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CSR INTEGRATION INTO THE CORPORATE STRATEGY

Theoretical article

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Abstract

The aim of this research paper is to develop a model for the integration of ethics and Corporate Social Responsibility (CSR) into the company strategy as a source of competitive advantages. CSR is an organization's obligation to consider the interests of their customers, employees, shareholders, communities and to consider the social and environmental consequences of their business activities. By integrating CSR into the corporate strategy and stakeholder management, organizations can ensure that the increasing of shareholder value doesn't overshadow the need to behave ethically to their stakeholders. The research is based on the theoretical framework that supports a thesis of beneficial impact of the development and implementation of CSR plan: by planning out CSR as part of a corporate strategy, companies can achieve the ultimate goal of creating both social value and corporate value.

1. Introduction

The aim of the study is the proposal of a model for the integration of the CSR into the strategy, culture, and everyday operations of a company.

The fundamental problem with CSR practice is that companies usually don't have a CSR strategy, but rather numerous disparate CSR programs and initiatives (Rangan et al., 2012).

A growing number of companies develop their corporate social responsibility in response to a variety of social, environmental and economical pressures. The goal is to send a signal to the different stakeholders: shareholders, employees, investors, consumers, public authorities and NGOs (Colombo and Gazzola, 2013 a).

The question for the organizations is not only whether to engage in CSR, but what is the best way for crafting CSR programs that reflect a company's business values, while addressing social, humanitarian and environmental challenges. Considering the many disparate drivers of CSR within a company, and the many different motivations underlying the various initiatives, it is crucial that the organizations carefully integrate CSR into their corporate strategies (Carroll and Shabana, 2010), but incorporating corporate social responsibility into all strategic decisions is, arguably, one of the most difficult challenges a manager faces.

By planning out CSR as part of a corporate strategy, organizations can ensure that profits and increasing shareholder value don't overshadow the need to behave ethically to their stakeholders (Colombo and Gazzola, 2012).

2. Methodology

This study shows, through a model, what path a company takes, what stages of CSR are in the path, the strategic logic of these stages and the different challenges the company faces.

The paper is structured as follows. In the first part, in order to develop a coherent model of development, we reviewed pivotal literature within the areas of inquiry, based on a backward and forward searching strategy. In the second part we grow a model based on the organizational growth model by Greiner (1998), on the stage model for the development of corporate by Mirvis and Googins (2006) and on the stages of the development of CSR in corporate strategy by Molteni (2007).

We used peer reviewed and practitioner-oriented journal articles, book chapters and working papers.

Our hypothesis is: there is a positive impact of the development and implementation of CSR plan.

The research is based on the theoretical framework that supports a thesis of their positive relationship. (Gazzola, 2014)

3. Literature review

According to Freeman and Hasnaoui (2010: 420) nowadays Corporate social responsibility is not yet a universally adopted concept as it is still understood differentially despite increasing pressures for its incorporation into business practices .

Simons (1995) argues that since management systems provide the tools that permit to choose, organize, deploy and monitor the strategy, managers use management systems to drive strategic renewal. The company that introduces the CSR into the companies' management systems should: a) give evidence of the 'real' will of companies to integrate CSR into their strategy; b) provide the means for effectively changing operational practices.

Porter and Kramer (2006) consider the importance of the integration between strategy and society, and between competitive advantage and corporate social responsibility, proposing an analytical model based on the social impacts of the value chain and the role of corporate social responsibility in the competitive context.

Mirvis and Googins (2006) identify five stages of evolution in the process of integration between social responsibility and corporate strategy. Sharp and Zaidman (2010) analyze processes by applying Jarzabkowski's model (2005) to the integration of social responsibility into corporate strategy. The triangular model highlights the interconnected relationships among management, organization community and strategy. The interconnection among these three elements is expressed in the firm's routines and procedures and aims at reflecting the social values of management and social strategy into the firm's activities.

According with McKinsey (2009), it appears that although most executives agree on the strategic interest of CSR, none of them fully include CSR aspects when implementing business projects: the integration of CSR within management systems would remain weak.

Despite the importance of management systems when integrating CSR into business, little research has been conducted on this topic (Adams, 2002; Berland & Essid, 2009; Norris & O'Dwyer, 2004).

4. The CSR and the impact on society.

The recent increased attention on CSR is a result of pertinacious work by governments, media and NGOs, holding, large corporations, responsible for the societal and environmental consequences of their business practices (Porter and Kramer, 2006).

There are many factors that fully or partially influenced the increase of the attention on CSR. The main important drivers of CSR are:

1. Ecological Sustainability. Pollution, waste, natural resource depletion, climate change and the increasing of the CSR discussion and heighten expectations for proactive corporate action.

(Werther and Chandler, 2013);

2. Globalization. The multinational corporations increase their power and increased their responsibility. Globalization has fueled the need to filter all strategic decisions through a CSR lens to ensure optimal outcomes for different stakeholders. (Werther and Chandler, 2013);

3. Social media. The technology development gives citizens immediate access to transparent information and news at the click of a computer key. Through the Internet and other electronic mediums the flow of information has shifted back to the stakeholders giving them a beneficial influence. (Werther and Chandler, 2013);

4. Reputation. Honest CSR is a way to protect the reputation, the company image and the brand. The brand depends on public perception of the corporation. Kramer & Porter 2006 (Werther and Chandler, 2013);

5. Moral Obligation. Companies adopt CSR because they believe that they have a responsibility to be a good citizen and "do the right thing" (Kramer and Porter, 2006);

6. Sustainability. Meeting the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1987). The companies focus on environmental and community management because they believe that it will be beneficial for the company in the long run (Kramer & Porter 2006);

7. License to operate. A great number of companies engage in CSR only because they are forced to follow regulations and obtain permissions from government, communities, or other relevant stakeholders. (Kramer and Porter, 2006).

We can consider CSR a concept by which companies integrate the principles of social and environmental responsibility in their operations as well as in the way they interact with their stakeholders. This definition has two perspectives:
- social and environment responsibility in their operations requires internal change processes to integrate the principles into business operations;
- interactions with stakeholders require stakeholder engagement (Zollo et al., 2009).

In the current business environment, CSR has become not only the "right thing to do", but it has also become the "competitive" thing to do.

The frontiers of corporate social responsibility are moving to a relationship between business and society. It is a new way of looking at the companies and their role in society, both in practice and in management education (Waddock and McIntosh, 2009). Management education, which has been criticized in the financial crisis period, has an important role to play, but in a changed form. Corporate responsibility is becoming a social movement (Ditlev-Simonsen and Gottschalk, 2011).

The foundation of CSR actually refers to the role of business in society, and to management practices that have a positive impact on society and environment. The European Union, through its European Commission on CSR, defines CSR like "the responsibility of enterprises for their impacts on society" (European Commission, 25/10/2011).

This definition considers all the impacts of the companies on society that integrates social, environmental, ethical and human rights in their activities and strategy, in close collaboration with its stakeholders, with the aim of:
- Maximizing the creation of value for its shareholders and other stakeholders and the community, through a long-term strategic approach to CSR and development of products, services and innovative business models.
- Identifying, preventing and mitigating its possible negative impact (Gazzola, 2012).

5. The expectations of the stakeholders

The changes in the economic and social context mean that a greater attention to the satisfaction of the expectations of the stakeholders will impact the success of the firm in dealing with new challenges:
1. the globalization process places new responsibilities on firms regarding the evolution of the economies of poor countries;
2. the reputation of the firm is inextricably linked to its environmental policy;
3. the social sensitivity of consumers has grown, and is increasingly more attentive to the behaviors and to the ethical values promised by the firms;
4. the weight assumed by the respect of human rights and the rights of workers imposes new constraints on the management of the human resources of the entire supply chain;
5. the growth of human capital underscores the need for personnel policies that productively employ staff;
6. the unification of financial markets calls for growing levels of correctness in behavior and transparency (Molteni, 2003).

We are assisting an increasing of the demand for transparency and growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance. As it was just noted, we are passing form a conception that perceives CSR as an obligation to one that recognizes CSR as a strategy with opportunities to exploit (Colombo and Gazzola, 2013 b).

The KPMG in the International Survey of Corporate Responsibility Reporting (2013) has studied the world's largest 250 companies and it assesses the quality of their CSR reports, these were identified as the top 250 companies listed in the Fortune Global 500 ranking for 2012. In this survey they are referred to as "the G250"

companies, they operate in 14 industry sectors and are head- quartered in 30 different countries.

Most reporting companies in the G250 (83 percent) state in their reports that they have a CSR strategy (Fig. 1).

6. The CSR and the corporate strategy

The work is focused on developing and integrating CSR objectives into corporate strategy and it becomes a driver of its development. To integrate CSR into the corporate strategy is an opportunity offered by the development of corporate strategy aligned with business goals, deeply rooted in the principles and values of corporate social responsibilities (Ganescu, 2012).

If a company builds a business strategy to align economic, social and environmental performance to long-term business values, corporate social responsibility becomes part of the business and gives long-term value for the company and for the society (Rochlin et al., 2005, p. 8).

Where negative perceptions of organizations prevail, brand boycotts often follow as consumers, particularly in wealthy industrialized countries, seek to punish parent organizations. But here lies an opportunity for a new approach to competitive strategy based around social resources. (Meehan et al., 2006).

Social Responsibility cannot be just a response to problems when they arise. Only if the company includes social responsibility since its foundation in the business strategy, social responsibility, as a concept, is integrated into daily decisions making.

Preferably, to obtain best results the CSR should be aligned with the company's specific corporate objectives and core competencies. Companies, integrating the CSR into strategy, maximize the value of corporate responsibility commitments. The identification of critical stakeholders, the definition of objectives in order to satisfy them, and the utilization of a reporting tool are crucial steps to integrate the CSR into strategy.

Companies that are comparable in terms of size and power, and are influenced by the same external conditions, choose different CSR programs and initiatives or social responsibility strategies. This choice may be influenced by various pressures and incentives, which generate innovation pressure, as a first step in implementing the strategy (Van Bommel, 2011, p. 900) or even by local or national perception of the impact of these strategies. Then the drivers of CSR influence in different way the companies.

It's possible to identify 5 stages of the integration of the CSR in the strategy (Fig. 2). The figure shows how the development of CSR is linked to the corporate culture and the transition from one stage to another (Greiner, 1998) is determined by changing the management culture.

Below we describe the 5 stages of development of

CSR:

1. Informal and defensive CSR. The complexity of the integration of the CSR in the strategy depends on factors such as the size of the enterprise and the nature of its operations. For most small and medium-sized enterprises, especially micro-enterprises, the CSR process is likely to remain informal and intuitive. In other companies the CSR practices, which are typically limited, are undertaken only if and when it can be shown that shareholder value will be protected as a result. (Visser, 2010)

2. Charitable CSR. A company supports various social and environmental causes through donations and sponsorships, for community groups or civil society organizations. The company starts to use communication tools such as sustainable report.

3. Systemic CSR. CSR is focused on the micro level, supporting social or environmental issues that happen to align with its strategy, but without changing that strategy

4. Innovative CSR. The CSR focuses its activities on identifying and tackling the root causes of our present unsustainability and irresponsibility, typically through innovating business models, revolutionizing their processes, products and services and lobbying for progressive National and international policies. At this stage the process of integration of CSR into the strategy is completed. CSR focuses on understanding the interconnections of the macro level system – society and ecosystems – and changing its strategy to optimize the outcomes for this larger human and ecological system.

5. Dominant CSR, it's relating the CSR activities to the company's core business often through adherence to CSR codes and implementation of social and environmental management systems, which typically involve cycles of CSR policy development, goal and target setting, programmed implementation, auditing and reporting.

7. Conclusion

Many organizations today are adopting CSR, as a part of corporate strategy. CSR helps in building corporate image as socially, ecologically, environmentally conscious and responsible organization. Further CSR also helps in making management of organizational change smoother.

The model build in the research shows the integration of CSR into Strategy with an incremental approach. Not always the evolutionary path follows exactly the stages.

The CSR is a maturation process inside of an organization. The phases of the model show a typical journey. There are companies jumping phases of the model because they have to react to a crisis and companies that have CSR in their culture from the beginning. We can understand that the model could be used also to understand in what

stage of development the companies are and what was the evolutionary path.

Some companies show the orientation to CSR from the beginning for the presence of a strongly leadership sensitive to social and environmental issues. Others companies could not implement CSR gradually and have had to implement a development accelerated CSR in corporate strategy by combining the stages of the model.

The model allows to:
- see at what stage of development of CSR is the company and
- see if there are conditions for the next stage.

According to our hypothesis the model also shows that the socially responsible actions should be designed into the corporate strategy, as they can contribute significantly to the generation of the wealth of intangible assets, which are the foundation of competitive advantage of modern enterprises. Problems generated by not integrating socially responsible practices into the corporate strategy can be noticed when assessing the costs and benefits of implemented projects, in the selection of technology, in the relationship with the community, and in the structure of incentives for performance.

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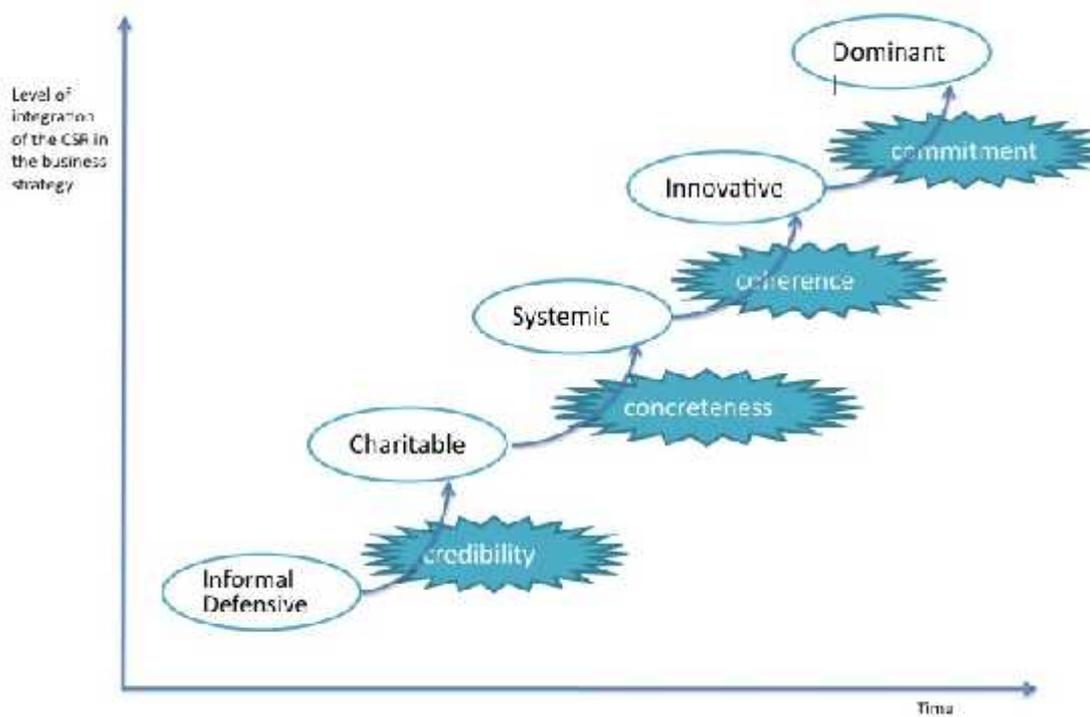Email: gianluca.colombo@usi.ch

Figure 1. G250 companies that have a CSR strategy
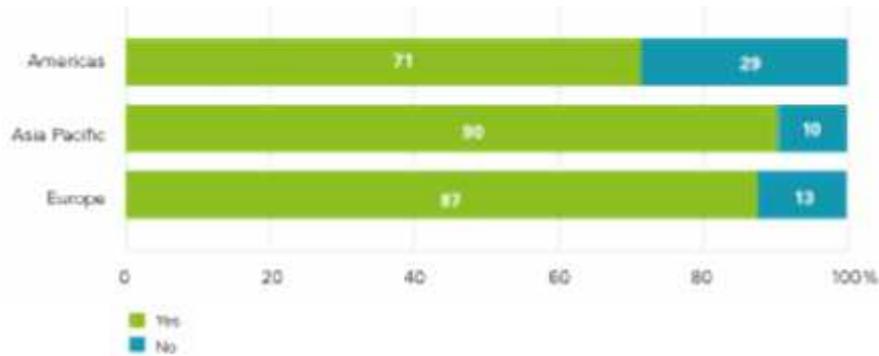
Source: KPMG International THE KPMG Survey OF Corporate Responsibility Reporting 2013. December 2013

Figure 2. 5 stages of development of the CSR in the strategy

Source: (adapted and integrated from Molteni, 2007 and from Mirvis, and Googins, 2006)