ACHIEVING SOCIAL RESPONSIBILITY THROUGH CORPORATE STRATEGY: A MATTER OF GOVERNANCE

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Abstract: A heightened interest in the concept of corporate social responsibility has arisen in Australia. This has occurred within the context of tax incentives for companies to form partnerships with communities and the leaders of Australian companies acknowledging their firms must take a responsible approach in their business activities. There is public dissatisfaction with corporate Australia over incidents of environmental degradation, perceived corporate greed, the impact from recent collapse of major companies, as well as bad experiences from the 1980s boom and bust period. The New Economy also requires organisational change, including that companies become more accountable for their impact on society. This paper is part of a research project whose purpose is to identify the processes involved to embed corporate social responsibility within the core values and strategies of large, Australian publicly-listed companies for maintaining their competitive advantage. The paper discusses findings from an investigation of literature on corporate strategy, corporate social responsibility and corporate governance in order to identify dynamic processes that enhance the integration of social responsibility within corporate values and strategies. This review concludes that there is limited evidence to adequately explain the structure, conditions and other mechanisms involved in this event, particularly within corporate Australia. It points to the achievement of social responsibility through corporate strategy to be a matter of corporate governance.

Keywords: corporate governance; corporate social responsibility; corporate strategy

A heightened interest in the concept of corporate social responsibility has arisen in Australia. This has occurred within the context of tax incentives for companies to form partnerships with communities and the leaders of Australian companies (Taylor 1999; Fox 2000) acknowledging their firms must take a responsible approach in their business activities. There is public dissatisfaction with corporate Australia over incidents of environmental degradation, perceived corporate greed, the impact from recent collapse of major companies, as well as bad experiences from the 1980s boom and bust period.

This paper arises from research that seeks to enhance an understanding of the potential of socially responsible strategies for corporate stakeholders. The purpose of the research project is to identify the processes involved to embed corporate social responsibility within the core values and strategies of large, Australian publicly-listed companies for maintaining their competitive advantage. This paper discusses issues that emerged from an investigation of literature on corporate strategy, social responsibility and governance in an attempt to identify the structures, mechanisms and contingent factors that operate to enhance the integration of corporate social responsibility within corporate values and strategies. This paper concludes that there is limited evidence to adequately explain the dynamic processes involved in this event, particularly within corporate Australia. It points to the achievement of social responsibility through corporate strategy to be a matter of corporate governance. This paper argues that successful, sustainable and responsible companies can be achieved in the twenty-first century's New Economy if their governance entities are willing to embrace a new management paradigm (Karpin 1995; Zadek, Hojensgard, & Raynard 2000) that requires businesses to become more accountable for their impact on society.

CORPORATE STRATEGY

Corporate strategy has been the focus of management research, particularly over the last half century in the United States. The direct ion of resources to gain a competitive advantage (Porter 1985; Andrews 1987; Hunt & Morgan 1995) is central to corporate strategy, with making a profit through cost-efficiencies as a core value. This dimension to a firm's survival represents a significant challenge by itself. However, recognition that large companies have the power to make a significant impact on the environment and on the structures of societies has added to the complexity of managing a firm's strategy. Within the debate about the role of business organisations both in society and in a reconfiguring global market, positions differ within the strategic management literature about corporate responsibility.

There is a minimalist view (Friedman 1962) that managers are responsible and accountable to shareholders for the bottom-line of making a profit whilst operating within the law. A more responsible approach to corporate strategy (Freeman 1984) views meeting shareholders' needs as only one element in a value-adding process. According to this strategic approach the immediate purpose of a company is about servicing a chain of suppliers (including shareholders) who are relevant to the input and output of the firm's value creation process. Proponents that corporate strategy ought to be proactive towards being socially responsible (Hammonds 1996; Handy 1998; Zadek et al. 2000) argue that people and the environment must come before profit, that is, managers have a moral obligation beyond meeting minimal legal obligations. Long term strategic thinking from this perspective considers the demands of a broad range of legitimate stakeholder groups as part of a company's scope to enhance its survival and to maintain its competitive advantage.

This analysis of disparate views about corporate responsibility within corporate strategy highlights that both of these concepts are not static. Companies are obliged to continually adapt their corporate strategy to remain competitive and to survive. The fact that the notion of corporate strategy has become troubled by calls for a paradigm shift is part of a rich and healthy debate towards strengthening management science and strategic management processes in particular. While strategic management literature implies that a relationship between corporate responsibility and corporate strategy is possible, if not essential, it does not offer an adequate or accepted theory to explain the dynamics involved in integrating these two concepts to enhance the sustainable reality of a firm.

ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

Within competition for market share, social and environmental sustainability is becoming increasingly important as a component of a firm's value adding. A recent argument pertaining to corporate strategy is that sustainability-induced changes in the competitive market, generated within the social and environmental domains by wider stakeholders, can lead to absolute or relative competitive advantages for companies (Hunt & Morgan 1995; Dyllick et al. 1997 in Hockerts 2001) in terms of differentiation or costs. This challenges a company's core values to be re-thought in terms of a more enlightened consideration of the impact of its business activities, of the competitive advantage opportunities available for a firm that is responsive to a wider group of stakeholders, and of the needs of future as well as current stakeholders (Smith 1994; Shrivastava 1995; Husted & Allen 2000). These win-win opportunities depend on how responsibly the strategic management process is interpreted an implemented, particularly in being capable of managing the demands of a wider group of stakeholders.

Stakeholders

Managing stakeholders is conceived as a dynamic interrelationship that should form part of a company's impact assessments of risk and of competitive advantage. For example, green marketing is touted as a proactive means for enhancing corporate reputation and consumer loyalty (Adams 1993) or managing when social activists and corporate investors are the same group (Hoffman 1996). While stakeholders can affect companies either through the market, by political means or by influencing public opinion, their concerns about sustainability can be cyclical and, consequently, so is their influence on the competitive field (Dyllick 1990 in Hockerts 2001). Companies, therefore, are likely to seek sustainability-induced advantages for as long as the market is biased towards sustainability. This goes some way to explaining disparate levels of social responsibility demonstrated across companies.

CORPORATE SOCIAL RESPONSIBILITY

This paper, and the research project from which it originates, focuses on social responsibility because the gains achieved from attending to environmental-economic trade-offs are more clear in the development of sustainable companies whereas social impact is more difficult to rate (Hockerts 2001). Corporate social responsibility fuels debate about the role of business organisations in society (Carroll 1979; Angelidis & Ibrahim 1993) and is conceptualised as a 'triple bottom line' (Hockerts 2001) in terms of economic/ environmental/ social trade-offs. Fundamentally, corporate social responsibility is about balancing elements of liberty with collective social justice.

Corporate social responsibility is not a new concept (Waslekar 1994). However, while there is an extensive body of work on corporate social responsibility, analyses of this literature (Sethi 1975; Zenisek 1979; McGuire, Sundgren, & Scneeweis, 1988) has highlighted disparate levels of social responsibility throughout the business sector. There is slippage between the rhetoric and implementation of companies' policy statements on being socially responsible. Knowledge about corporate social responsibility is piece-meal and, therefore, is limited in being able to inform managers in their governance of corporate activities.

Corporate social responsibility appears to be a complex and multi-dimensional phenomenon that oscillates between business practice and social expectations at a given point in time (Zenisek, 1979; Angelidis & Ibrahim 1993). While the directors and managers of large Australian companies may be willing to adopt socially responsible strategies, albeit reactive to issues arising amongst legitimate stakeholders, empirical evidence suggests they are reluctant extend socially responsible strategies to secondary stakeholders. Some companies perceive social responsibility to be a strategic after-thought and equated with philanthropy, sponsorship or volunteerism (Cusack 2000; Birch & Batten 2001). This does not explain differences between managers in their recognition that sustainability issues may afford competitive advantages. While directors and managers within corporate Australia understand the importance of processes such as managing stakeholders, they appear less able to comprehend this as being a dynamic interrelationship. Society increasingly expects companies to engage in a value adding process that is not just for the financial benefit of those firms. There is a growing expectation that this process should be conducted responsibly for the long-term viability of these companies and with consideration for other people as well as the environment. Rather than social responsibility being a discretionary add-on or a legislated requirement, the expectation is that companies actively and strategically adopt a responsible approach towards the expectations that societies have of them (Clemenger 1998). Business leaders need to perceive this as part of the value adding process. Specifically, there is an expectation that social responsibility ought to be part of corporate culture by being embedded in the values and strategies that enhance both a firm's competitive advantage and its value to society.

In proposing social responsibility needs to be a core value within a company's culture to enhance a firm's strategic activities, Robin and Reidenbach's (1988) work makes a significant contribution. They conceptualise corporate social responsibility as an iterative process until consistency is attained between the organisation's economic and social responsibility values. However, their model is limited in its explanation of the dynamic processes for achieving social responsibility through corporate strategy. It assumes that in balancing profit and the firm's impact on society and the environment, an inconsistency between these two dimensions will result in corporate activity being reconsidered. These authors refer to the accident-prone Ford Pinto as a case of what should not occur. Yet this product still proceeded on the basis of an informed decision.

While the literature on corporate social responsibility is inadequate in explaining the processes involved in integrating corporate social responsibility within corporate strategy, it does suggest this is a matter for corporate governance.

Corporate governance

The locus of a socially responsible approach to business activities is deemed to lie with key managers who are at the strategic and operational levels of an organisation. (Amba-Rao 1993; Agle, Mitchell & Sonnerfield 1999; Birch & Batten 2001). A concern within the literature on corporate governance is the extent to which our current approach to corporate governance is able to maximise the long-term interests of shareholders and wider stakeholders. The growing complexity of business operations within the New Economy, as well as public dissatisfaction, has raised concerns about corporate Australia's capability to manage relationships with wider stakeholders (Hilmer 1993; Karpin 1995; Clemenger 1998).

In large, publicly –listed Australian companies, the traditional model is a formal system of governance shared between a Board of Directors and an executive management team, some of whom also will be directors of the company. Other managers are appointed on performance-based contracts. The Directors are responsible for developing strategy in line with a vision of the company and, at the very least, are accountable to shareholders for the firm's performance. The management team is responsible for implementing corporate strategy (Hilmer 1993). These governance entities are identified as having the capability to foster an ethos of social responsibility within a business organisation (Birch & Batten 2001).

The purpose of a company seems simple – to operate within the law towards maximising its value for shareholders. However, the reality of business is more complex. A profit-motivated purpose engenders a short-term strategy for short-term gain, due to the volatility of a competitive economic market that is subject to human frailties. An emphasis on share prices and dividend rates as key indicators of a company's performance is not necessarily reliable over a long-term. In most large, Australian publicly -listed companies, while the majority of shareholders are ordinary citizens, they tend to have minority ownership of shares in these companies. The major owners are likely to be the company's directors and members of its executive management team or other bodies, particularly superannuation fund managers, who seek a strategic stake in that firm.

It is possible that both the directors, as a minority number of shareholders but still having significant control and share-ownership in the company, as well as contracted managers, will act on the basis of self-interest rather than in the interests of the majority of shareholders. It can be argued that if minimalist social responsibility strategies, as devised and implemented by these governance entities, provides them with a healthy dividend or performance bonus respectively, then a flow on effect occurs for the other majority number of shareholders, at least in the short-term. However, this does not address whether a company is being or can be operated in ways that maximise all shareholders' interests in the long term.

Bad management decisions made during the 1980s boom and bust and in more recent times in Australia, has raised concerns about standards of best practice and the responsibilities of various parties involved within the governance of Australian companies (Hilmer 1993). Given the growing complexity of business operations and a realisation that a Board can lose touch with its company's management (Cadbury 1987; Hilmer 1993) then the capability to develop more integrated strategies for managing relationships with a broader range of legitimate stakeholder groups, seems to be less possible. A survey of Australia's large companies found that 75% of these business organisations aim to justly balance the competing interests of their stakeholders, with half of this group putting a higher priority on shareholders' interests. An additional 13% of these Australian large companies only reacted to events as these occur (Birch & Batten 2001).

It seems a majority of large Australian publicly -listed companies still consider a responsibility to their primary stakeholders to be part of their corporate strategy, as leverage for dealing with any ill effects on their competitive position. Yet there is mounting pressure from investors and wider stakeholders that Boards of directors be more transparent in their decision-making and more accountable in their reporting procedures, as aspects of a socially responsible company. Stakeholders' demands about economic, environmental and social impacts of a company and its management activities must become a requisite part of strategy development. Additionally, their concerns need to be perceived by corporate governance entities as potential sources of competitive advantage (Dyllick et al. 1997 cited in Hockerts 2001). A transformation of governance within corporate Australia towards strengthening these firms' competitive position in the New Economy and their value to society has implications for corporate strategy and social responsibility.

Corporate strategy implications
One outcome from the debate about corporate social responsibility is the extent to which it can be driven by industries themselves that can perceive competitive advantages associated from taking account of the social impact of their business activities. This is happening with businesses in Europe and to a lesser extent businesses in the United States (The Global Reporters 2001). As propounded earlier in this paper, the notion of a contractual obligation existing between business and society is an underlying and recurrent theme in questions about a company's purpose and its accountability. The emerging view regards the business sector as an integrated part of a whole social system, with a responsibility for both economic and social development (McClure 2000; Cusack 2000). By corporate governance entities integrating corporate social responsibility into the core values of their organisations, this serves to maintain a competitive position to survive and to enhance stability within Australian society. This presents a challenge to the classical free-market paradigm, which seeks to minimize any constraints on the making of short-term profit. A broader view of the business sector's responsibilities to society argues that enlightened managers perceive an analysis of any social impact at the initial development stage has a cost benefit in the long term and makes the advantages of the economic activity more transparent to all stakeholders.

Social responsibility implications
The use of legislative means to compel directors and managers of companies to be socially responsible may undermine them coming to perceive corporate social responsibility as an important process for adding both to the company's value and to society. However, regulation does not hold the complete solution, as examples already exist where companies have flouted laws because of a loophole through which they can avoid prosecution or because the penalty was deemed to be a small price to pay for the gains to be made. To have a law is one thing; whether its enforcing agency has sufficient muscle or political support is another matter. Legal reforms that enhance a 'proper selfishness' within companies seem to be a preferable option.

On the other hand, a difficulty with a self-regulatory approach, as mooted in the literature on corporate governamce, is the type of strategic approach preferred by a company's directors and managers. The achievement of corporate social responsibility through corporate strategy requires their support. Corporate social responsibility is an issue that directors and managers face, and need to face, to avoid future disasters and to obtain advantages within a competitive New Economy. If directors and managers choose to ignore corporate social responsibility they put at risk the company's long-term survival, risk legal and legislative intervention or risk losing competitive advantage opportunities.

CONCLUSIONS

In this paper it has been argued that companies need to acquire ways to effectively work with diverse groups that have competing philosophies and demands. Successful, sustainable and responsible companies can be achieved in the New Economy if their governance entities are willing to embrace a new management paradigm (Karpin 1995; Zadek et al. 2000) that requires businesses to become more accountable for their impact on society. It seems reasonable to suggest that corporate social responsibility needs to be integrated into training programs for current and aspiring company directors and managers. This adds to the basis from which they conduct their roles and responsibilities, and would assist with the integration of corporate social responsibility as a core value within their companies and their strategic activities.

A further conclusion is that while there is limited evidence to adequately explain the dynamic processes involved in this event, the achievement of social responsibility through corporate strategy is a matter for corporate governance. Consequently, further research is required on:

- How and why do large Australian companies seek to integrate corporate social responsibility into their corporate strategies?
- What corporate social responsibility outcomes are anticipated and observable by these business organisations?
- How do governance structures within large Australian companies achieve corporate social responsibility becoming embedded within their corporate strategies?
- Under what conditions do these corporate governance structures integrate corporate social responsibility within their corporate strategies?
- What factors determine variations of this integration by these business organisations?

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