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Achieving legitimacy through corporate social responsibility: The case of emerging economy firms

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ABSTRACT

To manage stakeholder CSR pressures, firms from emerging economies can employ two legitimation strategies simultaneously – compliance and strategic adaptation. Compliance is useful in responding to explicitly expressed demands for CSR, while strategic adaptation is useful when a specific form of CSR is seen as most instrumental in drawing positive responses from a particular stakeholder group. We analyze the adoption of two extreme CSR forms – philanthropy and sustainability. In a sample of 288 firms from China, we demonstrate that firms adopt both CSR forms, but emphasize philanthropy when seeking legitimacy with outsider stakeholders and sustainability with insider stakeholders.

1. Introduction

Corporate social responsibility (CSR), also called corporate citizenship or sustainable responsible business, is becoming an increasingly important subject of discussion among scholars of management (e.g. Barnett, 2007; Carroll, 1996; Davis & Thompson, 1994; Godfrey, Merrill, & Hansen, 2009; Rupp, Williams, & Aguilera, 2011; Windsor, 2006). CSR represents a form of corporate behavioral disposition toward stakeholders, such as consumers, employees, and the public (Wood, 1991). CSR initiatives may include actions within the firm such as incorporating greater environmental and safety standards, as well as actions outside the firm such as charitable contributions to local communities. To date, scholars have examined both the organizational motives for engaging in CSR initiatives (Aguilera, Rupp, Williams, & Ganapathi, 2007; Bansal & Roth, 2000) and the corporate performance implications of CSR actions (Godfrey, 2005; Halme & Laurila, 2009; Wang & Qian, 2011), but have paid less attention to the variability among organizations in adopting different forms of CSR. We focus on a major motivation for firms to adopt CSR initiatives – legitimation (Bansal & Roth, 2000), and explain how firms may undertake different strategies to achieve legitimacy leading them to emphasize different forms of CSR.

According to the legitimation view of CSR, organizations adopt CSR initiatives in order to strengthen the appropriateness of their actions within a given set of regulations, norms, values, and beliefs established by multiple stakeholders (Suchman, 1995). By improving their legitimacy, firms aim to achieve the approval of stakeholders which may translate into survival, long-term sustainability, lower risk, and employee satisfaction (Bansal & Roth, 2000). By borrowing from stakeholder theory (Donaldson & Preston, 1995; Freeman, 1984), the main focus of this view is on the need for firms to comply with stakeholder pressures, as well as on the potential challenges that arise for firms when these pressures are incoherent. A major approach for firms to manage conflicts in stakeholder CSR pressures is to introduce CSR practices superficially, rather than substantively (Weaver, Trevino, & Cochran, 1999).

Although the above proposition is introduced at a general CSR level, a number of studies examine the influence of various firm characteristics or conditions on specific domains under CSR. For example, Wang and Qian (2011: p. 1159) investigate corporate philanthropy and its changing impact on firm performance under different conditions. They suggest that firms prefer adopting philanthropy "because it helps firms gain sociopolitical legitimacy, which enables them to elicit positive stakeholder responses and to gain political access." Brammer and Millington (2004) investigate the changing determinants of corporate charitable donations, from profits to stakeholder influences, in two time periods. In a qualitative study, Bansal and Roth (2000) reveal three motivations for firms to enforce ecological responsiveness – competitiveness, legitimation, and ecological responsibility. Branzei, Ursacki-Bryant, Vertinsky, and Zhang (2004) then explain the formation

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of green strategies from the perspective of top executives and Berrone, Cruz, Gomez-Mejia, and Larraza-Kintana (2010) find that family-controlled public firms have a better environmental performance than their nonfamily counterparts.

Nevertheless, to the extent these studies examine the strategic utility of CSR they center on the explicitly expressed pressures within specific domains of CSR but do not take into account the perceived importance and strategic use of different CSR forms to elicit positive responses from different stakeholder groups. As a direct consequence, compliance and strategic adaptation to CSR pressures are seen as alternative, rather than simultaneous, approaches. Additionally, strategic adaptation to stakeholder pressures can take other forms, in addition to the adoption of superficial CSR practices; namely, with legitimation strategy options at hand, firms can deliberately emphasize one form of CSR over another after thorough evaluation of the expected outcomes each CSR form may bring.

To address these deficiencies, we argue that to manage stakeholder CSR pressures, firms can employ two legitimation strategies simultaneously – compliance and strategic adaptation. Compliance is useful in responding to explicitly expressed CSR demands appealed for by stakeholders because improving legitimacy depends on the approval of stakeholders. Strategic adaptation is the deliberate emphasis on a given form of CSR beyond some threshold level needed to satisfy explicit demands. It is useful when the corresponding form is seen as most instrumental in drawing positive responses from a particular stakeholder group beyond what can be achieved with conformity to demanded behavior. In essence, firms can improve their legitimacy by adopting not only a compliance strategy, where they undertake CSR initiatives in order to reduce the potential negative consequences from non-compliance, but also a strategic adaptation strategy, where they deliberately emphasize specific CSR practices to maximize the legitimacy benefits from implicit positive evaluations.

To illustrate the application of these two legitimation strategies, we focus on two very different approaches to CSR practiced by organizations – philanthropy and sustainability. Philanthropy denotes the practice of expending corporate resources for social causes external to the organization's immediate business and may include charitable donations in the areas of education, healthcare, infrastructure, or the environment, whereas sustainability initiatives emphasize the incorporation of a sense of responsibility in a firm's value creation process (Godfrey, 2005; Hillman & Keim, 2001). The key difference is that philanthropic activities are external to an organization's immediate business, while sustainability practices are directly related to the core business operations of an organization (Halme & Laurila, 2009). We analyze how each of these CSR practices is used to comply or to strategically adapt to stakeholder demands for CSR.

This distinction between philanthropy and sustainability practices allows us to differentiate between insider (employees) and outsider (customers, partners, and non-government organizations) stakeholders and examine how firms use specific forms of CSR to react to stakeholders' explicit CSR pressures, as well as to pursue legitimacy with each of these stakeholder groups. In particular, do firms respond to explicitly expressed insider or outsider stakeholder CSR pressures by adopting CSR forms that are internal or external to the firm's core business, or both? In addition, do firms employ internally or externally oriented CSR forms in order to achieve legitimacy with insider or outsider stakeholders? The main relationships corresponding to these questions are illustrated on our conceptual model in Fig. 1.

Further, because legitimacy-driven CSR initiatives by firms operate in a broader CSR regulatory environment that influences the expectations of various stakeholders (Kagan, Gunningham, & Thornton, 2003; Lepoutre, Dentchev, & Heene, 2007), we examine the moderating effects of perceived uncertainty in CSR regulation on the above relationships. Finally, in response to developments in the literature about the importance of CSR commitment at all levels of an organization (Suchman, 1995), we test whether firm CSR commitment is more instrumental in moderating the adoption of internal CSR forms (sustainability) in response to stakeholders' CSR pressures and in pursuit of higher internal legitimacy. Overall, we expect that our study will have important implications for the conditions that orchestrate robust CSR initiatives among firms, and in particular, for the role of stakeholders as key assessors of firms' legitimacy in this process.

2. Hypotheses

2.1. Legitimation strategies of compliance and strategic adaptation

In an extension to the institutional theory, Oliver (1991) argues that organizations can employ different strategic responses to institutional pressures that range from passive conformity to active resistance. By merging insights from institutional theory (DiMaggio & Powell, 1983), which emphasizes passive behavior and adherence to externally imposed criteria of acceptable behavior, and resource dependence theory (Pfeffer & Salancik, 1978), which acknowledges the strategic utility of active behavior and adaptation within an external context, Oliver (1991: p. 151) suggests that "organizational responses will vary from conforming to resistant, from passive to active, from preconscious to controlling, from impotent to influential, and from habitual to opportunistic, depending on the institutional pressures toward

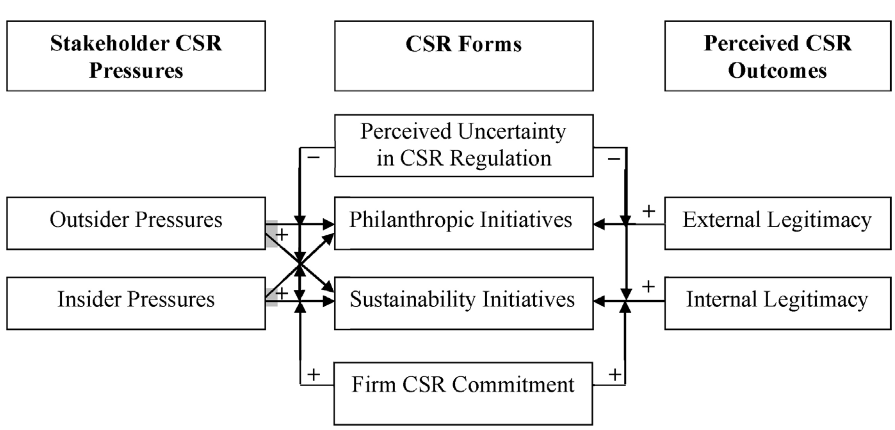

Fig. 1. A conceptual model of adopting different CSR forms.