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INTEGRATING CURRENT CHALLENGES TO CSR INTO BUSINESS STRATEGY

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Abstract

While ethicists may have become complacent in recording the general adoption of CSR policies in the corporate world at the end of the C20th, the challenges faced in the C21st may see the reversal of this trend even an abandonment of policies which some believe are a "luxury" feature diverting business from its core mission.

The unavoidable influences of globalisation, Internet use by business and economic recession, impose tougher competitive conditions, forcing cost reduction and revenue protection policies simply to ensure survival. The enduring conservative objections to broad CSR adoption remain, however these additional features lead even sympathetic managers to withdraw funding and project developments, whose past objectives were to make organisations corporate citizens. This trend features in the public and not for profits sector also, though in these sectors the more political environment may cloud the new realism.

Whether the system is simply renewing its core, regenerating its competitive edge to return to a more generous business "as usual" stance or is in crisis, transforming to a new model as post Marxists might argue, ethics committees, CSR projects, CR executives are under pressure to justify their existence and budgets by evidencing a value added to customers, which impacts on corporate financial performance.

Was it ever thus? Most critics might always detect the enthusiasm for CSR only when "good ethics, meant good business", reformulated by Porter and Kramer (2011) as Corporate Social Value (CSV). Nevertheless, the same pressures driving down on CSR commitments could also be seen as possible drivers to adoption, as stakeholder pressures can stimulate corporate responsible policy responses.

However, should these not be effective, the guard against unethical behaviours and abandonment of CSR will either require heavier external regulation or a time of reduced ethical discourse and performance.

Methodology: Conceptual discussion with some industry application

Findings: C21st century pressures, may narrow CSR commitments or require legislative regulation

Key words: (Management Ethics, Strategy, Business Environment)

1. Introduction and theoretical framework

Everyone hates a debate which degenerates in^{to} definitional disputes. However^{the} the title of this paper has witnessed decades of debate and disagreement as the concepts are sensitive and controversial. This is especially true for corporate social responsibility (CSR). However even defining strategy can become problematic.

✓ Whittington (2001) states in a less serious moment, people put the title 'strategy' or 'strategic' in front of their job descriptions when they want to sound important or get paid more. He does acknowledge the existence of strategy for business, but offers many perspectives on how it might operate. These are dependent on different drivers, social environments and economic conditions. Classical, Evolutionary, Systematic and Processional schools will differ in the extent to which they are profit maximising, in tune or conflict with market forces and whether it is believed human beings and the system we operate in, can be predicted in the long term. This is a problem for the analyst since different schools may have different ways of incorporating social, ethical or sustainable elements.

A working definition of strategy is,

"the direction and scope of an organisation over the *long term*, which achieves *advantage* in a changing *environment* through its configuration of *resources and competences* with the aim of fulfilling *stakeholder expectations*". (Johnson et al, 2010, p3). ✓

In reviewing this we might immediately worry about the predictability of business conditions, which allow long term perspectives. Sceptics will always feel that organisations lurch from one crisis to another. A strategic view is then imposed on the process, in retrospect, by those who survive the crisis, who write the bestselling books. Nevertheless it is the hope in academic circles, using social science methods, that there may be devined a predictability in human behaviour which allows hypothesis testing and generalisations. Inevitably sudden shocks to the system throw policies and predictions up in the air. It is difficult to anticipate the unexpected. As a result strategy may be incremental and evolving. Organisations can learn from the past and at least minimise negatives and build on positives. The alternative would be a totally unmanaged reactive stance by management.

Changing environments might include greater demands for social responsibility. These might take the form of external political activism and campaigning or an evolution of social attitudes to inclusion, environmental protection and respect for difference. In addition there could be internal pressures from stakeholders and decision makers. A current challenging environmental driver is the economic recession which this paper asserts forces some companies to retract ethical initiatives or generous social activities.

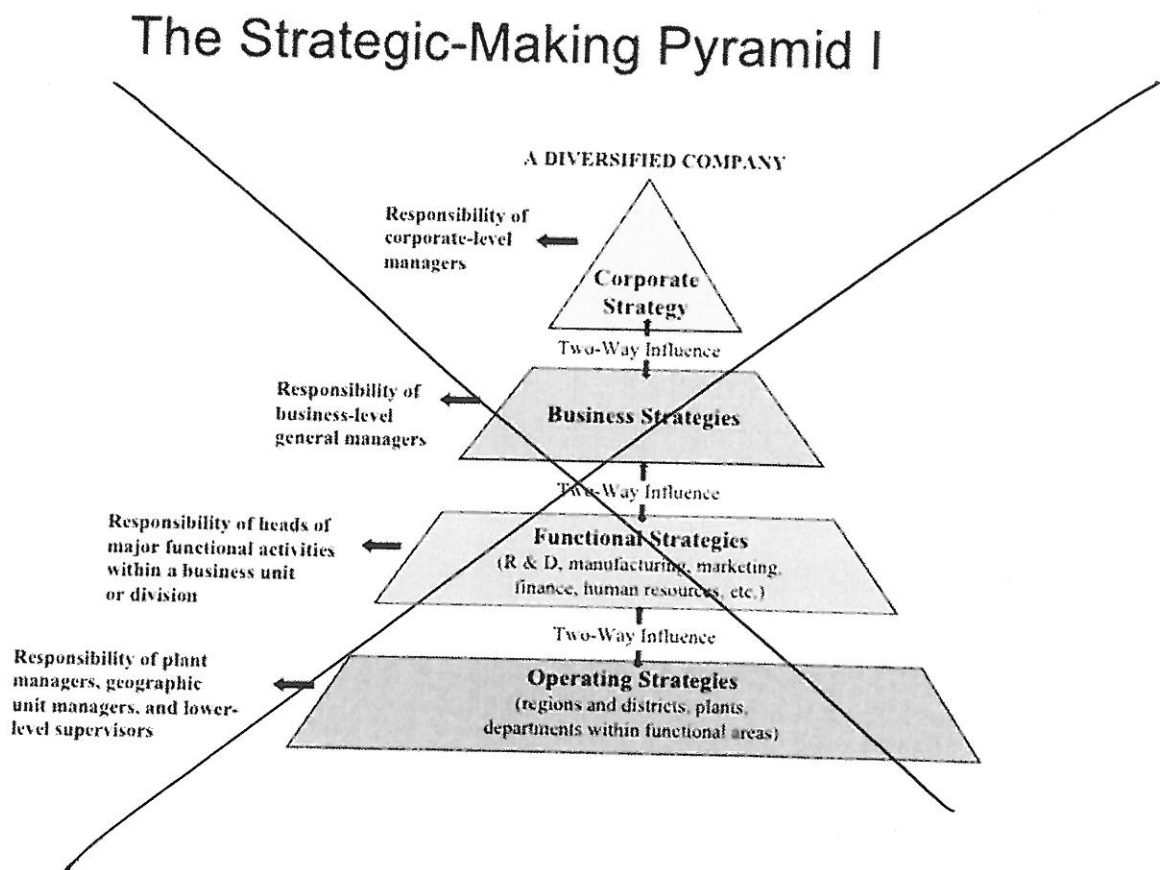


Fig 1. Source: <http://www.slideshare.net/anicalena/strategic-management-business-presentation-slides> (Accessed 12-01-13)

A strategic concern for the ethical campaigner is the strategic capability of organisations to develop and deliver social policies. Conservatives might challenge whether such responsibilities exist. Certainly few managers or strategists have had any training in ethical policy development. As illustrated in Fig 1, strategy may be at corporate, business, functional or operational levels. Each level creates different challenges for successful implementation. It also generates the debate of whether CSR is or should be driven from the top down or be a collaboration between all

levels, including influences from the bottom to the top. ~~To what extent are managers and workers evaluated on their ethical values when they are recruited or promoted? Can ethical behaviour be trained?~~ The answers to these questions will influence the

type of CSR strategy that can be adopted following an audit of ethical strategic

capability, ~~will~~ be influenced by an evaluation of employee ethical values and the possibility of enhancing these in training.

Lastly their definition includes 'stakeholder expectations' which immediately

indicates a certain commitment to social responsibility in that a wider view of whose interests should be served is intrinsic to the very definition of what the company should be trying to achieve. ~~As will be seen below~~ ^{questioning the} the need to serve stakeholders at

all and the capacity to identify and measure expectations, can be used as a critique

of this approach. The use of the rhetoric of CSR can be readily observed in most

~~main stream~~ ^{common - groups} corporate web sites and annual reports. However critical management author may still be cynical about the truth of and motivation for such commitments, when the system dictates narrow profit making objectives as the overriding principle.

Ethics, CSR and sustainability create even more problems for definition, measurement and consensus. Crane and Matten (2010, P7) offer: ✓

"Morality is concerned with norms, values and beliefs embedded in social processes which define right and wrong for an individual or a community.

Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation. These rules are called ethical theories".

The study of CSR is fraught with intrinsic problems. Defining ethics, social responsibility, stakeholder management, sustainability, has always been a challenge in trying to achieve consensus.

Johnson et al (2010, P148) say CSR is "concerned with the ways in which an organisation exceeds its minimum obligations to stakeholders specified through regulations". ✓

Each concept is open to different interpretations. Kitson and Campbell (2008) help us simplify the options by defining the Narrow (encompassing the Stockholder and Property) CSR View. This would include Friedman's traditional neoclassical ✓

perspective, where business should be run in the interests of the owners, or for large corporations, the stockholders. "The business of business is business" (Friedman, 1970). To divert resources from the interests of the owners, against their wishes, in the most extreme cases could be equated with stealing (Nozick, 1977). In large organisations in the private or public sector an interesting challenge is to ask managers, "What if it was your money you were spending, would you do the same thing?" This would echo Friedman and Nozick's defence of private property and the freedom of its use and consumption. *Necessary?*

Alternatively Kitson and Campbell (2008) define the Broad (encompassing the Stakeholder and Arena) CSR View. The most famous advocate of stakeholder theory is R. Edward Freeman, who asserts that other groups may legitimately claim a stake in enterprises, whereby their interests should be considered, independent of the narrow interests of owners. Organisations may construct a stakeholder map to identify these groups and engage in dialogue to review their interests and the corporate strategy. *See Fig 1*

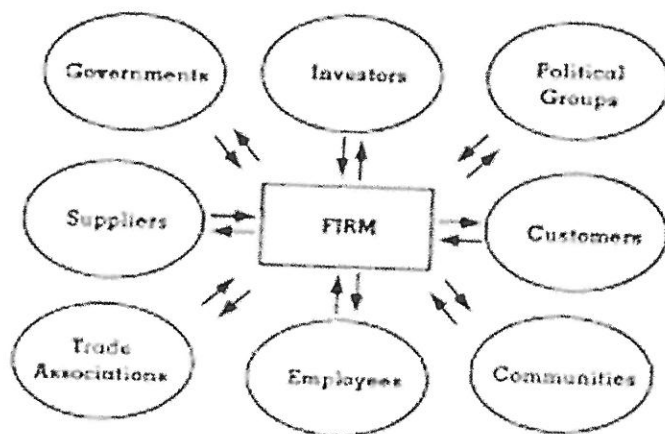


Figure 1: A simply stakeholder map (Weiss, 2008)

Analysts and managers may differentiate internal and external stakeholders and derive different weightings of the consideration to which they are due.

Archie Carroll's Pyramid of social responsibility fits this approach. Fig 2 shows that the economic and legal obligations could be consistent with the narrow view of CSR, as even Friedman believed in obeying the law. The broader view would require ethical and even philanthropic duties to be acknowledged if organisations wanted to have a good ^{ethical} socially responsible reputation. *adopted in addition,*

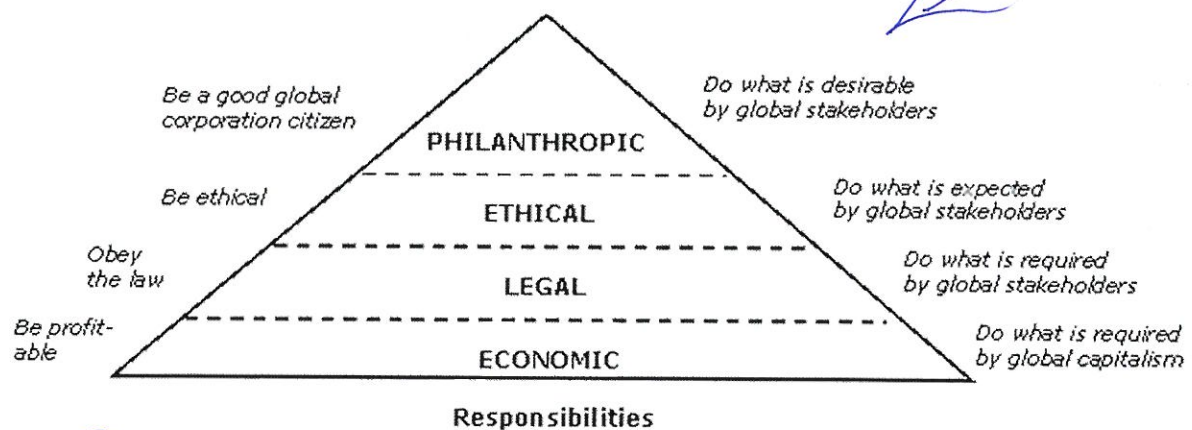
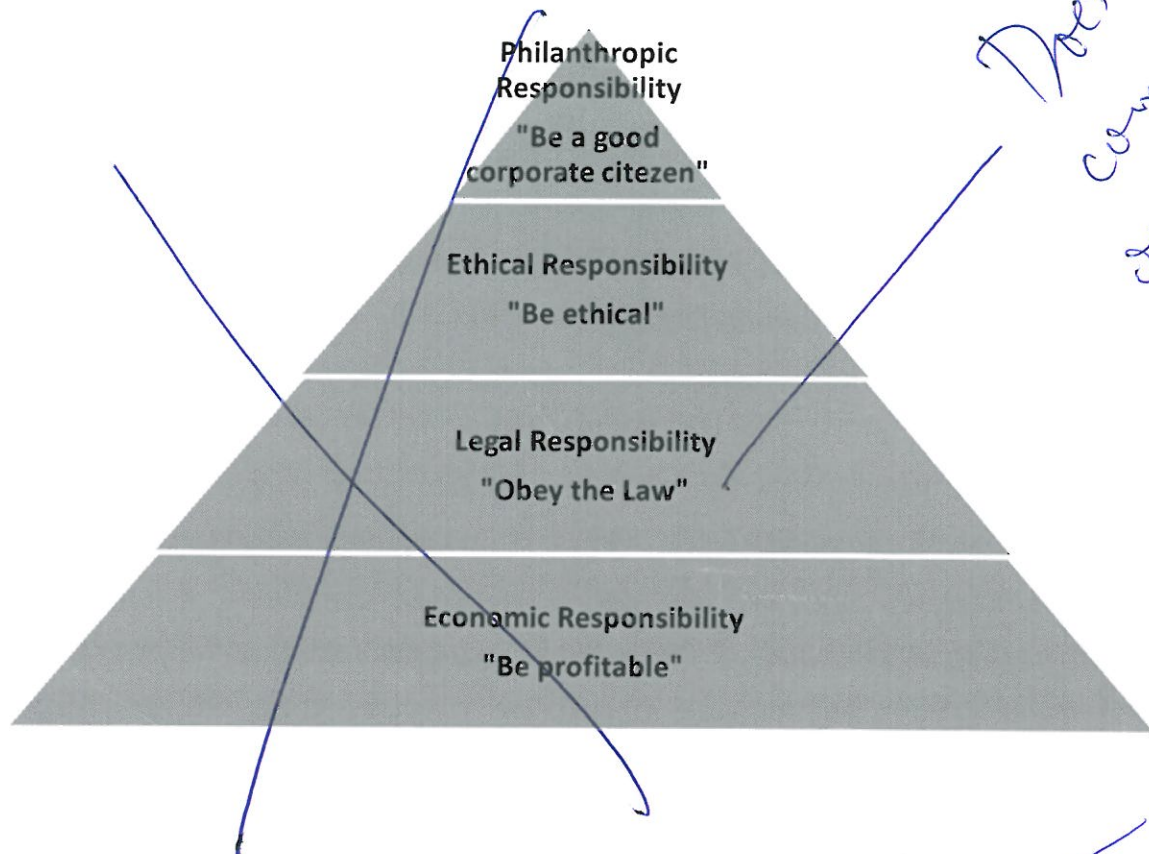


Figure 3- Pyramid of Corporate Social Responsibility and Performance (Carroll and Buchholtz, 2003)

~~It may still be argued that this leaves ambiguity, in the relationships between levels,~~ ^{It may be hoped} the apparent hierarchical nature of the structure and the problems of defining activities into the four categories. Apospori et al (2012) point to significant evidence

Creates problems for application.

that the strata need not be in conflict, including the ideal, ethical behaviours creating good economic outcomes. *Rather*

cont.
Freeman et al (2004), Bowie (2007), Agatiello (2008), Weiss (2008), Alpaslan (2009) and others, which see simple compliance with the law or regulation as a minimal commitment, ~~where~~ *where* organisations should aspire to Corporate Citizenship (Crane and Matten, 2010). Such stakeholder approaches, while evidenced by most large corporation mission statements and reporting, can be attacked as diverting companies from their main objectives, giving unclear guidance on policy (Sternberg, 2004) or forcing them to try to achieve a target (CSR) which is undefined, impossible to measure and which would not prevent new examples of corruption and fraud, such as Enron or WorldCom (Greenfield, 2004). In a world hit by recession and credit crunch, Kamani (2010) denies the broad responsibilities, but also says that companies cannot afford the luxury of CSR.

duplication.
~~"Even Friedman (1962) says that business should make profit and create wealth, but play by the 'rules of the game'. Which rules he refers to and which rules drive SMEs can be ambiguous. Clearly the law defines at least the minimum standards, required by society. However as Crane and Matten (2010) argue, simple compliance with the law is hardly something to praise from an ethical campaigner's point of view, but from the narrow stockholder viewpoint, it might be debated whether it is fair to ask corporations to go beyond the law, possibly exposing themselves to loss of competitive advantage, denying their economic responsibility (Kamani, 2010)."~~ *Repetition!*

2005
Bowie and Werhane (2007) comment on different regional approaches, comparing the experience in the USA where CSR seems to be applied in a more individualistic manner, defining the responsible manager and company, emphasising corporate philanthropy and community service as features of good CSR. In Europe they believe there is a more integrated coherent systems approach, where organisations (including US companies trading in Europe) are more concerned to build sustainable development into their strategy, encouraged by government and society in general. Most recognise and often quote the Triple Bottom Line approach integrating financial, environmental and social objectives as illustrated in Fig 4.

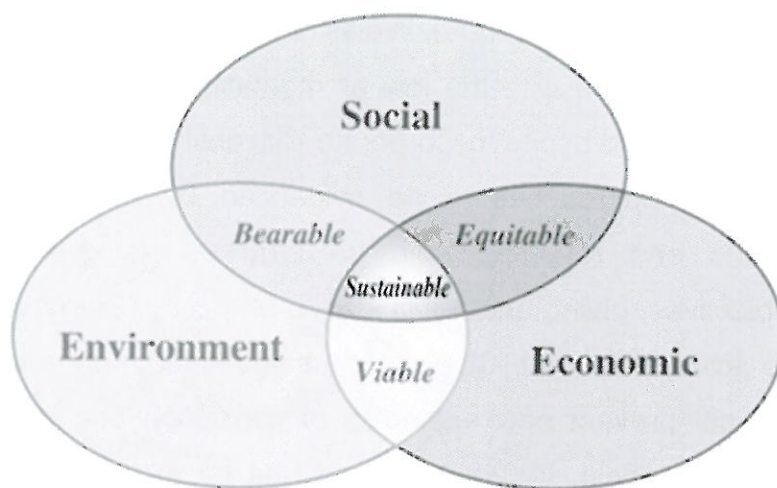


Figure 4: The Triple Bottom Line, adapted from Elkington (1999) ✓

However CSR is undoubtedly on the agenda, as recorded by Pryce (2002) a decade ago, whether because of high profile corporate fraud, ecological disasters, stakeholder pressures such as ethical consumer reviews and boycotts, ethical investor funding power and increased assertiveness at board and AGM events or because of governmental legal sanctions and tighter regulatory environments.

2. Applying the Concepts

There is a data collection problem for all students researching business ethics. In reviewing empirical data, many methodologies become unreliable once it is admitted that respondents will not be honest about their behaviours and when corporate reputation management is tightly controlled to avoid scandal. The researcher is drawn to more qualitative methods, offering deeper analysis of case material, but with the associated problem that it is difficult to prove hypotheses true or false and it is difficult to generalise. This researcher has conducted a series of anonymous interviews, workshop activities, focus groups and observation exercises to attempt to review the application of CSR to business strategy. As expected it is difficult to

insat reference?

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precisely give a verdict on the evidence collected, but there are some interesting results.

Most managers and owners appear to have a belief in business ethics. In role play they often resist unethical and illegal behaviours, offering examples ~~shared~~ ^{adapted} to the matrix of Henderson (1982).

Table 1: Ethical –Legal interrelationships adapted from Henderson (1982) ✓

	Ethical	Unethical
Legal	1. Charitable giving	2. Rude or disrespectful behaviour
Illegal	3. Claiming excessively on expense accounts	4. Lying about safety tests on company products.

In Table 1 the examples of bad behaviour are interesting in that some are clearly illegal but others may be legal but unethical or not recommended. Complexity arises when dealing with different cultural contexts and moral precepts. Charitable giving in cell 1 may be the result of self-serving motives, to buy a good reputation cheaply or avoid tax. ^{interpretation is necessary as} ~~Does~~ lying about safety standards of products include ^{may or may not} ~~not~~ telling the whole truth or only volunteering negative product information if directly questioned? *if unethical?*

~~Most ethical campaigners and academics, while often normatively asserting the need for a teleological principled approach to CSR adoption by companies are often happy to promote the 'good ethics is good business' approach to lead to a good deontological conclusion in CSR performance (see Cannon, 1996, matrix below, Porter and Kramer, 2006). When the CSR debate is targeted at SME performance, there is even more controversy.~~ *Table 2)*

Table 2: The 'Enlightenment Matrix' adapted from Cannon (1996) ✓

	Ethical	Unethical
Profitable	1. Investing in energy saving equipment	2. Developing an online gambling site in the USA

Unprofitable	3. Cancelling a contract with a supplier when it was discovered they employed child labour	4. Lying about the negative side effects of a rival's products
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Table 2 offers in quadrant 1 ^{shows} the prospect of the 'Good ethics is Good business' cliché. Not creating policies in this area would seem to be irrational; however ^{some fail to take up the opportunities} cases may exist due to irrationality or ignorance. As a result ethical campaigners tend to

frame their promotion in terms of encouraging ethical actions which have a commercial payoff, albeit perhaps in the future or with rather intangible returns.

Porter and Kramer (2011) seem to reformulate this to urge companies to replace CSR with Corporate Social Value (CSV), by introducing policies valued by customers, to make progress on social issues but also protect economic viability.

Leadership by the owner manager

While many authors cite the need for an appreciation of context when evaluating SMEs, most acknowledge the special role of the owner manager or lead manager in any SME. Lähdesmäki (2012) states that owner managers deliver social responsibility as a part of their sense of self, which is integrated with their business life, not withstanding their ability to reconcile economic and ethical values. Her/his personality, past experience, personal commitment often characterises the enterprise as a whole. When SME leaders are socially responsible their organisations will frequently deliver CSR, uphold the highest ethical standards, and develop others at all levels inside and outside the organisation (Guarnieri and Kao, 2008). Seidman (2004) says that 'ethical leadership starts with a vision that making ethics essential and central within the fabric of an organization will enable it to achieve its aspirations'. He states that ethics at the core and as a constant underpinning will channel abilities and skills to sustainable, appropriate activities. Treviño et al (2000) argued that individuals in power must be both strong moral persons and moral managers in order to be seen as ethical leaders by those around them. Strand (2000) regrets the lack of research on SME CSR leadership, however

extrapolating from other studies on SME leadership of other policies, it would be strange not to emphasise the critical role played by the owner manager.

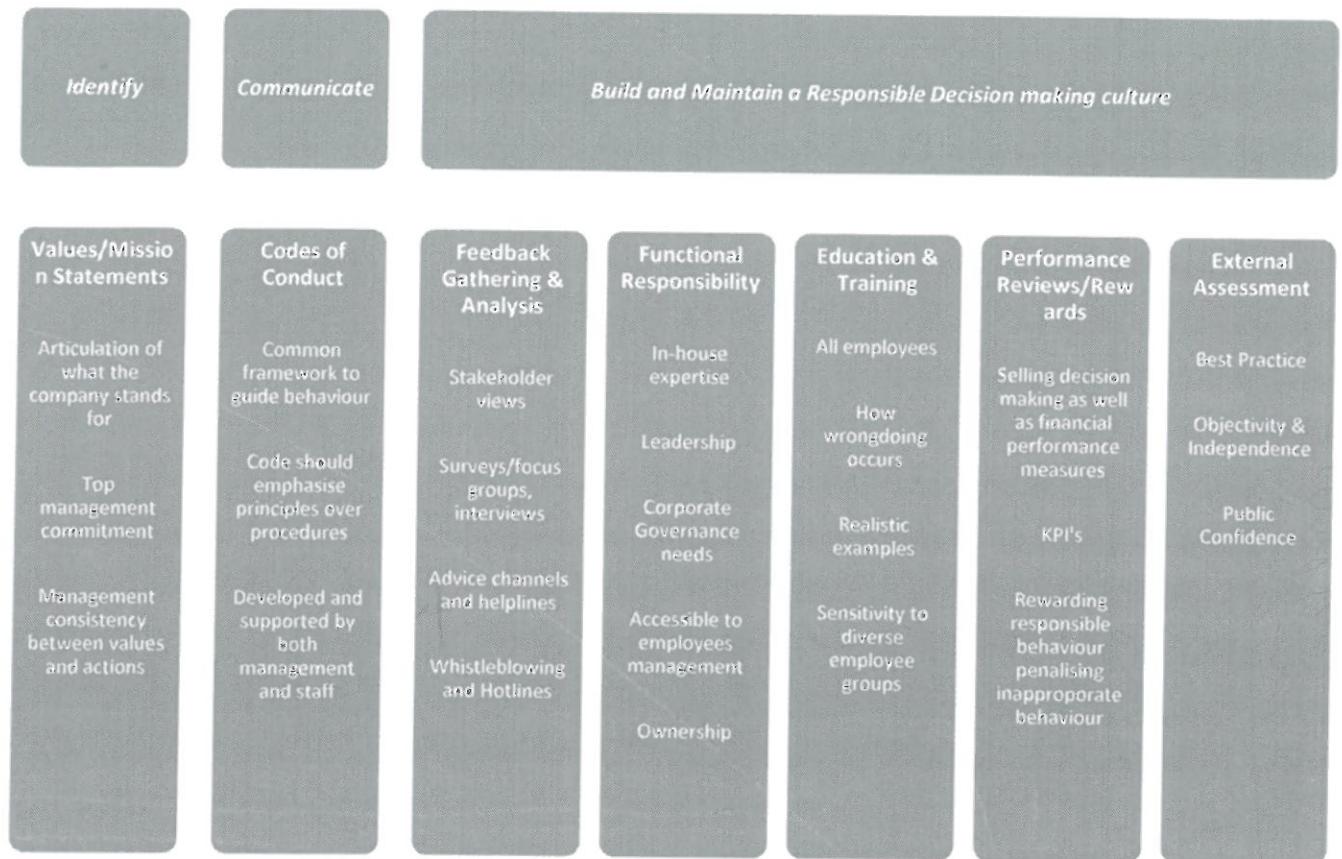
Tulder and Zwart (2006) identified four different approaches towards (corporate) responsibility linked to different types of leadership:

- *Transactional* and *team* leaders are particularly good at specifying in-active and re-active CSR goals, clarifying roles and responsibilities and motivating their followers or subordinates to achieve group or organisational goals.
- *Charismatic* leaders still focus primarily on internal operations of the organisation, they also display an ability to present a vision of the future of the organisation in combination with a strong personal commitment and a strong character
- *Visionary* and *Moral* leadership is characterised by a more active stance on CSR. Both require an ideal vision of where the organisation should be in the future.
- *Transformational leadership* is the most outward oriented type of leadership and directed at formulating and implementing a new organisational vision that is embedded in a broader vision of society and the active involvement of external stakeholders.

Surplus?
Delete ref from bibliography.

The process, history of development & environment experienced by organisation may be important for analysis. In the Anderson model Fig 1 in early development, identifying a CSR mission will be a 1st step

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Figure 2- Cornerstones of a Business Ethics Programme (Andersen, 2000)



In the later more mature phases of this model the need to communicate externally to society and relevant stakeholders is apparent. In the best sense this could be both evidence of ethical delivery, but also good reputation management, which could have commercial, economic payoffs. The later stage of external audit is rarely seen in any sector, apart from the most philanthropic and social enterprises. Indeed two years after publication, Arthur Andersen, which used this model for consultancy work, became embroiled in a self-destructive ethical scandal involving corrupt reporting. This led to its dramatic demise. Murillo and Lozano (2006) emphasise the need for communications with internal and external stakeholders.

Regulation pressures

Campbell (2007) proposes that 'corporations are more likely to behave socially responsible if strong and well-enforced state regulations are in place to ensure such behaviour'. The likelihood is enhanced if regulations and enforcement capacities are

Current pressures

In one way the pressures felt by organisations currently are not new. The impact of economic downturn, globalisation of markets and business use of the Internet has been felt for a number of years. However this impact is now better understood and difficult to avoid. The usual caveats stand, as impacts are different depending on size of organisations, ownership, exposure to competition and regulatory frameworks, for different industries. The combination of these three pressures can be identified in most private organisations and even in the public and not for profit sector.

The recession means that corporate philanthropy policies are being reappraised. Often those that cannot demonstrate some sort of "payback" for the organisation will be abandoned. In some ways this appraisal is inevitable. Those schemes that continue are more likely to be sustainable, as they are grounded in an integrated way with core strategic profiles of organisations. In order to continue therefore those who benefit from corporate charitable giving should take steps to make their appeals, recognising the constraints on CSR managers, to demonstrate synergies with their corporate objectives. For example charitable housing associations are creating forums, to allow local government, registered charities (dealing with issues of poverty beyond housing) and partners in the private sector, to develop products and services that meet the client needs, regardless of economic scarcities see Coastal Housing (2013).

<http://www.coastalhousing.co.uk/Pages/default.aspx>

Corporate activity in the global market, has to deal with the continuing issues long recognised by international business practitioners, managing conflicting cultures, communicating with government bodies with conflicting approaches, bribery/corruption, conflicting laws, ethical supply chain management, respect for local cultures by global brands etc. Again it might be argued that the "luxury" CSR approach is under threat when resources are reduced, so that low price, profit targets and survival, become the crucial metrics for strategic managers. Perhaps in a hierarchical view of Carroll's pyramid, economic survival is the priority. If the company goes bankrupt, there will be no ethics or philanthropy. There is evidence of a new "ruthlessness". Building companies are being asked to do more for the same fee in order to maintain contracts e.g. the Costain Group (2013), has good 2012, 3rd quarter figures but admits that it now offers design, planning and maintenance elements to contracts where they might previously have simply delivered construction

<http://www.costain.com/>

In utilising the ubiquitous Internet, business has been confronted with the danger of losing competitive advantage, in the race to offer better deals (mainly on price) to anonymous customers. As Porter (20) long ago warned, to maintain a premium price and ensure business sustainability, companies must develop good interaction with customers and stakeholders to demonstrate that they are delivering value added. It was always the case that those who did not do this would go under. In today's environment this demand is amplified and the penalty of failure is felt very quickly. As with the other pressures e-Commerce offers solutions as well as threats. As Schneider (2013, P33) comments it "should be a business solution, not a technology implementation for its own sake".

Schneider, G. (2013) E-Business, New York, Cengage Learning



Conclusion

Most of the challenges and motives for adopting CSR as an integrated facet of business strategy have not changed. The philosophical debate similarly remains little altered. Current pressures however make the decisions to adopt and in what format crucial. Making mistakes is costly, even fatal in a global world which holds organisation to account, but where competitive pressures create shortage of resources and little appetite to pay premium prices for ethical products. Organisations that plan for the long term and who expect to survive the recession must also plan for their future structure, which will inevitably include commitment to CSR, as stakeholder pressure and government demands for corporate ethical behaviour are unlikely to disappear.

based on negotiation and consensus among corporations, government and other relevant stakeholders (Campbell, 2007).

In analysing the impact of the legal environment, Shum and Yam (2012) utilising Carroll's paradigm were sceptical of organisations' voluntary adoption of CSR, but did see a resonance in adoption when linked to legal and particularly economic payback. The engagement with philanthropic or discretionary activities they argued was more obscure. Ruud and Ruud (2012) argue that CSR implementation is undermined by frequently shifting social/legal priorities and hypocrisy, when society itself does not uphold the values that it expects corporations to enact. Particularly in an economic downturn the reality might be that economic survival or growth could be seen as the priority despite the CSR rhetoric.

There are interesting discussions to be had on the merits of self v external regulation. SMEs must comply with both laws and less formal regulation. One factor which might arise compared with large corporate compliance is the problem of policing the vast number and diversity of SMEs in any industry.

Polishchuk (2009) explains 'the effectiveness of government regulation depends on the complexity and scale of the tasks that are being implemented and the ability of regulatory authorities to perform their functions effectively. The more complex and numerous the tasks requiring regulation and the greater the doubts regarding the government's ability to accomplish them, the more grounds there are for relying on [voluntary] CSR'. Complexity of bureaucratic regulations may not excuse, but might explain some SME non-compliance. Industry bodies at different levels can regulate the behaviour or practice of business by defining minimum standards for business performance embedded within the legal framework; establishing targets for business to achieve; setting up enforcers and inspectorates to oversee business conduct; promulgating codes or laws to confine undesirable business conduct; or imposing license of operation or mandatory environmental friendly industrial systems (Kitthananan, 2010). However many SMEs do not belong to such bodies, although they might emulate good practice. The characteristic of entrepreneurial desire for independence puts this feature under some pressure.

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