pp. 706–707). The CR literature also touches upon other issues, such as what is the relationship of CR action to the core business of the company (Porter and Kramer, 2006) and what are the expected benefits of CR action (Zadek, 2004). Although these issues have been discussed in the literature, they have not been systematically put into one framework. In order to build a framework for assessing CR action type, we employ these issues by combining three ways in which the CR activities practised by the firm may differ: CR's relationship to the core business; the target of responsibility actions; and the benefits expected from CR activities. It is possible to distinguish at least the following three CR types that are distinct from each other in this regard:

(1) Philanthropy (emphasis on charity, sponsorships, employee voluntarism etc.)
(2) CR Integration (emphasis on conducting existing business operations more responsibly)
(3) CR Innovation (emphasis on developing new business models for solving social and environmental problems)

One of the observable differences between firms engaging in CR is usually whether a firm conducts selected philanthropic activities or whether it concentrates on integrating responsibility considerations with its business activities. The latter includes such issues as the environmental soundness of products and production, treatment of the workforce in the company and suppliers' facilities. This distinction resembles the CR categorization applied by Hillman and Keim (2001), who divided firms into two broad categories based on how they practise CR. In their division, firms that focus on the responsibility of their own business are contrasted to those that engage in charitable activities and use corporate resources for social issues.[3] The latter is similar to the philanthropy CR type.

Within the recent few years, however, a trend has emerged that may eventually broaden our understanding of CR beyond the previously dominant dichotomy. This trend entails seeing CR as a source of business innovations. The key manifestation of this trend is the base-of-the-pyramid or bottom-of-the-pyramid (BOP) approach that seeks to solve the problems of disadvantaged groups within a society while simultaneously creating new businesses or at least lucrative business opportunities for companies (Bendell and Visser, 2005; Fox, 2004; Prahalad, 2005; Prahalad and Hammond, 2002; Prahalad and Hart, 2002; WBCSD, 2004). Another parallel indication of the same trend are the new eco-efficient business models (Halme et al., 2007; Lovins et al., 1999). This trend, which takes selected social and/or environmental problems as a source for innovating new business (Hart, 2005), calls for an extension to existing CR action typologies. When evaluated against the above defined dimensions, the type of CR that conforms to the BOP approach clearly differs from the previous two CR types. We call this type CR Innovation (see Table I below).

We may summarize the three CR action types as follows. The primary CR orientation of firms that conform to philanthropy is towards charitable actions and using corporate resources for 'doing good' (i.e. donations, other charitable activities, or encouraging personnel to engage in voluntary work).[4] In essence, the charitable activities take place outside of the firm's immediate business and no direct business benefits are sought from them. They are extra activities, not a part of the core business. Indirectly, a company can seek to minimize intrusive public policy or improve its reputation and market opportunities with philanthropic activity (Godfrey, 2005).

Firms characterized by CR Integration, on the other hand, attempt to combine responsibility aspects with their *core business* operations. In terms of stakeholder management, they are primarily concerned about responsibility towards their primary stakeholders such as customers, employees and suppliers. This type of responsibility is characterized by actions like ensuring high product quality and investments in R&D (responsibility towards customers), paying just wages and avoiding overcompensation to top managers at the cost of other employees, taking diversity-oriented measures

TABLE I

Comparison of CR action types

Dimension of action	CR action type		
	Philanthropy	CR Integration	CR Innovation
Relationship to core business	Outside of firm's core business	Close to existing core business	Enlarging core business or developing new business
Target of responsibility	Extra activities	Environmental and social performance of existing business operations	New product or service development
Expected benefit	Image improvement and other reputation impacts	Improvements of environmental and social aspects of core business	Alleviation of social or environmental problem
Example	Microsoft's software donations for charity groups. Merck employees build timber houses for poverty-stricken people[a]	Certifying facilities with e.g. ISO14001 or SA8000[b]	CEMEX's new business model: Housing for the poor with savings and micro-credit scheme

[a]Merck is a pharmaceutical MNC. In a charity campaign in Chile its employees built houses for poor people in their free time. www.merck.de/servlet/PB/menu/1454810/index.html

[b]ISO 14001 is an environmental management standard of the International Standardization Organization and SA8000 is a standard of Social Accountability International for promoting human rights for workers.

(responsibility towards employees), paying suppliers on time,[5] supplier training programmes, supporting responsibility measures in the supply chain (e.g. no child labour; responsibility towards suppliers) and applying environmentally benign practices and policies (responsibility towards the local community). In other words, in CR Integration responsibility considerations are integrated with the business operations of the company in question. As to the expected benefits, the company may simultaneously seek benefits related to corporate reputation, cost-savings, risk reduction, or anticipation of legislation.

The third CR action type, CR Innovation, which has not been systematically addressed in previous literature, is different from the previous two in several respects. Most importantly, here a business enterprise takes an environmental or a social problem as a source of business innovation and seeks to develop new products or services that provide a solution to the problem. Contrary to philanthropy, however, this kind of CR should fulfil the win–win condition. While the company tries to develop new business that would alleviate an environmental problem or benefit a chosen poor market segment, it also aims to create revenue for the enterprise. Inherent in CR Innovation is a strong win–win idea: corporations are not expected to provide products or services to low-income markets or to protect the environment out of mere a willingness to do good or to help. Instead, the underlying idea is to cater for the poor or to benefit the environment so that it also makes business sense.

At this point a question may arise whether CR Innovation is eventually nothing but good business. This question may be raised especially by those for whom corporate responsibility is equated with the sacrifice of corporate funds. For this apparently dominant view for instance in the U.S., philanthropy would qualify as the truest form of CR (Carroll, 1996; Global Market Insite, 2005; Godfrey, 2005; Mirvis and Googins, 2006). We maintain, however, that if business delivers new solutions to social or environmental ills, it is justified to call it responsible.

While aiming for the win–win condition distinguishes CR Innovation from philanthropy, this difference is less obvious with respect to the CR Integration type because the latter can also increase corporate performance. For instance, eco-efficiency improvements cut costs while simultaneously reducing the environmental burden, or good working conditions are likely to further employee loyalty and lessen employee turnover. The key difference between CR Innovation and Integration, however, is that the former is about creating *new* business aimed at reducing a social or environmental ill, whereas CR Integration is concerned about conducting *existing* business responsibly. In this case, the added value brought about by the responsibility aim means that the business is conducted with the aim of reducing harm (necessary condition) or doing good to the stakeholders involved, if possible (additional condition). In CR Innovation, solutions to social or environmental problems are a *starting point* for planning *new* business, products or services (see Table I above). Hence, the creation of such solutions cannot be delegated to CR professionals. Instead, in order to be materialized, these activities must be an elementary part of R&D, business development and most likely strategic management work as well. In some cases, CR Innovation may even require deeper integration of the idea of responsibility with business than is the case when the existing operations are made more responsible. Table II depicts some examples, which fall into the CR Innovation category based on the social problem that the business model addresses, its solution, and the business benefit of each innovative business model. This table seeks to exemplify the difference between CR Integration and CR Innovation. Compared to the CR Innovation examples, CR Integration would involve actions such as setting up environmental management systems, public sustainability reporting, or supply chain management according to the criteria of external bodies such as SA8000.

The three CR types proposed are naturally idealizations that are not completely separate from one another in business practice. For example, many companies may have a CR portfolio, which is likely to include activities conforming to different types. Companies that primarily follow the CR Integration approach may also conduct some philanthropic activities especially in cultural settings where this is expected of them for 'licence to operate' reasons. Second, CR Integration and CR Innovation tend to be related in the sense that more ordinary and established CR activities that conform to CR Integration type are likely to precede BOP initiatives that represent the CR Innovation type. In other words, companies that have integrated responsibility considerations into their existing operations may be more open to observing social and environmental problems and may more readily accept that it is possible to produce innovative product or service solutions to such problems. Moreover, when a company adopts a BOP approach, its former CR Integration activities are likely to remain and coexist alongside these new CR Innovation activities. This co-existence of different kinds of activities does not prevent distinguishing firms from one another with respect to which CR action type is dominant in their operations.

We recognize that the identification of the three CR types is not in itself a major contribution to the extant literature in this domain. While developing yet another CR typology has its merits, our aim is also to go a step further and examine the influence of the CR mode on the outcomes that result. By means of the typology of CR action types outlined above, this should be possible. We will next discuss how and the extent to which this typology makes it possible to scrutinize the links between CR actions and their outcomes.

Financial and societal outcomes of different types of corporate responsibility

An analytic distinction can be made between the financial and societal outcomes of CR. On the one hand, CR influences the financial performance of the firm. On the other hand, CR leads to societal outcomes. We have already mentioned that our aim is to complement the study of the outcomes of CR in two respects. First, we introduced the idea that different ways of implementing CR are likely to generate different outcomes, and presented a new CR action typology. Second, in this section we utilize this CR action typology to explore the financial and the societal outcomes of corporate responsibility (Blowfield and Frynas, 2005; Margolis and Walsh, 2003).

TABLE II

CR Innovation examples

Business model	Description	Social problem addressed	Solution	Business benefit
Cemex's Patrimonio Hoy (construction industry)	Saving&credit – scheme for adding one room to a house at a time	The poor do not have means to buy sufficient amount of building materials at one time	A three-family saving& credit scheme, which makes it possible to use low and infrequent income for building concrete housing	New business for new market segment
ICICI Bank's micro-credit scheme (banking industry)	Micro-credits for rural poor population who do not have access to normal banking	Difficulty of the poor to generate entrepreneurial livelihood because of lacking access to start-up capital	Setting up local self-help groups (SHG) in rural areas. Group-based lending concept: SGHs receive the loan and choose to whom loans are given. They are responsible for pay-back. Minimal involvement of ICICI employees makes the concept possible	Entering a new market segment profitably
ITC's[a] eChoupal's direct soy bean procurement (food industry)	Buying soy beans directly from farmers (eliminate middle men)	Inequity and inefficiency of the supply chain. Smallholder farmers' income remains low due to exploiting intermediaries	Several interconnected: – Village PC and Internet which allow farmers to follow price development of their produce and sell at best price – Electronic scales – Bagging that eliminates cheating – Up-front payments	Getting good quality soybeans (because prices vary according to quality compared to previous)

[a]ITC is the Indian subsidiary of British American Tobacco. In addition to tobacco, its businesses include hotels, food and paper.

The influence of action type on the financial outcomes of CR

Traditionally, CR research has taken the view that corporate responsibility and financial performance are a zero-sum game. That is, a responsible company has to compromise on the financial side. Over the past few decades, however, many researchers have tried to show that CR pays off, if not in the short term, at least in the longer run in the form of social legitimacy, employee motivation or other benefits. For one, there is plenty of case study evidence indicating that responsibility generates economic benefits through increased employee loyalty, longer-term relationships with customers, better risk management and efficiency improvements (Dunphy et al., 2003; Reinhardt, 1999). Second, a number of quantitative studies indicate that proactive CR – particularly environmental responsibility – is profitable for the firm (Guimaraes and Liska, 1995; Nakao et al., 2007; Porter and van der Linde, 1995). A recent meta-analysis also indicates a positive link between corporate social and financial performance (Orlitzky et al., 2003).

Nonetheless, in aggregate, the results on the financial outcomes of CR remain inconclusive (Godfrey, 2005; Margolis and Walsh, 2003; McWilliams and Siegel, 2000). Part of the reason for the contradictory findings may lie in imperfect methodologies (McWilliams and Siegel, 2000; Orlitzky et al., 2003), but the mixed evidence also implies that the framing of the question, ''is CR profitable or not'', may not be fruitful (Simpson and Kohers, 2002). In addition to contextual variables such as the industry (Simpson and Kohers, 2002), country (Salzmann et al., 2005) and environmental dynamism (Goll and Rasheed, 2004), the different ways of practising corporate responsibility should also be included in the analyses, as these ways may influence the outcomes (Barnett and Salomon, 2006; Hillman and Keim, 2001).

The analysis by Hillman and Keim (2001) is one of the few empirical studies investigating the influence of the type of CR on financial performance. With information of over 300 of Standard & Poor's 500 companies, they found that responsible management of primary stakeholder relationships accrues improved shareholder value, whereas charity-type CR (i.e. philanthropy), which is not related to primary stakeholders, is negatively associated with shareholder value. Integrating responsibility with core business means investing in key stakeholder relations, which in turn may lead to improved customer loyalty, less employee turnover and the like. These tacit assets appear to be a source of competitive advantage which is difficult for competitors to copy. This is not the case in charity-based CR activities (Hillman and Keim, 2001).

Hence, there is at least some empirical evidence to support our argument that the type of CR action makes a difference for CR financial outcomes. In the same vein, the microeconomic analysis of Husted and De Jesus Salazar (2006) indicates that a strategic rather than altruistic CR approach is more profitable for the firm. In our view, CR can be judged to be 'strategic' when it supports core business activities and thereby contributes to the firm's effectiveness in accomplishing its mission. Philanthropy can also be strategic, but in practice it seldom is (Burke and Logsdon, 1996; Porter and Kramer, 2002, 2006).

On the basis of the above, it can thus be hypothesized that action-type CR Integration is more prominent in terms of financial outcomes than philanthropy. But how does CR Innovation – using social or environmental problems as a source of innovation for new products, services or business models – influence financial performance? To our knowledge, there are no quantitative studies available on this issue. A number of documented BOP business examples are available for instance in Prahalad (2005), Hart (2005), and Hart and Christensen (2002), but the BOP business phenomenon is so recent that the research interest has concentrated on the successful examples. The BOP business evidence implies that CR Innovation is in many cases financially profitable, but due to the research settings from which this evidence has been drawn, this evidence is best considered as indicative only.

Like CR Integration, CR Innovation is usually close to the core business of the firm. Its strategic role can, however, be different from that of CR Integration. Namely, CR Innovation involves creating new products, services or business models that may be particularly important for the future of the company. Occasionally CR Innovation also means conquering major new markets – particularly in the case of the BOP approach. Hence, we assume that activities conforming to both CR Integration and CR Innovation types have a tendency of being closely related to companies' core operations. CR, which is close to core business, allows the firm to collect particular benefits of CR programmes and activities, rather than simply creating collective goods, which can be shared by others in the industry, community or the society at large (Burke and Logsdon, 1996; Porter and Kramer, 2006). In sum, the above suggests that both CR Integration and CR Innovation may carry more financial performance potential than philanthropy (Burke and Logsdon, 1996).[6]

The influence of action type on the societal outcomes of CR

The above suggests that Integration and Innovation types of CR action are more profitable to a company than philanthropy. Somewhat more surprisingly, it seems that such strategically oriented approaches to CR also yield more substantial societal outcomes than charity and philanthropy (cf. Burke and Logsdon, 1996; Husted and De Jesus Salazar, 2006; Porter and Kramer, 2006).

A case in point here is the work conducted in developing countries. After decades of failed governmental efforts, there are now expectations that corporations could deliver better solutions to pressing development problems (Easterly, 2006). CR has been widely accepted as an approach or a tool in this task. However, it appears that when business interests are not aligned with those of the poor and marginalized in the developing countries, the business case tends to override the development case (Blowfield and Frynas, 2005; Frynas, 2005). CR practices popular in the north may not be transferable to conditions in developing countries where there are major power disparities. In those strikingly different conditions these approaches may not deliver the expected societal benefits. In the absence of donor, NGO or government pressure, there is little incentive for companies to act if there are no immediately observable financial outcomes of CR activities (Nevell, 2005). Moreover, there is indication that even major charitable corporate spending does not deliver expected results due to corruption, the problems of short-termism, and the fact that company staff tends to focus on technical and managerial solutions and is unable to involve beneficiaries of CR work. For instance, the effectiveness of the estimated US$500 million in CR spending by oil, gas and mining companies on community development in different countries has been increasingly questioned (Frynas, 2005).

The above, however, does not imply that all kinds of CR endeavours are doomed to fail. The negative evidence presented above comes mainly from the philanthropic type of CR whereas actions conforming to CR Integration and CR Innovation types are based on a different logic. CR Integration would mean high standards in environmental management of production,[7] paying fair compensation to workers in own facilities and applying similar responsibility policies to suppliers' operations.[8] Alternatively, CR Innovation is about the development of products and services with which to solve or alleviate social or environmental problems. At the same time, activities that represent the CR Innovation type especially emphasize opportunities to increase the autonomy of those being helped, and thus to prevent them from being continuously in need of further aid.

Why would the societal outcomes of philanthropy be less beneficial than those of the two other CR types? This is first and foremost because philanthropic activities tend to remain disconnected and isolated from the corporate operating units. This is not to say that philanthropy could not be well-targeted and long-term – it can (Godfrey, 2005) – but much of corporate philanthropy consists of incidental initiatives towards generic social issues. The social impacts of these initiatives are often sporadic (Porter and Kramer, 2002, 2006). On the contrary, when a company addresses its own existing business from the responsibility perspective, the efforts tend to be aligned with business operations. When the social benefits and business incentives are aligned, more managers and employees, including the socially less attuned ones, are more likely to engage in responsible activities. It should also be taken into account that in times of economic hardship, philanthropic activities are at risk. In the strategic case there are less chances that CR activities will be abandoned.

Figure 1 summarizes the main observations made above. It suggests that of the three types of CR outlined in this article, philanthropic CR tends to be the least integrated with the core business of the company, whereas the CR Integration and CR Innovation approaches are more tightly interwoven with core business. There is evidence that the financial and societal outcomes of CR Integration are more substantial than those of Philanthropy (Hillman and Keim, 2001). In addition, there is case-based evidence suggesting that the CR Innovation type of responsibility may accrue the highest

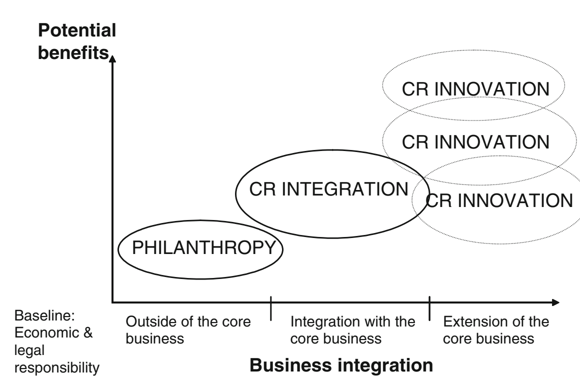

Figure 1. Level of business integration of CR types and the potential for expected financial and social benefits.

potential benefit – both for the practising firm as well as for society (Prahalad, 2005). However, since there is not yet sufficient critical evidence, it will remain to be seen how the outcomes of CR Innovation compare with the ones of the two other CR types, especially with CR Integration (Figure 1). That is why we have illustrated CR Innovation with three outcome positions.

When interpreting the figure above, it should be kept in mind that it is intended to depict the dominant CR approach of a company. It is also a rough visualization of the general argument that does not necessarily apply to all individual cases. Finally, we recognize that it is possible that some single CR measures and undertakings have negative societal consequences, which is a situation excluded from the above graphic illustration.

Conclusions

Our societies today face a number of pressing problems such as climate change, resource depletion and escalating poverty, to name just a few. These ills are exacerbated by globalization, which is making it increasingly difficult for nation-states to effectively address and tackle them. Globalization has changed the power relations between political and economic actors (Scherer and Palazzo, 2007). Multinational and other large companies have been gaining in power at the expense of nation-states, and at least so far no international governmental organization has been able to redress the situation. As a result, the idea of corporate responsibility has enjoyed increasing popularity. The idea itself goes back many decades but with the growth of expectations regarding voluntary responsibility of corporations on a global scale, many related questions have gained greater currency again. One of these is the question of whether corporate responsibility brings about positive societal outcomes. The analysis above, however, suggests that there is remarkably little systematic research on that issue.

A question that is drawing more attention from both company managers and CR researchers today is whether corporate responsibility is financially profitable for the firms that practise it. Recent evidence indicates that it is too simplistic just to ask, ''is CR beneficial for financial (and societal) performance or not'' (Aguilera et al., 2007; Barnett, 2007; Lankoski, 2007). The reason this is too simplistic is because CR can take many forms and it can be practised in different ways. We have argued here that one of the many reasons behind the inconsistent results of research on the impact of corporate responsibility to financial performance lies in its failure to pay sufficient attention to the different ways in which CR can be practised.

Although it has been suggested in some recent studies (Aguilera et al., 2007; Barnett, 2007) that we would need to research the outcomes of different types of CR, they have not identified or scrutinized any such types. Instead, they refer more or less casually to various CR activities such as the avoidance of child labour, humanitarian aid or environmental protection. While recognizing the merit of research that seeks to study how different CR activities or issues influence financial performance, we suggest that it makes sense to shift the focus away from specific CR activities. This has led us to propose the three CR action-orientation types.

The importance of these different CR action-orientation types – Philanthropy, CR Integration and CR Innovation – lies first and foremost in their ability to influence the relationship between CR activities and their financial and societal outcomes. For instance, environmental protection can assume different forms depending on whether the firm is philanthropically oriented (makes donations to environmental conservation causes) or whether it seeks to integrate environmental concerns (e.g. sets up an environmental management system at its production facilities) or chooses an innovative approach (develops new eco-efficient products or services). Likewise, an MNC can engage in poverty reduction by making donations and other forms of charity (Philanthropy), by paying just wages to employees working at its units in developing countries (CR Integration), or by launching business models that give poor people access to affordable products or services that will solve their problems, such as subsistence farmers' need for information about the going market rate for their produce (CR Innovation). An example of the latter is provided by the Village Phone business models introduced by Nokia and Grameen Bank or other microcredit institutions. Hence, we find that CR action-orientation may provide a more accurate prediction of the financial and societal outcomes of CR than single activities.

The material reviewed and discussed above suggests that the financial performance of companies may differ depending on the type of CR action conducted. It appears that companies profit least of all from philanthropy. In addition, and somewhat counter-intuitively, philanthropy seems to have the most modest societal benefits. There is some indication that CR Integration and CR Innovation have more potential with regard to both financial and societal outcomes. In making this observation we must emphasize, however, that hardly any contemporary company relies on one type of CR actions only, but usually it is possible to identify a predominant action-type. We also acknowledge that as in most CR research, the propositions put forward in this work are most applicable to large instead of small and medium-sized companies.

We recognize that our findings are contrary to the beliefs of many CR researchers and lay people alike. It is relatively often – at least implicitly – assumed that altruistically motivated, philanthropic contributions are the best way for corporations to contribute to society. At the same time, strategic CR (here CR Integration and CR Innovation) tend to be perceived as more self-interested and thus less beneficial. Our contradictory findings, however, are not entirely without previous support (Husted and De Jesus Salazar, 2006; Porter and Kramer, 2006). This leads us to presume that we will see further supporting evidence as the empirical research on the impacts of different types of CR continues to accumulate.

We also acknowledge that the typology suggested here is only one step towards a more elaborated understanding of corporate responsibility actions and their financial and societal outcomes. With respect to future studies, we have two points to make. First, although there is some earlier research into the ways in which companies may benefit from corporate (social) responsibility, the problem remains that most of this work fails to specify the kinds of CR activities being practised. Future studies should therefore ''look behind the CR label'' and investigate the kinds of outcomes produced by each type of CR (cf. Husted and De Jesus Salazar, 2006; McWilliams et al., 2006).

In general, our study underlines the fact that corporate CR activities do not take place in a vacuum. Companies are an integral part of society and their CR activities should therefore be understood in relation to the social structure in which the company operates. Different social structures call for different corporate responsibility inputs. CR needs are different in a developing country with a neo-liberal economy than they are in an established welfare state. Hence, combined with political economy perspectives, the CR types laid out in this article may further our understanding of the feasibility of CR types in different political and societal contexts.

Taken together, the present study has paved the way for more fine-grained studies of the different kinds of financial and societal effects that CR may have. Combined with observations in recent writings about the performance outcomes of various CR activities (Lankoski, 2007) and stakeholder influence capacity (Barnett, 2007), we should be much better placed now to create research designs that will open up a more realistic understanding of the CR–FP relationship. As a start, we have named a few societal outcomes of CR activities for illustrative purposes. Future studies will need to address these outcomes in a more detailed fashion. These outcomes also need to be examined in a variety of research designs and using different empirical measures. For the time being, there are some promising, mainly single-case studies on the societal outcomes of CR (Frynas, 2005). The integration of these studies with CR–FP research offers much potential that we hope will be realized in future work.

Notes

[1] In fact, for some the term corporate social responsibility may indicate denial of the environmental responsibility of business (DesJardins, 1998), which is a confusion that we want to avoid.

[2] This is called Responsiveness in Wood's (1991) model.

[3] The difference between the suggested typology is that Hillman and Keim (2001) take stakeholder orientation as the basis for categorizing the actions of the analysed firms. CR Integration in their terminology would resemble the category of firms that act responsibly towards their primary stakeholders such as customers, employees and suppliers.

[4] Hillman and Keim (2001) termed this approach to CR as "Social issue participation", which comprises issues such as charity, giving programmes, donations and avoidance of 'sin industries', that is nuclear, tobacco, alcohol or gambling.

[5] Payment delays are a common problem in supplier relationships where a large client has considerable power over a supplier. These situations occur when there are a few large industrial buyers and multiple small or medium-sized suppliers who mainly depend on one or two clients (Zadek, 2004).

[6] It should, however, be noted that Hillman and Keim focus on practical activities, whereas the categorization by Husted and De Jesus Salazar is based on the motivation for CR. The support is valid only if we interpret the altruistic approach in Husted and De Jesus Salazar's model to correspond to what Hillman and Keim call the charity approach.

[7] For instance, oil drilling in developing countries results in clearance of land, leading to long-lasting or permanent loss of vegetation, release of drilling fluids into the ecosystem, and damage from leaking pipelines or atmospheric emissions from the flaring of gas (Frynas, 2005, pp. 594–595). CR Integration would require minimizing the harmful impacts of these operations. For paper companies this approach would mean that wood comes from sustainably managed forests and that papermaking processes are eco-efficient and do not pollute waterways and air.

[8] At a macro-economic level, one of the first steps for companies that are large players in the developing countries is to publish the amount of revenues and taxes paid to the host government as one part of bearing responsibility.

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