

Corporate Social Responsibility:
What it really is, Why it's so important, and How it should be managed

David Waldman¹, Ron S. Kenett², & Tami Zilberg³

Corporate social responsibility (CSR) is a topic that is increasingly capturing the interest and imagination of people in the business world. However, despite all of the attention that has been given to this issue, there is still much confusion and many misperceptions surround it. The objectives of this article are to briefly and concisely add clarity to the understanding of CSR based on our experiences, as well as leading research on the topic. We describe how CSR links back to key managerial concerns such as strategic planning, organizational development, human resource management, risk management, supply chain management and ongoing operations. We address three specific questions: (1) what exactly is CSR, (2) why is CSR so important for the business world to consider, and (3) what should corporate decision-makers and leaders do in an attempt to properly manage CSR.

First, let's clear up one misconception. CSR is not all about philanthropy or doing charity services for the community. This is not to say that such activities are unimportant. These actions on the part of a firm can help establish good relations with community members and leaders, however philanthropy and related actions are at best superficial manifestations of CSR. Restricting CSR to philanthropy can even have a negative impact on the organizational climate. For example, employees may become cynical if it becomes apparent that while the organization is generous in terms of charities, it does not express adequate sensitivity to working conditions or employees' safety; the public might become critical if it turns out that the organization does not show responsibility to environmental issues.

Our main message is that in order to understand CSR, one must consider the holistic attempt, on the part of a firm, to engage and conduct a meaningful dialogue with a wide spectrum of constituents or Stakeholders. The Stakeholders are any individual or group, that might affect or be affected by the organization's activities. Examples to stakeholders are employees, suppliers, contractors, customers/clients, shareholders, government, community leaders and non-governmental organizations.

A firm that is committed to employee development and empowerment is, de facto, already practicing some components of CSR. A firm that openly shares information with employees about a move toward downsizing, and then helps displaced employees find new jobs, is actively practicing CSR. Moreover, a firm that is committed to the production of safe, reliable, and innovative products or services in line with customer needs is strategically involved in CSR. CSR is, therefore, a management approach that takes into consideration an integrated

¹ School of Global Management and Leadership, Arizona State University, Phoenix, Arizona 85069-7100, USA

² KPA Ltd., Raanana, Israel and Department of Statistics and Applied Mathematics "Diego de Castro", University of Torino, Torino, Italy

³ Founder and Head of Israel Center for Social Responsibility, author on CSR issues, member of the ISO Working Group and Editing Committee for ISO26000, the Standard for Social Responsibility

set of indicators that map the firm's impact and reciprocal effects within the realm of its economic, societal and environmental existence.

Why is CSR so important? Most importantly, findings from scientific research are becoming increasingly clear with regard to how CSR is essential for the long-term sustainability of a firm. Firms that blindly and narrowly pursue the profit motive, without concern for the broad spectrum of Stakeholders that are relevant to the long run, are increasingly shown to lack sustainability. But it's not only important to realize the importance of these groups. Firms must also be able to "connect the dots" and understand how various Stakeholders, and the satisfaction of their needs, represent interrelated challenges. For example, the strategic management of human resources is related to customer satisfaction, and it is essential for firms to attempt to understand and deal with this connection.

So with all of this in mind, how should CSR be managed? First, let's clarify how it should *not* be managed. Most executives and policy-makers have a feel for CSR and its potential importance. However, too often they tend to select one isolated issue, mistakenly refer to it as "CSR Management", and attempt to magnify it and use it for advertising or marketing purposes in order to improve a firm's image. In addition, managers may miss the "big picture" while engaging solely in a strictly rational or economic decision-making process in an attempt to determine the precise return on investment for money put into CSR.

We argue that such limited rational or manipulative thinking will backfire in the long run. Stakeholders will eventually catch on and will perceive that the firm is not being authentic or "real" in its approach to CSR. In other words, if managers do not recognize the full ramifications of CSR in terms of what it is and its complexities, they might be better advised to not even concern themselves with it. Managers should have a genuine or authentic desire to pursue CSR in order to truly realize its benefits for themselves, their firms, and stakeholder groups. To say it another way, managers should attempt to *lead* CSR, rather than just *manage* CSR.

Leading CSR

But what exactly does it mean to lead CSR, and how can managers approach such leadership? We see three implications based on our recent research. First, the type of values that managers apply to their decision-making appears to matter. A recent multinational study of CEOs in 15 countries suggested that executives can apply two types of values to their decision-making.⁴ On the one hand, they can stress economic factors such as profits, cost control, and market share. On the other hand, they can consider the effects of decisions on constituent groups such as employees, customers, environmentalists, and the greater community in which they operate. To be sure, these are not mutually exclusive categories, and each type can, and should, be considered when executives go about making decisions. However, the research showed that the executives who reported stressing the constituent group values were seen by subordinates as

⁴ For more information about this research, see: Waldman, D. A., Sully, M., Washburn, N., & House, R. J. 2006. Cultural and leadership predictors of corporate social responsibility values of top management: A GLOBE study of 15 countries. *Journal of International Business Studies*, 37: 823-837.

being inspirational – for example, being visionary and having integrity. They were also viewed by subordinates as having less authoritarian leadership tendencies. Conversely, managers who stressed the economic values were seen as less inspirational. Instead, they were viewed as being more authoritarian. Furthermore, inspirational leadership was associated with better firm performance and employee extra effort and commitment; no such relationship was found for authoritarian leadership.

The upshot is that strong executive values stressing economic factors may go “unrequited” – in other words, no positive returns for attempts to emphasize such values in one’s decisions and actions. But values more in line with CSR appear to achieve desirable returns in terms of how the leader is viewed by subordinates, as well as subsequent outcomes for the firm. Unfortunately, various authors have noted how management cultures and educational processes (such as MBA programs) seem to stress economic decision-making values, as opposed to constituent group values.⁵ With such forces at play, the leadership challenge is made even more immense.

Second, it is important to consider how the implementation of CSR cannot be a one-person show. In other words, it takes commitment from managers below the top-level executive to implement CSR policies and practices. The research mentioned above also revealed how top-level executives with strong constituent group values and those viewed as inspirational tended to beget subordinate managers who shared similar values. Perhaps they surrounded themselves with subordinates of like mind, or perhaps subordinates gradually start to share the same values of these executives. Either way, there appears to be a dominoes effect whereby the values of top-level executives show up in the values of their followers. Although to some degree these values also tended to differ across countries involved in the research, the effect of top-level leadership on the values of their subordinates was consistent.

Third, other research would suggest that values are not enough. To a large degree, the effective implementation of CSR can be complex, sometimes requiring the balancing of seemingly disparate interests of various constituent groups. To lead CSR, an executive may need to help followers see the connection between what may appear to be competing goals. For example, followers may need to be able to better envision how the pursuit of profits or other strategic goals can be balanced with the firm’s desire to contribute to the welfare and economic development of the greater community, nation, or even the world in which the firm exists.

To illustrate, the CEO of a Fortune 500 company had been trying to energize his top management team and their immediate subordinates to focus on a totally new conceptualization of the firm’s strategy – relying primarily on economically-based projections and plans.⁶ Yet because of the uniqueness and change involved in the strategy, it was facing skepticism from followers. The CEO organized a three-day retreat with his top 200 executives to discuss the new

⁵ As an example, see: Ghoshal, S. 2005. Bad management theories are destroying good management practices. *Academy of Management Learning and Education*, 4: 75-91.

⁶ For more information on this example, see: Waldman, D. A., Siegel, D., & Javidan, M. 2006. Components of transformational leadership and corporate social responsibility. *Journal of Management Studies*, 43:1703-1725.

strategy in an attempt to build commitment to its implementation. During the first day, the CEO and other speakers provided details on the new strategy and engaged in a variety of discussions. By mid-afternoon, it was evident that there was not a clear connection to the group. The CEO decided to shift gears and started talking about how the new strategy would help the company contribute to the global fight against AIDS. He started this section by a slide showing the word IMAGINE. Then he talked about how the war against AIDS could benefit from the new strategy, even though the company is not even involved in medically-based industries.

The impact of the short talk about AIDS was strong, and the mood of the group showed a noticeable change. The lower-level executives and managers started showing a stronger interest in the firm's new strategy. During formal and informal discussions that evening and the next two days, many references were made to how that new strategy could be connected to the battle against AIDS. Upon completion of the retreat, the participants rated the discussion about AIDS as one of the retreat's highlights. The gathering started with a large group of skeptics and seemed to have ended with a large group of energized and mobilized executives.

So what exactly does this case illustrate? We identify two key lessons to be learned. First, followers may sometimes need to be stimulated intellectually in order to see how competitive or economically-based goals can be connected to, or congruent with, goals involving a wider range of constituencies or the greater community. Second, by framing a firm's strategy in terms of socially-based values or goals, there will be more of a tendency for followers to want to identify with that strategy – and indeed with the firm as a whole. With such identification also comes commitment to carrying out the firm's strategies and goals.

Putting it All Together

We have made the case here that CSR is a holistic approach and that it would be ill advised to consider parts of it in narrow or simplistic terms. We have also considered the danger of thinking about the pursuit of CSR using a limited financial or manipulative framework, whereby any component of CSR is restricted to calculations in terms of projected returns.

We have further considered the leadership element which is so often missing in formulations of CSR. To lead CSR requires a combination of values and behaviors on the part of leaders. The bad news is that such values and behaviors are not consistently stressed in management networks or institutions, such as MBA programs. The good news is that, if realized, the values and behaviors mentioned in this article can foster impressions of inspirational leadership and integrity. What person in a leadership role would not like to be viewed as such a leader? In addition, the firm is likely to realize important outcomes such as employee commitment and optimism for the future, as well as performance.