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FRAMING CSR WITHIN THE CONTEXT OF STRATEGY

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Abstract

Much has been written about the role of business in society. More specifically, a dominant theme in the literature has focused on the conceptualisation of corporate social responsibility (CSR) and, in the process, has defined what responsibilities firms assume toward society. However, such conceptualisations rarely offer scholarship on how CSR fits into the domain of strategy. Given that CSR is argued to be an imperative that can significantly affect competitiveness, integrating CSR into the core of the firm should not be an after-thought to the development of strategy or a reactive initiative due to external pressures. By drawing upon insights from economic, strategic management, sociology, stakeholder and marketing theory, we frame CSR within six fundamental dimensions of strategy. The exercise contributes to scholarly debate in that it extends current thinking on CSR and to managerial practice in that it offers insight into how CSR might be integrated into strategy for firm – and societal – benefit.

Keywords

CSR, strategy, stakeholder theory, social responsibilities, social problems, social issues

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Introduction

A recent report reveals that almost six out of ten (58 percent) organisations have no strategy for corporate social responsibility (CSR) (The Work Foundation, 2002). Of these, one third (32 percent) say they have never thought of CSR as being important to their overall strategy while just under a third (27 percent) say CSR is not a business priority.¹ In spite of these findings, scholars, consulting firms and CEOs alike continue to declare the importance of CSR to firm competitiveness (Waddock et al., 2002; Davis, 2005; PricewaterhouseCoopers, 2005; McKinsey & Co., 2006). Thus, incorporating CSR into the 'core' of the firm should not be an after-thought to strategy or a reactive initiative due to external pressures. Considering this pronouncement, an appropriate question might be: How can CSR become an essential part of firm strategy? Finding an answer to such a question in the strategy literature is not so easy.

To be sure, CSR has been elevated to a prominent place in scholarly debate. However, a dominant theme has been conceptual and theoretical discussions, mainly with an interest on *defining* CSR.² Carroll (1979) was one of the earliest to offer a conceptualisation of CSR, defining the construct as: 1) economic responsibilities; 2) legal responsibilities; 3) ethical responsibilities; and 4) discretionary responsibilities. In essence, Carroll's (1979) definition describes *what* responsibilities firms assume toward society. Similarly, stakeholder theory (Freeman, 1984; Clarkson, 1995; Zsolnai, 2006) also suggests that firms have responsibilities; however, stakeholder theory posits to *whom* the firm is responsible. Thus, while the fields of

¹ The same study finds that most firms who do engage in CSR tend to do so as a public relations manoeuvre, rather than as a means of discovering and fulfilling strategic market opportunities. Weaver et al. (1999) suggest that such a tactic is essentially non-strategic and is rather used for corporate window dressing purposes.

² Testing the relationship between CSR and firm performance has been another significant theme (see Aguilera et al., 2005).

CSR and stakeholder theory reveal much about what a firm's responsibilities are and to whom they are responsible, little insight is revealed about *strategy*.

By the early 1990s, Miles (1993) suggested that as a line of inquiry, CSR had very limited impact within the field of strategy (see Hosmer [1994] for a corroborating argument). Since Miles' (1993) observation, we argue that CSR continues to have limited impact within strategy discourse (the exception being empirical investigations between CSR and firm performance). By way of example, in a book on the most critical writings in strategy from 1966 to 1999 (Birkinshaw, 2004), not one of the 63 articles addresses CSR. Therefore, relatively little has been discussed about the relationship between CSR and strategy.

The objective of this paper is to strategically frame CSR. However, rather than focus on a single dimension, our goal is to frame CSR in the context of six fundamental dimensions of strategy, thereby placing CSR within an overall strategic framework. Previously, a few specific attempts have been made to investigate CSR and strategy beyond the often-explored performance relationship. For example, Carroll and Hoy (1984) discuss the development of corporate social policy into strategic management. Dawkins and Lewis (2003), on the other hand, describe the socially responsible expectations of stakeholders and what the possible implications are for company strategy. Although each of these efforts offers important insight, they leave opportunity for deeper discovery. Carroll and Hoy (1984) do not offer any discussion on how a social responsibility arises in the first place, why a social responsibility is a 'social' responsibility and how that is important to strategy while Dawkins and Lewis (2003) do not provide detail about how CSR might be built into the fundamental dimensions of strategy, such as firm mission, exploration of strategic issues, which markets to serve and resources needed to compete.

To extend the work of Carroll and Hoy (1984) and Dawkins and Lewis (2003), insights from economic, strategic management, sociology, stakeholder and marketing theory will be leveraged to frame CSR within strategy. We believe that the discussion will benefit both scholars and practitioners alike. For scholars, the discussion will offer insight into CSR beyond conceptual treatments of the construct, which have dominated discussions in the literature for years. For practitioners, the discussion will serve as a valuable guide as the real task of developing CSR, within the context of an overall strategy, is addressed not only for the benefit of the firm, but for society as well.

The rest of the paper is organised as follows. In the first section, we offer background on strategy and define how it will be addressed in this paper. Next, we describe the differences between social responsibilities and social issues, which is important to the development of our CSR-strategy discussion. We then frame CSR within the context of the six fundamental dimensions of strategy outlined in this paper. Finally, we discuss implications and conclusions and provide perspectives for future research.

What is Strategy?

The development of the modern day field of strategy can be traced back to work conducted at Harvard University in the area of business policy in the 1950s (Smith & Christensen, 1951). In the 1960s and early 1970s, Harvard researchers continued to take the lead in the development of the field (Learned et al., 1965, 1969; Andrews, 1971). Essentially, the early work that came out of Harvard contributed important ideas to the field of strategy, mainly with respect to the development of firm strategy as the match between internal capabilities and external opportunities. Porter (1980, 1985) extended this work by offering a complex analysis of the external environment, namely the five forces of industry structure, while offering contributions to strategic choice and value chain configuration, all of which are important concepts with respect

to firm strategy and competitive advantage. Wernerfelt (1984) and Barney (1991), on the other hand, concentrate much more attention on firm resources as the focal point of strategy and source of competitive advantage. Lastly, another important contributor, Ansoff (1965), conceptualises the firm as operating in the arena of markets and products, whereby firms base strategies on penetration, development or diversification options, depending on the breadth and depth of markets served and the scope of product development required. By analysing these various contributions, a few fundamental aspects of strategy can be identified.³

Overall, strategy is concerned with understanding and addressing the strategic issues that impact on a firm's ability to achieve its mission, so that products/services can be produced to meet the needs of the markets it serves through effective resource configuration, in order to build and sustain competitive advantage (Ansoff, 1965, 1980; Learned et al., 1969; Andrews, 1971; Porter, 1980, 1985, 1996; Barney, 1991). Thus, strategy, as conceptualised in this paper, consists of six fundamental dimensions: 1) what is a firm trying to achieve in the long term (*mission*); 2) what internal and external issues impact on the firm's ability to achieve its mission (*strategic issues*); 3) which markets should a firm compete in (*markets*); 4) what products/services are needed to offer customers in the chosen markets (*customer needs*); 5) what internal resources (assets, skills, competencies, relationships, finance, facilities) are necessary in order to compete (*resources*); and 6) how can a firm perform better than the competition (*competitive advantage*).

³ We clearly recognize that the authors described here are limited in that many others have certainly played a role in the development of the concept and field of strategy. However, as Davis and Devinney (1996) point out, nearly 50 techniques/fads/concepts have dominated strategic thinking since the 1950s. Furthermore, Boyd and Reuning–Elliott (1998) demonstrate that conceptualisations of strategy are often conflicting. Given such broad scope and lack of a unified conceptualisation, we have chosen to explore *fundamental* concepts of strategy that remain consistent in contemporary strategy texts and writings, and are essential to its understanding, while simultaneously acknowledging that including *all* the concepts of strategy is beyond the scope of this paper.

In this paper, we are interested in exploring how CSR fits into these six fundamental dimensions of strategy (Figure 1). However, before elucidated, additional concepts need to be discussed and clarified; namely, the social responsibilities of firms versus social issues. The reason being is that while linked, social responsibilities are not the same as social issues. More specifically, as we will demonstrate, social responsibilities are the expectations that society places on firms while social issues are factors to which these responsibilities are tied, factors that not only can affect a firm's ability to meet its objectives, but can ultimately affect – if not determine and even change over time – their social responsibilities as well. This is an important distinction to recognise and has implications for strategy.

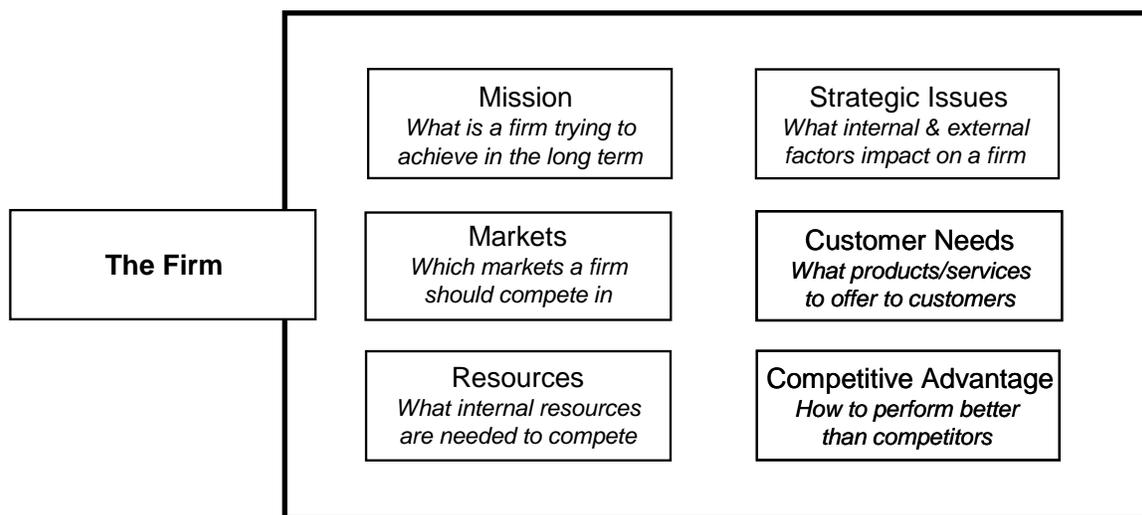


Figure 1. Fundamental dimensions of strategy

Social Responsibilities Versus Social Issues

What are a firm's social responsibilities? The classic response to the question, and the one that is most frequently debated today, is that the firm has one and only one responsibility: to maximise returns to shareholders. According to Friedman (1970), this is the social responsibility

of the firm.⁴ By fulfilling this economic charter, Friedman (1970) believes that the firm does its part in meeting societal welfare, as opposed to what governments, social service organisations, educational institutions, non-profits and the like should do in their role to meet societal welfare.

After the publication of Friedman's (1970) thesis, management scholars began to develop theoretical rigor around the social responsibilities of the firm. In the late 1970s, Carroll (1979) offered one of the first – and perhaps still the most widely accepted conceptualisations of CSR (Matten & Crane, 2005). Carroll's (1979) model theoretically conceptualises the responsibilities of the firm to include: 1) the *economic* responsibility to generate profits; 2) the *legal* responsibility to comply by local, state, federal and relevant international laws; 3) the *ethical* responsibility to meet other social expectations, not written as law (e.g., avoiding harm or social injury, respecting peoples' moral rights, doing what is right, just, fair); and 4) the *discretionary* responsibility to meet additional behaviours and activities that society finds desirable (e.g., philanthropic initiatives such as contributing money to various kinds of social or cultural enterprises).⁵

Beyond Carroll (1979), other academic thought also equates the role of business in society with *responsibilities*. For example, stakeholder theory argues that firms have responsibilities to various stakeholders, including those internal and external to the firm (Clarkson, 1995; Donaldson & Preston, 1995; Mitchell et al., 1997; Post et al., 2002; Aguilera et al., 2005; Galbreath, 2006). On the other hand, corporate citizenship also conceptualises the firm's

⁴ We note that Friedman (1970) argues that firms' responsibility to maximise shareholder returns should be done so by obeying the law and basic canons of ethics and by engaging in free and open competition without fraud or deception. His thesis also considers other 'stakeholders' in that through profit maximisation, economic benefits are provided such as fair-paying jobs to employees and good quality, fairly priced products to consumers.

⁵ Even in Friedman's (1970) essay, he suggests that discretionary responsibilities might be possible, but only if they ultimately generate a profit for the firm. Compare his view to the work of Lantos (2001, 2002) and Lantos and Cooke (2003) on 'strategic' CSR.

responsibilities, although this emerging field tends to shadow Carroll's (1979) four responsibilities, albeit with different language and terminology (Maignan et al., 1999; Windsor, 2001; Dawkins, 2002; Matten & Crane, 2005). Thus, the common theme among the fields of CSR, stakeholder theory and even corporate citizenship is that a firm's various responsibilities define how it fulfils the expectations placed on it by society (Carroll, 1979, 1999; Windsor, 2001).

The definitions of the social responsibilities of firms coming from Friedman (1970), Carroll (1979), stakeholder theory and corporate citizenship are largely normative: they describe what firms should do (or not do) in terms of their societal responsibilities (Rodriguez et al., 2002).⁶ In this sense, these definitions help to describe what the 'firm side' of the social contract (Donaldson & Dunfee, 1994; Donaldson & Dunfee, 1999; Ferrell et al., 2002) between business and society consists of. On one hand, we posit that the 'formal' social contract defines a firm's *explicit* responsibilities, including generating returns for shareholders, obeying laws and regulations, creating jobs, paying taxes and honouring private contracts. On the other hand, we posit that the 'semiformal' social contract reflects society's *implicit* expectations. Here, society's unspoken expectations of firms include responsibilities such as adherence to global labour and environmental standards (e.g., SA 8000, AA 1000, ISO 14031) that are not required by law, triple bottom-line reporting, following industry norms and codes of conduct, fulfilling brand promises and contributing philanthropically to the community.

Additionally, the widely recognised conceptualisations of CSR described in this paper are cross-sectional in that they 'look inside' a firm at a given point in time and reveal the degree to which a firm is acting socially responsible – whether they are fulfilling their social responsibilities. While

⁶ Donaldson and Preston (1995) argue that stakeholder theory has descriptive and instrumental aspects as well as normative ones.

appropriate for our definitional understanding of the phenomenon and to use as a guide to test the relationship between CSR and firm performance, such conceptualisations offer little insight into how CSR can be integrally linked with firm strategy or what the firm can do to better understand this link. Importantly, the link presupposes *issues*, social or otherwise.

A social issue is anything that is found wrong with society. It is a controversial point, which is an object for social discussion. However, the concept is most often used for aspects of topics or themes that are under intense public debate. More specifically, a social issue has four interrelated aspects. First, a social issue is not an individual issue (although it may arise from an individual). Many people in society must recognize that something is wrong or that there is a problem. Second, a social issue is not a universal issue in that it is located within a particular social context at a particular point in time and history.⁷ Third, to say or observe that something is wrong or there is a problem in society assumes that there is an idea of the way things 'should be'. Lastly, if there is a recognised way that things should be, then there is the possibility that the resolution of a social issue is achievable by some means. In short, a social issue in the above context is based on classic sociology definitions and theories of social change (Mandelbaum, 1949; Parsons, 1954; Merton, 1957; Ogburn, 1964).

Beyond pure sociological analysis, scholars within the business and society literature have also addressed the social issues concept, predominately through the life-cycle approach (Lamertz et al., 2003). Although several definitions exist, a widely accepted definition in the life-cycle tradition describes social issues as:

⁷ For example, social inequality of men and women is an issue to us now, but in medieval times, where women were legally defined as property of their husbands, it was not an issue. Further, we suggest that what is a social issue in some countries is not in others. We do acknowledge that some social issues, such as human rights and environmental protection, are certainly close to 'universal' in the sense that they are global concerns. However, we suggest that this was not always the case; thus, must be placed within the context of time and history.

Social problems that may exist objectively but become 'issues' requiring managerial attention when they are defined as being *problematic to society* or an institution within society by a group of actors or stakeholders capable of influencing either governmental action or company policy. (Mahon & Waddock, 1992: 20; emphasis added)

In this definition, the implication is that *problems* of a social nature exist at the societal level (but not necessarily at the organisational level) that are eventually elevated to the 'status' of a social issue by the actions of various actors, including stakeholders. However, such a definition does not address how these social problems and issues might be an *opportunity* for the firm and thus, is problematic with respect to the concept of strategy.

Based on theories of strategy, corporate managers, in formulating strategic plans, regard the internal and external environments in terms of 'opportunities' and 'threats' (Learned et al., 1969; Andrews, 1971). As the conception of social issues mostly neglects the opportunities of social development for firms, it is necessary to consider the importance of strategic issues to managers. According to Ansoff (1980: 133), "a strategic issue is a forthcoming development, either inside, or outside the organisation, which is likely to have an important impact on the ability of the enterprise to meet its objectives".

Overall, given Ansoff's (1980) definition of a strategic issue, the firm faces a potential diversity of issues and represents the variety of factors that firms need to identify and assess in their

internal and external environments, social issues being just one.⁸ Approaching these numerous issues is also possible from a stakeholder perspective (Werhane & Freeman, 1999), when focusing on the social actors who construct the issue, although, there may be a distinction between social and stakeholder issues in that issues that affect society may not necessarily be the same issues that affect the firm's stakeholders (Clarkson, 1995). Given the definitions of social responsibilities and social issues (and by extension CSR) we argue that a cause and effect is at play between the two.

CSR does not occur *ex nihilo*. For a firm to be socially responsible (or for a social responsibility to develop from society's explicit and implicit expectations of the firm), a chain of events occurs over time. First, problems (which we also refer to as unmet social needs in the context of strategy) arise in society and are propagated to 'issues' through a potential variety of actors, including society at large, a firm's stakeholders, non-governmental organisations (NGOs), the media and governments, among others (Mahon & Waddock, 1992; Aguilera et al., 2005). Where these [social] issues become law targeted at businesses, firms are legally required to obey and thus become a responsibility of the explicit social contract.⁹ For example, worker rights in the U.S. was an unmet social need (problem) before it became a social issue, eventually enforced through labour laws (Dobbin & Sutton, 1998). Second, although not a law (currently), concerns such as the growing societal and stakeholder expectations for transparency and open accountability are leading some firms to report on the triple bottom line, which is becoming part of the implicit social contract (Aguilera et al., 2005). Lastly, the social contract between

⁸ The social issues concept is descriptive in nature, in that social issues are a description of problems or perceived wrongs in society. But even if it is assumed that firms objectively examine their environments, we suggest it is descriptively incorrect to assume that they are concerned only with social issues.

⁹ Although the firm's explicit responsibilities within the social contract may be tied to law, we argue that this is not always the case (e.g., providing jobs is not a legal responsibility but is an explicit expectation of society nonetheless). However, drawing the distinction between explicit and implicit responsibilities does, in many cases, require the test of law (cf. Clarkson, 1995).

business and society (either formal or semiformal) is not static. It is fluid by nature and evolves over time (cf. Carroll, 1979).

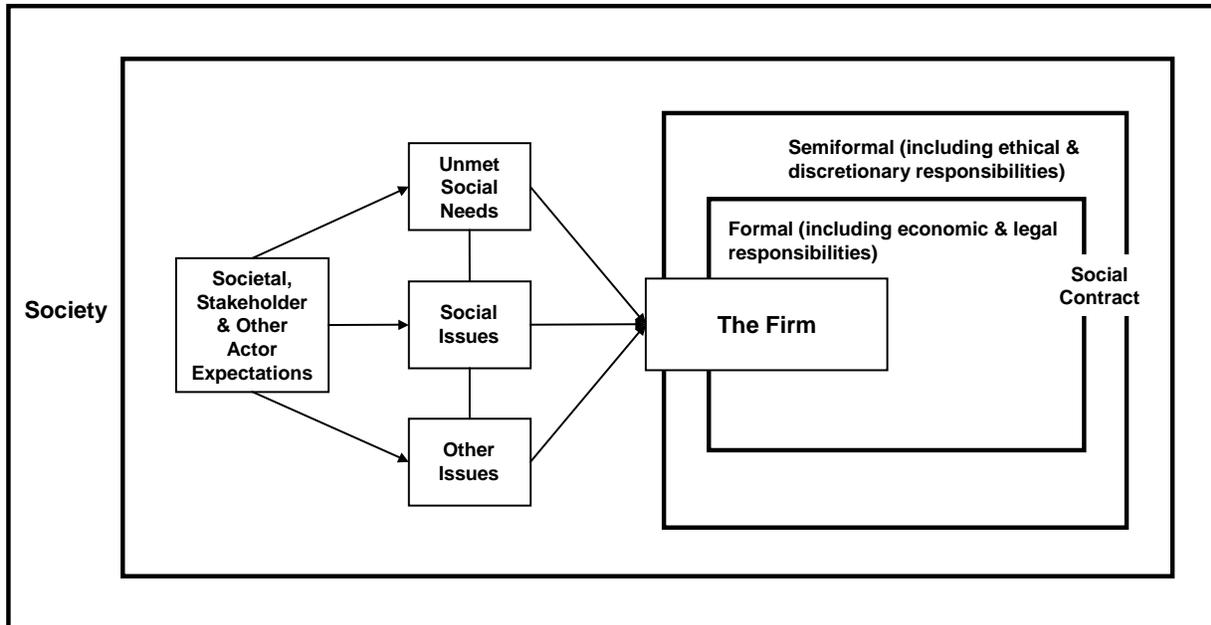


Figure 2. Relationship of social factors to the firm

According to several scholars, since the mid to late 1990s, expectations of the role of business in society and the social issues that they should address has been increasingly rising (e.g., Windsor, 2001; Logsdon & Wood, 2002; Paine, 2002; Davies, 2003; Cuesta Gonzalez & Valor Martinez, 2004). Additionally, new social problems are emerging that firms might have opportunity to address before they become issues (Mahon & Waddock, 1992; Waddock et al., 2002; Lawrence, 2004; Aguilera et al., 2005). Thus, as actor expectations change, continual and evolving phases of unmet social needs and social issues are the subject of business's role in society, which ultimately can have an impact on the social contract – how they operate in society – and their competitiveness (Carroll, 1979; Moran & Ghoshal, 1996; Waddock et al., 2002; Aguilera et al., 2005). In light of this chain of events (Figure 2), firms should pay keen

attention to potential opportunities and threats of social-related factors. We believe that such attention is best framed within the context of strategy.

Framing CSR within the context of strategy

Strategy serves as a foundation for a business firm’s creation, while establishing its position in the market, its competitiveness and its on-going existence (Ansoff, 1965; Andrews, 1971; Porter, 1980). To achieve these aspects, some level of planning/programming is required in order craft or formulate and renew/change strategy as conditions warrant (Andrews, 1971; Steiner, 1979; Mintzberg, 1987). This planning/programming largely takes place within the context of the six strategy dimensions previously outlined. Thus, in this section, we systematically explore CSR within each dimension of strategy (Figure 3).

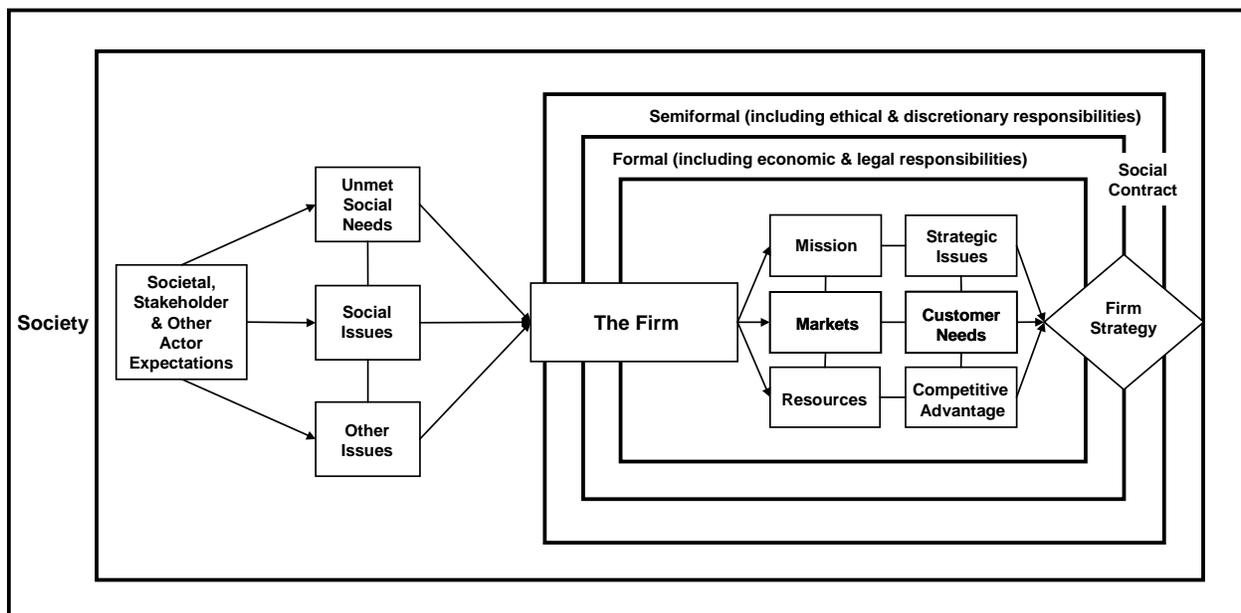


Figure 3. CSR within the context of strategy

Firm Mission

Firm mission is a “declaration of an organisation’s fundamental purpose: why it exists, how it sees itself, what it wishes to do, its beliefs and its long-term aspirations” (Bennett, 1996: 18).

Thus, mission is a statement of intent. Given that mission signals to shareholders, investors, stakeholders and society a given firm's intent (Pearce & David, 1987), we offer the following aspect of the CSR-strategy relationship for consideration.

Since the writings of Marshall (1919, 1920), industry has been considered an appropriate level of aggregation for analysing the role of competition in market economies (Bloch & Finch, 2005). Beyond a Marshallian view, Porter (1980, 1990) identifies strategic groups and industry 'clusters', which are also important levels in the analysis of competition. Industry, strategic groups and clusters are vital to mission development in that they give firms a baseline or starting point for identity (Peteraf & Shanely, 1997). Furthermore, industry, strategic groups and clusters give context to the various considerations for competing such as capital requirements, fixed versus variable costs, degree of rivalry, advertising, scale economies and location, among others (Bain, 1959; Porter, 1980, 1985, 1990).

In a similar vein, although some social issues may be common (e.g., the environment) to nearly all firms, they can be very different given a divergence of stakeholder, NGO and other social actor expectations impacting on a given industry (Logsdon & Wood, 2002; Davies, 2003; Aguilera et al., 2005). Thus, a firm with the mission of building the most fuel efficient cars in the world who is, at the same time, dedicating scarce company resources to explore how to solve teenage smoking because it is a social issue, reflects a disconnect between CSR and its mission, and a disconnect between a social issue and a strategic issue for that firm. According to Porter (1996), strategy is as much about what *not* to do, as it is what to do. We similarly argue that it is descriptively wrong to suggest that a given firm should address all social issues (cf. Sethi, 2003). More specifically, CSR must be strategised in the context of what the firm is trying to achieve, which takes into consideration specific actor expectations, industry and other levels of competitive reference (e.g., strategic group). Such an approach is vital to building

social issues into strategy in a way that reflects their actual business importance to the firm's mission.

Strategic Issues

Andrews (1971) and Ansoff (1980) describe that the issues firms must address as they compete in the marketplace can be both internal and external. However, while there are many issues to consider, not all are strategic. Ansoff (1980) argues that for an issue to be strategic, it must be a forthcoming development at a level of importance such that the issue can significantly impact on a firm's ability to meet its objectives. To identify issues of this type, research and analysis, using a variety of techniques, is the prescribed course of action (Learned et al., 1969; Andrews, 1971; Steiner, 1979; Ansoff, 1980; Porter, 1980). Given that the identification and understanding of strategic issues is primarily a research and analysis function of strategy, from a CSR perspective, the unit of analysis and techniques of analysis are particularly important to assess the impact of factors of a social nature.

The unit of analysis, we posit, is social-related problems and issues. According to the definition of Mahon & Waddock (1992), social problems can objectively exist before they become social issues. In this sense, strategically and opportunistically, we can speak of unmet social needs and social issues. Unmet social needs are social problems that are developing in society but have not yet been officially defined or propagated to the level of an issue by social actors or stakeholders (Mahon & Waddock, 1992). On the other hand, social issues are 'official' in the sense that they have reached, through various actor actions, the formal attention of governmental policy makers and corporate managers (Mahon & Waddock, 1992). Thus, analysis of these two social-related factors is important to address their strategic significance.

In order to analyse and assess – and ultimately address where strategically necessary – unmet social needs and social issues, a number of techniques are potentially useful. Media coverage and expert testimony, for example, are important mediums to monitor in that they can disclose early signals of unmet social needs while scenario planning is a useful technique in that it enables firms to explore future scenarios that take into account shifts in consumer patterns, reactions of competitors and the possibility of litigation and regulation (Kahaner, 1996; Swartz, 1996). By example, growing concern over obesity in the United States was evident in the media at least five years before the first warning by the U.S. Surgeon General that obesity had become an epidemic (Lawrence, 2004). Furthermore, expert testimony, such as that of Harvard University's Walter Willett, explained that [childhood] obesity was in part linked to the marketing of 'junk food' (Lawrence, 2004). Thus, the problem of obesity was shifting from individual responsibility to external, environmental factors including corporate marketing. In the case of obesity, many fast food restaurants, for example, have been caught off guard and some lawsuits have been encountered as a result, damaging reputations and costing significant resources (Burros, 2006). However, through techniques such as media monitoring, analysis of expert testimony and scenario planning, the shift might have been anticipated much earlier and an unmet social need identified, leading to opportunity and possibility to capture market share and competitive advantage in the early stages of changing societal and stakeholder expectations.

Social issues, according to Lamertz et al. (2003), go through a life cycle, which includes the evolution of an issue from its emergence to its saturation phase (Mahon & Waddock, 1992; Bigelow et al., 1993; Zyglidopoulos, 2003). Typically, social issues start as small regional problems. Here, local community actors', regional NGOs' or corporate employees' instrumental, relational and morality-based motives can give rise to issues propagated in the social sphere that ultimately impact on firms' role in society (Aguilera et al., 2005). Regional issues can evolve

into national and transnational (global) issues given the nature of the issue, the intensity of campaigns or boycotts and multi-party dialogues launched by the media, large NGOs and other corporate interest groups (Khagram et al., 2002; Hart & Milstein, 2003; Aguilera et al., 2005). Ultimately, in time, regional issues can become national issues and national issues can become global issues, reaching a stage of saturation (Logston & Wood, 2002; Lamertz et al., 2003; Aguilera et al., 2005). Given this tiered structure, we argue that the analysis of social issues needs to be completed in the context of regional, national and global issues. However, to analyse the specifics of social issues inside of this multi-level framework, three techniques are suggested.

First, the macro-level functionalist perspective takes into consideration dysfunction in society (Parsons, 1954; Merton, 1957; Ogburn, 1964). Therefore, analysis focuses on trends or events that are disrupting the harmonious, interdependent functioning of social structures. An example might be environmental pollution and the analysis of how business firms are not working properly or fulfilling their manifest functions, as opposed to governments, consumers and non-business organisations. Second, the macro-level conflict perspective views society in terms of the groups who have dominant power, and therefore focuses on relationships among groups within society and how dominant groups preserve their positions of power at the expense of others (Parsons, 1954; Merton, 1957; Ogburn, 1964). An example might be the analysis of the influence that consumer lawsuits are having on tobacco companies and how that might ultimately impact their considerable economic influence and power in the world. Lastly, the micro-level symbolic interactionist perspective views society as a product of the accumulation of individual social interactions, which eventually determine societal expectations (Weber, 1962). An example might be data privacy, analysing how privacy (or lack thereof) given consumers by business firms affects the individuals involved in information exchange and ultimately what the implications are for societal values, norms and expectations.

While each of the above analytical perspectives, drawn from sociology, are useful to analyse social issues, social issues are not the only issues that may or may not be considered strategic to the firm. According to several authors, corporate issues and stakeholder issues need to be assessed in light of social issues to determine congruence and strategic significance (e.g., Wartick & Mahon; 1994; Clarkson, 1995; Lamertz et al., 2003; Mahon et al., 2004). In some cases, social issues may differ from corporate or stakeholder issues while in other case they may align. Each issue domain, however, needs to be assessed with respect to the impact they might have on the firm's ability to achieve its objectives (Ansoff, 1980). This approach not only takes into consideration the firm's mission and levels of reference such as industry and strategic groups, but markets served and products/services offered to consumers in those markets.

Markets

A market consists of the set of all actual and potential buyers of a product or service (Kotler & Armstrong, 2005). However, according to Cahill (1997), for a firm to strategically address markets, they must address specific *target* markets. A target market is a group of buyers for whom an offering should be appropriate and to whom the firm will direct the major part of its marketing time, resources and attention. Kotler and Armstrong (2005) suggest that target marketing is about analysing and assessing each market segment's attractiveness and selecting one or more segments to focus on. This has ramifications for the CSR-strategy relationship.

Assessing markets for specific target opportunities can be a complex exercise although, in general, marketing theory suggests that in order to develop market segment profiles that can be assessed strategically, a variety of variables need to be explored including demographic, geographic, psychographic and behaviouristic variables (Bearden et al., 2003; Kotler & Armstrong, 2005). Once these variables have been assessed, choices have to be made with

respect to which segments to ultimately serve. Here, evaluation includes the market potential of each segment (i.e., growth of the segment), the firm's sales potential (i.e., market share), competitive assessment (i.e., nature of competition, competitive rivalry) and cost estimates/resource requirements (i.e., ability to achieve competitive advantage). Although simplistically described here, these are the basic requirements that marketing theory prescribes for assessing, evaluating and choosing which target markets the firm will serve. However, we posit that an additional variable needs to be considered when assessing market segments strategically; namely, a 'social dynamics' variable.

By social dynamics, we mean the underlying expectations that a given market segment places on the role of business in society currently or possibly in the future (thus, 'dynamic' is used to reflect the potential changing nature of societal expectations). For example, in the food and beverage industry, consumer expectations for detailed nutrition facts on packaging has risen in recent years which has implications for how products are developed and marketed. Is such demand across all food and beverage segments, or only certain ones? Similarly, in the apparel industry, more and more consumers are interested in where and how clothes are manufactured given the backlash against 'sweat shop' practices, which has implications for manufacturing location, supply chain standards and employee policies. Is such interest across all apparel segments, or only certain ones? Overall, we believe that in order for firms to more adequately incorporate CSR into strategy, the social dynamics variable becomes important in terms of understanding the current and emerging characteristics of target markets. Further, if assessing various social factors of a given market segment is important to the general understanding of that segment, then it is also important in terms of understanding specific target customer needs.

Customer Needs

Some scholars have suggested that the sole purpose of any firm is to create value for the customer (e.g., Drucker, 1954; Slater, 1997). Although agency theory challenges such a

purpose (see Khurana et al., 2005), creating value for customers is certainly a strategic function of business. How does the firm create customer value? Multiple answers have been given in the literature to answer the question. For our purposes, we focus on two key theoretical aspects: 1) market orientation and 2) innovation.

Market orientation has been identified in the marketing and strategic management literature as important to firm strategy (Kohli & Jaworski, 1990; Slater, 1997; Slater & Narver, 1998; Hult & Ketchen, 2001). Market orientation, as a construct, grew out of the idea that firms who effectively implement the marketing concept will achieve better corporate performance than less market-orientated rivals (Sheth et al., 1988; Kohli & Jaworski, 1990; Kotler, 1991; Day, 1999). Although variations exist (Gainer and Padanyi, 2005), a general conception of market orientation includes a customer orientation dimension, a competitor orientation dimension and a market information sharing dimension. Of particular interest is the customer orientation dimension.

Customer orientation is defined as the actions designed to understand the current and latent needs of customers in the target markets served so as to create superior value for them (Narver & Slater, 1990). Here, a variety of actions are prescribed in order to learn about the current and latent needs of customers and the wider forces that shape those needs (Day, 1999). As pointed out, social-related forces are increasingly shaping markets and, by extension, the customer needs that are developing. We believe it is fair to suggest that the analysis of unmet social needs and social issues is becoming just as important to the understanding of customer needs as traditional factors, such as age, income, personality characteristics, usage rates, education, price sensitivity and the like. However, understanding target customers and their current and latent needs is not the same as creating superior value for them. In order to create superior value, firms must construct offerings that appeal to customers, are more attractive than

competitors and that ultimately offer benefits that exceed the buyers payment in a purchase exchange (Zeithaml, 1988; Normann & Ramirez, 1993; Gale, 1994). Such offerings are the result of innovation (Slater, 1997).

Evolutionary/neo-Austrian economics has long described innovation as a driving force behind economic growth and competitive success (Schumpeter, 1934; Nelson & Winter, 1982; Barney, 1986a; Jacobson, 1992; Dosi & Nelson, 1994). Firms must embrace unmet social needs and social issues as a real opportunity for innovation, rather than treat them as a threat to take lightly or as factors that have no importance to their role in society. Here, by leveraging knowledge gained from target markets, target customer needs and the unmet social needs and/or social issues directly affecting those markets and customers, firms can explore the opportunity to change the competitive playing field, for example, by introducing entirely new consumer offerings, developing new processes or creating new market segments directly aimed at fulfilling an unmet social need or a social issue (cf. Schumpeter, 1934; Jacobson, 1992; Hill & Deeds, 1996; Chan Kim & Mauborgne, 2004).

Resources

A major facet of strategy is concerned with matching internal resources with a changing external environment in a way that enhances organisational performance over time (Learned et al., 1969; Andrews, 1971; Hamel & Prahalad, 1994). In terms of the internal aspect, resources have been described as activities (Porter, 1985), assets (Dierickx & Cool, 1989), core competencies (Prahalad & Hamel, 1990), capabilities (Day, 1994) and dynamic capabilities (Teece et al., 1997), to name a few. However, aside from a large and varied list of conceptualisations, resources generally consist of the factors necessary to create, operate and sustain a firm, be they tangible or intangible factors (Wernerfelt, 1984; Barney, 1986b, 1991). Although many such resources exist, we suggest two types of resources are of particular importance to uncover

problems and issues of a social nature and to generate the knowledge necessary to take appropriate levels of action.

First, market-sensing is a resource that enables firms to absorb new information, interpret it and accumulate and distribute it in the form of knowledge in an accessible organisational memory (Cohen & Levinthal, 1990, 1993; Dickson, 1992; Slater & Narver, 1995; Day, 1999). The market-sensing capability consists of four dimensions, including information acquisition (ability to absorb market information), information storage (ability to effectively store information), information distribution (ability to efficiently distribute information throughout the organisation) and information interpretation (ability to understand information and its impact on the organisation) (Huber, 1991; Day, 1994; Sinkula, 1994). As a knowledge resource, market-sensing is particularly important to capture information on unmet social needs and social issues, while building learning on those needs and issues into the enterprise in order to identify opportunities or threats along the social dimension plane.

Second, firms not only need to absorb information about unmet social needs and social issues and interpret how they might impact on the firm, they must also *relate* such learning's to social actors and stakeholders within the sphere of firm influence (Day, 1999). Thus, market relating is a resource that enables the creation of the appropriate actions in response to information about social actors and stakeholders (Kohli & Jaworski, 1990; Day, 1999). To do so, dynamics (including social) that affect various social actors and stakeholders need to be identified via the market-sensing resource. However, for example, the dynamics that affect the natural environment and what actions are necessary to take strategically are not necessarily the same dynamics that affect employees and the strategic actions necessary to take here. Hence, the market-relating resource affords firms the ability to translate knowledge into action that

strategically addresses the unique, specific requirements of the social actors and various stakeholder groups impacting on the firm.

Competitive Advantage

The last strategy dimension, competitive advantage (CA), is largely concerned with what the firm has to do to earn and sustain superior performance (Porter, 1980, 1991; Barney, 1991). The two dominant perspectives of CA include the positioning approach (Porter, 1980) and the resource-based view (RBV) of the firm (Wernerfelt, 1984; Barney, 1991). In the first instance, Porter (1980) describes two generic strategies (or positions) firms can pursue to gain, and possibly sustain, a CA: cost position and differentiation position. Essentially, the position approach to CA is concerned with producing a product at a lower unit cost than competitors, thereby generating higher returns, or with producing a product that is differentiated from competitors, one in which consumers are willing to pay a higher price.

Considering the positioning approach in light of unmet social needs and social issues, it is possible to pursue a strategy focused on capturing a market squarely aimed at the social dimension. A good example is firms who are finding ways to differentiate products in light of the obesity issue. For example, Whole Foods Market has become the largest retail food chain in the world specialising in health and organic foods. Whole Foods Market is not only meeting the welfare of society and addressing a social issue by offering differentiated products designed to properly nourish and maintain the health of individuals, but is consistently growing sales and profits, demonstrating that what is good for society does not have to be a burden to firms and what is good for firms does not have to be a burden to society (cf. Moran & Ghoshal, 1996).¹⁰

¹⁰ We recognise that Whole Foods Market is over 25 years old and was in existence before obesity was a social issue (and a heightened interest in healthy eating). However, this demonstrates how strategically addressing an unmet social need can lead to creating new market segments, capturing market share and generating competitive success against rivals who do not recognise or neglect such opportunities.

With respect to the RBV, the main emphasis is on creating, possibly acquiring and leveraging resources that are causally ambiguous, socially complex, difficult to imitate and that pass through critical time-dependent stages (Barney, 1986b; Dierickx & Cool, 1989; Barney, 1991; Amit & Schoemaker, 1993). One way to create such resources is through effective management of the firm's stakeholders (which, as noted, can include addressing unmet social needs and social issues). For example, firms who are able to engage stakeholders beyond market transactions – which can be imitated by competitors – to develop long-term *relationships* create socially complex, time-dependent resources based on reputation and trust; reputation and trust can enhance the value of these relationships, which is not so easily imitated by competitors (Fombrun & Shanley, 1990; Barney, 1991; Barney & Hansen, 1994).

According to Barney (1991), developing socially complex, time-dependent and inimitable resources, such as a firm's stakeholders, can lead to CA and be a source of superior performance. Similarly, Jones (1995) argues that firms who develop relationships with stakeholders based on honesty, mutual trust and cooperation are in a better position to gain an advantage over firms that do not. The reason being is that developing trust and cooperation between stakeholders takes time, which in turn leads to mutually beneficial value exchanges. Such exchanges are beneficial to the firm's stakeholders in that they receive value in excess of the effort required to engage in the exchanges; to the firm, they gain advantages that lead to improved performance (Jones, 1995; Prahalad, 1997). Further, the ethical characteristics of honesty and trust reduce transaction costs because fewer protective devices are needed if the firm has trustworthy agents and less time is spent in negotiation if initial claims are truthful (Williamson, 1985; Hosmer, 1995). Thus, the costs of an option based on these characteristics are lowered, so that it may become the preferred option, especially where transaction costs are high relative to other costs. In this sense, trustworthiness has been argued to be a source of CA

(Barney & Hansen, 1994). Logically, this has strategic implications for the ethical responsibility of the firm per Carroll's (1979) conceptualisation of CSR.

Stakeholder theory also recognises that firms have explicit costs (e.g., payments to bondholders) and implicit costs (e.g., environmental costs, human resource costs). Stakeholder theory predicts that if firms try to lower their implicit costs by acting socially irresponsible (e.g., not investing in pollution control systems, treating employees poorly) they will actually incur higher explicit costs, which can result in a competitive *disadvantage*. Reflecting this logic, Alexander and Buchholz (1982) argue that demonstrating high levels of responsibility towards stakeholders is an indicator of superior management skill, which leads to lower explicit costs. Additionally, the actual costs of stakeholder management versus the benefits may be minimal. For example, as part of its CSR strategy, the cost of the philanthropic efforts of computer networking giant Cisco in the area of education, while minimal compared to overall profits, has not only created a cadre of well-educated networking engineers in many local communities, but has helped Cisco to produce a ready-made talent pool from which to recruit employees (Porter & Kramer, 2002).

Implications and Conclusions

Corporate executives acknowledge that CSR is an important consideration for driving success while at the same time admit that they struggle with uncertainty about how to anticipate which unmet social needs or social issues will affect their firms or how to develop corresponding 'win-win' strategies. Similarly, from a scholarly perspective, much has been written to suggest that CSR is vital to competitive success; however, efforts have predominately focused on conceptual advancements and empirical tests between CSR and firm performance. Unfortunately, this leaves a gap between how to build or integrate CSR within the context of firm strategy. If we assume that CSR is important to competitiveness, and if we assume that strategy serves as a

foundation for a business firm's creation, while establishing its position in the market, its competitiveness and its on-going existence, then placing CSR within the context of strategy seems vital. Thus, our attempt at elaborating this relationship surfaces a few important implications.

First, CSR should not be viewed solely in terms of the responsibilities firms assume toward society or to whom they are responsible. Normatively postulating, for example, that firms have an economic responsibility to generate profits or a legal responsibility to obey appropriate laws or that firms have a responsibility to meet the needs of various stakeholder groups (and who those groups are) does not describe how they can do so in a strategic manner – a description that incorporates the 'social' dimension of CSR into the very fabric of developing and executing firm strategy. What we have suggested is that in order to understand CSR strategically, unmet social needs and social issues, as well as the responsibilities firms assume toward society need to be considered individually – and corporately. This is necessary so that CSR can be more accurately addressed within the fundamental dimensions of strategy, rather than following a predominant posture in the literature of defining a firm's responsibilities towards society without offering any substantive descriptive discourse in regards to business strategy.

This leads to the second implication and a question: To what degree does CSR have to be integrated into strategy before it can be considered 'strategic'? In the life of a company, a variety of different opportunities or threats are continually faced and decisions made to address them. In this sense, at any given point in time one aspect of the dimensions of strategy described in this paper might be more important than others. Furthermore, some scholars have connected 'strategic' CSR with contributing slack resources (i.e., profit spending) to societal and community needs that are tied to organisational objectives and strategy, such as philanthropy, sponsorships and cause-related marketing (Mullen, 1997; Lantos, 2002; Porter & Kramer,

2002). Strategically, we believe this is a narrow view and is predominately tied only to the discretionary component of Carroll's (1979) conceptualisation of CSR.

As demonstrated in this paper, CSR is not an organisational phenomenon strategically confined to a narrow arena within the firm. In fact, when taking corporate responsibilities, unmet social needs and social issues into consideration, synergies develop that are important for several dimensions of strategy. For example, while the economic responsibility to produce profits constitutes part of the firm's formal social contract, by exploring unmet social needs and social issues through strategy dimensions such as markets served, customer needs and requirements for competitive advantage, a firm not only can address social opportunities that generate profits (thereby meeting its economic responsibility to shareholders), but can offer societal benefits as well (cf. Moran & Ghoshal, 1996). Thus, our framework implies that 'strategic' CSR is far more than an ad-hoc approach or a bolt on to strategy or something that is strategic only when viewed within the realm of a singular dimension of a firm's responsibilities, such as the discretionary responsibility. Rather, when considered in light of the dimensions described in this paper, CSR can be more fully integrated with strategy.

Lastly, mounting research evidence suggests that an increasing number of actors, both internal and external to the firm, are placing more and more demands on firms' social responsibilities and how they address factors of a social nature (Paine, 2002; Aguilera et al., 2005). Unfortunately, companies are not necessarily following suite. For example, nearly 50 percent of companies surveyed in a recent study report that they have substantial room for improvement with respect to CSR (McKinsey & Co., 2006). We suggest the following.

First, contrary to some views (e.g., Lantos, 2002), corporate executives – not marketing or public relations departments – should take the lead role in developing CSR and integrating it

with the firm's strategy, while developing a culture that is highly attuned to the social factors that might impact on the firm. The reason being is that it is corporate executives whom ultimately have to answer to society, shareholders and other stakeholders about decisions made and strategies taken. This approach is consistent with the role of executives described in the literature by management scholars (Barnard, 1938; Learned et al., 1969; Andrews, 1971; Carroll, 1979; Schendel & Hofer, 1979). Second, facing and addressing social factors is not simply corporate social responsibility; it is related to what markets to serve, what offerings are necessary to meet and exceed customer needs, how to gain a competitive advantage, among other dimensions of strategy, as well as to costs and profitability. It is also related to corporate credibility, acceptance and support, resulting in a firm's freedom to act and implement its strategies. Finally, a typical approach firms take towards CSR is based on producing annual social and environmental reports and the issuing of corporate policies on ethical issues (Davis, 2005). Such an approach is too limited, too defensive and too disconnected from corporate strategy. To elevate CSR to a strategic level, we suggest firms utilize the framework offered in this paper, taking into consideration their unique environments.

Perspectives for Future Research

Research within the stream has predominately focused on testing the relationship between CSR and firm performance (see Aguilera et al., 2005). However, according to some scholars, the evidence suggests that CSR does 'pay' and that researchers need to move on to new questions (e.g., Orlitzky et al., 2003; Aguilera et al., 2005). To expand research on CSR within the domain of strategy, we offer three possibilities.

First, studies might explore to what degree CSR is tied to the six fundamental dimensions of strategy discussed in this paper. Here, researchers could uncover how CSR is most commonly integrated within strategy, where the gaps are and why there are gaps. Second, researchers

might address how a competitive strategy not only improves economic performance, but also contributes to or detracts from a well-ordered society. For example, how do strategic choices and the variety of corporate strategies in a given industry affect the stability or instability of societal institutions and even the functioning of civil society and states, both in home as well as host countries? This shifts the dependent variable away from performance to societal functioning. Lastly, researchers in this stream might also study if those targeted as recipients of a firm's socially responsible strategies are actually benefiting and if so, how they are benefiting. We know that shareholders largely appear to be benefiting (Aguilera et al., 2005), so future research could study an expanded list of stakeholders, particularly focusing emphasis on non-financial benefits.

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