Social impact as a measure of fit between firm activities and stakeholder expectations

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Abstract: Institutional investors are increasingly focusing on firms that prioritise Corporate Social Responsibility (CSR). In the absence of any objective measure of a firm’s CSR Performance (CSP), their investment choices are largely guided by independent rating indices that rank firms according to their social performance metrics. As a result, firms looking to increase their attractiveness as targets of social investment focus their CSR efforts on increasing the visibility of activities that are recognised by such indices. However, the validity of these indices as accurate measures of firms’ actual social performance has repeatedly been called into question. This means that the ability of these indices to measure and report on firms’ actual social impact cannot be ascertained with any degree of accuracy. The result is that firms are incentivised to engage in activities (whether genuine or ‘greenwashing’) that cannot be said to improve social responsibility, and may even ultimately harm society. Thus, another method of measuring CSP must be found that enables firms to measure their true impact on society. We propose a new approach to measuring CSP that is integrated with stakeholder theory. Such an approach provides managers of firms with an interest in engaging in real social development for the purposes of ensuring firm survival with the ability to understand their social obligations, and the ability to measure the resulting benefit to society.

Keywords: Corporate Social Responsibility; CSR; corporate social performance; social indices; salient stakeholders.


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