IMPLEMENTING CORPORATE EXTERNAL SOCIAL RESPONSIBILITY STRATEGIES THROUGH ORGANIZATIONAL DESIGN AND OPERATION

Songbai Liu and Lu Liu
MBA Education Center, Beijing Normal University, Beijing, China

Abstract: This article focuses on how to implement a company's social responsibility, especially responsibility to external stakeholders, through the design of its internal organizational structure. We use the example of Starbucks which has actively taken on such initiatives through its CSR department, and conclude that a dedicated internal organizational agent should be established to implement the CSR strategy. We also discuss the current situation of CSR practice among Chinese and foreign companies, and explore the definition, scope and formation of CSR in theory. Finally, we give our recommendations to Chinese companies in different phases on how to implement CSR.

Keywords: corporate social responsibility, CSR department, external stakeholder engagement

CSR PRIORITIES OF CHINESE FIRMS

Interpretations of Corporate Social Responsibility (CSR) take various forms. With the increasing engagement with the concept, both from the public and the corporation itself, CSR has spread its influence across all manner of organizations. CSR can be regarded as based on certain moral standards derived from the corporation's obligations to all stakeholders in society, external (to employees and shareholders) and internal (to customers and environment). Thus, what these moral standards should be, who are the stakeholders, and what kind of responsibilities corporations should accept are all questions which need to be discussed.

A recent survey from the Development Research Center of the State Council (DRC) covering 4580 companies showed that Chinese companies are beginning to agree on the importance of CSR. However, Chinese companies in general pay more attention to shareholders and employees than to engaging external stakeholders. Moreover, even though recognition of internal CSR is growing in China, implementation is still poor in Chinese and foreign owned enterprises operating in China.

As external CSR attracts more and more publicity, it will have to be given increasing priority by corporate leaders. For a corporation's external stakeholders, such as customers, wider society, and the government, the primary focus is their observable external performance, covering not only financial performance, the quality of goods and services that they provide, but also their responsibilities for the public good including the community and environment.

As Michael Porter indicated (2006) "CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage." Whatever phase of development a company is in, whether growing rapidly or just starting out, they should have the sense to see that using CSR is a smart strategic tool to win. Due to the importance of CSR, especially external CSR, we argue that, no matter what strategies companies are adopt, an agent of implementation within the organization should be established to act as the main coordinator for dealing with CSR issues, internal and external.

Multi-Nationals' CSR Experience

In the past decade, multinational giants, such as Starbucks, Nike and Shell, have all encountered public condemnation and targeted smear campaigns ranging from environmental protection to labor rights groups. While many of those criticized were in fact far ahead of their competitors in upholding their moral obligations, the negative press further 'compelled' these companies to act in a socially responsible manner or face repercussions in the market. When challenged by lobby groups, these companies did not panic but instead, took decisive steps to improve their global image. For instance, in Starbucks' case, partnering with the non-profit Conservation International to promote water and soil conservation, crop diversification, and chemical fertilizer reduction, or Nike's concessions to human rights activists over labor standards, having originally denied having any problem at all.

Other MNCs have learned from the experience of the above firms and have taken steps to conform to the CSR expectations of their stakeholders. However, some critics complain that these companies lack sincerity and only pay lip-service to the concept. Others say that social donations and sponsorship activities which have been undertaken are only to enhance profitability of the companies. In our opinion, where companies behave in this way, it is because of the lack of awareness of business and social morality among the managers inside the companies.

Increasing Corporate and Public Awareness of CSR in China

As stated, in terms of CSR issues Chinese companies are mainly at the initial stage. Most of them prioritize internal CSR initiatives focused on employee safety and health, obeying labor laws and training employees. According to the survey, many of them see CSR as a way to solve employees' grievances and make profits for shareholders. Some companies did not even take employees' safety seriously, an attitude particularly common in the mining industry.

Regarding external social responsibility, companies (no matter Chinese or foreign) have tended to fulfill their obligations through sponsoring, participating in, advocating and initiating activities and investments in education, charity, public health, environment and conservation and cultural areas, etc. In the 2005 competition for the most responsible companies in China, Baosteel won the prize for its work on employee' safety and health and sponsoring elementary education, China Ocean Shipping (Group) Company (COSCO) won for its contributions to charity, HP China won by recycling the printing material and supporting distant internet education, Shell won by protecting historic culture and exploiting new clean energy, PING AN Insurance won by donations to the Red Cross, and Nokia by sponsoring culture events and advocating conservation.

In addition, public awareness and media activities are now increasing rapidly, and in certain circumstances, this helps companies implement and take on their social responsibilities. Recently, there have been discussions and competitions from media and institutions about CSR to set benchmarks for companies and to reveal illegal and immoral cases. According to one social survey conducted by China Business Press, 81.13% of respondents paid attention to the idea of CSR, especially the elderly and those with above-average incomes. In another survey, nearly 60% of participants said that companies should take responsibility for food safety, public safety and environmental protection. A further 60% thought companies should publish an annual social responsibility report, especially those in the pharmaceutical and food industries. Thus, we can see the enhancing effect of monitoring and recommendations from the public.

To conclude, we would argue that it is very helpful for us to learn from the experience of benchmark companies particularly regarding their internal structures and how they fulfill their commitment to society, including how they promote awareness of CSR among stakeholders so as to prevent an unfavorable reputation.

Theoretical Debates

In his article "The Social Responsibility of Business is to Increase its Profits, The New York Times Magazine, September 13, 1970" Milton Friedman's argument about the definition of corporate social responsibility was taken up by many companies, as it catered to the interests of the companies' internal stakeholders, especially shareholders. He stated that, "there is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game…" In our view, what Friedman argued was not "social" responsibility but corporations' responsibility to their owners i.e. shareholder value. He expressed this view at a time when media coverage of corporations' activities was less extensive than at present.

Today, some argue it is possible to pursue profit-creation while fulfilling their social responsibilities. Prahalad and Hammond in "Serving the World's Poor Profitably, Harvard Business Review, HBRORG, September 2002" argued that corporations can serve the poor while making money. They produced statistical evidence in their book "The Fortune at the Bottom of the Pyramid" to support the view that under-developed countries like China, India, Brazil and South Africa have a huge pool of potential demand that can provide big profits for companies. Their arguments combined external stakeholder interests and the drive of companies to satisfy their customers and achieve profits and social responsibility.

Furthermore, strategy 'Godfather' Michael Porter (Porter & Kramer, 2006) summarized four prevailing justifications for CSR – moral obligation, sustainability, license to operate and reputation. He also mapped the social impacts along the value chain of one business, from internal human resource management to external outsourced logistics, clearly showing the interdependence of a company and society on every chain. Though he did not distinguish between external and internal responsibilities, the framework provides companies a means to carry out social responsible practices and show that the leaders possess business morality.

In sum, arguments from Friedman emphasized only the objective of companies, being to make profits. And some companies adopted this viewpoint enthusiastically, ignoring moral principles which would harm stakeholder interests. In China for example, there are a lot of stories about fake goods and low-quality products hurting customers, polluting the environment without correctly processing the waste and hiring illegal labor for long hours of work, etc. To overcome the problem, the first step is to raise awareness of the manager's sense of morality. Education should be conducted through the media and other institutions such as business schools, as well as business and community organizations. A system should also be established to ensure effective compliance.

Corporate Social Responsibility Departments and their Role in the Organization

Social responsibility was always an important tenet for Starbucks. It has a long history of contributing and giving back to the community. Since 1991, Starbucks has contributed $1.8m to the international relief and development nonprofit, CARE, to support its community development projects such as promoting literacy and clean water supplies in coffee origin countries. And in 1999, Starbucks founded its Corporate Social Responsibility (CSR) department "to oversee Starbucks' involvement in literacy programs, community volunteering, environmental affairs, shade-grown coffee, and international relief efforts" (Austin, 2004).

In Starbucks, CSR served two roles "across the whole company" according to CSR's senior vice-president. First, before any public decisions were made, it communicated with all the relevant departments such as coffee purchasing, supplying and marketing, about steps to bring social responsibility awareness center stage in the decision-making process. The second role was "to make sure we do what we say we are going to do". As such, the CSR department was to follow up the results with each department and publish what they had committed to do. As their 2006 annual CSR report indicated they had several ongoing projects such as purchasing Fair Trade coffee crops, which had been started in 2005 (www.starbucks.com/csr). By the end of 2006, two of them had been fulfilled and the rest were in progress.

In addition, Porter and Kramer (2006) suggest "value chain and competitive-context investments in CSR need to be incorporated into the performance measures of managers…" That is to say, within the organization, there should be an assessment system to take on measuring the CSR practices. Starbucks gives us a very good example of how to run this system as one of the important supporting activities traditionally like human resource management, finance acting in relatively almost every other department. And it should be directly overseen by one of the vice presidents. The decision making processes go along with the other operation flows with the focus of influencing each other.

Nowadays, there are more and more companies, especially multinationals, establishing dedicated CSR department inside their organizations. Some of them assign CSR issues to their Public Relations (PR) departments instead of having a single CSR department. In this case, the PR department takes the responsibility of implementing CSR to ensure compliance intentionally and morally from inside. A separate CSR department is not always suitable for every organization, for instance a company still growing with few employees.

CSR Department's Involvement in Different Stages of Chinese Companies

Chinese companies are now at a low level of awareness and practice. Few of them publish social responsibility reports. Some of them passively take on activities non-systemically. More of them lack business morality and are against the principle. Hence, it is difficult to give solutions or recommendations to every kind of company. In our analysis, we generally divided our solutions according to the three different developing phases for companies implementing CSR.

The first one is the entrepreneur's CSR awareness at the initial stage of a company. CSR might not be the main focus in this stage, but we do stress its importance especially for companies that want to develop rapidly and grow sustainably. Various resources are applied and explored at that period in terms of the social moral standard, at least to avoid harming society and the environment. The second phase is the allocation of CSR at the growing stage. With a growing corporate structure and increase of business activities, it is not easy to have a specific employee or department to deal with CSR issues. However, it is important for all leaders in each department to guide their teams to implement CSR. Departments with external responsibilities, such as purchasing and marketing, should be empowered to take independent action when necessary to address CSR issues as they arise. In the third phase, when a company has reached a mature stage, it can establish an independent department to deal with CSR issues pro-actively. Like other supporting departments, under the direct supervision of a vice president of the company, CSR department can liaise with other departments in their communication with the outside. A recent case in China is Han Bo, a garment manufacturer in Zhejiang Province which has set up a dedicated CSR Department. It is hoped that more and more companies will be encouraged by the Han Bo example to adopt the correct business values and enhance their reputation with the general public.

CONCLUSION

In conclusion, we would like to highlight the importance of establishing a CSR department as a strategy to ensure that the company's business managers act in compliance with a common value system based on a high sense of business morality. Only through by considering all stakeholders, will a company be able to sustain profitability over the long term. Chinese companies at the growing stage should take steps to avoid generating a bad image in the public eye. Instead they should consciously comply with social moral standards, establishing CSR department or teams to behave as good corporate citizens. When all the managers and staff act according in accordance with common social interests then there will be no need for special departments to carry out CSR issues. Such a company can then follow the advice of Michael Porter and look to its performance of Corporate Social Responsibility as a competitive advantage with which to leverage ongoing success.

REFERENCES

Austin, J. E. & Reavis, C. (2004, *May 1*). Starbucks and conservation international. *Harvard Business School,* 9, 303-055.

Development Research Centre of the State Council. (2007). *Chinese entrepreneur survey system: Entrepreneurs' perceptions of CSR - 2007 Growth and Development of Chinese Entrepreneurs Report.* Beijing: China Machine Press.

Friedman, M. (1970, September 13). The social responsibility of business is to increase its profits. *The New York Times Magazine.*

Jin, B. & Li, G. (2006). The preliminary public investigation report of corporate social responsibility. *Xin Hua Wen Zhai*, vol. 9. Retrieved from http://xhwz.qikan.com/

KM100. (2006, April). *The public survey & evaluation report of corporate social responsibility*. Retrieved from http://www.km100.com.cn/surveycool/

Porter, M. E. & Kramer, M. R. (2006). Strategy and society, the link between competitive advantage and corporate social responsibility. *Harvard Business Review,* December. Retrieved from http://hbr.harvardbusiness.org/2006/12/strategy-and-society/ar/1

Prahalad, C.K. & Hammond, A. (2002). Serving the world's poor profitably. *Harvard Business Review,* Retrieved from http://hbr.harvardbusiness.org/2002/09/

Starbucks. (2006). *Corporate social responsibility 2006 complete report*, Retrieved from http://www.starbucks.com/aboutus/FY06_CSR_FULL.pdf