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Traditional Vs Strategic Corporate Social Responsibility: In pursuit of supporting Sustainable Development.

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Abstract

The purpose of this paper is to justify the interdependency of business and the society and explore the benefits of integrating 'social responsibility' into the core strategy of business firms rather than practicing philanthropy. This paper offer an understanding of CSR, identifies the differences between traditional and strategic CSR and explores the concept and benefits of 'strategic CSR'. It concludes that businesses need to integrate the social responsibility and environmental challenges in to their core business strategy to become a good corporate citizen. In other words, by strategically practicing CSR, a company can make a profit and make the world a better place by supporting sustainable development at the same time.

Keywords: Strategic CSR, business strategy, competitive advantage, social integration.

1. Introduction

Over the past half century, business increasingly has been judged not just by its economic performance, but also by its social contributions. Today's business organizations are expected to exhibit ethical behavior and moral management and no corporations can operate only with traditional economic role. Now, not only are firms expected to be virtuous; they are being called to practice "social responsibility" or "corporate citizenship", accepting some accountability for societal welfare. Thus creation of shareholder wealth, once considered the ultimate corporate objective and yardstick of organizational value, is slowly becoming overshadowed by a broader conception of organizational success.

2. Relationship between 'business' and the 'Society'

Businesses are crucial members of society; in fact, many are also significant social institutions. The decisions they make and the actions they take reverberate throughout society. Society depends on businesses in their provision of jobs, investment, goods and services produced, and development of new technologies. By the same token, businesses depend on support and resources from society. So business and society are deeply and dynamically interdependent. Businesses can sustain their growth only if society is generally satisfied with their overall contribution to societal well-being. Michael E. Porter, a Harvard strategy guru, believes there is a "symbiotic relationship" between social progress and competitive advancement. (Porter and Kramer, 2006) This relationship "implies that both business decisions and social policies must follow the principle of shared value" (United Nations. 2009). In prioritizing social issues, Porter and Kramer's framework is a continuum from generic social issues to value chain social impacts through to social dimensions of competitive context that distinguishes how significantly a company's activities affect social issues, and how these issues in turn affect a company's competitiveness. (Lodge. et al., 2009)

3. Emergence of the concept of CSR and its approaches: A literature review

Over the last few decades, corporate social responsibility (CSR) has grown from a very narrow and marginalized notion into a complex and multifaceted concept, one which is increasingly central to today's corporate decision making.

In 1979, Carroll differentiated between four types of corporate social responsibilities: economic, legal, ethical, and discretionary. The first category that Carroll delineated is a responsibility that is economic in nature. Business from this perspective is the basic economic unit in society and all its other roles are predicated on this fundamental assumption (Jamali, D. 2006). In terms of the effect of CSR on economic performance, Friedman clearly states that companies have no social responsibility at all, just a responsibility to increase their profits. (Lodge, E et al. 2009). What Friedman ignored was that a businessperson's decisions in the ethical and social responsibility realms could affect many different people, groups, and institutions, which, in turn, can influence the organization's well being (Lantos, G. 2001).

Modern CSR was born during the 1992 Earth Summit in Rio de Janeiro, as an explicit endorsement of voluntary approaches rather than mandatory regulation. (Christian Aid. 2004). CSR can be defined as "situations where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams et al. 2006). CSR is regarded as voluntary corporate commitment to exceed the explicit and implicit obligations imposed on a company by society's expectations of conventional corporate behavior. Hence, CSR is a way of promoting social trends in order to enhance society's basic order, which can be defined as consistency of obligations that cover both the legal framework and social conventions. (Falck et al. 2007).

The core idea of the CSR concept is that the business sector should play a deeper (non-economic) role in society than only producing goods and making profits. This includes society and environmentally driven actions, meaning that the business sector is supposed to go beyond its profit-oriented commercial activities and increase the well-being of the community, thereby making the world a better place. (Malovics et al. 2008). John Elkington, the sustainable business theorist, has suggested 'triple bottom line', which has been used in corporations as a tool for balancing economic goals with a view to 'do better by the environment'. However, it seems that the concept tends to yield strategies that try to meet the triple bottom line by minimizing environmental and social liabilities. (Wilenius 2005). In 2006, Porter and Kramer take the definition of CSR one step further by creating a corporate social agenda which "looks beyond community expectations to opportunities to achieve social and economic benefits simultaneously". It moves from acting as good corporate citizens and mitigating harm from current business practices, to finding ways to reinforce corporate strategy by advancing social conditions. (Lodge et al. 2009)

A key point to note is that CSR is an evolving concept that currently does not have a universally accepted definition. Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society.

4. The CSR debate

Because CSR has emerged from the tensions between business and society, the voices for doing good have overridden much of the complexity associated with actual implementation of social and environmentally good works (Gill 2007).

Christian Aid Report 2004 revealed the corporate enthusiasm for CSR is not driven primarily by a desire to do good for the communities in which companies work. Rather, companies are concerned with their own reputations, with the potential damage of public campaigns directed against them, and overwhelmingly, with the desire and the imperative to secure ever greater profits. (Christian Aid. 2004). According to the Corporate Watch Report 2006, over 80% of corporate CSR decision-makers were very confident in the ability of good CSR practice to deliver branding and employee benefits. For the example of simple corporate philanthropy, when corporations make donations to charity they are giving away their shareholders' money, which they can only do if they see potential profit in it. This may be because they want to improve their image by associating themselves with a cause, to exploit a cheap vehicle for advertising, or to counter the claims of pressure groups, but there is always an underlying financial motive, so the company benefits more than the charity. (Corporate Watch Report. 2006)

Furthermore, in "cosmetic" CSR reports companies' social and environmental good deeds are often presented that simply share 'aggregate anecdotes about uncoordinated initiatives' to demonstrate a company's social responsibility by telling what a company has done to reduce pollution, waste, carbon emissions, energy use, and so which are typically described in terms of dollars or volunteer hours spent, but rarely in terms of any actual impact (United Nations, 2009).

5. Traditional Vs Strategic CSR – a paradigm shift.

Businesses can have a positive impact on society and development through three main avenues: (a) employment benefits, (b) community development and philanthropy, and (c) core business CSR strategy. The first two avenues can be broadly grouped together as traditional CSR. Traditional CSR activities that encompass community development and philanthropy are usually seen as distinct and unrelated to core business operations. Business could have a CSR programme of education and healthcare while polluting the environment and treating workers poorly. Strategic CSR is meant to address this problem by addressing any negative value-chain impacts while supporting the business strategy and the needs of the community. Thus traditional CSR is differentiated in motivation, implementation, and impact from Strategic CSR (Werner, W. 2009).

Porter and Kramer observed in a recent Harvard Business Review article that though organizations have increased their emphasis on CSR, these activities are usually not connected to the organization's business strategy. The result is suboptimal economic or social impacts. When conducted with no clear strategic framework, CSR practice often results in a poor hodgepodge of uncoordinated CSR and philanthropic activities, disconnected from the company's strategy which neither makes any meaningful social impact nor strengthens the firm's long-term competitiveness. Porter and Kramer contend that organizations often develop CSR programs based on doing something good, creating programs in a reactive manner in response to external pressures from society, enacting activities that are aimed solely at public relations, or gaining a positive score on CSR scorecards which ultimately failed to connect CSR activities to their core business strategy (Milliman et al. 2008). In addition to the fundamental debate about CSR's relationship to the firm's bottom line, Porter argue that CSR requires a major focus, using a strategic analytic approach rather than reaction to outside pressures or good intentions. Using the same value chain, he proposed to map corporate strategy, and then propose the value chain that can identify the positive or negative social consequences of all a firm's activities. (Gill, S. 2007)

Corporations face an increasingly competitive and globalized environment where business activities and perceptions are placed under escalating scrutiny. CSR will only enhance a company's reputation or access to capital if the public is convinced that they really are having a positive impact on society.

6. Strategic CSR – a 'Win-Win' strategy

CSR is supposed to be win-win. The companies make profits and society benefits. Having identified social issues, Porter and Kramer make a bold claim: "The essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value—that is, a meaningful benefit for society that is also valuable to the business". As a result, they show how a company can create a corporate social agenda, composed of "strategic CSR." (Porter and Kramer, 2006)

The concept of "strategic CSR" by Porter and Kramer has been supported by several authors and there is general evidence that firms are beginning to benefit from strategic CSR activities. It provides an opportunity to measure the benefits of CSR in a broader context than simple correlations between philanthropic contributions and profits. Recent literature in the business-and-society field implicitly or explicitly takes a more strategic orientation to various components of CSR. (Burke, L et al. 1996)

Porter and Kramer's view is that organizations should carefully target CSR programs which are tightly linked to core business values. These authors reason that by linking the CSR approach with strategy these programs will provide a greater impact on both the organization and society. They claim that "the more closely tied a social issue is to a company's business, the greater the opportunity to leverage the firm's resources, and benefit society." Strategic CSR approach is particularly important because it creates social and economic benefits simultaneously which is designed to produce profits and social benefits rather than profits or social benefits. (Milliman et al. 2008.)

Werner argued that, strategic CSR is increasingly becoming integrated into core business operations. When properly designed and implemented to fit the needs of the community and corporation, CSR can become source of opportunity, innovation, and competitive advantage. Strategic CSR also ensures that a business is focused on minimizing potential negative impacts of its operations. (Werner, W. 2009)

Research findings by Husted et al, shows that firms that participate in CSR programs are highly central to their business missions are more likely to create business value because the firm develops resources and capabilities in the solution of social problems that can then be applied to its business activities. The more closely related the social projects are to the core business mission, the more easily transferable are these resources and capabilities. (Husted et al. 2009)

United Nations studies on trade and investment (2009) identified that many businesses realize that local environmental degradation, global climate change, poor labor standards, inadequate health and education systems, and many other social ills can add directly to the costs and risks of doing business domestically and globally. They can increase operating costs, raw material costs, hiring, training and other personnel costs, security costs, insurance costs and the cost of capital. They can create both short-term and long-term financial risks, market risks, litigation risks and reputation risks. Companies that understand and address these challenges can improve their risk and reputation management, reduce their costs, improve their resource efficiency and enhance their productivity which can make the highest impact to society and business's future. (United Nations. 2009)

Thus CSR is now a strategic imperative and embedded into companies' core business. Strategic CSR accomplishes strategic business goals, as well as social goals – it benefits both the business and society.

7. 'Corporate Social Responsibility' or 'Corporate Social Integration'

The practice of corporate social responsibility has evolved significantly over the past several decades to a point where it is becoming an important part of corporate strategy and evolved into a new paradigm of "corporate community involvement." Firms are increasingly devoting more resources to their social initiatives and making them a key factor in establishing a competitive advantage.

Corporate community involvement that entails a significant use of firm resources related to the organization's core competencies Hess, D et al. (2002) termed these programs "corporate social initiatives" or "corporate social integration" (CSI). The characteristics of corporate social integration distinguish them from their predecessors. First, CSI programs are connected to the core values of the firm. By their nature, they reflect corporate recognition of specific community problems or needs as expressed by relevant stakeholder groups. Second, CSI programs are linked with the core competencies of the firm which provide a greater benefit to corporate reputation assets than traditional corporate philanthropy. While widespread, the appropriateness of corporations' philanthropic contributions remains controversial. (Hess, D et al. 2002)

CSI is a long- lasting community involvement program which is more likely to improve the image of the corporation than after-profit cash contributions. This is a reflection of the basic sentiment that people need help solving their problems, not just money. Through socially integrated firms can take a proactive role in shaping their reputations and demonstrate commitment to their espoused values, it requires the firm to look at the expectations of the consumer, labor, and capital markets, and most importantly, of the entire local community. Being responsive to these expectations is the key to the success of any corporate social initiative. (Hess, D et al. 2002)

8. Conclusion

Concerns as to a more sustainable development, in terms of realizing economic growth 'that is forceful and at the same time socially and environmentally sustainable', have been expressed more than 20 years ago already by the Brundtland commission (WCED, 1987). In the past decade, the term triple P (People, Planet, and Profit) has been coined to likewise point to the need for businesses to focus concurrently on the social, environmental and economic dimensions of corporate activity, in order to help shape the sustainable future of societies worldwide. Thus the rethinking of the role of business in the pursuit of sustainable development objectives since the mid 1990s has also meant business has had to respond to this changing societal expectation by increasingly redefining and justifying its involvement in developmental issues in terms of corporate social responsibility. Rather than traditional CSR practices, strategic approaches to CSR can be more useful in this regards.

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