Corporate Social Responsibility vs. Business Strategy

INTRODUCTION

Corporate social responsibility (CSR) offers a significant change in the way business is done. It widens the groups of entities a company should be accountable to, it proposes new business models which assume creating shared value to meet expectation of various stakeholders and it also introduces a multidimensional measure for corporate performance. Yet, the concept faces significant challenges with respect to the aspects of practical application and implementation at the company level. This may not only result in the weak compliance with CSR principles, but also lead to the instrumental approach or even the abuse of the concept of the corporate environment.

The goal of the article is to identify the most important concerns and shortcomings of the application of corporate social responsibility in business strategy and practice. The paper is of theoretical character and is based on the review of the recent literature on CSR, sustainability and non-financial reporting. The article follows the following structure. First, the concept of corporate social responsibility and its importance for business strategy are briefly presented. Next sections provide an overview of the most evident shortcomings of the implementation of CSR at the level of business strategy with reference to the concept (section two) and methodology (section three) and corporate intention and implementation in the organisational context (section four). Final remarks are presented in Conclusion.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility remains the central theme in the debate on business-society relationships [4; 7] and on the directions for the social and economic development. The discussion has intensified after the financial crisis of 2008–2009 and in response to the rising problems derived from global social inequalities and environmental damage. Corporate social responsibility is defined as a concept “whereby companies integrate social and environmental concerns on their business operations and in their interaction with their stakeholders” [37] to achieve long-term sustainable growth and development. The principles of CSR are viewed as the next step in business evolution which aims at incorporating expectations of a wide range of stakeholders into their strategies and values which are rooted in a wider perspective known as the social model of a corporation [19]. The group of stakeholders includes shareholders, employees, suppliers, customers, local communities and management [12]. Currently, CSR remains a broad and still developing concept elaborated with the adaption of various theoretical approaches and paradigms [4].

The growing awareness of the social and environmental challenges and the understanding of their impact on human lives have provided new directions for company development and clarified its role in business and society. Corporate social responsibility as a holistic concept based on the assumption of stakeholder rights and companies’ responsibilities provides a set of new assumptions in many areas of the understanding of the functioning of the firm. Thus, CSR enriches strategic management providing new sources for competitive advantage, communication and strategy formulation, incorporating interests of stakeholders and outlining new programmes which attract employees. It also changes the understanding of governance, finance, corporate performance and reporting. The impact of CSR
is viewed at the level of corporate practice, as well as concepts and ideas for company management [45].

Adopting CSR and incorporating stakeholder expectations influence corporate governance and business strategy. Corporate governance needs to address a set of various issues which traditionally remained beyond its scope. Specifically, adopting the CSR perspective redevelops the company management and governance with respect to the time orientation, strategic focus, scope of accountability, assumption about company success, post-crisis reforms and the role of regulation. The implementation of CSR increases the time horizon as the company needs to address the potential consequences of its operation for now and in the long-term perspective. The long-time orientation translates into considering the company impact on society and environment. The strategic focus shifts from shareholder primacy towards the satisfaction of stakeholders [31] what respectively leads to the change in the perception of company accountability. Therefore, the understanding of the company success viewed through the lens of market and financial performance and maximizing shareholder value is replaced with the sustainable development combining market position, balancing financial, social and environmental performance. As the traditional corporate governance was mostly shaped by the regulation on financial system, labour rights and company law, the enlightened corporate governance faces also the impact of communities, NGOs and additional self-regulation adopted by the industry [23]. CSR changes the tasks of the board, the logic of executive commendation and the scope of reporting [22], more importantly however it changes the understanding and the distribution of profit. Although the payment of the dividend to shareholders remains a fundamental obligation of profit sharing, the shareholder accepts also the financial contribution of the company [46] to social and environmental initiatives. The shareholder engagement develops from the focus on the governance proposals to activism related to various aspects of governance, financial, social and environmental performance.

Following the change at the governance level, the evolution of business strategies takes place as a natural consequence of the decisions which are cascaded throughout processes, systems and relationship to shape strategic planning, leadership and motivation. The decision to adopt the concept of corporate social responsibility widens the strategic horizon and impacts the business model to assure that profit is generated with the consideration of social and environmental impact [10; 22].

The adoption of corporate social responsibility by a company requires significant redevelopment of the way in which business is done. Put differently, the company can prosper only if it acknowledges the importance of social and environmental aspects of its functioning [18]. Business strategy should assure for building stakeholder capital through inclusiveness and fostering innovation to address social or environmental aspects. In the operational sense, companies adopting CSR are encouraged to engage in actions to implement some of 17 UN sustainable development goals (SDGs). Responsible companies need to build ethical infrastructure to assure high integrity while improving social, environmental and financial performance.
Strategically, companies which implement the principles of CSR, redevelop their business models to address the requirements of low emission and resource efficient economy [16]. Sustainable business models are expected to create competitive advantage, build on customer value following the sustainability principles at the same time preserving the environment and improve human life by meeting various stakeholder expectations in accordance with the triple bottom line. In practice, this often translates into a lower negative impact on the natural environment to reduce CO₂ emission, decrease resource use, introduce efficient waste management while increasing a positive social impact through the inclusion of different groups, stakeholder dialog, promoting employee volunteering. The environmental targets are to stop or reverse environmental damage, reduce pollution and depletion of resources and to assure for genetic diversity, resilience and productivity [11]. The social goals include the initiatives of empowerment, social cohesion and cultural diversity [11]. These actions are understood as “the organization’s capacity to meet demand and expectations of constituencies beyond those linked directly to its products and markets” [29]. In consequence, with changes in production systems towards circular and collaborative economy the customer awareness influences purchasing habits to develop in the direction of sustainable living to maximize “the net benefits of economic development, subject to maintaining the services and quality of natural resources over time” (Pearce et al. [33] as quoted in Redclift [38. P. 397]).

CONCEPTUAL CONCERNS

The concept of corporate social responsibility has been developing over years in the management literature and business practice. Yet, the review of the most influential articles indicates that there is no universal and widely recognized definition with a set of accepted actions and principles [10; 30; 32]. CSR appears to be the polysemic concept [34] which remains highly contextual and may mean different actions in different organisational and institutional environments. As a result, CSR encompasses a number of various aspects such as anticorruption measures, environmental protection and gender equality.

In addition, CSR lacks a clear theoretical basis: numerous approaches are proposed including business ethics, compliance, supply chain management, sustainable development [30], triple bottom line, corporate citizenship or creating shared value (CSV) [35]. These perspectives use various, often conflicting, management theories to explain the company engagement in CSR and its effects. For instance, the most widely used perspectives include shareholder theory and stakeholder-agency approach [20], neo-institutional theory, legitimacy theory and signaling theory [44]. However, the adoption of CSR may also be explained as a natural rational reaction to the evidence from the environmental and sectorial analysis which suggest new emerging expectations towards a company [35].

The most influential concepts rest on the stakeholder theory [12] which opposes stakeholder expectations against shareholder interest for increasing firm value [42]. The stakeholder view reveals several shortcomings which severely limit the practical adoption of the CSR concept at the company level. The most problematic issues refer to:

- lack of clearly defined stakeholder goals and the richness thereof as compared to the universal shareholder interest related to maximization of firm value [46]. This problem is visible in the inadequate measures of social and environmental performance [40], while a precisely formulated variables and indices are used to assess financial performance;
- insufficient legal protection of stakeholder interest and the execution of stakeholder voice which would be presented at the governance level in the company decision-making structure. Meanwhile, the shareholder interests are secured by the institution of fiduciary duty and the accountability of board directors. This may potentially lead to the problem that investment in CSR will be treated as unjustified expenditure at the cost of shareholders [46], which does not add to firm value, hence contradicts shareholder interest.

The CSR concept idealistically assumes that shareholder and stakeholder interest may be balanced at the company level. Such effects are revealed when shareholders express their expectations and the company enjoys the positive synergy effects [6]. Yet, the existing literature casts doubts on the possibility to balance these conflicting expectations and emphasizes the differences with respect to company growth, investment and profit distribution (e.g. dividend payout) between shareholders, as well as shareholders and stakeholders [28; 43].

Finally, both academic researchers and practitioners raise the question whether the CSR activity can be related to core business and have some positive effect on company financial performance [32] or whether it should refer to separate altruistic actions [21]. This concern rests on the fundamental issue if and how CSR can be integrated with business strategy [36] to increase company reputation, enhance innovation or build customer loyalty, and in what way it can balance financial profitability, social responsibility and positive environmental impact [24].

METHODOLOGICAL CONCERNS

Methodological concerns make for the second problem list of the CSR concept. The assumption of the voluntary approach of CSR actions¹ allows for the flexibility of the interpretation of the scope and magnitude of action undertaken by companies. This results in the large discrepancy in the hands of executive and may significantly effect the scope and the magnitude of the CSR activity.

The methodological constrains refer mostly to the insufficient number and quality of CSR measures. The use of one

aggregated measure versus the detailed thematic variables (e.g., human rights, environmental protection, working conditions, anticorruption policy) remains an open question [40]. This concern refers also to the company decision on the areas it wants to include in its CSR activity. In addition, Frynas [14] argues that the link between CSR activities and company performance remains unexplored, specifically when the deferred effect of both financial and market performance is taken into consideration. However, prior studies cast some doubt as to what extend companies should assume the so-called “business case” and expect any positive results with respect to market position and image in reaction to undertaken CSR actions [47].

The existing literature discusses the degree of company engagement in CSR activity indicating numerous policies companies tend to follow. The models emphasize that companies may intentionally remain at different stages of CSR implementation or reveal different dynamics of CSR development at any of given phases. Studies distinguish the mode of proactivity of CSR and the systemic approach to social and environmental aspects. The complexity of CSR implementation is addressed, for instance, by Brand [5] who distinguishes transactional ethics, recognition ethics and ethics of change. Kok et al. [25] differentiate between ad hoc policy, standard CSR policy, planned CSR policy and controlled CSR policy. While these typologies identify the complexity of the CSR implementation in the organisational context, they also deliver significant methodological challenges.

As argued by Kok et al. [25], reactive CSR corresponds with the initial stage of its adoption, what refers to the incidental and ad hoc activities undertaken for the purpose of solving a crisis and regaining positive perception by stakeholders. In order to contribute to social and environmental change, strategic and planned CSR needs to take the form of proactive actions which anticipate possible problems and allow the integration of stakeholder expectations at the early stages of strategy formulation [1]. Hence, researchers question whether the reactive actions should be included in the CSR whatsoever. They also differentiate between the positive and negative CSR [3]. The positive CSR covers actions focused on stakeholder management, while negative CSR is defined as the limitation of negative impact on environment and society. Such typology again raises questions on the methodology of the analysis and assessment of the degree and quality of CSR implementation.

Additionally, methodological concerns of the CSR implementation derive from constraints to measure the exact degree and quality of the adoption and from limitations to identify its impact on company performance [26]. A promising group of possible solutions to address these issues are proposed by the standards of CSR/sustainability and integrated reporting. The adopted ESG standards or GRI principles provide a holistic view to firm performance and suggest the interaction between six capitals which are mutually interlocked and supported within the organisational context [2]. However, existing studies indicate significant methodo-logical shortcomings: the integration of various stakeholder interests with shareholder premise is constrained [6; 28; 43] so is the method to assure for creating shared value [35]. Moreover, some of the reports remain excessively descriptive while companies appear to engage in very selective disclosure. The most problematic aspects refer to [2; 8]:

- insufficient precision of presented data;
- prevalence of communication to investors/shareholders;
- omitting data which are uncomfortable for the company – the lack of comparison of selected measures over a longer period of time;
- cherry picking and selective disclosure – the lack of full picture;
- extensive description that affects the readability of the reports;
- manipulating information, impression management, greenwashing.

As a consequence, the severe concern of the credibility of disclosed sustainability data and the lack of its dynamic presentation negatively affects studies on the quality of the CSR implementation. Measures adopted in developed economies are often too ambitious to be reached by companies operating in emerging markets [37], thus comparative analysis for understanding the implementation process and the benefits are largely limited. Finally, the voluntary assurance for CSR activity in the form of independent audit adds to the list of issues raised. The lack of external objective assessment may impair the credibility of CSR actions and prevent the material verification of disclosed information.

**MOTIVATION AND IMPLEMENTATION**

Undoubtedly, companies worldwide have increased their CSR engagement and have become more responsive to stakeholder expectations [10; 30]. The existing studies however raise the question on the exact motivation and intentions which drive corporate actions towards CSR.

The motivation of companies which engage in CSR is not usually disclosed making it more challenging to understand the patterns of company decision on the CSR implementation [3]. First, as argued by numerous authors, the development of CSR in companies is not the result of the systemic change of the approach to management and strategy, but it is rather a reaction to stakeholder and regulation pressure [24]. As long as certain stakeholder groups remain powerful enough to demand changes in companies, firms are expected to respond. The lack of such pressure leads to regress of the implementation of CSR. In addition, the compliance with CSR principles in the sense of legitimacy phenomenon is visible in the case of higher CSR engagement in countries characterized by strong (versus countries with weak) institutional environments, as well as in the case of industries known for their negative impact such as petrochemicals, energy generation or extraction of natural resources [1]. For companies, the adoption of CSR may be also viewed as a political move to comply with new expectations and guidelines. Thus, engagement in CSR allows gaining legitimacy amongst entities in the company
Washing includes the following strategies [34; 39; 41]:
- CSR washing – manipulating information on the alleged engagement in CSR related actions;
- greenwashing – manipulating information on the alleged engagement in environmental protection, mostly used by brown firms characterized with the negative impact on natural environment;
- pinkwashing – manipulating information on the alleged engagement in breast cancer actions;
- bluewashing – manipulating information on the alleged engagement in Global Compact projects.

Finally, companies may engage in the phenomenon known as decoupling which is defined as the discrepancy between formal organisational structures and systems versus the real operational activity [9]. This means that the company allegedly follows CSR principles but it de facto does not undertake any changes in its operation and strategy. For instance, the company may declare CSR policy and even form a dedicated department but these actions appear to be highly symbolic and do not materialize in the company strategy and operation. Decoupling is to communicate actions according to certain standards to stakeholders in order to attain legitimacy, assure access to resources and maintain financial performance [17].

CONCLUSIONS

Corporate social responsibility is undoubtedly one of the most influential concepts in management theory which impacts corporate governance and business strategy. Incorporation of CSR principles changes the functioning of the company, its business model, ethical infrastructure and is cascaded towards motivation system, leadership pattern and communication. CSR and related ideas of sustainability, business ethics and triple bottom line offer an important direction for the evolution of business towards low emission and resource efficient business models and responsible and inclusive economy. However, this concept raises several concerns with respect to the coherence and the clarity of its theoretical approach, severe methodological and measurement shortcomings. Corporate social responsibility also faces problems with firm intention and effective implementation in the organisational context.

This article was based on the review of the recent literature and aimed to discuss these concerns and shortcomings. In general, conceptually CSR lacks a strong universal theoretical framework which would prove useful to explain different strategies and behaviour that companies reveal while adopting CSR principles. The concept does not provide convinc-
meaning that companies intend to instrumentally satisfy expectations of certain stakeholders and acquire the license to operate. In the extreme scenario, companies may pretend to comply with CSR principles. Companies may either follow a washing strategy by abusing communication and manipulating the information disclosed or they may engage in decoupling—not securing organisational and resourceful support for the execution of CSR principles.

The discussed shortcomings and concerns indicate that the CSR concept, while having important contribution for the evolution of management, may reveal a limited impact on the factual change in the aspects of business models and strategy.

Источники/References


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