

**Corporate Social Responsibility (CSR):  
A strategy for corporate advantages and  
business sustainability**

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**Abstract**

*Neither business nor society nowadays can live in separation. Companies depend on support and resources from various groups in society. On the other side, society needs quality goods and services produced by business to satisfy their needs and demands. This suggests that corporate social responsibility (CSR) has become an essential part of any successful company's business strategy. This paper aims to argue that CSR practices could create corporate advantages. It begins with a section on global demands for responsible business. The second section deals with some key advantages that business can gain from investing in CSR practices. The final section discusses how CSR can become an essential part of strategies to create corporate sustainability.*

*Key words: Corporate Social Responsibility (CSR), business strategy, corporate advantages, business*

## 1. Introduction

None of the businesses today operate in a vacuum. They interact with a variety of societal forces, such as employees, customers, communities, business partners, investors, governments, media, and many more. Companies depend on support and resources from these groups. They supply business with manpower, access to natural resources, revenue generation when they purchase products and/or services produced by the business, along with a host of other types of support. For example, education, healthcare, and equal opportunity are essential to a productive workforce. Efficient utilization of land, water, energy, and other natural resources makes business more productive. Good government and rule of law, and property rights, are essential for efficiency and innovation. Ultimately, a healthy society leads to an expanding demand for business, as more human needs are met and aspirations grow. Without positive support from society, it would be very difficult for businesses to operate smoothly or even to survive. Any business that pursues its ends at the expense of the society in which it operates will find its success to be ultimately temporary.

This implies that neither business nor society can live alone; business depends on society and *vice versa*. Particularly in our increasingly interconnected world, where the forces of globalization and technological innovation are bringing about massive change, the linkages between business and society will only continue to grow stronger, tighter, and become even more vital to both corporate success and social prosperity. Businesses can sustain their growth only if society is generally satisfied

with their overall contribution to societal well-being. Business and society are therefore inseparable and interdependent. The best business knows this truth and acts with vision, courage, and passion to create real and lasting contributions to society. Companies advance social progress while also making a profit, and ultimately in this way many businesses effectively sustain themselves over the long term. This suggests that corporate social responsibility (CSR) has become an essential part of any successful company's business strategy.

Based on this premise, this paper aims to further argue that CSR practices could help corporations gain advantages in conducting their business. A good understanding of the nexus between CSR and contemporary business advantages should not only make business be aware of the need to act responsibly, but also should make them undertake responsible actions seriously. Therefore, the next section presents some global demands that raise the issue of social responsibility for local and global business. The second section deals with some key advantages that business can gain from investing in CSR practices. The final section discusses how CSR can become an essential part of the strategies in creating corporate sustainability.

## **2. Global Demands for Responsible Business**

Business is presently facing an uncertain competitive environment, with multiple demands and pressures from customers and numerous stakeholders. Many of these demands and pressures are converging into one theme: corporate responsibility.

### 2.1 Rise in stakeholder's consciousness

Increasingly, corporations are motivated to become more socially responsible because their most important stakeholders expect business to understand and address relevant social and community issues. Without appropriate actions in response to these demands, stakeholders may react negatively to business. Taking suitable actions, thus, often leads to a positive contribution to business success.

Understanding what causes are important to employees is often a priority because of the many interrelated business benefits that can be derived from increased employee engagement in terms of more loyalty, improved recruitment, increased retention, higher productivity, and so on. Shareholders and investors (particularly institutional investors) themselves, through socially responsible investing (SRI), are exerting pressure on corporations to behave responsibly and ethically. They are not only concerned with their financial returns but also with the practices that ensure business continuity. The marketplace is developing both social and environmental information and criteria to supplement the traditional financial criteria used to make investment decisions. Market indexes and professional firms now provide information for mutual funds, private equity funds, venture capital funds, commercial banks, and other financial market investors about a wide range of corporate characteristics, including governance, human resource management, health and safety, environmental protection, and community development. Some examples of SRI indexes are the Dow Jones Sustainability Index in the U.S., the FTSE4GOOD 100 Index in the U.K., the Jantzi Social Index in Canada, Innovest, the Calvert Social Index, and the KLD Domini 400 Index.

## 2.2 Ethics and moral concerns

There are currents of ethics and moral concerns that have led to a high demand for responsible business. Firstly, a number of serious and high-profile breaches of corporate ethics resulting in damage to employees, shareholders, communities, and the environment—as well as share price—have contributed to elevated public mistrust of corporations. The case of the Enron scandal is a clear illustration of this point (Sridharan *et.al.*, 2002). Therefore, demand that companies be ethically governed has arisen. Stakeholders demand good corporate governance principles to be exercised thoroughly in any business, including such elements as honesty, trust and integrity, openness, responsibility and accountability, mutual respect, and commitment to the organization. In particular, ethical and responsible decision making has become a major concern for investors and shareholders for reasons not only related to a sound business operation, but also for risk management. Procedures to independently verify and safeguard the integrity of a company's financial reporting have become essential parts of responsible business. All in all, the most direct rationale is to reduce the likelihood of being fined and avoid any damage to their reputations for breaching laws or moral norms. A CSR approach can help improve corporate governance, transparency, accountability, and the ethical procedures of the business.

Secondly, *ethical consumerism* is the intentional movement encouraging the purchase of products and services that the customer considers to be made ethically (Ethical Consumer, 2008). This may mean operating with minimal harm to or exploitation of people, animals, and/or the natural environment. The rise in ethical consumerism and “green”

brands that identify themselves as ethical has led to a rise in ethic-based decisions in the mass market, enabled by increased understanding and information about socially-concerned businesses practices. A study of consumer beliefs in five developed countries in Europe about the ethics of large companies concluded that approximately one third of respondents reported they would pay higher prices for ethical brands, though perception of various companies' ethical or unethical status varied considerably from country to country (Financial Times, 2007). These results are consistent with a survey conducted by the Global Market Insite which gauged the opinions of more than 15,000 consumers in the U.S. and 16 other countries about socially-conscious business practices (Global Market Insite, 2005). It was found that 42 percent of all Americans are willing to spend more for products branded as organic, environmentally friendly, or fair trade, whereas a large majority of consumers in China (91 percent) and India (71 percent) will pay more for socially responsible products. American consumers between the ages of 18-29 were more likely to spend more on organic, environmentally preferable or fair trade products than other age groups. While consumers in India, Canada, Australia, Germany, China, and Japan selected environmentally friendly practices like recycling or using biodegradable products as their top factor for determining if any business is socially responsible, consumers in the U.S. selected firms that supported community activities such as sponsorships, grants, or employee volunteer programmes. Other countries, including France, Denmark, and Italy selected the use of child labor as the main factor in making them think a corporation is socially irresponsible. The results of these two surveys validate the notion that consumers expect companies to have sustainable policies.

### 2.3 Cries for sustainable development

Sustainable development is defined by the United Nations as the development that “meets the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 1987). A number of studies have found that humankind is consuming natural resources at a much faster rate than they are being replenished. In many cases, we are doing much more than just consuming, we are destroying nature. If this continues, future generations will not have the resources they need for their development. In this sense, much of the current development is unsustainable. Other issues related to sustainable development include the need for greater attention to poverty alleviation, environmental conservation, green development, and respect for human and community rights. All of these concerns have led to an increased demand for sustainable practices by individuals, corporations, and communities. The rise in the popularity of ethical consumerism over the last two decades can be linked to this concern as well. Consumers in many advanced societies are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are beginning to make purchasing decisions related to their environmental and social concerns. Although this practice is far from consistent or universal, the concerns for making a contribution to sustainable development can serve to direct businesses to attend to issues that may not be directly related to their profit generation but would be strongly influential to their success. CSR serves as an entry point for businesses to understand sustainable development issues and to respond to them in a more effective manner through their business strategies. Recently, Wal-Mart launched Sustainability 360, a company-

wide programme that aims to engage Wal-Mart associates, suppliers, communities and customers in a sustainability agenda (Scott, 2007). By requiring suppliers to reduce product packaging by five percent by 2013, Wal-Mart expects to realize savings equal to removing 213,000 trucks from the road and saving 324,000 tons of coal and 67 million gallons of diesel fuel per year.

#### **2.4 Pressures of global market forces**

With attendant focus on cross-border trade and global supply chains, corporations pursuing growth within the global market inevitably encounter new challenges that can limit their growth and potential profits if they lack competency in handling these challenges. Non-tariff barriers in the forms of environmental restrictions, food standards, safety, and varying understandings of labour exploitation and hygienic risks are just some of the conditions which challenge businesses in the global marketplace. These conditions are imposed as consumers in developed markets demand high standards of product quality. They can be especially important for export-oriented businesses in emerging economies to successfully enter markets in more developed countries. Since all such issues are directly related to various components of socially responsible practices, they have increasingly identified CSR as a top concern for international businesses. Moreover, they place particular pressure on multinational businesses to examine not only their own internal practices, but also those of their entire supply chain. For example, Nike's mistake in failing to notice the child labour misconduct of its suppliers in Pakistan and Cambodia led to serious damage to its reputation around the world (Cushman Jr., 1998). These global market conditions have introduced problems for which

business was previously unprepared. Businesses are pressed to comply with these market standards and demands—there is very little room for avoidance if they still want to remain competitive globally.

## 2.5 Crises and consequences

Often attention to CSR precipitates after a crisis. One good illustration is a recent crisis of the China's milk scandal in 2008. Several companies in China were implicated in a scandal involving milk and infant formula which had been contaminated with melamine, leading to kidney stones and other renal failure, especially in young children. By 22 September 2008, nearly 300,000 people had become ill, with more than 12,800 hospitalizations and four infant deaths (McDonald, 2008). The consequences of the scandal went beyond China (International Herald Tribune, 2008). Cases were diagnosed in Hong Kong, Macau, and Taiwan as a result of imported products. The Tokyo-headquartered Lotte Group recalled its *Koala's March* cookies in Hong Kong and Macau because of contamination. The British confectionery group Cadbury withdrew all of its 11 chocolate products made in its three Beijing factories, on suspicion of melamine contamination. Unilever recalled its *Lipton* milk tea powder after the company's internal checks found traces of melamine in the Chinese milk powder used as an ingredient. Heinz recalled cases of baby cereal in Hong Kong after discovering they contained melamine. As a result, Nestlé sent 20 specialists from Switzerland to five of its Chinese plants to strengthen chemical testing and later opened a \$10.2 million Beijing research and development centre to serve as a base and reference in food safety for Nestlé in greater China (Scott, 2008).

The issue has raised concerns about the food safety of Chinese products. It damaged the reputation of and consumer trust in China's food exports, with at least 25 countries stopping all imports of mainland Chinese dairy products. The EU announced a ban on imports of baby food containing Chinese milk. The World Health Organization (WHO) referred to the incident as one of the largest food safety events it has had to deal with in recent years, and that the crisis of confidence among Chinese consumers would be hard to overcome (Schlein, 2008). Decline in consumer confidence resulting from the contaminated milk has lessened demand for dairy products, causing hardship to more than 2 million Chinese farmers who have nowhere to sell their milk. The scale of the problem proved that it was clearly not an isolated incident, but rather an internationally large-scale crisis.

This first section has highlighted key global demands that are pressing for more responsible business practices. Some of the pressures have become inevitable options for business to embark on, with CSR providing a comprehensive approach to help businesses in managing the multiple challenges and pressures. CSR has become a means of matching corporate operations with stakeholder values and demands. An effective CSR practice will bring together all aspects of operations within a corporation as a way of adequately considering the needs of all constituent groups. The actions that corporations take today to incorporate CSR throughout their organizations represent a real point of differentiation and competitive advantage on which future success can hinge. The next section will elaborate on key business advantages a corporation could gain from undertaking CSR practices.

### 3. CSR and Business Advantages

There are clear and identifiable benefits associated with CSR when it comes to adding value to human capital, corporate identity, and products. The scale and nature of the benefits of CSR for a company may vary depending on the nature of the enterprise and the CSR measures it undertakes. Although the business advantages gained from CSR are difficult to quantify, there is a large body literature available which highlights the key business advantages of CSR and urges businesses to adopt socially-concerned measures beyond financial gains.

#### 3.1 Brand and reputation advantage

In very extensive competitive markets, companies strive for a unique selling proposition that can separate them from their competitors in the minds of consumers. Ultimately the value of a company depends largely on how much faith consumers have in the business. That faith is fostered by an ineffable and scarce element: reputation. Reputation, or brand equity, is founded on values such as the trust, credibility, reliability, quality, and consistency that customers perceive the company and its products to have. For many of the brand name companies, their brand is the core and backbone of their business.

CSR can play a role in building good brand perception and company reputation based on distinctive ethical values. Several famous brands, such as the Co-operative Group, Body Shop, Whole Foods Market, and American Apparel, have built their enterprises on ethical values such as members' ownership, human dignity, ecologically sustainable operations, and socially responsible practices. They have been able to differentiate their brands by

making a socially-responsible commitment which also shows their positive response to the global demand for sustainable development. Through the reputation development of delivering sustainable products and services, they have attracted socially, environmentally conscious customers. This approach, sometimes called “green marketing,” has been employed by companies as a marketing strategy, as when Home Depot developed a line of furniture produced entirely from sustainably harvested wood. In 2000, the green market was estimated to be 10-12 percent of U.S. consumers (Lawrence *et al.*, 2005). The change of consumers to be more aware of socially responsible business is interesting. The U.K. Co-operative Bank reported in its ninth Ethical Consumerism Report in 2008 that the overall ethical market in the U.K., measured by market size and growth of a basket of ethical products and services, was worth £35.5 billion in 2007, up 15% from £31 billion in 2006 (Co-operative Bank, 2008).

Many companies in the supply chain can also benefit from developing a positive image and reputation. As large buyers move to consolidating supply chains, smaller companies need to differentiate themselves to gain and retain business while competing with larger counterparts. Small and medium-sized enterprises (SMEs) can benefit from improving their image and reputation, as some large companies are interested in promoting business within the small business sector and are looking to identify smaller enterprises that have established a reputation for good quality and well-priced products produced in a way that is seen as socially responsible (Welford, 2005). Developing a brand and good reputation which are seen as socially and environmentally responsible is therefore highly beneficial for businesses, either large or SMEs, in a global and competitive world.

### 3.2 Human resources advantage

The increased pressure on growing competition and globalization has pressured businesses to increase productivity, streamline operations, contain costs, and deliver maximum shareholder value and profit. Many companies have come to realise the importance of attracting and retaining “the best and the brightest,” highly skilled, quality employees as a necessary condition to accomplish these challenges. Furthermore, the key to firm success is now associated with a firm’s ability to create, manage, and transfer “knowledge capital,” which also stresses the importance of quality employees as a key to a firm’s competitive advantage. A firm will be successful in this endeavor if it has a quality workforce which takes advantage of and manages such knowledge. The ability of firms to succeed in the future is now often linked to how well a firm can capture value from this knowledge capital. Competent human resources thus have become a key to sustained corporate success. There is growing evidence that a company’s CSR practices play an increasingly important role in improving recruitment and retaining good employees, particularly within the competitive market of technical specialists.

A systematic study conducted with junior- and senior-level students in the U.S. found that firms with more CSR practices were perceived as more attractive employers than firms lower in CSR, and that prospective applicants’ job pursuit, probability to interview, and probability to accept a job offer are positively associated with a firm’s CSR (Greening & Turban, 2000). The results of an employee survey by Good Search indicate that 44 percent of employees want to work for a company that is environmentally responsible, that has stated CSR policies (38 percent), that makes socially

responsible products (37 percent), and that conducts Ethical Sourcing and Supply Chain (35 percent) (University of Cambridge Programme for Industry, 2007). This is something many would consider to be common sense: employees will not choose to work for companies with factories that are dirty and unsafe or where poor wages are paid late. Therefore, good CSR practices tend to increase a company's ability to attract quality workers.

Employing quality staff can increase the possibility of business success, however, only if a company is unable to keep them. Turnover harms a business, as it creates huge amounts of uncertainty over production schedules and the ability to meet orders. Losing quality staff means a business has to pay costs associated with recruitment, training, and lost productivity whilst the worker is new to the job and learning the required skills. Good internal CSR practices (such as fair employment practices, diversity initiatives, giving employees a voice, bonus schemes, and the like) can increase morale, reduce absenteeism, increase the commitment of workers to the organisation and increase productivity; all of these results subsequently increase retention (MBR, 2009). Some research has concluded that there is evidence to suggest that good CSR practices actually reduce turnover (Welford, 2005). Human resource benefits can be quite considerable when one considers the costs of training new staff and with recruitment costs in labour markets becoming increasingly tight. A company can improve employee morale and loyalty through CSR practices, programmes, and activities. This can be achieved through establishing pride in the company's products and practices, or introducing improved human resource practices such as "family-friendly" policies, fair-pay, and

health and safety systems. CSR can also help to improve the perception of a company among its staff, particularly when the staff can become involved through payroll giving, fundraising activities, or community volunteering.

### 3.3 Cost advantage

The cost advantage of CSR appears to be related to two aspects: business operations and human resources management.

There are hundreds of examples which show that cost reductions can be achieved through good CSR practices (Gege, 2004). Many of these reductions are related to the environmental management of operations. Most companies that reduce pollution and hazardous waste, reuse or recycle materials, and operate with greater energy efficiency and more efficient use of water can reap significant cost savings (Lawrence *et al.*, 2005). DuPont, for example, has saved over \$2 billion from reductions in energy use from 1990 to 2005. McDonald's changed the materials used to wrap its food and reduced its solid waste by 30 percent.

Cost advantage is achieved specifically from improved efficiencies as identified through a systematic approach to management that includes continuous improvement. For instance, in assessing the environmental and energy aspects of an operation, a company can reveal opportunities for turning waste streams into revenue streams (wood chips into particle board, for example), as well as identify areas for system-wide reductions in energy use and costs. Herman Miller Inc.,<sup>1</sup> an office furniture company in the U.S., goes to great lengths to avoid wasting material. It sells

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<sup>1</sup> See <http://www.hermanmiller.com>

fabric scraps to the auto industry for use as car linings, leather trim to luggage makers, vinyl to the supplier to be re-extruded into new edging, and burnable solids are used in a specialized boiler that generates all the heating and cooling for the company's main complex in Zeeland, Michigan. Herman Miller Inc. ultimately makes money from "waste" that it previously had to pay to dispose of.

From the human resource management viewpoint, the benefits of CSR can be largely considerable when recruitment costs and costs of training new staff are considered. Increase in staff retention would indeed reduce all of these costs. CSR contributes to staff retention as explained in the former section. Some SMEs often use good CSR practices to develop a sense of family within the organisation, as opposed to a workforce divided into management and workers (Welford, 2005). The SME sector may be well suited to cooperative forms of ownership that also tends to increase retention rates and boosts loyalty and productivity. In addition, SMEs in the supply chain can also benefit from some of direct cost savings through good environmental management, as discussed previously.

### **3.4 Risk management**

Although globalization offers many opportunities to companies in terms of market expansion and extensive supply chains, it also poses novel sources of business risks. Network-based operating models of business across different countries and regulatory regimes and cultures highlight the growing importance of extended enterprises by enhancing the efficiency of companies while improving their global competitive position. However, network-based models have resulted in much more complex relationships,

both within the corporate domains and between companies and their stakeholders, and produce some business risks as a consequence. Thus managing risk must be a central part of any corporate strategy.

Global supply chains often stretch across multiple companies, suppliers, and wide geographic areas. As the number of connections grows, the interdependent relationship among participants along the chains also grows. A change in any one partner can ripple throughout the value chain and cause positive or negative consequences to a company. Malpractice by one supplier can create unanticipated harm to a company's reputation and brand image. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or labour rights transgressions. Misconduct by Nike's suppliers in using child labour, as discussed earlier, is a good example. Business therefore needs a tool to help them mitigate this kind of risk along its supply chains. Building a genuine culture of "doing the right thing" within a corporation and its suppliers can offset this kind of risk and CSR offers a safeguard solution.

In the supply chain, engaging in CSR may also lead to continuity of buyer-supplier relationships (and perhaps strengthening the relationship in some cases), fewer audits and inspections, and less likelihood of losing contracts (Welford, 2005). This is not to say that these outcomes will flow on to all SMEs in the supply chain, but for those doing CSR it appears to be the case. Companies can stimulate smaller enterprises in their supply chain to implement a CSR approach. Some large automakers insist that their suppliers be certified in environmental management systems standards. Similarly, some large apparel retailers require that suppliers

comply with worker codes and standards. A major benefit in carrying out risk reduction strategies also relates to access to finance for companies of all sizes. Where environmental and social issues are perceived as a risk by the financial sector, there will be hesitation in providing finance unless these potential risks are identified and mitigated.

In addition, the power of other stakeholders such as communities, employees, regulators, suppliers, NGOs, and media, has increased in the globalized age. Globalization has expanded the range and reach of corporate stakeholders by “exerting a democratizing and empowering influence worldwide” (Holliday *et.al.*, 2002: 5). Such groups of stakeholders can form coalitions to challenge government policy as well as corporate behaviour. Any numbers of stakeholders may transmit a risk to various components within a company. For instance, customers may request changes in a company’s environmental policies, employees may raise concerns about outsourcing of jobs overseas, or suppliers may request coverage in a company’s safety plan, and so on. This condition has introduced some “social risks” to irresponsible business (Kytte & Ruggie, 2005). Social risk may arise from what appears to be a sound business decision. A quest for cheaper labour to drive down costs may appear to make good business sense on the basis of garnering cost advantage. However, a decision to employ workers in a developing country without fully abiding by national laws or adhering to international labour standards could cause a company to run afoul of labour rights watchdogs and resulting in public criticism and reputation damage. In particular, those companies with recognised brands are vulnerable to charges by some of these stakeholders if they are seen as violating their own self-professed standards or international

community norms in such areas as human rights, labour practices, or environmental preservation. Stakeholder relationships must be maintained in order to minimize business risks. CSR practices are an effective means to provide strategic actions for managing these risks.

CSR contributes to social risk mitigation and better risk management through two means: by providing intelligence which identifies risks, and by offering an effective means to respond to risks with an emphasis on managing relationships with stakeholders (Kytte & Ruggie, 2005). Stakeholder groups can provide strategic intelligence regarding the company's risks around particular economic, social, or environmental issues by providing signals, warnings, or inside information. However, the business intelligence through this channel is accessed only if good relationships and trust are established between business and stakeholders. The CSR approach aims to engage stakeholders in the business operation, thus allowing good stakeholder relationships to be developed and strengthened. Gaining knowledge of social expectations from better connections with stakeholder groups, increased understanding of international standards/norms by which a company should abide, and smarter allocation of resources are all enabled through linking a CSR programme with risk management programmes.

Nike is a good example of integrating CSR into its risk management (Zadek, 2004). In response to its child labour crisis identified in the earlier section of this article, Nike developed its first department for managing its supply chain partner's compliance with labour standards. In 1998, Nike developed a CSR programme linked with its core business functions with plans to address the labour issue and the associated stakeholders. In 1999, CSR was integrated into one of five business performance

objectives for the corporation. Interviews were conducted with some 9,000 young workers with their suppliers concerning the workers' needs. Nike supported the launch of multilateral initiatives such as the Fair Labour Association, SA8000 Standard, which focused on the development of compliance with labour standards. By fostering multilateral forums, Nike has developed the means to effectively engage stakeholders to share information, thereby addressing the danger of ignoring the larger context of stakeholder activism and recognizing that CSR must be linked strategically to core business.

### 3.5 Innovation

CSR can also improve business advantages through innovation. Many opportunities to pioneer innovations which benefit both society and a company's own competitiveness can emerge during the process of CSR development. Soliciting feedback from diverse stakeholders can also be a rich source of ideas for new product differentiation or process development, which can lead to better access to new markets and ultimately result in competitive advantages. Toyota's response to concerns over automobile emissions is an interesting example. Toyota's Prius, a hybrid electric/gasoline vehicle, was the first in a series of innovative car models that have produced a competitive advantage with environment benefits. The Prius was awarded the 2004 Car of the Year Award<sup>2</sup> by *Motor Trend* magazine, which gave Toyota a unique position in customers' minds.

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<sup>2</sup> Available at [http://www.motortrend.com/roadtests/alternative/112\\_031120\\_coty\\_winter\\_2004\\_toyota\\_prius/index.html](http://www.motortrend.com/roadtests/alternative/112_031120_coty_winter_2004_toyota_prius/index.html) (accessed 20<sup>th</sup> August 2010)

Another example, Urbi<sup>3</sup>, a Mexican construction company, has prospered by building housing for disadvantaged buyers using novel financing vehicles such as flexible mortgage payments made through payroll deductions. Crédit Agricole, the largest retail banking group in France, has differentiated itself from competitors by offering specialised financial products related to the environment, such as a financing package for energy-saving home improvements and audits to certify farms as organic. Innovation through CSR has been coined a “Strategic CSR,” and it has been argued that it will truly strengthen the long-term competitiveness of a company (Porter & Kramer, 2006).

### 3.6 Access to capital

Financial institutions are increasingly incorporating social and environmental criteria into their project assessments. When making decisions about where to place their money, investors are looking for indicators of effective CSR management. A business plan incorporating a good CSR approach is often seen as a proxy for good management. Based on a 2007 Report on Socially Responsible Investing (SRI) Trends in the U.S., SRI is growing at a faster pace than all other investment assets under professional management (Social Investment Forum, 2007). Roughly 11 percent of assets under professional management in the U.S.—nearly one out of every nine dollars—were involved in SRI. SRI assets rose more than 324 percent from US\$639 billion in 1995 to US\$2.71 trillion in 2007. In 2005-2007 alone, SRI assets increased more than 18 percent while other

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<sup>3</sup> Available at [http://www.urbi.com/eng/su/su\\_lp.asp](http://www.urbi.com/eng/su/su_lp.asp) (accessed 20<sup>th</sup> August 2009)

types of professionally-managed assets increased less than 3 percent. No doubt, the trend will continue and socially-responsible companies will gain a strong position in attracting funding.

As this section suggests, businesses must truly recognise that their corporate advantages are closely linked with how well they consider the effects of their activities on those with whom they interact. Brands and reputations are invaluable, albeit largely intangible corporate assets that must be managed as carefully as any of its production functions. Firms that implement a CSR approach for more than economic reasons will gain an advantage beyond just its reputation. CSR builds human capital of a company through recruitment and retention. Costs savings, innovation, and access to finance are other advantages a company may derive from CSR. Finally the integration of CSR into the core business is a key strategy in aiding a company in managing economic, environmental, and social risks. The next section will briefly explain how CSR can be used as a significant strategy for businesses to adopt in order to achieve long-term sustainability.

#### **4. CSR as a Strategy for Corporate Sustainability**

A study by Collins and Porras (2004) found that 17 of the 18 companies they examined were guided more by a core ideology—core values and a sense of purpose beyond just making money. One example is that of Motorola’s core ideology, which is to “honourably serve the community by providing products and services of superior quality at a fair price to our customers.” A deeply-held core ideology gives a company both a strong sense of identity and a thread of continuity that holds the organization

together in the face of change. Core ideologies define the company's reason for existence: who they are, what they stand for, and what they are all about (Collins & Porras, 2004). Their study emphasised how these hundred-year-old companies have been able to sustain their businesses on the basis of a company ideology, which is not primarily focused on economic returns. Some focused on customer satisfaction, while others focused on employees, product development, or innovation. The research identified a key issue in the discussion of business sustainability in that a business can be sustained if it shifts its focus from *profit* maximization to *value-creation* maximization for stakeholders. Corporate sustainability can accordingly be defined as meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities, and so on) without compromising its ability to meet the needs of future stakeholders (Dyllick & Hockerts, 2002). The concept of corporate sustainability has departed from orthodox management theory and lies in the realization that economic sustainability alone is not a sufficient condition for the overall sustainability of a corporation (Gladwin *et.al.*, 1995). A single-minded focus on economic sustainability can only succeed in the short term. Social and environmental sustainability must be satisfied simultaneously to ensure a smooth continuity of business in the long term. These three components of corporate sustainability are presented as follows (Dyllick & Hockerts, 2002).

**Economic sustainability:** A company's operation mainly relies on fixed assets (such as buildings, land, equipment, machinery) and current capital (for instance bank accounts, merchandise, or accounts receivable) to run the business. Recently, intangible assets/capital (for example

knowledge, business know-how, reputation, and trust) have become increasingly significant and are no less important than their tangible counterparts. Economic sustainability requires firms to manage all types of assets in such a way so as to ensure business continuity. A company will not survive if it no longer has adequate cash flow to meet its financial commitments to suppliers and lenders. In addition, a firm that generates a return to shareholders below the industry average runs a risk of being terminated, as shareholders will move their money to other companies that offer a higher return. Therefore, economically-sustainable companies must guarantee sufficient cash flow at all times to ensure liquidity, while producing persistent, above average returns for their shareholders.

**Environmental sustainability:** A firm's production process requires resources. These may be natural resources, which can either be renewable (such as wood, fish, and rice) or non-renewable (such as fossil fuels, biodiversity, and quality soil). These natural resources can also take the form of eco-systems, for instance climate stabilization, water, purification, and/or reproduction of plants and animals. Economic value is derived from the consumption and utilization of natural resources and the maintenance of eco-systems. If the natural resources are completely consumed, the business will eventually become unsustainable. Hence, ecologically-sustainable companies use only natural resources that are consumed at a rate below the natural reproduction, or at a rate below the development of substitutes. They do not cause emissions that accumulate in the environment at a rate beyond the capacity of the natural system to absorb and assimilate these emissions. In addition, they do not engage in activity that degrades eco-systems.

**Social sustainability:** A company's operation not only depends on financial and natural resources but also on social resources; namely, human capital and social capital. Human capital is primarily concerned with aspects such as skills, motivation, and loyalty of employees and business partners. Social capital, on the other hand, includes the quality of public services, such as a good education system, infrastructure, or a culture supportive of entrepreneurship. Socially sustainable companies add value to the communities within which they operate by increasing the human capital of individual partners as well as furthering the social capital of these communities. As human and social capital is concerned with the needs of different stakeholders, a company may not be able to meet the expectations of all stakeholder groups simultaneously. From this perspective, a sustainable company manages social capital in such a way that stakeholders can understand its motivations and can broadly agree with the company's value system (Zadek *et al.*, 1997).

Many executives tend to hold the misconception that their companies can further their economic sustainability by simply paying more attention to social and environmental issues, such as increasing their eco-friendly technologies or encouraging more employee contribution to community philanthropic activities. Although such an approach is an important step towards corporate sustainability, it is not enough. For a corporation to become truly sustainable, it has to effectively integrate the environmental and social dimensions of sustainability into its operations, and CSR holds high legitimacy in addressing them.

The contribution of CSR to helping a company achieve its sustainability is a five-fold process.

First, CSR contributes to corporate sustainability by providing moral arguments as to why socially and environmentally responsible behaviours of business should be integrated into business practice, hence ensuring the company's legitimacy to adopt a sustainability approach (Wilson, 2003). CSR is grounded on three fundamental theories: social justice theory, rights theory, and deontological theory. Social justice proponents advocate for a fair society in which the needs of all members of society are considered, not just those with power and wealth. As a result, corporate managers need to consider how their goods can be most appropriately distributed in society. Rights theory is concerned with the meaning of rights, including basic human rights and property rights. One argument in rights theory is that property rights should not override human rights. From a CSR perspective, this would mean that while shareholders of a corporation have certain property rights, this does not give them licence to override the basic human rights of employees, local community members, and other stakeholders. Deontological theory deals with the belief that everyone, including corporate managers, has a moral duty to treat everyone with respect, including listening to and considering others' needs.

Second, CSR helps to set out areas that a company should focus on for the three components of corporate sustainability. For example, the UN Global Compact has set ten core principles of business practices in the areas of environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labour standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption (United Nations Global Compact, 2010). These areas comprehensively address natural resources, human

capital, societal capital and financial sustainability, respectively.

Third, in addition to setting up areas of focus, CSR also provides a guideline of practice for business to work towards corporate sustainability. For example, Principle 7 of the UN Global Compact advises that business should support a precautionary approach to environmental challenges. This principle is based on the idea that it is more cost-effective for a company to take early action to ensure that irreversible environmental damage does not occur, as remediating environmental harm after it has occurred can cost much more to business and society. In addition to this guiding principle, the UN Global Compact further provides key steps that a company may take in the application of this approach. With guidelines and steps being provided, a company can easily pursue a CSR route towards corporate sustainability.

Fourth, CSR aims to encompass stakeholder engagement, thus strengthening the relationship between a company and its internal and external stakeholder groups, as it attempts to address the diversified needs of each group of stakeholders: a safe workplace for employees, quality goods and services at a fair price for clients, job creation for local communities, and so on. Thus CSR encourages an increase in the human capital of business partners, including all stakeholders.

Fifth, CSR encourages more accountability in business practices, thus helping to define the nature of the relationship between corporations and the rest of society. Companies enter into contractual relationships (both explicit and implicit) with other stakeholder groups as a matter of everyday business, and these contractual arrangements can serve as the basis for accountability relationships. For example, companies that receive

environmental permits and approvals from regulators to operate facilities are often held accountable by the regulators for whether the terms of the approval are being met. Proponents of social contract theory often argue that corporations are given a “licence to operate” by society in exchange for good behaviour, and as such the corporations should be accountable to society for their performance.

A number of studies have been conducted which provide empirical evidence and have established an argument for the positive relationship between corporate responsibility and corporate sustainability. Examples include a global study examining the relationship between CSR and company stock valuation across three regions of the world over a 10 year period (1995-2005) that revealed that socially responsible firms in the U.S., Europe, and Asia outperformed their long-term financial performance expectations (Hill *et al.*, 2007). A meta-analysis of 52 studies yielding a total sample size of 33,878 observations suggested that corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off (Orlitzky *et al.*, 2003). The analysis found that corporate social performance<sup>4</sup> and financial performance were generally positively related across a wide variety of industry and study contexts. It also confirmed that social performance helps firms to build a positive reputation and goodwill with their external stakeholders.

In conclusion, in order for a business to be sustained in the long term, a company needs to replace a single-financial bottom line with

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<sup>4</sup> Defined as “a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programmes, and observable outcomes as they relate to the firm’s societal relationships”

a more balanced triple-bottom line encompassing economic, social, and environmental objectives into its business practices. The CSR approach outlines key areas of focus and guidance for its implementation which ultimately seek to achieve these three objectives.

## 5. Conclusion

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. Thus, business has become a profound driver of employment, investment, and wealth creation within society. However, businesses can sustain their growth only if society is generally satisfied with their overall contribution to societal well-being. Michael E. Porter believes that there is a “symbiotic relationship” between social progress and competitive advancement. This relationship “implies that both business decisions and social policies must follow the principle of *shared value*” (Porter & Kramer, 2006: 7).

Successful corporate responsibility requires an integration of CSR into a business’s strategy as well as its in-process operations. Business should be able to deliberately identify, prioritise, and address the social causes that matter most, or at least the ones that will have the highest impact on society and the business’s future. Business and society are interdependent, and any decisions made must benefit both sides. If either business or society pursues actions that benefit the interests of one side at the expense of the other, it will find itself on a difficult path. This

means that CSR practice should seek a balance between business and social benefits. Companies also need to balance their long-term objectives against any short-term costs.

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