



Corporate Social Responsibility (CSR) Models and Theories in Stakeholder Dialogue

By Linda O’Riordan and Jenny Fairbrass

School of Management
University of Bradford
Emm Lane
Bradford
BD9 4JL

E-mail: linda.oriordan@freenet.de

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ABSTRACT

The pharmaceutical sector, an industry already facing stiff tests in the form of intensified competition and strategic consolidation, has increasingly become subject to a variety of other pressures. Significantly, in common with other large-scale businesses, pharmaceutical firms are being exhorted to respond positively to the challenge of corporate (social) responsibility (CSR). Clearly, for individual managers within pharmaceutical firms the issue of CSR in the form of closely connected questions relating to patient access to health treatment, patent protection and affordability presents major problems. Part of the burden of addressing the demands of CSR is the need to engage effectively with a range of stakeholders. Individual managers in pharmaceutical companies have to confront the complicated task of choosing which stakeholder dialogue practices to adopt and why. This real-world management predicament runs parallel to an academic interest in CSR stakeholder dialogue theory and models. Accordingly, this paper contributes to primarily to the academic debate by reviewing past attempts to theorise CSR and stakeholder dialogue, identifying gaps and weaknesses, and proposing a diagram-type model as a refined prototype framework. However, ultimately the intention is to offer guidance to business managers. The model proposed here contains those factors considered most relevant for describing, analysing, and explaining the CSR stakeholder dialogue practices of pharmaceutical companies, with the intention of conducting comparative international research. It is envisaged that the model outlined will be employed in future empirical research concerning stakeholder dialogue practices amongst UK and German pharmaceutical firms.



INTRODUCTION

Given the critical attention that ‘big business’ in general and pharmaceutical companies in particular have received from *inter alia* the media, Governments and non-governmental organisations (NGOs), the pharmaceutical sector has increasingly come under the pressure of responding to the challenge of corporate (social) responsibility (CSR). This trend is set against a background in which the industry is already under considerable pressures arising from intensified competition and strategic consolidation. Clearly, CSR and the closely connected questions of access to health treatment, patent protection and affordability present major concerns for managers of pharmaceutical companies today. Part of the burden of addressing the demands of CSR is the need to engage effectively with a range of stakeholders. Individual managers in pharmaceutical companies have to confront the complicated task of choosing which stakeholder dialogue practices to adopt and why. This real-world management predicament runs parallel to an academic interest in CSR stakeholder dialogue theory and models.

To develop the points introduced above, it could be argued that the general public, whether rightly or wrongly, typically holds a negative perception of ‘big business’ (Acutt 2004:306; Clark 2000; Crane & Matten 2004:12; Deresky 2000:16; Greenfield 2004; Handy 2003:78; Hoertz Badaracco 1998; Kotler and Lee, 2005:221-2; Weiss 1998:4; www.mallenbaker.net 2004). One likely cause for the negative image associated with ‘big business’ is the repeated occurrence of certain high profile events, labelled by many as ‘scandals’. These events have involved some of the largest and, previously, most highly regarded organisations in the world including, for example, Enron, Arthur Andersen, Parmalat, Shell, Nestlé, Union Carbide and Nike (Ruggie 2003; O’Higgins 2005; Handy 2003). Their tainted image has often been fuelled by attention from the media and other stakeholders (Oxfam/VSO/Save the Children 2002; Clark 2000; Brammer and Pavelin 2004; www.twinside.org, 2004; Weiss 1998:35).



The pharmaceutical industry in particular has been criticised by various stakeholders for a variety of reasons including their allegedly high profit levels, use of patents, marketing expenditures, political lobbying, considerable investment requirement for new drug development, 'creative accounting', high price levels and price fixing, excessive executive salary levels, limited patient access to life saving/extending/enhancing drugs, animal testing, research methods and patient clinical trials, as well as environmental concerns (Haugh 2003; Quist-Arcton 2001; www.ethicalmatters.co.uk. 2004; www.iblf.org 2004). Accordingly, the pharmaceutical industry has been selected as the case study for this paper because it is deemed to be a distinctive for a number of reasons. First, given the nature of its products (i.e. therapies for human consumption to enhance the quality of life, to cure illness and/or save lives) the industry operates in a highly regulated market place. Second, owing to the very high level of profits it makes and extreme concentration of power found in the industry, which has been described as having "reached staggering proportions" (Rifkin 2005:2). The third reason is that the profits it makes are derived from a basic human need: health. This is regarded by many as a basic human need (www.abpi.org.uk, 2005).

Undoubtedly, for all types of business, how a firm is viewed and evaluated by stakeholders is likely to have a major impact its interactions with its stakeholders and is, therefore, a matter of significant managerial interest. However, for pharmaceutical companies in particular, who regularly face informed, critical, and active stakeholder attention from government, the media, from NGOs, and the public at large the nature of their relationships and communications with stakeholders are especially important. Many of these stakeholder groups view, to varying degrees, health as a fundamental human right and the direct responsibility of a sector that makes high profits relative to other industries. At the same time, financial stakeholders and



regulators continue to place more demands on financial performance and information requirements.

In short, business in general, but in particular the pharmaceutical industry, has come under increasing pressure from its stakeholders to act responsibly and to engage effectively with stakeholders via various dialogue practices. ‘Stakeholder dialogue’ has come to be seen by some as part of the broader spectrum of socially responsible action and activities that should be undertaken by companies. Stakeholder theory (Freeman 1984) suggests the idea that investing time and other resources in addressing stakeholders’ interests is a justifiable managerial activity. In this way stakeholder dialogue stands in contrast with the past explicit profit-orientated focus held by business, which was the focus of previous strategic, planning approaches (Crane and Matten 2004:50). The task of developing effective CSR stakeholder dialogue strategies for individual business managers in general, but in particular in the pharmaceutical business, an industry that is often termed “sensitive”, and whether rightly or wrongly, a proven prime target for negative stakeholder attention, is without doubt a challenge.

Building on some initial exploratory empirical research conducted in 2005 (Fairbrass *et al.* 2005), this paper makes a timely contribution to the debate about CSR and stakeholder dialogue practices. The paper plays its part primarily by entering the academic debate but in also offering some guidance for business managers. To achieve these objectives, the paper reviews past attempts to theorise stakeholder dialogue, identifies gaps and weaknesses in previous literature, and proposes a diagram-type model as a refined prototype framework. The model proposed here contains those factors considered most relevant for describing, analysing, and explaining the CSR stakeholder dialogue practices of pharmaceutical companies, with the intention of conducting comparative international research. It is envisaged that the proposed



model here will be employed in conducting empirical research concerning CSR and stakeholder dialogue practices amongst UK and German pharmaceutical firms.

This paper aims to present an alternative framework that describes, refines, and explains CSR stakeholder dialogue within the context of the pharmaceutical industry. To achieve these aims, the paper selectively maps the literature including key concepts, ideas, and some theories, frameworks, and models on some subjectively chosen areas specifically related to the topic. The aim is to identify contemporary debates and show the importance of the various factors within the context of the CSR stakeholder dialogue challenge. The paper is theoretical in design and based on desk research comprising a literature review and secondary empirical data. The real world CSR stakeholder dialogue challenges facing pharmaceutical decision makers when choosing which practices to adopt form the basis for an academic perspective to theorise and model CSR stakeholder dialogue.

The remainder of this paper is divided into three parts as follows. Section two serves to justify the need for a new model by highlighting the key factors considered relevant for the development of a prototype model and indicating how current research fails to adequately provide such a framework. In doing so the paper briefly provides an analytical, evaluative, and critically orientated review of salient themes, theories, and frameworks within CSR, stakeholder dialogue, and the pharmaceutical industry. Section three then selects, describes, and justifies those elements that are considered to be critical for explaining CSR stakeholder dialogue practices and thought to be essential to the new prototype model. Finally section four concludes the paper by summarising, clarifying, and defending the choice of elements and factors in the model.



CSR AND STAKEHOLDER DIALOGUE: A LITERATURE REVIEW

This section of the paper examines some of the key terms and concepts employed in the paper: namely, CSR and stakeholder dialogue. We turn first to CSR.

Corporate Social Responsibility

Although it is not a new concept, CSR remains an emerging and elusive idea for academics, and a contested issue for business managers and their stakeholders. Owing to the range of contrasting definitions, and often convoluted by varying use of terminology, the notion of CSR has led to the emergence of a variety of practices (Freeman 1984; Crane and Matten 2004; Welford 2004; Habisch and Jonker 2005; Fairbrass *et al* 2005). In brief, the concept of CSR has evolved considerably since it first emerged in the 1950s (Carroll 1999; Freeman 1984:38; Carroll and Beiler 1977; Sturdivant 1977). As a result there appears to be disagreement about what the term means, whether it should be implemented, how it should be implemented, or why it should be implemented (Welford 2004; Stigson 2002).

Three specific factors may have been instrumental in determining that a vast amount of literature has emerged over the last half a century with regard to CSR. They include: the topic's long research history during which many and varied theories, concepts, models, and themes have emerged (Carroll 1999; Welford 2004; Habisch and Jonker 2005; Fairbrass *et al* 2005); the 'loaded nature' of the topic which has resulted in two features: a). a generally negative image association, and b). confusion due to situation complexity, and in particular the question of responsibility/obligation (Freeman 1984; Crane and Matten 2004); and gaps between rhetoric and reality.

In short, definitions of the term CSR may depend on individual perceptions of responsibility/obligation that in turn addresses the broader topic of the role of the organisation in society (Deresky 2000; Stigson 2002; Woodward *et al* 2001; Maignan *et al.* 2002; Maignan



and Ferrell 2003; Epstein and Roy 2001; Haugh 2003; Crane and Matten 2004:439). In brief, the concept of CSR encompasses many dimensions of business activity ranging from the social (e.g.. community programmes), to economic (e.g. employment) to the environmental (e.g. waste reduction). As part of fulfilling CSR obligations, firms can be expected to engage with their stakeholders, an activity that may be labelled stakeholder dialogue, to determine appropriate business behaviour under each of the three headings. It is to the topic of stakeholders and stakeholder dialogue that the paper now turns.

Stakeholders and stakeholder dialogue

The term “stakeholders” is broad in scope and have been defined as all those with a ‘critical eye’ on corporate actors (Bowmann-Larsen and Wiggen 2004). Freeman (1984:52) states that stakeholders are

“groups and individuals who can affect or are affected by, the achievement of an organization’s mission“.

Stakeholders, acting either formally or informally, individually or collectively, are a key element in the firm’s external environment that can positively or negatively affect the organisation (Murray and Vogel 1997:142). Their diverse nature and range of actors intrinsically present a problem for individual managers who are searching for a clear working definition for stakeholder dialogue. The challenge for business involves identifying to whom and for whom they are responsible, and how far that responsibility extends. Underpinning the difficulties of managing the relationship between a business and its stakeholders are the issues of divergent (and often conflicting) expectations between stakeholders (Greenfield 2004; Deresky 2000; Bowmann-Larsen and Wiggen 2004; [www.mallenbaker.net\(b\)](http://www.mallenbaker.net(b)) 2004; Murray and Vogel 1997; Stigson 2002; Castka et al 2004; Brammer and Pavelin 2004:706;



www.theglobalist.com 2004; www.iblf.org 2004; Oxfam/VSO/Save the Children 2002); contextual complexities (Daniels and Radebaugh 2001; Freeman 1984; Bowmann-Larsen and Wiggen 2004) that are further complicated by varying interpretations arising out of different geographical regions and cultures (Deresky 2000; Bowmann-Larsen and Wiggen 2004; [www.mallenbaker.net\(b\)](http://www.mallenbaker.net(b)) 2004; Stigson 2002; Castka et al 2004; Woodward *et al* 2001; Maignan *et al.* 2002; Maignan and Ferrell 2003; Epstein and Roy 2001; Haugh 2003; Crane and Matten 2004:439); and the challenge of identifying the best CSR stakeholder dialogue strategy and then communicating this to stakeholders (Weiss 1998). When attempting to manage these challenges, CSR stakeholder dialogue can be seen as a key vehicle for the “exchange” of CSR offerings between the firm and its societal publics, or stakeholders (Murray and Vogel 1997:142). This exchange is one in which the firm offers something of value (typically a social benefit or public service) to an important constituency and, in turn, anticipates receiving the approval and support of key individuals and/or socio-political groups in its environment.

The discussion immediately above indicates why it may be appropriate for managers to look to the firms’ constituencies and stakeholders when approaching strategic CSR planning activities (Murray and Vogel 1997:142), and how stakeholder dialogue plays a vital part in the development of CSR strategies.

Overview of Previous Relevant Analytical Frameworks

Having outlined in brief some of the basic issues arising from the terms and concepts used in this paper, we now turn to exploring in more detail some of the key contributions to the literature on CSR and stakeholder dialogue. Having conducted an extensive literature search and review, a number of key issues have been identified that are thought to be highly pertinent



to the discussion of CSR and stakeholder dialogue practices. See Figure 1, which takes the forms of a literature map that indicates the key factors identified.

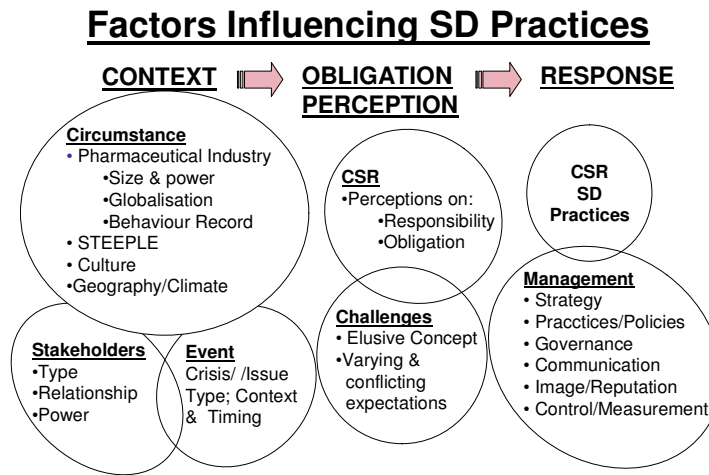


Figure 1 Factors Influencing Stakeholder Dialogue Practices

Source: Authors

To provide further detail, see Figure 2, which provides an overview of the literature reviewed and the frameworks, concepts, ideas, models, categorisations, and classifications that were encountered and considered to be useful for describing, analysing and explaining stakeholder dialogue behaviour. For clarification, the literature selected was deliberately purposive. The review was designed to elicit information about what models and frameworks already exist, and how, where, when, and for what purpose they are deemed insufficient and weak or useful and beneficial to the research aims.



Category	Topic	Sub Topic	Framework/theory/concept/classification etc.	
CSR Drivers/Influencers	Context/Circumstance	Environment Analysis	PEST Culture Dimensions: (Hofstede 1997; Trompenaars 2004) Porter's Five Forces (Porter 1985) Economic/political stance model (Blum-Kusterer & Hussain 2000:302 & 303) Open System's Model (Deresky 2000:19) Environmental variables affecting management functions (Deresky 2000:106) PWC model (www.PWC.com 2005:1)	
		People	Exceptional Communicators (Gladwell 2005) Idea of net-workers; knowledgeable people and motivators	
		Event	Issue type and Impact (Gladwell 2005)	
Behaviour/Response	Values	Philosophy; Vision; Mission; Objectives	Factor overview: (Challen 1974:40; www.sustainability.com 2005:1)	
		Defined scope/boundaries/limitations of CSR responsibility/obligation	(Deresky 2000: 56; Esrock & Leichy 1998)	
	Alternatives	Response models and option selection/prioritisation	Carroll's CSR Model (Deresky 2000:57) and (Clark 2000:369) Level of social response (Teoh and Thong 1984:190) Market transaction approach to goodwill (Murray & Vogel 1997:142) Theory on response (Woodward 2001:359) Value creation (Burke and Logsdon 1996:496&497) (Knoepfel 2001:8&10) Dow Jones categories for assessing response	
		Strategy	Evaluation and selection of response action plan	Factors driving CSR (www.sustainability.com 2005:1)
			Governance Programmes/practices/policies to support	Response - (Deresky 2000:63 & 69) codes of conduct & definition & decision making schema :72/72)
	Communication	Stakeholder Dialogue	Communication process (Deresky 2000:140); channels & cultural factors (:161); Model (:151 & 154) Differences between two country's styles (:155)	Managing company-stakeholder interdependence (Deresky 2000:74-83)
			Stakeholder Dialogue	Stakeholder dialogue process (Burke and Logsdon 1996:501)
PR			Stakeholder Practices Stages (Clark 2000:367;369-370; & 374)	
Control Indicators	Measurement of various aspects	Useful approach (Brammer & Pavelin:708)	Indicators of CSR (Esrock & Leichy1998: 307)	
		List of issues/ company response & list of indicators (Veleva et al 2003:115)		
Business Outcomes	Credibility	Image/Reputation/Goodwill		

Figure 2 Overview of Selected Frameworks

Source: Authos

In summary, the frameworks identified in Figure 2 were deemed to be useful (to varying degrees) in so far as they serve a variety of purposes with regard to CSR and stakeholder dialogue practices. The following tools are thought to be especially useful:

- STEEPLE for analysing the environment
- Other models that attempt to grasp the complex features of the environment. e.g. Porter's classic five forces model is focused on examining industry rivalry.

