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Litz, Reginald A
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A Resource-based-view of the Socially Responsible Firm: Stakeholder Interdependence, Ethical Awareness, and Issue Responsiveness as Strategic Assets

Reginald A. Litz

ABSTRACT. In recent years the resource-based view of the firm has made significant headway in explaining differences in interfirm performance. However, this perspective has not considered the social and ethical dimensions of organizational resources. This paper seeks to provide such an integration. Using Kuhn's three stage model of adaptive behavior, the resource worthiness of stakeholder management, business ethics, and issues management are explored. The paper concludes by drawing on prospect theory to understand the reasons for this conceptual lacuna.

During the past ten years a number of strategic management scholars (Wernerfelt, 1984; Grant, 1991; Barney, 1991) have breathed new conceptual life into a framework that had been dormant for over two decades. The concept, currently referred to as the resource-based view of the firm (Barney, 1991), seeks to understand interfirm performance differentials as a reflection of the different underlying resource endowments enjoyed by competing firms. By focusing on firm-specific characteristics this perspective deviates from traditional neo-classical economic theory where competitors have been assumed to be essentially homogeneous (Scherer and Ross, 1990; Teece, 1990).

Reginald A. Litz is assistant professor of business administration specializing in strategic management and corporate social responsibility at the Faculty of Management at the University of Manitoba in Winnipeg, Canada. His current research interests include corporate social responsibility and executive self-deception.

While the resource-based perspective has made significant inroads in the strategic management community, it is interesting to note a commensurate lack of attention dedicated to conceptualizing the resource-worthiness of a corporation's social and ethical response capabilities. The implication of this omission is clear; capacities to perceive, assess, and respond to the social and ethical dimensions of daily corporate life apparently are not worthy of being considered resources in the fullest sense of the word.

It is out of this theoretical lacuna that the motivation for this paper is found. More specifically, this paper seeks to expand the domain of the resource-based view by exploring its integration with the conceptual frameworks of corporate social responsibility (Davis, 1973, 1975), corporate social responsiveness (Ackerman and Bauer, 1976; Sethi, 1979), and corporate social performance (Wartick and Cochran, 1985; Wood, 1991).

This task is undertaken in four stages. First, selected literature on the resource-based view of the firm is reviewed. This is followed by an overview of selected works on corporate social responsibility, responsiveness, and performance. The paper then explores the integrative potential of the literature. Finally, a discussion based on insights derived from prospect theory (Tversky and Kahneman, 1979, 1981) is presented concerning why this integration has not been previously considered.

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The resource-based-view of the firm

The neo-classical economic tradition has made important contributions to our understanding of competitive conduct. Insights concerning the evolution of industry structure (Porter, 1980; Scherer and Ross, 1990) have aided in clarifying the nature of competitive interaction in different industry environments. However neo-classical economics has also been limited by an implicit assumption of competitor homogeneity (Teece, 1990). By assuming that all competing firms are essentially indistinguishable, and by implication that any interfirm resource heterogeneity is, at best, shortlived, this perspective's explanatory power is inherently restricted to scenarios consisting of homogeneous rivals.

Webster's Third International Dictionary defines a resource as a "capability or skill in meeting a situation" (1986, p. 1934). Building from this definition, this resource-based view of the firm essentially proposes that a firm is defined by the resources it controls. This definition makes intuitive sense insofar as a firm's defensible domain (Thompson, 1967) is bounded by those situations in which it is able to operate both efficiently and effectively (Barnard, 1938; Drucker, 1967). This perspective implies that insofar as firms differ in their capabilities and skills, and therefore in the "situations" in which they are able to function, observable differences are to be expected in interfirm performance.

While this concept has recently made a significant comeback, its origins trace back several decades. Beginning with Schumpeter's (1934) insights on the firm-specific advantages resulting from entrepreneurial acumen, and continuing with Selznick's (1957) emphasis on "distinctive competence" and Penrose's (1959) view of the firm as "a collection of resources," a theoretical perspective focusing on the intra-organizational sources of competitive advantage evolved. Recently, after a near quarter century of dormancy, the concept resurfaced in the work of several strategic management scholars. These included Wernerfelt (1984) who described resources in terms of their "semi-permanent attachment to the firm," Prahalad and Hamel (1990) who reframed resources as core competencies, and Grant (1991) who explored linkages between a firm's resources and its profitability.

Barney's (1991) conceptual work on resource characteristics was especially helpful. He proposed that resources be characterized as simultaneously valuable, rare, nonsubstitutable, and inimitable. To the extent that an organization's physical assets, infra-structure, and workforce satisfy these criteria, they qualify as resources. Barney also noted the subtle and enigmatic challenge of defining resources. More specifically, the resource potential of such intangible dimensions as relational and cognitive capabilities may, at times, be at best described rather than explicitly codified.

Taken together, this body of work suggests two major conclusions concerning the relationship between resources and competitive advantage. The first conclusion is that the comparative quality and quantity of resources controlled by an enterprise has significant implications for both firm performance and sustainability. A second conclusion is somewhat more subtle; perhaps the key resource underlying all other resources is perceptual in nature. To the extent one or more individuals within a firm are able to perceive and enact (Weick, 1979) the dormant resource potential of the firm's physical, organizational, and human assets, that firm possesses quite possibly the most crucial resource of all.

While work to date has considered several aspects of the resource-performance relationship, conceptual development has been truncated by a restricted focus on the more fundamentalist (Preston and Post, 1975) aspects of business. More specifically, there has been little consideration for the extent to which social and ethical capabilities may, by contributing to an organization's sustainability, also be worthy of full resource status. Before exploring this possibility in greater detail, an overview of the historical evolution of corporate social responsibility, responsiveness, and performance is presented.

Corporate social responsibility, responsiveness and performance

Contemporary discussion of a corporation's social responsibility began amidst the affluence of post-

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World War II America. Individuals such as Bowen (1953), McGuire (1963), and Elbing and Elbing (1967) advocated that corporations take deliberate and substantial steps toward accepting the social obligations and responsibilities arising from their prominent and powerful position in contemporary society. One example of the evangelistic conviction of early writers is encapsulated in McGuire's concluding admonition:

> if America and the free world are to survive, our business system must take the lead toward a more decent way of life for all mankind. (1963, p. 304)

At the same time such advice was scorned by more traditional fundamentalists (Preston and Post, 1975) such as Levitt (1958) and Friedman (1982). Levitt interpreted efforts to increase corporate social responsibility as tantamount to destroying the capitalist system. Likewise, Friedman, in his now-classic dictum, argued that the social responsibility of the corporation was to "use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" (1982, p. 133). It was amidst such opposition that the modern concept of corporate social responsibility was born.

Building on the foundations laid by earlier scholars, expanded conceptualizations of the social responsibility construct were proposed. These included the 1973 and 1975 works of Davis; the former codified arguments for and against corporate social responsibility; the latter advocated that business recognize the Iron Law of Responsibility (Davis and Blomstrom, 1975, p. 50). Amidst these and other early efforts a definitional problem became quickly apparent; how could responsibility be definitively articulated amidst an ethically pluralistic culture? Exacerbating the challenge of pluralism was the compounding reality of varied and diverse industry environments (Porter, 1980). In short, not only was there a lack of theoretical consensus on the meaning of social responsibility per se; there was also the compounding reality of diverse and varied market contexts.

Predictably, the doctrine of corporate social responsibility was subsequently supplemented by a more action-oriented approach termed corporate social responsiveness (Ackerman, 1975; Sethi, 1979). Rather than waste excessive energy on definitional hairsplitting, responsiveness emphasized organizational response capability. This was due, in large part, to the demands of the corporate community which required immediate guidance on the how of responsive action rather than simply the what of moral contemplation.

Important contributors to the conceptualization of corporate social responsiveness included; Sethi (1975) who clarified the distinction between corporate social responsibility and responsiveness; Ackerman and Bauer (1976) who proposed a three step process of issue identification, stake assessment, and response implementation; and Carroll (1979) who advanced a tri-dimensional conceptualization of responsibility, responsiveness, and issue interaction. One complicating result associated with the evolution of corporate social responsiveness was an unfortunate schism arising between business ethics and corporate action. As Jones (1980) pointed out, this separation could conceivably result in the schizophrenic possibilities of a corporation being either responsive and irresponsible, or unresponsive but responsible.

In the past decade the expanded framework of corporate social performance (Wartick and Cochran, 1985; Wood, 1991) has been proposed. Compared to its conceptual predecessors, it seeks to integrate and transcend earlier work by identifying the grounding principles, processes, and outcomes that comprise the study of business and society. Institutional legitimacy (Davis, 1973), organizational public responsibility (Preston and Post, 1975), and individual managerial discretion (Carroll, 1979) constitute the organizing principles of this paradigm. Relevant processes include environmental assessment (Wilson, 1977; Steiner, 1979; Fleming, 1981), stakeholder consideration (Freeman, 1984; Brenner and Cochran, 1991) and issues management (Chase, 1982; Post, Murray, Dickie and Mahon, 1983). The interaction of principles and processes is reflected in outcomes; these include social programs and policies that seek to authentically recognize the social impacts associated with corporate action.

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Integration: A rationale for social and ethical resources

To date the combined potential of the resource-based-view of the firm and the corporate social responsibility, responsiveness, and performance frameworks has not been explicitly explored. Building on the previously reviewed literature, such an integration will now be offered for the reader's consideration. The integration builds on Kuhn's (1963, 1974; Kuhn and Beam, 1982) three stage model of adaptive behavior. He proposed that adaptive behavior begins with stimulus perception, continues with selection of an optimal response, and then concludes with the performance of the response (Fig. 1); in the terminology of Kuhn, adaptive behavior involves a detector, selector, and effector (1982, p. 108).

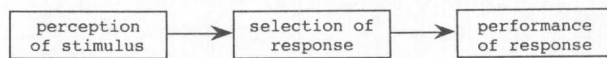

Fig. 1. A three stage model of adaptive behavior (Kuhn, 1981).

Kuhn's model of adaptive behavior may be enriched by several insights derived from the previously-reviewed social responsibility, responsiveness, and performance literature. More specifically, stakeholder theory (Freeman, 1984; Brenner and Cochran, 1991), business ethics (Velasquez, 1982; Carroll, 1987), and issues management (Chase, 1982; Post, Murray, Dickie and Mahon, 1983; Mahon and Cochran, 1991) each make a unique and vital contribution to the process of adaptive behavior (Fig. 2).

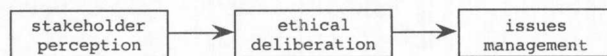

Fig 2. An enriched three stage model of adaptive behavior.

Perceiving interdependence: The resource of stakeholder consideration

Freeman's (1984) stakeholder theory has important implications for the perceptual stage of Kuhn's model. His theory, derived from earlier works on role theory (Merton, 1957; Evan, 1966), essentially posits that an organization's sustainability is determined, in large part, by the extent to which it considers the interests of its stakeholding communities. His definition of a stakeholder as "any group or individual who can affect, or is affected by, the achievement of a corporation's purpose" (Freeman, 1984, p. vi) has important implications for Kuhn's first stage of adaptive response. To the extent a firm's actions are founded on perceptions more consonant with what Freeman termed a "production" (1984, p. 5) or "managerial" (1984, p. 6) view, the organization's actions run the risk of inciting adversarial and retaliatory responses from stakeholders who perceive their interests as having been violated.

Freeman's work on stakeholder management suggests that existing work on the strategic implications of executive perception (Anderson and Paine, 1975; Bourgeois, 1980) might be enriched by a more diverse range of perceptual inputs. Stakeholder theory, by encouraging a richer and more accurate appreciation for the varied, and often conflicting, interests both within and without the corporation, provides such a contribution. Brenner and Cochran (1991) hypothesized that the firm must satisfy some stakeholder needs if it is to maintain institutional legitimacy (Parsons, 1960); however, these needs must of necessity be recognized, or in the terminology of Kuhn, perceived, before they can be responded to.

Thinking ethically: The resource of ethical awareness

Existing work on business ethics makes a significant contribution by enhancing Kuhn's second stage of response selection. As Velasquez's (1982) survey of utilitarian, rule- and rights-based perspectives demonstrates, different ethical models contribute unique and complementary insights necessary for the tasks of moral reasoning and judgement. An inability to dissect and comprehend a situation's components in terms of these three rudimentary frames signals truncated moral development.

Carroll's (1987) distinction between moral,

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immoral, and amoral managers is relevant here. Compared to the obvious and blatant ethical violations perpetrated by the immoral manager, and the proactive and responsible tone of the moral manager, the amoral manager's conduct is somewhat more enigmatic in that it includes both intentional and unintentional behavior. Carroll's description of intentional amoral behavior as reflecting the assumption that "different rules of the game apply in business than in other realms of life" (1987, p. 11) is highly reminiscent of Carr's (1968) poker ethics. In contrast, unintentional amoral behavior refers to a causal or inattentive thoughtlessness that fails to recognize the ethical dimensions that invariably manifest themselves amidst the pursuit of profit.

Power and Vogel's (1980) list of six major elements necessary for competence in moral judgement serves as a basic guide for what might constitute managerial ethical competence. Their list includes moral imagination, moral identification and ordering, moral evaluation, tolerance of moral disagreement and ambiguity, integration of managerial and moral competence, and a sense of moral obligation. In the context of this essay, Carroll's concluding judgement of managerial amorality as "the bane of American management" (1987, p. 15) not only points toward ongoing shortfalls in executive ethical awareness, but also the reality of ethical resources left for forfeit.

Responding effectively: The resource contribution of issues management

Kuhn's third stage, response performance, refers to the system's "capacity for action or behavior that will move the system to or toward the preferred state" (Kuhn, 1982, p. 39). In the context to the corporation, this capacity implies an ability to respond in a decisive and timely manner to relevant stimuli. A number of recent incidents in the corporate arena suggest that such capacity is underdeveloped in a significant number of firms. Examples abound; Ashland Oil's mishandling of an oil spill onto the waterways of western Pennsylvania (Crimmins, Post and Samuelson, 1989), Burrough Wellcome's problems in managing a crisis arising from poisoned Sudafed (Lipman, 1991), and Suzuki's delay in countering the condemnation of a consumer testing group (Weinberger *et al.*, 1991) are but three examples of a slipshod and slovenly corporate response capability. More importantly, these incidents also suggest that response-based resources, that is, "capabilities or skills in [necessary in responding to] situations" (Webster's paraphrased), may have not been sufficiently developed.

In 1982 Chase launched a research stream known as issues management. He defined this construct as:

> . . . the capacity to understand, mobilize, coordinate, and direct all strategic and policy planning functions, and all public affairs/public relations skills, toward the achievement of one objective: meaningful participation in creation of public policy that affects personal and institutional destiny. (Chase, 1982, pp. 1–2)

Chase's grounding work has been subsequently extended by a number of other efforts (Dutton, Fahey and Narayanan, 1983; Arrington and Sawaya, 1984; Dutton and Ottensmeyer, 1987; Mahon and Cochran, 1991).

Three basic lessons emerge from this collection of works. The first lesson is that issue diagnosis is both inevitable within, and idiosyncratic for, every organization (Dutton *et al.*, 1983). A second assertion is that a well-managed issues management process is no small attainment; Arrington and Sawaya (1984) note the ease with which the process can be derailed by superficiality and short-term faddishness. Given its difficulty, a third conclusion naturally follows; properly implemented, issues management can be a undeniable source of competitive advantage. As Mahon and Cochran have noted:

> the managerial effort expended in developing such analysis and plans should yield improved performance in a real crisis situation (Mahon and Cochran, 1991, p. 160)

These works collectively point toward the potential resource value that can be realized in

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the formulating and implementing of responses to the issues the firm is required to address if it is to achieve and maintain institutional legitimacy (Parsons, 1960). While failure to inculcate such capacity may have been overlooked in past decades, the negative ramifications of such omissions will only become only more glaringly apparent in the future. Commenting on this trend, Mahon and Cochran predict that the consequences of such shortfalls will only become much more pronounced in the years ahead:

> Any organization operating today that is unprepared to assess environmental changes and threats, or that is unable to respond quickly and thoroughly to fast moving events that command intense public, governmental and media attention, deserves the harvest that such incapacity will yield. The fruits of such short-sightedness can include destruction of organizational reputation and credibility, civil and criminal litigation, ill-conceived governmental regulation and legislation and, most importantly, forfeiture of legitimacy as an acceptable and conscientious institution within organized society (Mahon and Cochran, 1991, p. 156)

Perception, deliberation and response capacities as resources

The challenge of organizational sustainability may be considered analogically similar to a jigsaw puzzle. The preceding discussion suggests that three essential pieces; stakeholder perception, ethical reflection, and responsive action, have too often been ignored during past assembly efforts. While core proficiencies in the "pieces" of accounting, finance, marketing, and production continue to be necessary, it appears that without the aid of these three additional pieces organizational sustainability becomes increasingly perilous. To the extent the firm is able to recognize its interdependence, reflect upon the ethical standards appropriate to the situation, and react in a timely and responsive manner, it possesses valuable, rare, inimitable, and nonsubstitutable assets, that is, it possesses strategic resources.

Resource framing: The possibility of ideological discrimination

In light of the previous discussion, it is interesting to consider why the relevance of social and ethical resources have been largely overlooked in the strategic management task. One explanation is that "the problems of measurement, uncertainty, and lack of common units" (Arcelus and Schaefer, 1982, p. 347) characteristic of social demands complicate their inclusion. A second explanation, derived from prospect theory (Kahneman and Tversky, 1979, 1981) and work on the economics or discrimination (Becker, 1973) suggests the possibility of ideological discrimination.

In 1981 Tversky and Kahneman reported on a series of experiments that demonstrated a relationship between the "framing" of decision alternatives and resulting decision maker preferences. By manipulating the wording of alternatives to emphasize either the gains or losses associated with the alternative, these researchers demonstrated significant and consistent changes in decision maker preferences. Tversky and Kahneman's core conclusion was that "individuals who face a decision problem and have a definite preference . . . might have a different preference in a different framing of the same problem" (1981, p. 457).

A few years earlier Becker (1973) explored the economics of discrimination. Through his examination of employer, employee, consumer, government and market discrimination he advanced the argument that discrimination by any group serves to reduce not only the victims' incomes, but also that of the perpetrators. Integrating Becker's work with that of Tversky and Kahneman suggests the interesting possibility of ideological discrimination in the resource framing process.

More specifically, it would appear that fundamentalist rationale (Preston and Post, 1975), predicated upon a restricted modus operandi of resource framing, is implicitly predisposed to not recognize the resource value of social and ethical response capabilities. According to this orientation, capabilities to perceive, assess, and respond to social and ethical demands are largely unnec-

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essary and extravagant. Rather, this perspective favors the resource-institutionalization of those factors, such as manufacturing, marketing, finance and accounting, that are more immediately linked to the generation of products, sales, and hence, profits.

Complicating this predisposition is the possibility of framer intransigence. Marketing scholars Burton and Babin (1989) have observed that "the greater the knowledge and experience concerning the product class, the greater the difficulty in impacting the decision frame" (1989, p. 20). To the extent an organization's management assumes a fundamentalistic paradigm to be both appropriate and adequate for the demands of the business environment, it follows that it is less likely to reassess the necessity of supplementing existing resources with social and ethical competencies. Conversely, to the extent management are willing to question the soundness of their resource-framing assumptions, and be open to the possibility of social and ethical blindspots (Zajac and Bazerman, 1991), there exists the possibility of social and ethical competencies being included.

Conclusion

Rather than see social and environmental dimensions as bothersome hindrances, this paper has argued for recognizing their potential in facilitating the development of necessary and enduring sources of strategic advantage. A Kuhn-inspired three stage model of adaptive behavior integrating stakeholder interdependence, ethical reflection, and issues management with the resource-based-view was presented in order to provide a richer perspective on the nature of resource-based competition.

Another Kuhn (1962), in writing on the process of paradigm evolution, noted that paradigms are not so much negated as supplemented. His insight is relevant insofar as the paper has argued for an expanded, that is, a supplemented, view of resource-based competition. The previously cited examples of corporate social and ethical fiascoes illustrate the preventive and redemptive contributions that might have been made by stakeholder consideration, ethical reflection, and responsive action. By supplementing the present resource paradigm not only might similar occurrences be minimized in the future, but the formation of distinctive competence and competitive advantage might be encouraged.

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University of Manitoba,
Faculty of Management,
Winnipeg, MB R3T 5V4,
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