

Chapter 10

Corporate Social Responsibility: A New Management Paradigm?

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Abstract CSR has developed from a purely selective, single-issue engagement (sponsoring and donations) and legal compliance measure to explicit responsibility management in the core business of companies, taking into account the three pillars of economy, social issues and ecology (CSR 2.0). The central point is no longer the question of how profits will be put to use, but rather how they are made in the first place. With the next step, the general question of companies' contribution towards social innovation comes into focus. This conscious strategic positioning in society (business in society) aims to increase both the social and the business added value at the same time (shared value). Businesses as “responsible corporate citizens” are therefore no longer seen as the problem, but rather provide solutions for the most pressing challenges of our time. This reorientation (in the sense of sustainable entrepreneurship = CSR 3.0) is the actual and fundamental contribution of business to a sustainable development of our society. It is an investment both in the competitive ability of our companies and in the future of the coming generations.

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10.1 Introduction: The Role of Companies in Society

Today's social and ecological challenges, but in particular also the economic challenges (e.g. demography, resource scarcity, financial crisis), demonstrate that the role of companies in society is of fundamental importance to the way our market-based economic system functions. More than 200 years ago, in the wake of their own social crises such as famine, Adam Smith was able to point out that if entrepreneurs acted in their own interests, they often benefit society more than if they actually set out to achieve social goals. Consequently, social responsibility can only be securely rooted in a company if it is firmly integrated in the corporate strategy and connected to the company's interests, thereby anchoring it in the entire process of value creation, rather than regarded as "nice to have" but disconnected from the company's "actual" business activities - as often practised in form of a "chequebook mentality".

It is not only the fundamental question of the role of companies in society that has become more relevant; the international debate concerning corporate responsibility has also systematically intensified. International guidelines and principles (UN Global Compact, ILO, ISO 26000, OECD) for responsible corporate governance, from strategy to implementation, have already been created. And in Europe the topic of CSR (corporate social responsibility), especially since the EU's first definition of the term in 2001, has been developing continuously. In its most recent communication, published in 2011, the EU defines CSR as "the responsibility of enterprises for their impact on society ([EU activities/communications on CSR](#)). To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders".

Although assuming responsibility is a voluntary action, it is not arbitrary, the CSR forum of the German administration stresses (CSR forum of the German government 2012). The many discussions and experiences of the past few years show that a new paradigm is emerging: the necessity or rather opportunity of orienting the current business models and corporate processes not only towards the prevailing economic criteria, but also towards ecological and social criteria, by productively overcoming the prevalent view that society and the economy are opposites (e.g. through innovation, new forms of value creation and intelligent management systems).

It can no longer be denied that business processes have multiple effects (both positive and negative) on their social environment. Reflecting these causal relationships internally as well as externally and deliberately managing them is therefore part of every responsible entrepreneur's core task. This requires new approaches to management that expand on or further develop the prevailing attitude towards business - which was often restricted solely to monetary issues, and the management instruments that have previously been employed. New, constructive ways of seeing the benefit of corporate social responsibility for one's own business as well

Corporate Social Responsibility: Value-Added for Business and Society

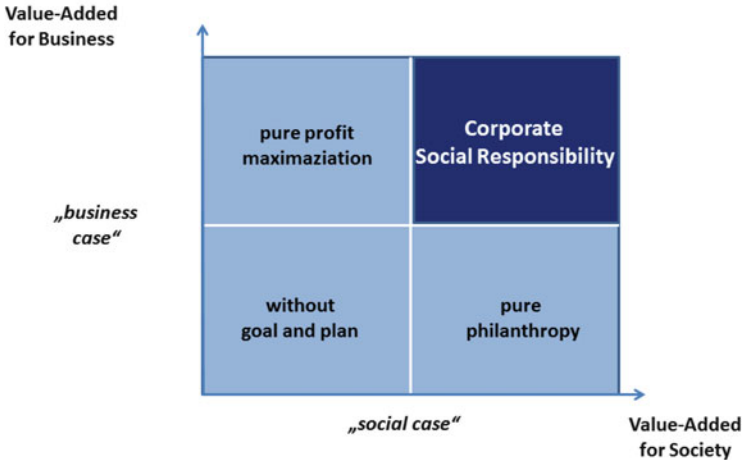


Fig. 10.1 CSR: value added for business and society

as for the development of society help to overcome the old dualistic approach to ethics and economics.

This new orientation is based on the assumption that entrepreneurship can only then be adequately reconstructed if the individual component - “profit” (business case) - and the social function - “creation of added value for society” (social case) - of the company are taken into account in equal measure (see Fig. 10.1: CSR - added value for companies and society). The actions of successful entrepreneurs during the time of industrialisation can be cited as an example for this approach. Responsible entrepreneurs responded to the immense social and ecological challenges of their time e.g. by developing company pension schemes, profit sharing, training concepts as well as healthcare and social projects.

After being implemented in companies, these successful models were then adopted by the government, leading to the creation of public pension schemes, dual education systems and healthcare for all. Just as in the period of industrialisation, we are again today reliant on companies that actively shape the framework conditions of our country and support the policy makers in further developing the social market economy by integrating the idea of sustainability. Companies are like laboratories in which new ideas are developed, tested and optimised. It is often these experiences that make it possible to establish innovations and spread them throughout a sector and all of society. In the process, social, ecological and economic issues and concerns must systematically be integrated into the management systems until they form the central DNA of the company.

Business as Driver for Social Innovation



Fig. 10.2 Business as driver of Social Innovation

The opening question regarding the role of companies in society can therefore be answered as follows: entrepreneurial actions should create added value for both society and the company itself. It is a goal that more and more decision makers are endorsing.

The reorientation of business models and corporate processes that is necessary to solve the pressing social and environmental challenges can only be successfully implemented, say renowned management visionaries, if they are understood as part of a larger whole and if the prevalent idea of economy and society as opposites is productively overcome.¹ Seeing businesses as part of the solution and not of the problem is one of the great opportunities arising from the crisis, because we need responsible business practices in order to drive innovation processes in society forward (see Fig. 10.2: Business as driver of Social Innovation).

The question of corporate social responsibility (CSR) will become the central strategic issue for all companies.² In the past there have been many misunderstandings or flawed interpretations of CSR. The objective of the following sections is therefore to point out the cornerstones of innovative CSR management.

¹ Cf. Porter and Kramer (2011), Laszlo and Zhexembayeva (2011), Senge et al. (2008) as well as essays in Schneider and Schmidpeter (2012).

² Cf. the introduction by Schmidpeter (2012) as an overview of the various corporate areas and functions.

10.2 Cornerstones of Innovative Corporate Social Responsibility Management

10.2.1 Strategic Management: Innovation Instead of Just PR and Compliance

CSR should by no means be plain PR or greenwashing - something that certain critics of CSR accuse it of being. Rather, a modern understanding of CSR assumes that companies define themselves as being part of society and systematically identify existing or possible areas of conflict between their business and its environment and communicate these to their stakeholders (Idowu 2013). The goal of sustainable entrepreneurship is to resolve potential areas of conflict constructively or reduce them to a minimum through intelligent management approaches or product and process innovations. Put in a positive way, it is the responsibility of an enterprise use business practices and innovation management to create a win-win situation for everyone concerned and involved. In innovation management this is called the “sweet spot” (Fig. 10.3: CSR and Innovation management) (Grieshuber 2012).

10.3 From Defensive to Proactive CSR Management

The aim is to square the sustainability requirements (environmental and social issues and profitability) with the company’s interests through the deliberate utilisation of core competencies, such as innovation processes, with the objective of gaining a competitive edge and/or a unique position in the market through new products and/or services as well as new business models. Profitability and sustainability are then no longer opposites but rather two sides of the same coin. Existing international standards, framework conditions of the social market economy, the principle of the honourable businessman and the concept of social innovation can be used as guidelines for entrepreneurial sustainability and the assumption of responsibility. In all of these concepts CSR will be seen as future-oriented innovation and value creation management and no longer merely as renunciation and self-restraint. It is therefore evident that CSR goes far beyond compliance with the law and has much more to do with entrepreneurship and innovation.

Many companies that have become aware of this new point of view are now faced with the challenge of turning a purely defensive “compliance-oriented form of responsibility” into an all-encompassing “proactive and opportunity-oriented view of CSR” (cf. Fig. 10.4: From Defensive CSR to Proactive CSR). In reality there are various CSR approaches, depending on the line of business, the size of the company and the maturity of the management. Often there are also different approaches and diverging interpretations of CSR within one and the same company.

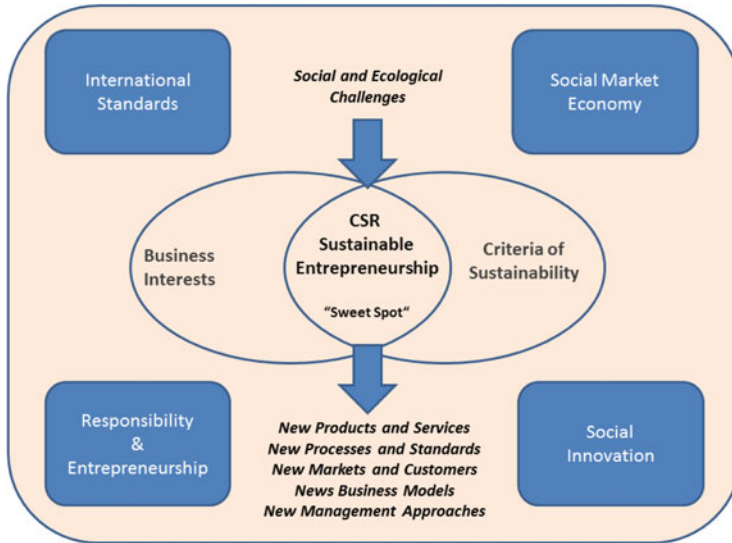


Fig. 10.3 CSR and innovation management

In order to integrate these various challenges and perspectives, companies increasingly tend to opt for an integrated sustainability management that systematically ingrains corporate responsibility in all management processes.

10.4 All-Encompassing Understanding of Social Responsibility

Responsible practices in this all-encompassing sense comprise: (1) compliance with laws, adherence to industry standards and international agreements (corporate governance & compliance), as well as (2) assumption of social, ecological and economic responsibility in the core business (sustainable management), and also (3) social engagement beyond the actual core business (corporate citizenship), which should however be connected with the particular entrepreneurial core competencies, resources, staff, etc., as well as (4) the creation of market conditions by companies themselves through trade agreements and/or responsible lobbying (cf. Fig. 10.5: CSR fields of activity). The question of corporate governance revolves mainly around compliance themes and responsible leadership. Social responsibility comprises mostly charitable activities, corporate volunteering and social, cultural or ecological engagement in the region. This type of engagement is deeply rooted in small and medium-sized companies in particular and therefore widespread. Responsible lobbying and industry standards aim at creating the necessary framework conditions.



Fig. 10.4 From defensive CSR to proactive CSR

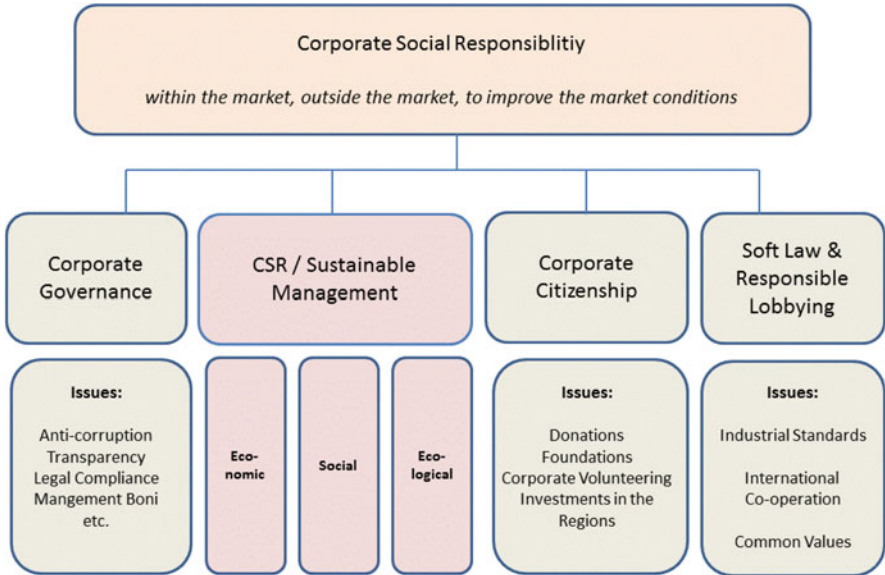


Fig. 10.5 CSR fields of activity

The core of CSR and sustainability management is however the sustainable formation of companies' own business models as well as the assumption of economic, social and ecological sustainability for their own actions (the so-called

triple-bottom line). This acceptance of responsibility in the market is crucial for sustainability management in all companies: companies systematically examine the current ecological and social challenges as well as the interests of their stakeholders and integrate them into their business models. Integrated Management³ which incorporates responsibility systematically into all management processes will therefore increasingly become the prerequisite of successful business practices.

10.5 Turning Implicit Action Into Explicit Strategy

Some enterprises, however, do not yet see the necessity of methodically tackling the topic of responsibility. Small and medium-sized businesses, in particular, often maintain that their strong connection with their employees and the area they are located means that their business practices are responsible by default. Although this may be true in many individual points, this approach is no substitute for an explicit CSR strategy that systematically seizes the opportunities offered by responsible economic activity and continuously develops them further. The following passage will therefore show the advantages of explicit CSR management compared to implicit responsibility: First, explicit CSR approaches allow for a stronger involvement of employees and a better incorporation of scientific findings in assuming responsibility. Not only are existing innovation potentials better utilised in this way, but the employees and managers can also better identify themselves with the assumption of responsibility. Second, if ownership of a company with an explicit CSR approach is transferred, it is easier for the successors to keep up the existing culture of responsibility, since a strategy of responsibility that has been discussed and developed explicitly with the successors can be passed on to the next generation with less friction. Third, an explicit strategy of responsibility can be useful in conveying a company's position to external partners (international customers, suppliers, etc.). Fourth, it is often imperative to advance a company's role in society, especially if it is in the process of developing dynamically. For example, if a business is growing, it is usually necessary for the founder's original vision of responsibility to "grow" too. Moreover, a professional approach to responsibility is increasingly expected of large-scale enterprises. This in turn affects the SMEs that supply the large businesses, as they are then also confronted with new requirements/criteria.

³ Cf. in connection with this topic Integriertes Management: Lorentschitsch and Walker (2012).



Fig. 10.6 CSR development

10.6 Conclusion: CSR as a New Management Paradigm

The fact that general confidence in the economy is waning makes it all the more important for companies to openly show their attitude towards responsibility and communicate it to the relevant target groups. This is also entirely within the meaning of the original intention of the social market economy, which essentially builds on entrepreneurial activities always being in line with society's interests. Increasing transparency will make it vital for business practices to agree with this criterion in the future: to what extent are society's interests considered in the company's strategy and processes? Without an explicit CSR strategy, companies will lag behind with regard to the potential benefits of responsible business practices, i.e. the resulting opportunities are not taken advantage of to their full potential (Fig. 10.6).

It is for this reason that CSR has developed from a purely selective, single-issue engagement (sponsoring and donations) and legal compliance measure to explicit responsibility management in the core business of companies, taking into account the three pillars of economy, social issues and ecology (CSR 2.0).⁴ The central point is no longer the question of how profits will be put to use, but rather how they are made in the first place. With the next step, the general question of companies' contribution towards social innovation comes into focus. This conscious strategic positioning in society (business in society) aims to increase both the social and the

⁴On the generation model and understanding of CSR cf. also the ideas of Peters (2009), Visser (2011) and Schneider (2012).

entrepreneurial added value at the same time (shared value). Businesses as “responsible corporate citizens” are therefore no longer seen as the problem, but rather provide solutions for the most pressing challenges of our time. This reorientation (in the sense of sustainable entrepreneurship = CSR 3.0) is the actual and fundamental contribution of business to a sustainable development of our society. It is an investment both in the competitive ability of our companies and in the future of the coming generations.

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