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Corporate Social Responsibility and Firm Size

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ABSTRACT. Small and medium-sized firms form 90% of the worldwide population of businesses. However, it has been argued that given their smaller scale of operations, resource access constraints and lower visibility, smaller firms are less likely to participate in Corporate Social Responsibility (CSR) initiatives. This article examines the different economic motivations of firms with varying combinations of visibility, resource access and scale of operations. Arguments are presented to propose that in terms of visibility, resource access and operating scale, very small and very large firms are equally motivated to participate in CSR. However, the motivational bases for CSR participation are likely to be different. Medium-sized firms are the least motivated. This suggests a U-shaped relationship between firm size and CSR participation. This study contributes towards resolution of the long-standing debate on the effects of firm size on CSR participation, and highlights the importance of considering configurations of firm characteristics in the study of CSR outcomes. In conclusion, cautions are raised against the broad categorization of firms, without adequate attention to the underlying dimensions of such categorizations.

KEY WORDS: Corporate social responsibility, Resources, Size, Visibility, Scale of operations

Firm participation in Corporate Social Responsibility (CSR) can be explained using various motivational bases. These motivations can be broadly classified into strategic and altruistic (Campbell et al., 1999; Lantos, 2001), thereby positioning the economic motives for CSR involvement (e.g. Donaldson and Preston, 1995; Hillman and Keim, 2001), alongside moral ones (e.g. Joyner and Payne, 2002). In practical terms, both scientific evidence (Margolis and Walsh, 2003; Orlitzky et al., 2003; Waddock and Graves, 1997), and consumer reaction (McWilliams and Siegel, 2001), have signalled to firms that their participation in CSR is likely to be rewarded, resulting in improved performance. CSR participation can enhance various stakeholder relations (McWilliams and Siegel, 2001), thereby reducing the firm's business risk (Boutin-Dufresne and Savaria, 2004). For these reasons, the strategic value of CSR is becoming increasingly recognized (Porter and Kramer, 2002; Saiia, 2002).

Various firm-level attributes, however, are likely to affect firm CSR participation, and understanding these effects is essential, as firms attempt to derive strategic value from CSR. Out of these, the issue of firm size is identified as both vital and relatively unexamined (Madden et al., 2006). Firm size can affect strategic motivation, thereby having a positive effect on CSR participation (Adams and Hardwick, 1998; McElroy and Siegfred, 1985). As larger firms tend to have a bigger social impact, given the scale of their activities (Cowen et al., 1987), it is deemed equitable that the onus to be socially responsible also falls on them, rather than on small firms. Surprisingly, evidence suggests that many smaller firms tend to be involved in CSR activities in some way, particularly through donations and giving (Madden et al., 2006). The question, therefore, arises, what motivates such CSR participation by smaller firms, and moreover, is it economically justified?

Small and Medium-sized Enterprises (SMEs) form 90% of the worldwide population of firms, and employ more than 50% of all labour in the private sector (United Nations, 2002). The prevalence of such firms makes it necessary to categorically refute, or justify, the arguments positing their lesser participation. However, applying models developed with

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larger firms in mind to this purpose is not appropriate, since corporate cultures will be different across the two types of firms (Jenkins, 2004). To this end, in this article, I aim to develop a theoretical model of firm size and CSR participation that takes into account differences in the motivations for CSR participation, across firms of varying size.

This article makes two innovative contributions to the existing body of research. First, I propose that the relationship between firm size and CSR participation is best represented as a U-shaped function. This is important because it can potentially reconcile existing views for and against the associations between larger firms and CSR participation. Second, I highlight the importance of configurations or combinations of firm-level attributes, as affecting CSR participation. This provides deeper insight into the factors that stimulate firm CSR participation.

Does size matter? A review of the theoretical perspectives

The topic of CSR has been approached from many different theoretical perspectives. Using agency theory, many scholars examined the appropriateness of using firm profits towards social initiatives, leading thereby to the view that CSR participation shares a strong association with higher levels of managerial autonomy (Atkinson and Galaskiewicz, 1988), and managerial utility (Navarro, 1988). This debate, however, has since progressed, mainly as a result of the strategic value that is now attached to CSR (e.g. Porter and Kramer, 2002). Consequently, current theoretical approaches to CSR issues highlight how firms can benefit from CSR participation, alongside the moral imperatives for such involvement.

The institutional or legitimacy-based view links the firm to its external context by suggesting that CSR involvement is fuelled by various stakeholder demands, and is rewarded with legitimacy (Hooghiemestra, 2000). In turn, this may also enhance the firm's access to various resources, a suggestion found also under the economic view of CSR. Organizational theory perspectives of CSR (e.g. Donaldson, 2001), however, emphasize the role of the firm's architecture, in affecting CSR outcomes. Certain types of firms may more readily associate with CSR participation, and further, are able to benefit from such initiatives. The power explanation (Pfeffer and Salancik, 1978) derived from sociological literature discusses the relative positions of corporations and social entities, in terms of the former's pressure-resistance.

Taken together, these theories contribute to the discussion on firm size and CSR, focussing on different firm attributes that are associated with size. A well-accepted view is that larger firms tend to be more visible, and so are likely to be more socially responsive. By comparison, smaller firms may face fewer pressures, or gain little recognition from CSR, given their comparatively lower visibility. At the same time, the argument that larger firms are more resistant to influences and, therefore, are less socially responsive (Meznar and Nigh, 1995) presents a conflicting thesis. The impact of firm size on CSR participation is also related to the issue of access to resource (Brammer and Millington, 2006). Larger firms are associated with greater resource-slack, and this was found to significantly affect their CSR commitment (Johnson and Greening, 1999). Smaller firms often have constrained or inadequate resources, which may make it unviable for them to engage in CSR initiatives. The third attribute associated with firm size tends towards the organization. Larger organizations may also have more evolved administrative processes (Donaldson, 2001), and perceive and deal with the external environment differently, given their business exposure (Miles, 1987). As a result, their internal systems for dealing with the management of issues would also be more advanced, leading to greater responsiveness to social issues (Brammer and Millington, 2006).

This state of affairs can be summarized to suggest that, while there is significant consensus that size, in itself, is only indicative of other, more complex, phenomena that affect CSR participation, little research models these phenomena. Ultimately, it may be possible to draw broad conclusions on the basis of size, provided that interrelations between the associated attributes are also considered. The rich legacy of theories provides much scope for research by way of integrative contributions. The current study is, however, a more modest attempt, which draws from these views towards examining the specific issue of firm size and CSR participation.

The rest of this article is structured as follows: I first present arguments relating to three firm-level attributes associated with the discussion on firm size and CSR: visibility, resource access and operating scope. Competing hypotheses are presented to show that cases exist for and against positive associations with CSR participation. I then outline how the combination of these three attributes may better illustrate the motivations for firm CSR participation. This, in turn, is broadly extrapolated to conclude that the relationship between firm size and CSR participation is likely to be U-shaped. The discussion highlights the implications and contributions of this study, and also outlines its limitations. Possibilities for further research are also considered in detail.

A model of firm size and CSR participation

I begin with the widely accepted principle that firm participation in CSR is positively associated with its performance. This economic rationale or 'business case' for CSR forms the basic rationale for firm involvement in CSR (Owen and Scherer, 1993). Hence, the various firm-level attributes that are associated with the debate on firm size and CSR, are so connected because of their performance implications.

Model elements and relationships

The next step is to identify the firm-level attributes, to be included in the model. Drawing from literature discussed in the preceding section, firm visibility and resource access are included. I also include, based on arguments by Miles (1987) and Donaldson (2001), the broader operations of the organization. The model I propose is as follows: In combination, these three attributes affect the degree, to which firms participate in CSR initiatives, given that the rationale for firm involvement is the expectation of enhanced performance. These attributes can also be associated with firm size. Consequently, it may be possible to typify smaller firms by a particular configuration of these attributes, as compared to larger firms, and draw broad conclusions as to the impact of firm size on CSR participation.

Firm visibility
Various stakeholders often use CSR as a criterion to judge companies (Lewis, 2003). The demand for CSR from various constituents is often communicated in the form of normative guidelines or influences (Maignan and Ferrell, 2004; Shepard et al., 1997). Such influences are likely to affect more visible firms, as compared to less visible firms. Firms that are more visible are likely to gain more as a result of enhanced legitimacy and reputation effects, or may also suffer damages to their reputation, for inadequate participation in CSR. This serves as justification for the former's participation in CSR initiatives, but the same rationale may not extend to less visible firms. As a result, less visible firms will tend to be less inclined towards CSR initiatives, as compared to more visible firms.

H1a: Firm visibility is positively associated with firm CSR participation.

However, there are also arguments to support the view that less visible firms may be equally motivated to pursue CSR initiatives. The marginal utility of enhanced legitimacy or positive reputation is possibly greater for less visible firms than for firms with higher visibility. Given that CSR is a potential source of legitimacy (Hooghiemestra, 2000; Shepard et al., 1997), and also that legitimacy substantially enhances firm performance (Oliver, 1991), it is likely that less visible firms will also attempt to gain legitimacy, wherever possible. Hence, although the former firms might not face similar risks, as compared to firms with higher visibility, of loss of legitimacy and reputation for failure to participate in CSR, the potential benefits would serve as incentive.

H1b: Firm visibility is negatively associated with firm CSR participation.

Resource access

Firms that face resource limitations are more likely to apply available resources towards enhancing their competitive advantage through more traditional means of competition. By comparison, firms with resource-slack are better able to make charitable donations and invest in CSR initiatives (Johnson and Greening, 1999). Firms with higher cash flows can better respond to a wider set of stakeholder pressures, through discretionary activities such as CSR initiatives (McGuire et al., 1988), whereas firms with lower profits cannot engage in such discretionary behaviour, given shareholder and creditor demands (Brammer and Millington, 2006). This may inhibit the participation of such firms, in CSR activities. Resource-rich firms, on the other hand face comparatively less constraints, and may be more inclined to discharge social responsibilities.

H2a: Firm resource access is positively associated with firm CSR participation.

Many strategic outcomes, such as increased managerial utility (Bartkus et al., 2002; Navarro, 1988), and enhanced stakeholder relationships (Saiia et al., 2003) are associated with CSR, to the extent that firms' choice of CSR initiatives might be strategic (Van de Ven and Jeurissen, 2005). Such benefits are likely to appeal to all firms generally and more so to firms that may face resource access constraints. Particularly, CSR participation can help the firm gain exclusive access to various resources, including environmental or natural resources (Aragon-Correa and Sharma, 2003), human resources (Albinger and Freeman, 2000) and social resources, such as legitimacy (Sanchez, 2000) and networks. CSR participation can also help secure more common resources, such as capital, at costs lower than competitors, since CSR initiatives are positively associated with risk-reduction (Boutin-Dufresne and Savaria, 2004). Firms with constrained or inadequate resource access may approach CSR as a strategic means to garner critical resources, sometimes to the exclusion of competitors.

H2b: Firm resource access is negatively associated with firm CSR participation.

Firm operations

At both the administrative and the functional levels firm operations can influence CSR involvement. Firms with well-defined decision-making processes, and management structures are likely to be more participative, since their systems for dealing with external issues may be better developed (Bhambri and Sonnenfeld, 1988; Donaldson, 2001; Miles, 1987). The organizational maturity associated with such firms makes it likely that these firms also have clear structures, particularly in terms of expertise and ability, and may be better positioned to make meaningful CSR contributions. Increasingly, firms draw upon their organization's competencies to frame CSR initiatives (Dunfee and Hess, 2000; Hess et al., 2002). For example, Coca Cola has drawn on its marketing competencies towards advertising for AIDS awareness (McKay, 2001).

Firms are also under pressure to ensure that social initiatives are carried out at little extra cost to the organization (Van de Ven and Jeurissen, 2005), leading to specialization of CSR initiatives, with emphasis on the firm's competencies. Firms with higher scale of operations may be in a better position to efficiently re-organize or re-allocate resources. These firms are likely to be more successful at carrying out prominent CSR initiatives, and achieving perceptible social change. Scale-economies may improve corporate social performance (Brammer and Millington, 2006), and some forms of CSR may, in fact, require implementation on a large scale to be socially effective. This is likely to deter firms with smaller-scale operations from participating in such initiatives. Such firms may be dissuaded by the likelihood that their participation may not be prominent, and is not likely to generate benefits. Firms may also avoid CSR participation, as a cautionary measure, since inadequate or ineffective implementation may result in detrimental reputation effects.

H3a: Firm scale of operations is positively associated with firm CSR participation.

Where firms with larger-scale operations are able to better allocate and more efficiently exploit their resources to offer specialized CSR initiatives without incurring high additional costs, firms with smaller-scale operations cannot replicate these advantages. At the same time, these latter firms may also be restricted in the extent, to which they can gain cost advantages from economies of scale. Such firms may aim to gain competitive advantage on the basis of differentiation strategy, and would find CSR initiatives particularly useful (Jones, 1999). At the business level, many CSR initiatives can add perceived value to the firms' product offering. As a result, consumers may have a preference for the firm's product, and may also be willing to pay a premium for it (McWilliams and Siegel, 2001). For example, products that carry assurances of being environmental friendly, or use natural resources that are harvested in a sustainable manner, are being increasingly preferred by consumers.

In addition, CSR initiatives can also add value by enhancing the firm's competencies and help the firm improve use of its existing resources. CSR participation provides a basis for relationship building with buyers and suppliers (Smith, 1994), which, in turn, can help the firm gain competitive advantage. These arguments suggest that, contrary to the earlier proposition, firms that have smaller scale of operations may benefit greatly from CSR, perhaps even more than firms with larger-scale operations. While firms with larger-scale operations can exploit greater economies of scale, firms with smaller-scale operations may not be able to meet the level of resource investment required to gain similar economies of scale. Therefore, differentiation strategy, and increased efficiency of resource exploitation, are both likely to be more important to the latter firms, as compared to the former.

H3b: Firm scale of operations is negatively associated with firm CSR participation.

Combined Effects

Since it is highly likely that smaller firms will have lower visibility, lower resource access and smaller scale of operations, these arguments can be extended broadly to address the distinction between smaller and larger firms. However, as discussed in the preceding sections, both large and small firms may be equally motivated (or not) to participate in CSR initiatives.

A possible reason for this is that size does not matter, after all. This account, however, suffers two limitations: (a) the dichotomous classification of 'large' and 'small' tells us little about a vast population of firms that are in between the extremes and (b) it does not address the issue of motivations for CSR participation. I, therefore, reject this explanation, and propose another: Meznar and Nigh (1995) draw attention to the balance between firm visibility and firm power. If larger firms tend to be more visible, by the same argument, larger firms should have greater power, and would also tend to be more pressure-resistant. Hence, it is the varying levels of visibility and pressure-resistance, that determine whether the firm tends to participate in CSR initiatives, or not. This leads to the notion that it is the configuration of attributes within the firm, which affects CSR participation. The contingency view of CSR (Husted, 2000) posits that the nature of CSR involvement would vary according to the context, which, in turn, is determined by external elements, and firm structure and processes. In this way, the variation in configurations of the three attributes associated with firm size, may well lead to different motivations for and against CSR. This, in turn, would affect the level or likelihood of firm CSR participation.

Thus, intermediate to a dichotomous view of firm size, and a more fine-grained approach based on the different functions associated with firm size, I propose an association based on the different combination of the three attributes: firm visibility, resource access and scale of operations. That is, while the smallest firms may be associated with the least visibility, resource access and scope of operations, and the largest with the most; many firms are likely to fall in between these two extremes. These intermediate firms would nevertheless differ from each other, in terms of their mix of visibility, resource access and scale of operations. It is these differences that are likely to explain variation in firm CSR participation.

Consider, by way of illustration, a firm with low visibility, resource access constraints and smaller scale of operation. Applying the arguments presented earlier, this firm is likely to be highly motivated to participate in CSR initiatives. Taking the other extreme into consideration, a firm with high visibility, good resource access and larger scale of operations is also quite likely to participate in CSR activities. By comparison with these two firms, a firm with low visibility, and smaller scale of operations, but with reasonably adequate resource access may be less motivated towards CSR participation. Given the adequacy of access to resources, the strategic value of CSR to this firm in terms of potential access to resources and also as a basis for a differentiation strategy, is limited. The firm may not be under much scrutiny, given its lower visibility, and it may see CSR participation as being an investment without commensurate returns, given the smaller scale of operations. Hence, the firm finds little external pressure, or internal motivation, to support its participation in CSR initiatives.

Should the same firm find itself more visible, given the same levels of resource access and smaller scale of operations, it is likely that this firm will be more motivated towards CSR participation. Such participation, however, may tend to be ‘decoupled’ rather than integrated with the firm’s internal operations (Weaver et al., 1999), given the largely ceremonial purpose of such participation. CSR participation, in this case, is motivated mainly by the firm’s high visibility, with little strategic value expectations by way of the resource-provision or differentiation roles of CSR participation. On this basis, it becomes possible to broadly distinguish between such low or moderate CSR participation, and the higher levels of participation associated with very small or very large firms.

I similarly examined the motivations, and resultant participation outcomes, of all combinations of visibility, resource access and scale of operations. In the interests of brevity, these are summarized in Table I. It is interesting to note that different motivations support the case for CSR participation, for each configuration of variables. The combination of visibility, resource access and operating scale, makes it possible to identify potential effects that are not apparent when considering these attributes severally. For example, recall Jones’ (1999) argument that a differentiation strategy is particularly linked to CSR participation. This is indeed likely, especially for firms with smaller scale of operations, since they are more likely to rely on differentiation. However, I also suggest that the combination of constrained access to resources and larger scale of operations makes CSR a valuable strategic option that is related to cost-leadership strategy. CSR can enhance the firm’s access to resources, which may be critical to derive economies of scale, and the pursuit of cost-leadership.

TABLE I

Firm attributes and the motivations for CSR participation

	Firm attributes			CSR participation	Motivating factors
Size	Visibility	Resource access	Scale of operations		
Small	Low	Low	Small	High	Basis for differentiation, and access to resources. Firms likely to seek visibility in order to enhance access to resources.
	High	Low	Small	High	Basis for differentiation, and access to resources. Firms also under scrutiny of various stakeholders.
	Low	Low	Large	Moderately high	Low-cost means of access to resources, essential to gain from cost-leadership based on scale of operations. Firms may also seek visibility.
	Low	High	Small	Moderate	Basis for differentiation strategy. Firms however not likely to be under much scrutiny, and are also pressure-resistant.
	Low	High	Large	Low	Least motivation, given lesser visibility and higher pressure-resistance due to resource access and scale of operations.
	High	High	Small	Moderately high	Firm under scrutiny of stakeholders. However, firms may be pressure-resistant given resource access. Supports differentiation strategy.
	High	Low	Large	High	Low cost means of access required to gain from large scale of operations. In addition, the firm is highly visible.
Large	High	High	Large	High	Firms perceived as visible, and able to commit resources to CSR. Non-participation likely to be detrimental, even though firms may be moderately pressure-resistant.

Discussion and conclusion

Theoretical contributions

As far as a survey of the literature shows, this study is the first that proposes that the effect of firm size, on CSR participation, is U-shaped. I present arguments that suggest that different combinations of firm visibility, resource access and scale of operations, result in different motivations for firm participation in CSR. Both very small and very large firms are likely to participate more in CSR initiatives, whereas mid-sized firms will have the least participation.

The key implications of this study are as follows: This study contributes to a topic of scholarly and practical interest, in as much as, it identifies the group of firms that is least likely to participate in CSR initiatives. The arguments suggest that mid-sized firms are, in fact, the least likely to participate, as compared to very small or very large firms. Such mid-sized firms may require additional impetus, by way of targeted action from stakeholders and social organizations. This article offers a new suggestion towards resolving a long-standing theoretical and empirical debate, on the effects of firm size. I propose that it is the combination of three attributes that has an impact on CSR participation, and that this relationship is U-shaped in nature. In this way, it is possible to reconcile the different explanations proposed in previous studies.

This study also contributes to the larger discussion on the relevance and impact of firm size, as an explanatory variable. Managerial opinion has alternately gone for, and against, being a large firm. It is also widely accepted amongst scholars that size is one of the most fundamental firm characteristics that can impact many outcomes, and for this reason, is often included as a control variable. But what does size mean? In this study, size is broadly conceptualized as a combination of multiple attributes. In addition, I propose that the functional implication of firm size varies with the context. In the case of CSR, size is interpreted to mean visibility, access to resources and operating scale, however, this meaning may differ according to the context of study.

Finally, this study presents a caution against the broad categorization of firms, without adequate attention to the underlying dimensions of these categorizations: Such categorizations may sometimes justify inadequately supported conclusions, such as the one that CSR may be relatively unimportant for smaller firms. However, this study proposes that CSR is relevant to such firms, for a set of motivations that are completely different from those driving larger firms' participation in CSR.

Limitations

This study is constrained mainly by the following boundary conditions: It was assumed that the explanations offered in previous research for the effects of firm size on CSR participation, suffice to link size to the firm attribute. To elaborate, given that lower visibility is offered as an explanation for the lack of smaller firms' CSR participation, the assumption is that smaller firms are more likely to have lower visibility. This limitation is justified on two counts. First, these assumptions are based on a highly rigorous body of prior research, and second, these assumptions only restrict the broad conclusions drawn with reference to categories of firms, as small and large. That is, this does not affect the basic propositions, which link visibility, resource access and scale of operations, to CSR participation.

Also, the three attributes identified, visibility, resource access and scale of operation, are posited to affect firm CSR participation, given a firm's anticipation of enhanced performance as the underlying impetus. As a result, this study is restricted in focus to the economic motivations of CSR, and does not take into account the moral motivations for CSR participation.

Future research directions

I identify two broad streams of research that may interest scholars, the first, with a focus on CSR issues, and the second, emphasizing the multi-dimensionality of firm size. The firm-level attributes associated with size are not exhaustive, though they are, as suggested by previous research, the most relevant to the issue of CSR participation. Creating multi-dimensional models of firm size in the context of other topical issues in management research may be useful. This may also spur some review of the role and relevance of firm size.

In terms of CSR research, this study fundamentally highlights that firms are not uniform in their motivations to participate in CSR initiatives. So far the debate has largely focussed on the economic versus the moral motivations of CSR. However, even within the set of economic motivations, different types of firms may respond to different incentives. Consequently, further investigation into the diverse economic motivations for CSR participation is an important avenue of future research. Moving forwards specifically from the current study, empirical investigation of the proposed U-shaped function of the relationship between firm size and CSR participation is required. To this end, I note that the arguments presented in this study are framed as hypotheses, rather than propositions, such that the testability of these averments is maintained.

Conclusion

A (2002) report by the United Nations Industrial Development Organization (UNIDO) highlights distinctions between large, small and medium-sized firms, to conclude that unique business cases must be developed in order promote to CSR initiatives by the latter, and to ensure that such smaller firms are able to strategically benefit from such initiatives. The current study contributes to this overall direction by proposing that very small and very large firms may be equally inclined to participate in CSR activities, however, their motivations for doing so are very different. Highlighting the motives relevant to each group of firms is important, in order to maintain and enhance CSR participation by these different types of firms.

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