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Corporate social responsibility and public procurement: How supplying government affects managerial orientations

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1. Introduction

Noting that research in corporate social responsibility\textsuperscript{1} (CSR) tends to focus on CSR-related behaviors as independent variables that affect profitability (see, for example, Aupperle et al. (1985), Berman et al. (1999)), scholars have called for more study of these behaviors as dependent variables (Campbell, 2007; Hiss, 2009). In particular, they call for increased attention to institutional factors (e.g., laws, rules, norms) that serve as drivers to influence and shape a firm’s CSR (Williamson et al., 2006). While the effect of laws and regulations on CSR is often noted (see, for example, Goodpaster (1991), p. 2; Phillips et al. (2003), pp. 490–491), and while some research examines the role of governments in encouraging or enforcing CSR (Aaronson, 2005; McCrudden, 2006, 2007; Moon, 2004), few have studied how, specifically, governmental actions might affect CSR activities or orientations.

1.1. Purpose, scope, and method

This paper responds to the call for study of institutional drivers of CSR by examining how engaging in public procurement\textsuperscript{2} affects a firm’s CSR. When a firm supplies goods and services to the government, it has greater exposure to governmental influences than other firms in at least two related ways: first, by virtue of the buyer–seller relationship; and second, in the legal–regulatory regime that the government as buyer constructs to administer that relationship. These higher levels of exposure to governmental influences create the potential for a firm’s CSR to be shaped differently through public procurement than the CSR of firms with less extensive relations with government. To put it another way, if government is indeed a driver of CSR, its effects should be more evident in those firms from which it buys than in other firms.

Extending this argument, government’s influences on CSR should be most evident in those domains of public procurement which are most highly regulated and where buyer–seller relationships are closest. Accordingly, this paper focuses on defense procurement in the United States (U.S.) for three reasons. First, the procurement of defense products and services is subject to government agencies and organizations acquire supplies and services from outside sources. It encompasses acquisition, contracting, buying, renting, leasing, and purchasing, to include functions such as requirements determination and all phases of contract administration (Tha, 2001, pp. 42–43). In the public sector, “procurement” and “contracting” are both commonly used: procurement in the broad sense as the process of acquiring property or services, beginning with the determination of a requirement, solicitation and selection of sources, and contract administration (Cohen and Eimicke, 2008; Garrett, 2011; Greve, 2008). Thus, contracting is defined as a subset of procurement.

\textsuperscript{1}Recognizing the contested nature of CSR definitions (Matten and Moon, 2008, pp. 405–406), this paper accepts Moon’s definition as “business responsiveness to social agendas in its behavior and to the performance of these responsibilities” (Moon, 2004, p. 2).

\textsuperscript{2}Listed as a “key topic” for Journal of Purchasing and Supply Management (Elsevier, 2012), public procurement includes a variety of means by which
intense scrutiny—and thus extensive regulation—in most developed nations (Rhodes, 2002). Second, the American institutional system for defense procurement is recognized as one of the world’s most mature and extensive (Kausal, 1999; Kausal and Markowski, 2000). Third, defense products and services often have high asset specificity, which tends to bind government buyers and defense firm suppliers more tightly in the defense market than in other markets (McGuinness, 1994; Williamson, 1985). From a methodological perspective, U.S. defense procurement thus represents a case of public procurement in which government’s influences on CSR should be strongest: if these influences are not manifested here, they would likely not be manifested in other cases.

In order to study public procurement’s effects on CSR, this paper uses data obtained from well validated instruments and methodologies that characterize the CSR orientations of firm managers according to four domains: economic, legal, ethical, and discretionary (Aupperle et al., 1985; Carroll, 1979, 1991). Specifically, it examines the CSR orientations of managers in firms that supply defense products in order to determine how these orientations vary with the extent of business these firms do with the U.S. government.

1.2. Contributions

This study builds upon existing CSR theory, and it tests that extension in the realm of public procurement, thus contributing to theory and practice in several ways. In addition to shedding light on a neglected topic—how doing business with the government may shape a firm’s CSR—it also is the first empirical work of which the authors are aware that relates CSR to public procurement. Since, as will be discussed, prior research has documented CSR orientations of firms in general, this study of those firms that engage in public procurement enables comparisons with those other firms. It also provides unique insights into government’s influences on CSR in the defense industry sector.

Further, the paper builds upon each of CSR’s two main conceptual approaches: institutional theory and agency theory. It highlights institutional factors in its focus on the highly regulated environment of public procurement, but it also emphasizes stakeholder relationships in the buyer–seller relationship of government and private industry. In the public procurement context, neither institutional nor agency theory alone has adequate explanatory power; rather, both provide useful insights.

Finally, the analysis has application for public procurement policy and practice. Specifically, the study should be useful for policy makers who seek to drive CSR-related behaviors via public procurement’s institutional arrangements (see, for example, Kidalov (2011), Knight et al. (2003), Snider and Rendon (2008)) without unduly inhibiting entry of commercial firms into public procurement. Similarly, public procurement managers (e.g., government purchasing managers), who are responsible for administering these institutional arrangements and who have close, day-to-day dealings with the government’s suppliers, will gain awareness of how their work may influence the CSR of these firms, and hence as well, a heightened appreciation of the importance of doing their jobs proactively, professionally, and ethically (Monczka et al., 2011, p. 593; van Weele, 2010, p. 397).

1.3. Organization

The paper begins by reviewing representative selections from the relevant literature of CSR as it relates to government action generally and to public procurement particularly. It then describes current public procurement policy and practice, emphasizing the U.S. defense procurement context, to document and categorize the various ways in which they may influence CSR. It draws on CSR theory to develop a framework that furthers understanding of public procurement’s influences on CSR, and which suggests relevant propositions. It develops and tests appropriate hypotheses, discusses the results, and concludes with remarks on implications for theory and practice.

2. Literature review

The literature on CSR orientations deserves attention at the outset because of its importance through the remainder of the paper. Numerous studies from the 1980s to the present have measured CSR for firms and groups of firms in terms of their managers’ orientations to each of Carroll’s (1979, 1991) four domains: economic, legal, ethical, and discretionary. These studies employ a standard survey to determine relative weightings (on a ten-point scale) that reflect managers’ CSR orientations towards the four domains. The survey consists of 20 forced-choice weighted questions with six additional demographic questions. Each forced-choice question provides a value statement and four choices of answers to which the respondent can allocate a combined value of 10 points; this construct enables measurement of each component of CSR orientation. Each answer is assigned to one of the four CSR domains as in the following example:

It is important to perform in a manner consistent with:

A. Expectations of corporate stockholders. (economic)
B. Expectations of government and the law. (legal)
C. Philanthropic and charitable expectations of (discretionary) society.
D. Expectations of societal mores and ethical (ethical) norms.

The wide and sustained use of this instrument by scholars to examine various industry segments and populations provides ample evidence of its merits. An example of one such study, which is cited for comparison purposes below (see 5.1.2), characterized the CSR orientations of chief executive officers of firms in the 1981 Forbes Annual Directory. These managers placed the heaviest emphasis on the economic domain, followed by the legal, ethical, and discretionary domains. Their scores for the economic domain were negatively correlated with those in each of the other three domains (Aupperle et al., 1985). A review of over 20 such studies (all employing the same survey methodology) found that, while CSR orientation is attributable to a variety of factors (e.g., gender, race, firm type, and industry type), this order of domain emphasis (i.e., economic strongest, followed by legal, then ethical, with discretionary last) occurred most frequently (Halpern, 2008). None of these studies, however, focused on government or public procurement as factors that might drive CSR orientations.

2.1. General theories of CSR

Garriga and Melé (2004) have mapped the terrain of various CSR theories, sorting these into four categories: (1) instrumental

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3 It should be noted that, while much of the literature review and policy discussion is from the buyer’s perspective (i.e., government and public procurement as CSR drivers), this paper examines supplier CSR orientations in order to assess the buyer’s influences on those orientations.

theories, which emphasize the economic (e.g., wealth creating) benefits of CSR for the firm; (2) political theories, which focus on corporate power and its responsible use in society; (3) integrative theories, which highlight the firm’s responsiveness to societal demands; and (4) ethical theories based on corporate responsibilities to society.

For the purposes of this paper (and at the risk of oversimplification considering space constraints), the focus is on two broader theories: agency theory and institutional theory. Under agency theory are placed various instrumental theories concerning value creation and maximization (e.g., Jensen, 2002; Porter and Kramer, 2002; Prabhat and Hammond, 2002), as well as stakeholder management and normative theories that focus on relationships among and duties of key individuals and groups (e.g., Berman et al., 1999; Freeman, 1984, 1994; Ogden and Watson, 1999; Rowley, 1997). While the substantive differences in instrumental (“stockholder”) and stakeholder perspectives (see, for example, Agle et al., 2008) must be recognized, commonality may be seen in the CSR context in that both perspectives emphasize a firm’s obligations to those outside its boundaries. Public procurement may be viewed as entailing, as Goodpaster (1991) put it in his argument for “strategic stakeholder synthesis,” both a moral relationship between management and stakeholders and a fiduciary relationship between management and stockholders.

The remaining theories in the categories of Garriga and Melé (2004) are placed under the broad heading of institutional theory. Institutional theory highlights both the formal and the informal structures of social entities (e.g., governments and firms), as well as the rules, norms, and expectations that enable stable and predictable patterns of social relationships (Huntington, 1969; March and Olsen, 1989). Of particular interest for the CSR context is institutional theory’s concern with the social structures in which norms, assumptions, and expectations are grounded, as well as the social mechanisms by which consensus and conformance may be achieved (Shadnam and Lawrence, 2011). From this constructivist perspective, actors contest what are to be accepted as legitimate social issues, and firms seek legitimacy by adapting to the expectations of the wider institutional environment (Hiss, 2009). Institutional theory thus facilitates analysis of the ways in which the social environment may influence those within it—specifically for the purposes of this paper, firms engaging in public procurement.

Matten and Moon (2008) use institutional theory to develop distinctions between “explicit” and “implicit” CSR. Approximately, explicit CSR corresponds to those behaviors in Carroll’s (1979) discretionary domain (i.e., behaviors that firms choose to exhibit), while implicit CSR corresponds to the legal domain (i.e., behaviors that firms are expected or obligated to exhibit). While Matten and Moon (2008) used this distinction to portray national differences between the institutions of liberal market economies (less rule-bound, in which explicit CSR dominates) and those of coordinated market economies (more rule-bound, in which implicit CSR prevails), this paper appropriates their construct in its analysis of public procurement as a driver of CSR.

While addressing agency theory and institutional theory separately for analytical purposes, it should be recognized that they intersect. For example, the way firms treat their stakeholders depends upon the institutional context in which they operate (Campbell, 2007). As will be discussed, both agency theory and institutional theory help explain key features of and motivations behind corporate actions and attitudes in dealing with governments via public procurement.

2.2 Government and CSR

Several writers (Aaronson, 2005; Fox et al., 2002; Moon, 2004) have analyzed the role and influence of government as a driver of CSR. Fox et al. (2002) described government’s four possible roles:

(1) mandating (establishing minimum standards for CSR actions within a legal framework); (2) facilitating (enabling or incentivizing firms); (3) partnering (with firms in CSR-related actions); or (4) endorsing (providing acknowledgment or appreciation). De la Cuesta González and Martínez (2004, p. 276) noted differences between “voluntary” CSR approaches (win–win situations benefiting both the firm and society) and “obligatory” approaches (those in which government regulation of firms was necessary to achieve societal benefit) in European states. Aaronson (2005) endorsed the obligatory approach by the U.S. federal government, arguing that market forces alone are insufficient to achieve acceptable CSR levels. Albarella et al. (2007) surveyed policies of European Union (EU) members, noting a variety of models and approaches designed to improve business CSR practices. None of these studies, however, attempted to determine specific results or effects of governmental actions on CSR. None of these studies—or this present study—takes the position that governments are more responsible than private firms. They all, however, implicitly recognize that governmental structures, processes, and rules embody, at least to some extent, constituents’ norms, values, and preferences (Snider and Rendon, 2008). Governments thus serve as reflections of “social agendas” (from Moon’s (2004) CSR definition), albeit with certain authorities and powers to enforce those agendas.

2.3 CSR in supply management theory

The expansion of scholarly interest in CSR, particularly as it relates to sustainability in supply management, is evident over the past decade (see, for example, Carter, 2004; Carter and Jennings, 2000; Leire and Mont, 2010; Maloni and Brown, 2006; Pagell and Wu, 2009; Salam, 2009; Tate et al., 2010). The broad range of topics includes analyses of the drivers of supplier diversity programs (Worthington et al., 2008); development of frameworks for analyzing CSR practices in global supply chains (Andersen and Skjoett-Larsen, 2009); and development of a sustainable purchasing portfolio model that reflects the “triple bottom line” (people, profit, planet) as the measure of sustainability performance (Pagell et al., 2010). While some of these studies suggested public procurement as an important factor (see, for example, Worthington et al., 2008), it remained largely unexamined. The literature on supplier management and CSR is also relevant to the extent that it examines explicit attempts by firms to influence and manage the CSR of external entities (i.e., their suppliers, associated systems, and processes) (Foerstl et al., 2010; Pedersen and Andersen, 2006; Reuter et al., 2010; Spence and Bourlakis, 2009).

2.4 CSR in public procurement theory

Considering the large sums governments perennially spend on public procurement, surprisingly little attention has been paid to its role and influence on CSR. McCruden’s work is the notable exception, as he provides an excellent treatment of CSR as it may be influenced by public procurement, especially public procurement law (2006, pp. 4–25). He argues that procurement law provides a varying role depending on the subject matter of CSR, the level of government authority, and even the performance of the public contract.

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3 Interestingly, while De la Cuesta González and Martínez (2004) noted that public procurement was used as a tool for promoting CSR in several EU states, and while Aaronson (2005) advocated that the U.S. government use public procurement similarly, neither pursued this idea to examine how, specifically, public procurement might influence CSR.
Further, the scarce extant research sometimes fails to acknowledge important characteristics and nuances of public procurement as it might relate to CSR. For example, McWilliams and Siegel (2001, p. 122) hypothesized a positive correlation between the number of government contracts a firm has and its CSR because of contract provisions dealing with preferences for minority-owned firms. Their analysis, however, stemmed from agency theory (i.e., government as stakeholder) and thus did not address the institutional basis for such preferences. From an institutional perspective and from a private firm's view, minority preferences in contracting may have more to do with complying with rules than with providing some discretionary social benefit.

The majority of CSR-related scholarship in public procurement pertains to sustainability, to include comparisons with the private sector (see, for example, Brammer and Walker (2007); Walker et al. (2008); Walker and Brammer (2009); Walker and Philips (2009)). Oldroyd et al. (2011) noted that implementation of sustainable procurement practices in the public sector depends on factors such as potential cost savings, while the enhancement of reputation is the main consideration for private firms. Here again, little attention is paid to public procurement as a driver of sustainability.

To summarize this review of the literature, scholars have established the relevance and role of governments in promoting CSR, and they have also developed the concept of public procurement as an important tool to that end. No research, however, has been accomplished to determine specific ways in which government actions, including public procurement-related actions, might shape or affect a firm’s CSR.

3. CSR in public procurement policy and practice

This section gives some brief examples of various ways in which governments at different levels (e.g., supranational, national) have attempted to promote or enforce CSR via public procurement. This provides a foundation of extant practices that informs the paper’s subsequent theoretical developments.

CSR in international public procurement typically involves self-regulation, voluntary codes, and encouragement measures, such as the United Nations Global Compact, which unites multinational businesses in voluntary commitments to ten principles in the areas of human rights, environment, labor, and anti-corruption (McCruden, 2006, p. 7). Transparency International, for example, called for voluntary codes, which bind public authorities and bidders to certain anti-bribery standards upon penalty of future exclusion for violators (Transparency International, 2009).

CSR-related provisions in European public procurement consist of requirements enabled by EU-level law and required by national and local law. For example, in the context of small and medium sized enterprises (SME), both the Public Procurement Directive and the Defense Procurement Directive authorize national authorities to include SME subcontracting provisions (Kidalov, 2011, pp. 502–504). The Public Procurement Directive also includes advisability of social and economic considerations in public procurement (Kidalov, 2011, pp. 497–499).

CSR at the level of U.S. federal (i.e., national) public procurement includes both voluntary codes and requirements imposed by the law. An example of a voluntary code is the Defense Industry Initiative on Ethics (Halpern, 2008, pp. 40–41). Statutorily-imposed CSR requirements include the Small Business Act’s authorities to set aside or reserve procurements in whole or in part for SME, especially for small high-tech firms seeking research and development contracts (Kidalov, 2011, pp. 483–485). Other mandates include employment nondiscrimination, veterans’ employment, and environmental requirements (Federal Acquisition Regulation, 2011, Subpart 9.4).

The Obama administration recently considered a “High Road” policy to reform government contracting (Brodsky, 2010a, 2010b). This initiative stemmed from recent reports that some companies received government contracts despite the fact that they were not complying with tax, labor, or employment laws (see, for example, Rendon and Rendon, 2006, 2009). Along with ensuring that companies that do not comply with federal laws are not awarded government contracts, the High Road policy would have favored companies that pay their employees “living wages” and health and retirement benefits when bidding for contracts (Brodsky, 2010a). The policy would also have included provisions favoring companies that meet certain levels of community support and environmental protection in contract awards.

This brief review gives an overview of public procurement’s relationship to CSR, illustrating the interplay of institutional and agency perspectives in public procurement. In general, public procurement rules may be seen as making explicit certain societal beliefs about who should benefit from the public procurement regime (e.g., disadvantaged groups), how such benefits should accrue (e.g., procurement set-asides), and the demands government may legitimately make on those who earn its business (e.g., employment nondiscrimination). At the same time, those rules are seen as broadening the range of stakeholders to which a firm must respond and the nature of its responses.

It is reasonable to assume that public procurement’s influences on firms are stronger when its structures (e.g., laws, processes) are employed intentionally for CSR-related purposes than when firms engage in self-regulation or adopt voluntary standards. Accordingly, the paper now narrows its focus to examine the specific ways in which public procurement may influence a firm’s or industry’s CSR, using the structure of U.S. federal procurement for illustrative rules and processes.

4. How U.S. public procurement Influences CSR

This section extends the discussion of preceding sections to develop three major ways in which public procurement influences CSR: (1) through standards that apply to any firm seeking to sell to the government; (2) through the contracting process in proposal evaluations; and (3) through contract specifications and deliverables that accomplish CSR-related purposes.

4.1. Mandating CSR through responsibility and eligibility standards

Firms that pursue federal contracting opportunities must meet specific mandatory requirements, many of which are related to CSR principles. These requirements concern (1) standards of responsibility, and (2) eligibility; they are the mandatory “rules of the game” for a firm to follow if it wishes to pursue any government contract. Once major industry players choose to pursue the public market, it may be easier or cheaper for them to be consistent in their CSR behaviors. CSR requirements are thus the means by which public procurement potentially influences the CSR of all firms that sell to the government.

The Federal Acquisition Regulation (2011, Part 9) establishes standards of responsibility that reflect wider principles of sustainability and social responsibility. Its provisions require contracting officers to make affirmative determinations of suppliers' responsibilities for social and economic considerations in public procurement.
4.2. Promoting CSR through the contracting process

CSR may also be influenced by public procurement in certain aspects of the contracting process. This influence differs from the “blanket” influence discussed in the previous section in that it is exercised only in certain contracts or types of contracts.

First, public procurement may use CSR principles in the contract award decision in evaluating contractor proposals. While mandatory proposal evaluation factors include cost/price, quality, past performance, and SME participation, the government’s procuring agency has flexibility in determining the relative importance of the evaluation factors. For example, agency officials may choose to rank SME participation as more important than other factors in some contract awards, thus potentially influencing bidders’ CSR.

The inclusion of mandatory evaluation factors is a variant of this theme. Since the mid-1990s, past performance is a mandatory evaluation factor for procurements over $1M. To the extent this theme. Since the mid-1990s, past performance is a mandatory evaluation factor for procurements over $1M. To the extent this theme.

4.3. Procuring CSR through specifications and deliverables

The specifications and deliverables (whether product or service) of a particular procurement action may have CSR implications. That is, public procurement may influence a firm’s CSR as a function of the procurement action’s deliverable and its characteristics. For example, winning and executing a contract for development of a particular “green” technology may influence a firm’s CSR orientation regarding the environment. Other examples include contracts awarded for relief efforts, such as those following Hurricanes Katrina and Rita (Government Accountability Office, 2010). In addition to accomplishing public purposes, these contracts may serve to heighten the social and humanitarian orientations of the winning firms.

5. Public procurement’s influences on CSR: the case of defense procurement

The preceding discussion indicates that the possible types of public procurement influences on CSR range from binding legal requirements to discretionary procurement agency actions to unique contract specifications and deliverables. Institutional theory calls attention to these influences in terms of the laws, regulations, and norms that permeate U.S. federal public procurement. Agency theory, on the other hand, highlights relational influences in, for example, mutual stakeholder relationships between buyer and seller. It may be taken as axiomatic that the extent of a firm’s exposure to these influences is dependent upon the extent of its involvement in public procurement; that is, the more public contracts a firm has, the more its exposure to public procurement influences (including types of influences).

This raises the question of the extent to which these public procurement influences affect a firm’s CSR. Here the discussion returns to the explicit–implicit CSR construct (Matten and Moon, 2008) to extend their arguments to the realm of public procurement. In this institutional construct, the implicit CSR of firms involved in public procurement is tied to their roles in fulfilling larger societal purposes through the provision of some product or service for the public good and their adherence to the norms and rules of the public market. This suggests the general proposition that firms that sell mostly to governments exhibit implicit CSR (they are more rule-bound), while those that sell mostly to other firms exhibit explicit CSR (they are less rule-bound).

5.1. CSR of U.S. defense firms

The case of U.S. defense procurement provides a venue to examine this proposition further. Specifically, this analysis builds upon prior research (Halpern, 2008) on firms that sell products to the U.S. Department of Defense (hereafter, “defense firms”) and which characterized the CSR of these firms in terms of their managers’ orientations in each of the four CSR domains (i.e., economic, legal, ethical, and discretionary). It uses the data from this research in order to extend the analysis beyond the description of defense firms’ CSR in order to address the question of how the CSR of these defense firms was influenced by defense procurement. A significant motivation for and benefit of using this data is that it employed the same survey instrument and replicated the same analysis of numerous other CSR orientation studies of various groups and populations (see Section 2), with accordingly high confidence in reliability and validity.

5.1.1. Data

The 20-question survey (described earlier, plus six additional demographic questions) was sent to the study population consisting of managers of all 1082 firms that provided electronics equipment under contracts with the U.S. Army’s Communications and Electronics Command Acquisition Center, Fort Monmouth, NJ, during the fiscal years of 2005–2007. The number of firms responding to the survey was 192, and after eliminating erroneously completed or incomplete responses, 169 firms (15.6 percent) responses were included in the demographic analysis and 166 (15.3 percent) in the statistical analysis.

The response data were analyzed using SPSS 14.0. The demographic data revealed that very small businesses (fewer than 100

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7 The electronics equipment included command, control, communications, computers, intelligence, surveillance, and reconnaissance products. The values of the contracts ranged from several thousand dollars to approximately $1 billion.

8 Fiscal years for the U.S. federal government run from October 1 through September 30.
employees comprised the largest group (39.1 percent) of respondents, while very large firms (more than 10,000 employees) represented the next largest group (28.4 percent). Most of the firms (61.5 percent) reported deriving more than 75 percent of their annual revenue from defense contracts. Almost half (43.8 percent) of the firms were based solely in the U.S., while almost a third (30.8 percent) reported having locations in more than 10 countries.

5.1.2. CSR comparisons of defense firms and Forbes firms
Halpern (2008) calculated means and standard deviations for participant scores in each of the four CSR domains. Principal factor analysis and four-factor principal factor analysis with varimax rotation were performed. Factor loadings were analyzed to determine if all four CSR domains were represented, and intercorrelations among the domains were analyzed. The results were analyzed to compare the CSR orientation means with those obtained from previous studies. The results revealed a significant difference between the CSR orientations of managers of defense firms and those of other managers (e.g., the 1981 Forbes Directory managers [see Section 2], though of course some Forbes firms engage in public procurement). The largest contributor to this difference was the defense firm managers’ higher orientation towards the legal domain; the legal domain was also the strongest of the four domains for these managers (Table 1). Further, while their orientation to the discretionary domain was the weakest of the four, it was still weaker than that of Forbes managers. Finally, unlike the significant negative correlations found in the Forbes managers’ CSR orientation, defense managers’ CSR orientation in the economic domain showed a significantly positive correlation with the legal domain and no significant correlations with the remaining two domains.

Halpern (2008) concluded that defense firm managers’ attention to the highly regulated environment of defense acquisition was the most likely contributor to these differences. This environment heightened managers’ sensitivities to rule compliance as a matter of course in doing business with the government. Interestingly, he noted that the same environment also contributed to a stifling of discretionary activities, because of rules regarding allowable costs for reimbursements. For example, while a private firm may pass on costs of its philanthropy to customers via higher prices, firms selling to the government may not include such costs in the contract price.

In light of these findings, the legal domain of CSR is associated with implicit CSR and the discretionary domain with explicit CSR, and the earlier proposition is restated accordingly: The relative strengths of a firm’s discretionary and legal domains are dependent upon the extent of its involvement in public procurement (Fig. 1).

5.2. Explaining defense procurement influences on CSR orientation
Halpern’s (2008) analysis is extended in this paper by using his data, which included in the demographic data the percentage of annual revenue each respondent firm derived from contracts with the Department of Defense. Here this percentage is taken as a metric for the extent of a firm’s involvement in public procurement. Of the 163 respondents, 59 were “low involvement” firms that reported less than half their revenue from defense contracts, while the remaining 104 were “high involvement” firms with over 76% of revenue from defense contracts.

Table 2 provides statistics for the two samples. Note that the order of domain emphasis for the high involvement firms is the same as that noted for defense firms (i.e., the legal domain is stronger than the economic domain); however, for low involvement firms, the order of emphasis is the same as for the Forbes firms (the economic domain is stronger).

5.3. Hypotheses and statistical tests
The preceding discussion suggests two hypotheses:

H1. Firms that have high involvement in public procurement have higher legal CSR orientation than firms with low involvement.

H2. Firms that have high involvement in public procurement have lower discretionary CSR orientation than firms with low involvement.
The analysis was conducted in two stages. First, the authors considered a multivariate analysis of variance (MANOVA) procedure to be the most appropriate analytic technique for exploring differences between the two groups: firms that have high involvement in public procurement and firms with low involvement in public procurement. This MANOVA compensates for variable intercorrelation and provides an omnibus test of any multivariate effect. Using an approximate $F$-statistic based on the Wilks' lambda criterion, the MANOVA resulted in an $F$-value of 100.56, significant at $p < 0.001$. From this test, it was concluded that there were significant differences between the two groups. That is, the CSR orientations of managers for firms that have high involvement in public procurement are significantly different from that of firms that have low involvement in public procurement.

Next, to understand the underlying contributions of the variables to the significant multivariate effect, means were computed for the significant components scores. Accordingly, the null hypothesis $H_1$, which concerns the legal domain, is rejected ($H_1$ is accepted), but the null hypothesis for $H_2$, which concerns the discretionary domain, is not rejected ($H_2$ is not accepted).

### Table 3

ANOVA results for differences of firms with high and low involvement in public procurement.

<table>
<thead>
<tr>
<th>Group means</th>
<th>High involvement (n=104)</th>
<th>Low involvement (n=59)</th>
<th>$F$</th>
<th>$p$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>3.06</td>
<td>3.21</td>
<td>1.01</td>
<td>0.3172</td>
</tr>
<tr>
<td>Legal</td>
<td>3.33</td>
<td>2.93</td>
<td>9.24</td>
<td>0.0027</td>
</tr>
<tr>
<td>Ethical</td>
<td>2.46</td>
<td>2.34</td>
<td>0.89</td>
<td>0.3492</td>
</tr>
<tr>
<td>Discretionary</td>
<td>1.07</td>
<td>1.20</td>
<td>1.33</td>
<td>0.2509</td>
</tr>
</tbody>
</table>

6. Government as a CSR driver through public procurement

Extending these results to public procurement, the most obvious implication of this analysis is the following: engaging in public procurement leads a firm towards the government’s view of “good” (i.e., exhibiting implicit CSR by obeying the myriad rules and developing strong legal CSR orientation) while discouraging it from pursuing voluntary philanthropy that reflects its own view of good. This conclusion has significant implications for CSR practice, policy, and theory.

6.1. Implications for theory

6.1.1. Implications for extant theory

First, the results provide mixed support for the hypothesis of McWilliams and Siegel (2001, p. 122) that government contracts and the provision of CSR are positively correlated. Interestingly, the examples they gave to develop this hypothesis correspond to CSR actions in the discretionary domain (i.e., proactive environmental practices; community service) and the legal domain (contract requirements for minority set-asides). Thus, the preceding analysis tends to support their hypothesis for CSR actions in the latter category, but not the former. From a theoretical standpoint, this illustrates the importance of nuanced analysis that admits a range of corporate behaviors and attitudes that might be considered as socially responsible.

Regarding institutional theory, these findings oppose or at least qualify the arguments of those (Matten and Moon, 2008; Hiss, 2009) who discern tendencies toward explicit CSR in the liberal economies of Europe and the U.S. Further empirical studies that compare the CSR orientation of firms in the public procurement and private sectors will help determine which tendencies are indeed operative.

6.1.2. Implications for future theory

How do agency and institutional theories explain public procurement’s effects on a firm’s CSR, and how might one build upon these theories from this analysis? First, the discussion calls attention to the choices that some firms have regarding the extent to which they wish to engage in public procurement. Except for those firms that produce goods and services that may be used only by governments, other firms choose whether...
or not to enter the public procurement regime. The reasons for and consequences of this choice are fertile grounds for further CSR research.

A firm's decision to engage in public procurement is supposedly made in the interest of profitability. In order to win contracts, however, the firm must comply with public procurement rules and procedures; compliance is instrumental for profitability. Thus, via rule compliance, the firm serves both its stockholders and the stakeholders whose interests the rules represent. But, unlike classic stakeholder theory, the firm's focus is on the rules, not the stakeholders. In the public procurement context, the government serves as proxy for other stakeholders whose interests are represented by the rules. While this aspect of compliance is not unique to the public procurement context, the analysis suggests that its influence is strongest in firms that engage in public procurement.

The analysis calls attention to institutional differences in the rules, norms, and attitudes in the public procurement and non-public procurement regimes. Since public procurement uses public funds, higher levels of accountability and higher standards of stewardship apply. Firms recognize that the "rules of the game" are different in the public procurement context, and the nature of their struggle for legitimacy (Hiss, 2009) is accordingly different. Through increased rule codification and specificity, the public procurement regime entails lower levels of ambiguity and contingency, thus reducing the extent to which a firm must engage in social interpretation and negotiation to achieve legitimacy. The strong scores in the legal domain of CSR orientation among managers of public procurement firms reflects this perspective, but again, the details of this institutional calculus represents uncharted territory in CSR research.

In general, these findings indicate inadequacies in monistic approaches to understanding CSR. In much the same way that, according to Matten and Moon (2008), globalization results in increasingly blurred lines between the generally explicit CSR of U.S. firms and the generally implicit CSR of European firms, engaging in public procurement results in a more complex perspective of a firm's CSR. As a firm operates in a unique institutional environment with unique configurations of stakeholders, both institutional and agency theories have explanatory power. Additional theoretical work is necessary here in order to meld these two perspectives more adequately for the public procurement context.

The authors recognize that this analysis is inadequate to address the relative power of institutional and agency perspectives in explaining public procurement's influence on CSR. This sort of enhancement to CSR knowledge might be accomplished by operationalizing and measuring factors associated with each perspective within public procurement agencies or processes, and then using those as predictors of CSR orientations in the four domains. An improved understanding of whether CSR might be driven to a greater extent from an institutional (e.g., regulatory) perspective or from an agency (e.g., relational) perspective may be informative for both theory and practice.

Finally, this analysis indicates the utility of systems and contingency perspectives that focus on the complexity of a firm's external environment as it engages in both public and private markets. From these perspectives, an instrumental theory of CSR might be proposed that highlights its function as a boundary-spanning activity to help adapt a firm's activities to its particular environment.

6.2. Implications for practice and policy

For managers of firms that already do business with governments via public procurement, as well as for those who may be considering entering the public procurement market, these results should raise awareness of the variety of influences that shape their firms' CSR, perhaps in unforeseen or unintended ways. To the extent a firm's CSR agenda favors philanthropy, managerial interventions may be required to keep the firm on the desired course as it engages in public procurement.

For public authorities who make and execute public procurement policy, these results should raise awareness of the potential stifling effects of such policy on corporate altruism and philanthropy. Officials should consider the relevant socio-political environment to assess the relative benefits of having suppliers who are merely obeying rules and the benefits of having those who are also philanthropic. Along these lines, public procurement officials may wish to investigate the extent to which it is possible to modify the Federal Acquisition Regulation so as to reward (or at least not dampen) corporate philanthropy, perhaps by including it as a potential source selection factor in contract awards or establishing the allowability of philanthropic expenses.

Apart from effects on corporate philanthropy, these results should remind public officials at all levels of government that the institutional environment of public procurement poses barriers to entry for some firms into the government marketplace. Any changes to that environment, especially those that raise entry barriers, should be viewed in light of the government's continued ability to have its requirements met by private-sector suppliers.

7. Conclusion

The authors recognize the limitations of the conclusions in terms of external validity. Halpern's sample consisted only of managers in defense firms—arguably a niche public procurement sector—and so the findings might not extend to other public procurement sectors. This paper extended Halpern's analysis of defense firms through comparison of high and low defense involvement firms. Further study is needed to examine the CSR orientation of firms that deal mainly with state and local governments, as well as with non-defense federal agencies and other national governments. Case studies and manager interviews would aid in triangulation and in gaining insights into the extent to which each of the public procurement influences discussed earlier contributes to these orientations.

It is concluded that the relationships shown in Fig. 1 have merit in explaining how public procurement shapes a firm's CSR. Clearly, more study is needed to explicate and verify these relationships more completely. Studies like this one can inform policy-makers with insights into the influences of their decisions on firms that sell to the government, as well as the possible tradeoffs between implicit and explicit CSR in promoting the public good.

References


