Corporate Social Responsibility & Strategy

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Introduction

If, as Galbreath (2006) writes, "Corporate social responsibility (CSR) is ultimately a strategic issue" (p.176), and firm's that ignore their social responsibilities can negatively impact their shareholder wealth (Frooman, 1997), then firms must address both the challenges that implementing CSR strategy presents and the practical means by which to do so.

The first statement will be addressed in Part One, followed by a discussion of the challenges an integrated CSR strategy presents in Part Two; finally the practical means by which to do this are considered in Part Three.

1: To what extent is CSR now a strategic issue?

Operationalising Husted and Allen's (2000) definition of strategy as the plans and actions taken to create unique resources and capabilities and to leverage organisational routines that are the source of sustainable competitive advantage and superior performance, we find that companies use strategies to provide a competitive advantage or avoid a competitive disadvantage. In the past, prominent authors such as Friedman opposed CSR, saying that it imposed an unfair and costly burden on shareholders – he argued that corporate executives have no responsibilities other than maximising shareholder profits (McClaughry, 1972) – and therefore that CSR offers no competitive advantage. However, over time CSR has beenincreasingly coupled with corporate financial performance (CFP) in research, to the extent that empirical studies have argued that CSR positively affects CFP (Orlitzky et al, 2003) – although some authors contend that empirical evidence for market outcome of CSR is still inconclusive (Margolis and Walsh, 2003). This increasing theoretical trend in CSR thinking is summarised in Table 1.1, taken from Lee (2008), in which dominant themes, motivations and coupling of CSR and CFP are compared alongside pivotal publications.

Table 1.1: Changing Theoretical themes in CSR literature (taken from Lee, 2008)

	Pivotal publications	Dominant theme	Coupling with CFP	Motivation	Level of uncertainty with CSR
1950s and 1960s	Bowen (1953)	Ethics and social obligation of businesses	No coupling	Corporate externality control	Very high
1970s	Wallich and McGowan (1970)	Enlightened self-interest	Loose coupling	Reconciliation of two opposing sides of the debate	High
1980s	Carroll (1979); Wartick and Cochran (1985); Wood (1991)	Corporate social performance model	Tighter, but still somewhat loose coupling	Pragmatic and comprehensive model construction	Medium
1990s	Freeman (1984); Clarkson (1995); Jones (1995); Hart (1997)	Stakeholder approach and strategic management	Tight coupling	Practicality (empirical testing and implementation) and competitive advantage	Low

Orlitzky (2008) suggests the idea of 'reverse causation' – strong CFP may provide resources which in turn can be invested in CSR which may lead again to CFP – CSR and CFP are mutually reinforcing. Academic criticism of this idea has stemmed from methodological issues such as controls for firm size, reliability and validity of CSR and CFP measures and sampling.

Globalisation has made the effects of unsustainable actions more visible, and environmental issues have steadily encroached on businesses' ability for value creation (Lubin and Esty, 2010). Not only has CSR been linked with CFP, but also with reduced risk associated with regulatory and legal actions (Coalition for Environmentally Responsible Economies (CERES); read in Lee, 2008), increased competitive advantage (McWilliams and Siegel, 2001), human resources and talent management

(Porter and Kramer, 2002) and a reputational boost (UK Government, 2010). In fact a firm's survival in modern society seems to require an awareness of social responsibility as an indispensable part of strategy (Galbreath, 2006).

Although, it can be argued that CSR is used by some to hide irresponsible behaviour (Fleming and Jones, 2013), and simply comply with the bare minimum of government legislation (Lee, 2008) – a form of 'greenwashing' used to make unsustainability more palatable. However, the evidence for the benefits of CSR beyond this is undeniable. As Burke and Logsden (1996) put it, *"the ultimate measure of strategic benefits from CSR activities is the value they create"* (p. 499). As mentioned, CSR has been linked with many advantages to the firm; Table 1.2 shows how specific CSR behaviours can be linked with specific strategic outcomes. In terms of theoretical approaches Hunt and Morgan's (1995 resource-advantage theory is applicable to the above points, in that a firm which incorporates sustainability into its strategy could have a differential competitive advantage based on attributes such as core ideology and dynamic capabilities related to sustainability.

Table 1.2: Examples of value creation from CSR behaviour: adapted from Burke and Logsden (1996).

CSR BEHAVIOUR	STRATEGIC EXAMPLES	STRATEGIC OUTCOME
PHILANTHROPIC CONTRIBUTIONS	Community support, monetary donations per unit sold.	• Customer loyalty • Future purchasers
EMPLOYEE BENEFITS	Day-care, flexible hours, health/wellness.	• Customer loyalty and morale • Productivity gains
ENVIRONMENT MANAGEMENT	Process innovation regarding pollution, reduced 'carbon footprint'.	• Public relations and/or marketing advantage • New products or markets
POLITICAL ACTIVITY	Political donations, political marketing.	• Favourable change in regulations • New market opportunities
PRODUCT OR SERVICE RELATED CHARACTERISTICS, INNOVATIONS OR PROCESSES	Product reformulations: e.g improved 'green' design, fuel efficiency.	• New products and market • First-to-market and ahead of governmental regulations.

However, because of the increasing social pressure on companies to increase their CSR activities, thousands of companies are placing strategic bets on innovations affecting CSR-related issues such as energy efficiency and renewable power (Lubin and Esty, 2010). Therefore it could be said that CSR may no longer be a strategic differentiator, but a requirement in the eyes of the stakeholder – companies may now be at a competitive disadvantage if they do not integrate CSR into corporate strategy. In a survey by IBM of 250 business leaders worldwide, 68% said they were focusing on CSR activities for new revenue streams, and over half believed their CSR activities were giving them an advantage over competition (McElhaney, 2009) – companies without CSR activities are in the minority.

To relate this back to the operationalised definition of strategy by Husted and Allen (2000), companies use strategy to gain a competitive advantage or avoid competitive disadvantage. With the above discussion CSR has been directly linked to both of these points – however CSR has an ethical and moral foundation; CSR used by a company as a business strategy - for example as strategic philanthropy[1], an example of shared value theory (Porter and Kramer, 2011) – which enhances the competitiveness of a company while advancing social and economic conditions in the environments in which it operates, cannot be morally praiseworthy in a Kantian (1964) sense.

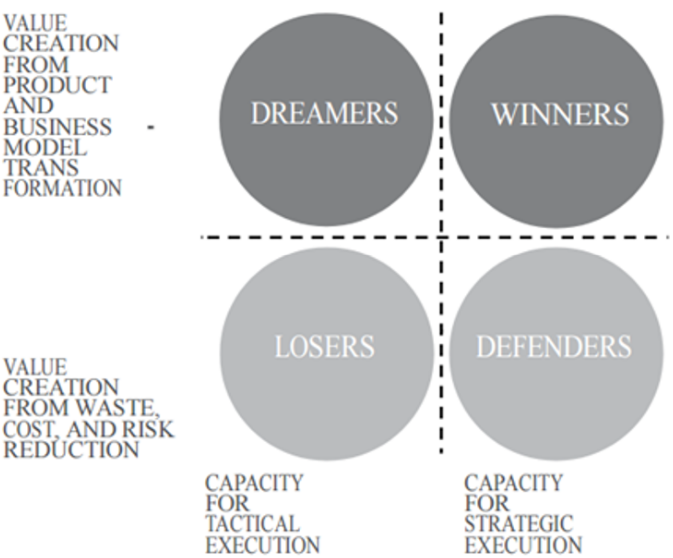
In conclusion although in a Kantian sense CSR used as a strategy may not be morally praiseworthy, companies have certainly begun to realise the potential benefits that integrating CSR into strategycan bring (and pitfalls with not doing so). Where there exists possibility for competitive advantagebusiness will create strategies to take it, and therefore business now must see CSR as a strategic issue.

2: The challenges of integrating CSR strategy: the suitability of presented 'road-maps'.

If we assume - as discussed in Part 1 -that business sees CSR as a strategic issue, then this new imperative must bring with it challenges. Lubin and Esty (2010) attempted to present many of these challenges by looking at historical 'megatrends' such as the IT revolution and analysing the behaviour of successful adaptors. They write that firms seeking advantage in the sustainability megatrend have to solve two problems simultaneously: firstly formulating a vision for value creation and secondly executing it.

Following previous megatrends, specifically in IT, Lubin and Esty (2010) put forward a classification of how companies will adapt to sustainability, shown and explained in Figure 2.1. They also develop five key areas in which companies must change in order to reach the 'winner' state of the 'eco-premium' of integrated an integrated CSR strategy: elevating leadership, systematising methods and modes; aligning strategy and deployment; integrating management; and systematising reporting and communication. The changes that the paper requires are highlighted in Table 2.1. These problems, they highlight, are further compounded by the lack of a suitable practical or theoretical 'road-map' – a view shared by Husted (2001).Their paper, however, is more focused on theoretical business process changes towards sustainability than examples – therefore making it difficult for practitioners to judge how the process changes would occur in the context of a firm.

Figure 2.1: Classification of company's reactions to the sustainability megatrend (Adapted from Lubin and Esty, 2010).



Losers	Firms that have put in place only modest cost risk and waste initiatives and whose vision and strategies are vaguely conceived or disjointed will find it increasingly difficult to protect their position.
Defenders	Content to make investments in the early-stage objectives of cost, risk, and waste management. This defensive posture can work, provided the gap between a go-slow company's market position and that of primary competitors does not grow too large.
Dreamers	Vision and ambition cannot get ahead of capacity to execute. Those that seek first-mover advantages in the later stages of sustainability differentiation without having mapped out a clear strategy and mastered the fundamentals of execution may experience all kinds of problems.
Winners	Implement strategies and vision highlighted through the Lubin and Esty (2010) paper

[1] Targeting areas of competitive context where the company and society both benefit (Porter and Kramer, 2002) with a strategic motive of brand image or differentiation.

Table 2.1: Key area companies face challenges in for the sustainability megatrend (Adapted from Lubin and Esty, 2010).

Key area	Previous methods/procedures	New methods/procedures
Elevate Leadership	Individual departmental leadership	C-Level leadership that links sustainability strategy with initiatives and outcomes, and develops shared goals in partnership with suppliers, customers, and other stakeholders
Systematize Methods and Models	Imprecise, inconsistently used tools that track discrete projects	Professionalized green business analysis through systematic use of specialized tools (e.g., scenario planning, risk modeling) and new certifications and standards
Align Strategy and Deployment	Unconnected tactical programs and initiatives	Megatrend-based initiatives aligned with core business strategies and embedded in operating plans
Integrate Management	Siloed Responsibility	Shared accountability through integrated objectives and performance evaluation
Systematize Reporting and Communication	Ad hoc reporting using non-standardized tools	Sustainability scorecards that enable benchmarking, best practice comparisons, and consistent internal and external communication

That is where Husted and Allen’s (2011) seven step model is designed to come in. It is clearly based in strategic analysis literature in that the first three steps encompass external environment breakdown and analysis, resource-based internal considerations and firm identity social needs and opportunities. All seven steps are diagrammatically shown in Figure 2.2.

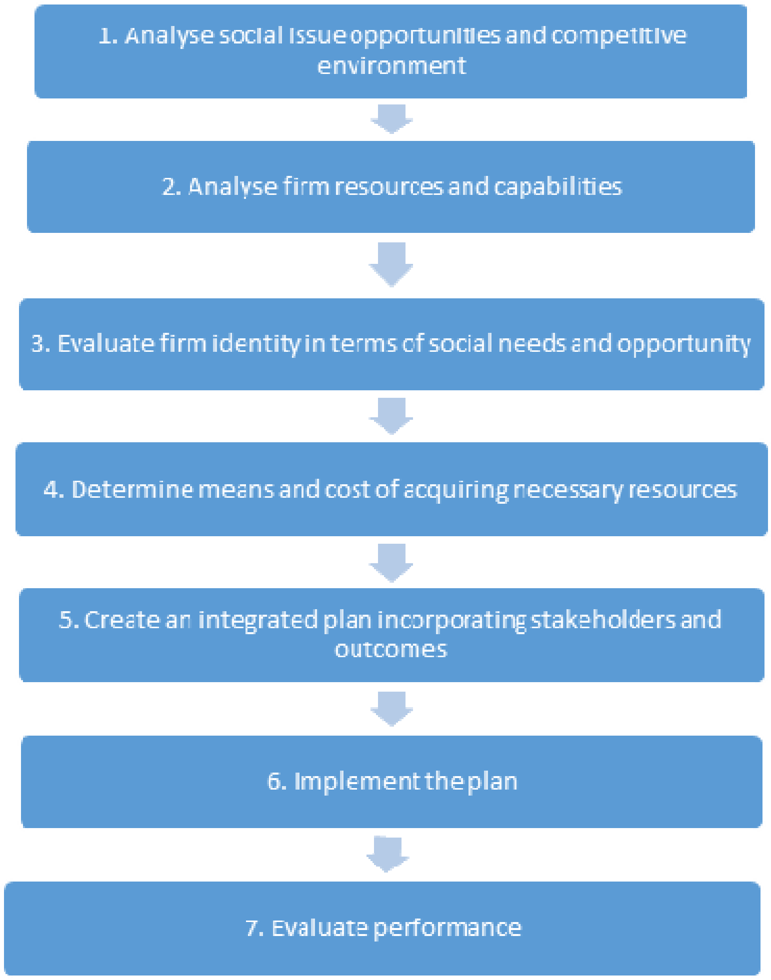


Figure 2.2: Husted and Allen's (2011) seven step CSR model.

In terms of the challenges Lubin and Esty (2010) highlight, a practitioner following the model would firstly be able to follow the stages easily as it is largely akin to other strategic plans, and secondly would likely emerge with a plan encompassing opportunities based on the firm's resource base and stakeholder needs. However, one of the key issues highlighted in Lubin and Esty's paper is the implementation of an integrated strategy; how to change the way managers and employees approach their work to be more sustainable – as "like the IT and quality megatrends, sustainability will touch every function, every business line, every employee" (Lubin and Esty, 2010, p. 49). Although firm identity and culture is identified by Husted and Allen (2011), it is not given the evaluation it requires – that of the main problem associated with implementation.

If, as Husted and Allen do, base our recommendations to practitioners on previous megatrends such as the IT revolution, then we can find some issues with the seven step model. Firstly, having a well thought through plan does not equal competitive advantage or even social performance – we saw from the Enron case that companies can advertise one thing – in their case values and people – and operate entirely differently – in their case forming unethical and illegal practices throughout the organisation (Gladwell, 2010). Secondly, leading on from the first point, having a well thought through plan does not matter if the firm does not have the means to implement it. Husted and Allen (2011) write that implementation will be largely the same to implementation of other strategies – if, as Lubin and Esty (2010) believe, sustainability strategies will need to fundamentally reposition and redefine a company's strategy, then it will be a completely different challenge.

In the more simple terms of moving from ad-hoc, siloed approaches to sustainability reporting to a more integrated approach then the seven step model would suffice – its information gathering and comparison to resources would easily achieve this aim – however this alone would not raise a company to Lubin and Esty's (2010) 'eco-premium' or their vision of transformed core businesses.

However in order to make the company a true winner in the new sustainability 'mega-trend', a much more focused model is needed in order to deal with the implementation of such a radical, core business shift.

3: Practical means by which CSR may be incorporated into corporate strategy

Although the pressure on firms to implement successful sustainability strategies is high, few have managed to successfully embed them into the organisation's DNA (A4S, 2013). As well as Husted and Allen's (2011) seven step model other integrated measures have emerged to attempt to overcome this issue with some practical guidelines companies can follow. The ISO26000 (ISO, 2010) and the Sustainability Balanced Scorecard (SBSC) (Figge et al, 2002) both provide practices for integrating social responsibility throughout an organisation - and avoiding the more traditional corporate reaction that follows Clarkson's stages of responsiveness (1995) which is largely unhelpful and an unethical response.

Moreover, ISO26000 can be used with other tools – for example GRI and reporting of triple-bottom line – in order to more successfully report CSR strategies and processes, and allowing otherwise unethical corporations to operationalise a tool to allow CSR (Cragg, 2012).Due to investors increasingly wanting to see systematic reporting approaches to CSR management, a company's worth is now more than its finances – it must display integrated and sustainable strategies (Meyer and Kirby, 2010), and ISO26000 can aid that. However, this may not prove ethically sound – and following guidelines could disguise unethical behaviour: companies often publish CSR reports, aggregating anecdotes about uncoordinated initiatives (Porter and Kramer, 2006) in order to demonstrate the company's sensitive side as a clear marketing technique. Reporting has been argued to be merely an illusion that corporations use to uphold image (McDonough and Braungart, 1998). If a company was truly ethical and moral from a Kantian perspective, it would not use it's morality as a marketing tool. Initiatives could be chosen on the basis of their social visibility and relevance to immediate stakeholders – as not all behaviours have equal potential profitability or market demand. The bias could result in increased corporate attention to certain social needs, while other social misery could be conveniently ignored (Lee, 2008).

Another well documented issue is that ISO26000 is non-certifiable. As companies like to have evidence of their good performance in areas, this is something that may prevent successful uptake of it as a tool (Henriques, 2012). Clearly companies would be able to claim they followed the guidelines, albeit informally.

A firm that uses ISO26000 is Fujitsu. They advertise that the seven core subjects of the ISO26000 have individual departments assigned to manage these issues (Fujitsu, 2014). However, they do not use the tool to move towards Lubin and Esty's (2010) idea of an eco-premium – they simply use it to identify trends and minimise risk for the group (Fujitsu, 2014). This is a way IS026000 may not fully address Lubin and Esty's (2010) problems: as a guideline, it is not prescriptive and therefore companies can pick and choose.

Another practical tool is the SBSC (Figge et al, 2002). The SBSC was based upon Kaplan and Norton's (1997) balanced scorecards aimed to be used to identify strategically relevant concerns – they had observed that effective use of investment capital was no longer a guarantee of competitive advantage. Figge et al's (2002) SBSC allows firms to link operational aspects and non-economic actions to strategy, whilst considering them as factors that affect the economic success of the business and therefore is similar to the ISO26000 in this way, in that it provides a management system to help tackle CSR responsibilities (Bieker, 2002).

The SBSC has an advantage in that rather than a set standard, like the ISO26000, it is an open concept which gives it the advantage of being applicable to implementation of both 'conventional' and 'explicit' corporate social strategies. However as it is open it is, like the ISO26000, subject to interpretation and therefore could be used as a form of 'greenwashing' to persuade investors of a company's sustainable actions.

Nevertheless the balanced scorecard approach has been used to map out sustainable strategies in multinational companies: Royal Shell Dutch, known as Shell, have sustainable development as one perspective in their balanced scorecard, and manager's performance bonuses is based on their performance relative to this. (Zingales and Hockerts, 2003). Zingales and Hockerts (2003) also found that the use of a SBSC as a strategy map is creating value for Shell. However they also note that this is anecdotal evidence and write that no scientific proof exists showing a relationship between SBSCs are positive value brought to the firm.

Conclusions

If, as Lubin and Esty (2010) believe, business needs to reach an eco-premium in order to be successful in the new economy then it seems tools must be created for businesses to follow in order for their strategies to reach this state. Business has clearly linked sustainability with competitive advantage, however the implementation of sustainability takes overcoming considerable challenges – to which, despite Husted and Allen's (2011) efforts, there is no effective road-map. In practice, companies seem to be using tools such as the ISO26000 and SBSC not to reach the eco-premium, but instead solidify and justify their 'defensive' positions in Lubin and Esty's (2010) diagram (Figure 2.1). Certifiable tools that force firms to fully integrate sustainability throughout are needed and would be utilised if the business case remains as strong as it is.

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