How to develop a corporate social responsibility strategy

Sarah Margaretha Jastram and
Zara Berberyan*

Chair of International Business Ethics and Sustainability,
Department Strategy and Leadership,
Hamburg School of Business Administration,
Willy-Brandt-Str. 75, 20459 Hamburg, Germany
Email: sarah.jastram@hsba.de
Email: zara.berberyan@hsba.de
*Corresponding author

Abstract: In this paper, we derive a systematic framework for corporate social responsibility (CSR) strategy development, which aims to guide managers in formulating a competitive CSR strategy that allows for more innovative and unique CSR approaches and reduced isomorphism. Despite the well-documented advantages of strategic CSR, there is a lack of coherent management models on how to develop a comprehensive CSR strategy. This gap results in increasingly exchangeable and often not strategic CSR practices. By transferring general models of strategy formulation to the CSR context and complementing each step with CSR-specific analytical tools based on an integrated supply chain perspective, we offer a well-grounded guiding framework for CSR strategy formulation and analysis.

Keywords: CSR strategy; CSR strategy development; CSR positioning.

Biographical notes: Sarah Margaretha Jastram is a Professor of Business Ethics and Sustainability at Hamburg School of Business Administration (HSBA) in Germany. She obtained her PhD from the University of Hamburg. She has worked at Humboldt-University of Berlin before joining HSBA. Her research interests include leadership, governance and human rights. She has written and edited various books and articles on governance and legitimacy. Her work has been published in leading journals of the field such as the *Journal of Business Ethics* or *Journal of Cleaner Production*.

Zara Berberyan is a Research Associate at HSBA Hamburg School of Business Administration and Doctorate candidate at Leuphana University of Lüneburg. Her research focuses on social issues in management, such as stakeholder engagement and governance, organisational ethics as well as human rights.

1   Introduction

In this paper, we offer a framework for corporate social responsibility (CSR) strategy development since we have observed a gap in knowledge and confusion among managers and students regarding CSR strategy building. We have been working in the CSR field as researchers, teachers, and consultants for the last 15 years and continue to observe that managers increasingly aim to pursue a strategic approach to CSR but very often do not have the knowledge on how to do so. Despite CSR becoming more and more mainstream in business practice, many practitioners still lack systematic guidance on how to develop a comprehensive CSR strategy, and the extant literature does not seem to provide an adequate answer to this.

The importance of strategic CSR is supported by numerous studies (Fernandez-Kranz and Santaló, 2010; Flammer, 2015; Russo and Fouts, 1997), however, only a few of them address the challenges of systematic CSR strategy formulation (Porter and Kramer, 2006). This, we argue, inhibits firms from leveraging the full strategic and competitive potential of CSR.

A lack of knowledge on strategy development cannot only lead to diffuse and non-targeted investments but may also disguise strategic risks and opportunities in the business environment. If firms pursue the same strategic approach that guides their core business choices, CSR could substantially strengthen the competitive positioning of a firm and potentially lead to increased impact compared to non-strategic, disconnected CSR activities (Dupire and M'Zali, 2018; Jones, 1995; McWilliams et al., 2006; Porter and Kramer, 2006; Satyro et al., 2017; Turban and Greening, 1997). Ideally, strategic CSR helps firms generate a unique competitive advantage by effectively utilising their valuable, rare, and inimitable resources and capabilities (Barney, 1991; McWilliams et al., 2006; Stead and Stead, 2013), and it enables firms to pioneer innovations that benefit both the society and a firm's own competitiveness (Porter and Kramer, 2006).

According to Porter and Kramer (2006), an essential precondition of strategic CSR is applying a systematic approach to adding a social dimension to the firm's value proposition making social impact an integral part of the overall strategy. In this context, several studies have demonstrated the linkage of strategic CSR to cost-reduction and increased economic performance (Van Bommel, 2011), firm reputation (Minor and Morgan, 2011), reduced social pressure (Baron, 2001; Heal, 2005) and/or enhanced investor relationships (Graves and Waddock, 2000; O'Rourke, 2003; Rehbein et al., 2004; Sparkes and Cowton, 2004).

Despite these widely acknowledged benefits of strategic CSR, there is currently no comprehensive set of guidelines that directs practitioners on how to systematically develop a CSR strategy, what to consider at each stage of strategy formulation, and how to align it with the overall corporate strategy. Against this background, we contribute a systematic framework of CSR strategy development in order to fill this conceptual gap in the literature and to better support and guide practitioners during their strategic CSR activities.

Our core guiding research question is: how can a CSR strategy be systematically developed? To answer this question, we will start by defining what a strategy is and how a general strategy can be developed. We will then transfer these insights to the CSR context and conclude by discussing the implications of our contribution for practitioners and for the scientific literature.

2   Definition of strategy

The word strategy originates in the Greek word 'strategos,' meaning a general in command of an army (Ronda-Pupo and Guerras-Martin, 2012). The emergence of this concept in business was aimed at helping managers to better guide and lead the operations of the firm towards the realisation of its mission and competitive objectives.

The scientific literature offers multiple definitions of strategy (Niven, 2003; Porter, 1996). One of the most widely acknowledged was proposed by Porter (1996, p.64) who argues: "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value". Mintzberg (1987, p.11) defines strategy as a "plan – some sort of a consciously intended course of action, a guideline (or a set of guidelines) to deal with a situation". The strategy of a firm is, therefore, an attempt to find a favourable position as a response to the forces that determine the competition in the industry (Porter, 1996).

Thompson et al. (2007) emphasise two key reasons for which strategy is essential for a firm. Firstly, a clearly formulated strategy serves as a prescription for managers to run the firm in the right direction, as the firm's road map to competitive advantage as well as its plan for satisfying customers and improving performance. Secondly, strategy-focused firms are more likely to be stronger bottom line players since effective strategy formulation and implementation have crucial influence on revenue growth, earnings, and return on investment (Thompson et al., 2007).

Additional studies suggest that a clear strategy gives employees a feeling of belongingness to a team, and thereby increases their willingness to work towards the realisation of shared business objectives (e.g., Dooley et al., 2000; Tonnessen and Gjefsen, 1999). Employees' commitment to strategy implementation was further found to be positively correlated with the success and rapidity of strategy implementation (Dooley et al., 2000; Ramaseshan et al., 2013). Consequently, a clearly formulated strategy is essential for any firm to survive, grow, and remain competitive.

To explain how a general strategy can be developed, we will present the state of the literature related to this in the next section.

3   Strategy development

In the management literature, strategy development is most often described as a sequential process (Barney and Hesterly, 2012; Grant, 1991; Mintzberg and Waters, 1985; Porter, 1996). According to Barney and Hesterly (2012), for instance, the strategic management process starts once a firm defines its mission and sets its objectives, thereafter conducts internal and external analyses, makes a strategic choice and, as a final step, proceeds to strategy implementation. Grant (1991) suggests as a first step that a firm identifies its resources and capabilities as well as its strengths and weaknesses relative to competitors, and as an outcome selects a strategy which best exploits those resources and capabilities in response to external opportunities.

In other words, conducting an internal analysis enables a firm to appraise its capabilities and resources and to identify their rent generating potential (Henderson, 1970). This has grown into the resource-based view of the firm, which focuses on the resource endowments of firms as an important differentiator from competitors (Barney, 1991; Grant, 1991; Mahoney and Pandian, 1992; Wernerfelt and Montgomery, 1988).

This approach is based on the belief that only through the possession of scarce, valuable, and imperfectly imitable resources will a firm achieve a sustained position among its competitors (Grant, 1991).

Analysing the relative position of a firm compared to its competitors in a specific industry discerns the threats and opportunities associated with the area of business (Porter, 1980; Kraatz and Zajac, 2001). This perspective is referred to in the literature as the market-based view of the firm, which stresses that valuable sources are embedded in the competitive situation of the firm's external product markets (Caves and Porter, 1980; Makhija, 2003; Porter, 1979).

Common to most of the strategic models suggested in the literature is that they describe strategy development as a linear process based on internal (resources and capabilities) and external (competitive context) analyses, strategic choice, goal setting, and strategy implementation (Engert et al., 2016).

There are diverse analytical models available in the literature that allow to conduct basic strategic internal and external analyses, such as Porter's value chain analysis (Porter, 1985) or his 'diamond model' (Porter, 1990), his 'five-forces model' (1979), or the well-known fundamental PESTEL (political, economic, social, technological, environmental, and legal) analysis (Aguilar, 1967), all of which are explained in strategy textbooks. Yet, not every CSR manager had the chance to study strategy which is why we believe a knowledge gap in this field exists and more guidance on the fundamental process of CSR strategy development is needed.

As a tool for integrating the results of external and internal analysis, many strategy theorists consider the SWOT analysis (strengths, weaknesses, opportunities, threats), a standard technique that helps to identify alternative strategic options (Andrews, 1971; Ansoff, 1965; Hofer and Schendel, 1978; Kraatz and Zajac, 2001). When all strategic alternatives have been analysed, prioritisation and strategic choice are necessary for achieving a unique value proposition (Porter and Kramer, 2006). Finally, a full strategy can be formulated, incuding strategic objectives (Barney and Hesterly, 2012; Hagen et al., 2012), and implementation can begin utilising the firm's resources and capabilities as well as its external opportunities (Aragon-Correa and Sharma, 2003; Barney and Hesterly, 2012; Egels-Zanden and Rosen, 2015).

Against this background, we describe the strategy development process as a sequence of the following three steps:

1   analysis

2   prioritisation

3   strategy formulation and implementation (see Figure 1).

In the following section, we will describe how these process steps can be conducted in a CSR context.

4   Strategy development in a CSR context

We believe that strategy development in the context of CSR is not different from general strategy formulation and encompasses similar steps supplemented with CSR-specific analytical techniques. In the following section, we will, therefore, transfer the general

steps of strategy development introduced above to the context of CSR and present corresponding specific tools that can be utilised in each step.

4.1 Analysis

In their well-known study Porter and Kramer (2006) conduct first steps towards adjusting fundamental principles of strategic management to the CSR context by suggesting the application of Porter's value chain model in the analysis of each activity in the firms' value creation processes and their potential negative or positive social and environmental outcomes. The authors believe that differences among firms' value chains are a key source for competitive advantage and a unique CSR position in a specific industry.

In order to fully identify CSR issues relevant for strategy development and also specific risks, such as human rights violations in developing countries, the analysis needs to go beyond internal firm activities and must capture the full supply chain (Kuijpers et al., 2014; Ruggie, 2008; UN, 2012; Van der Ploeg and Vanclay, 2017). Correspondingly, CSR related supply chain analysis has received increased attention in the literature over the recent years (Gauda and Saranga, 2018; Jabbarzadeh et al., 2018; Kalverkamp and Young, 2019; Kim and Davis, 2016; Miemczyk and Luzzini, 2019) incorporating environmental and social issues into the firms' traditional cost-oriented supply chain management approaches (Gauda and Saranga, 2018; Kleindorfer and Saad, 2005).

Existing studies have identified a variety of advantages of a comprehensive supply chain analysis ranging from increased transparency (Jastram and Schneider, 2018) and cost advantage (Miemczyk and Luzzini, 2019) to improved legitimacy (Crespin-Mazet and Dontenwill, 2012) and risk prevention (Hajmohammad et al., 2013). In this paper, we treat the supply chain analysis as part of the internal analysis, however, we believe that depending on specific circumstances it can also be a component of external analysis. This depends on whether the firm has its own production sites, in which case a supply chain analysis would have a more internal focus, or whether it mainly has external suppliers where the analysis would be more externally oriented.

As mentioned above, the literature offers various general tools to be utilised during the external analysis which can also be applied with a CSR focus. Yet, one of the most pertinent analytical models in a CSR context, which was surprisingly missing in Porter and Kramer's (2006) approach, is stakeholder analysis (Freeman, 1984). Analysing stakeholders' claims, interests, ideas, and concerns enables firms to handle an increasingly turbulent external environment, recognising obligations not only to stockholders but also to other segments of the society (Freeman, 1984; Freeman and Evan, 1990; Post et al., 2002). Since the central idea of strategic analysis is to chart a direction for the firm, it is strategically relevant to consider those groups which can affect that direction and its implementation in the strategic management process. Therefore, stakeholder analysis enables to manage the possibly conflicting interests of various stakeholder groups which can otherwise become a constraint for developing a competitive strategy (Freeman, 1984; Freeman and Evan, 1990; Post et al., 2002). Moreover, the analysis creates increased environmental awareness and allows firms to adapt their strategic management to the changing demands of important stakeholder groups. Stakeholder analysis is applied within various dimensions of strategic management with the purpose of creating legitimacy (e.g., DiMaggio, 1988; Lamin and Zaher, 2012; Rao et al., 2008; Suchman, 1995), managing innovations (e.g., Li et al.,

2018), change management (e.g., Hussain and Hafeez, 2008), or assessing firm market value (e.g., Cornell and Shapiro, 1987).

Figure 1   Strategic process infographic
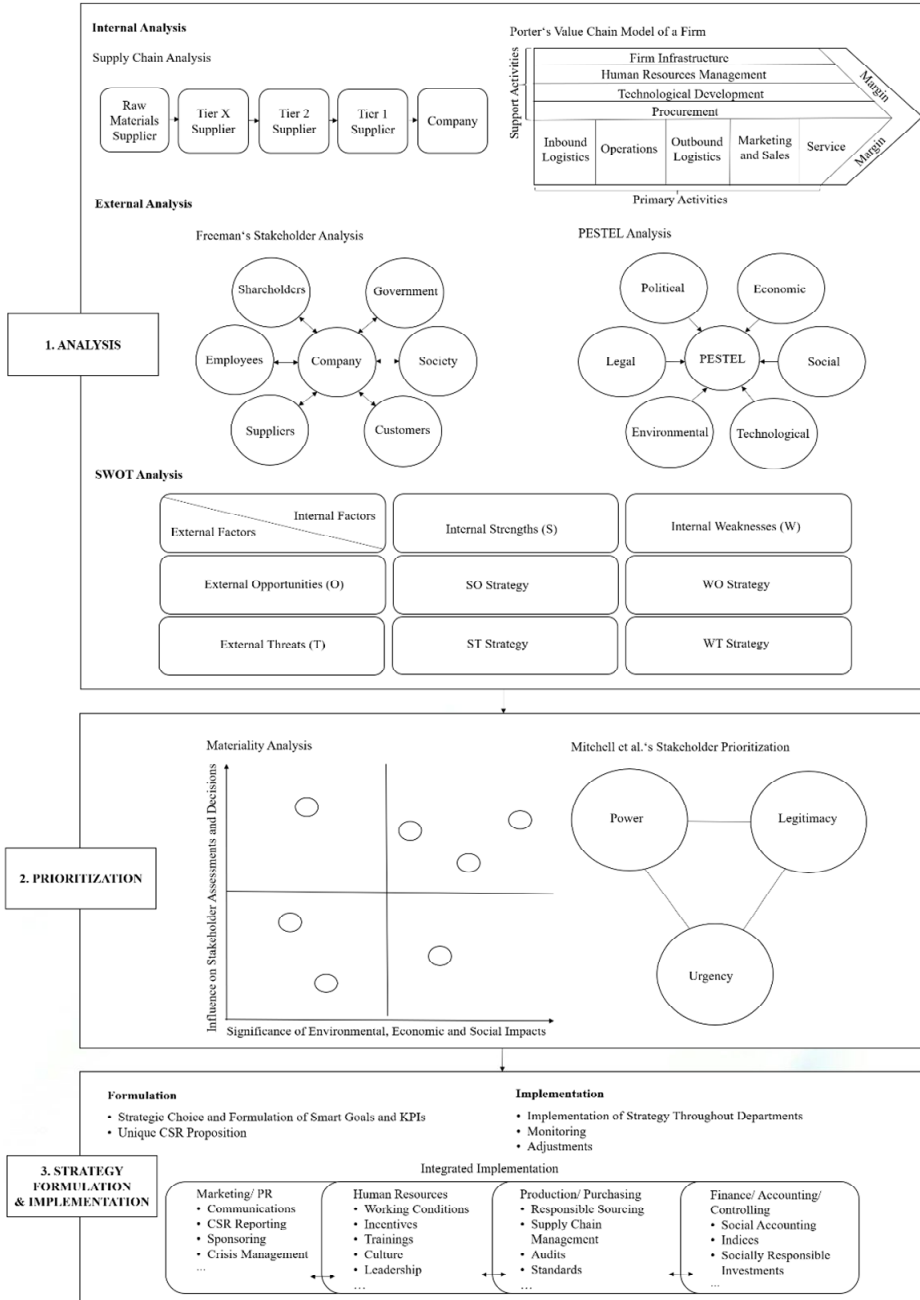
Source: Porter (1985), Freeman (1984), Aguilar (1967), GRI (2011), Mitchell et al. (1997)

4.2 Prioritisation

At the completion of an in-depth analysis, firms need to cope with a wide scope of social issues, but only a few represent real opportunities to make a difference for the society and to confer a competitive advantage (Porter and Kramer, 2006). Therefore, the existence of proper prioritisation techniques is vital at this stage of CSR strategy development. In this context, firms can prioritise stakeholder claims through stakeholder salience depending on their possession of three attributes – power, legitimacy, and urgency (Mitchell et al., 1997). Another well-known technique of stakeholder prioritisation draws a distinction between normative and derivative stakeholder legitimacy depending on the moral obligation of the firm towards certain stakeholder groups and their potential impact on the firm (Phillips, 2003).

In the context of CSR, the materiality analysis is a widely known approach of prioritisation as it provides a guideline for systematically screening and assessing strategically relevant sustainability issues. The core purpose of the materiality analysis is to determine high priority issues by rating them on a spectrum from least to most important (Whitehead, 2016). This is usually conducted from the viewpoint of targeted stakeholder groups accounting for their expectations, interests, and concerns (Manetti and Becatti, 2009). The Global Reporting Initiative describes material topics as those that "have a direct or indirect impact on an organisation's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large" [GRI, (2011), p.3].

4.3 Strategy formulation and implementation

After prioritising CSR issues and stakeholder claims, firms need to choose and formulate a CSR strategy. According to Mirvis and Googins (2006), CSR or corporate citizenship strategies can have different levels of sophistication ranging from an 'elementary stage' where CSR activities are rather episodic, undeveloped, and limited to compliance with laws and industry standards via more engaged, innovative, and integrative stages to the 'transformative stage' in which firms harmonise sustainable practices with their overall operations and engage in a more systematic societal transformation.

In this context, we have observed an increasing isomorphism among firms becoming more and more similar to each other through imitating the behaviour of successful examples in the industry to be recognised as legitimate (DiMaggio and Powell, 1983; Suchman, 1995). DiMaggio and Powell (1983, p.149) define similarity, or isomorphism, as "a constraining process that forces one unit to resemble other units that face the same set of environmental conditions".

Firms are increasingly becoming isomorphic in the context of CSR as well. They overlook the importance of delivering a unique value proposition for creating a competitive advantage and instead apply the same set of standards or copy isolated CSR practices of others in the pursuit of sustainability. From a strategy perspective, isomorphism can be a serious threat to competitive business advantage and, thus, it is important to stress the relevance of uniqueness for any type of strategic approach.

After choosing and formulating a strategy, it needs to be implemented and that is where we leave the strategic analytical level towards the level of operational management. In general, there seems to be a consensus in today's literature that CSR strategy implementation should go beyond communication and PR departments into all

business functions to reach its full potential (Bocken et al., 2013; Boons and Lüdeke-Freund, 2013; Rauter et al., 2017).

From a strategic perspective, setting measurable key performance indicators is an essential step in this process since it allows for monitoring of the progress and success of the CSR strategy. For an integrative approach to CSR, it is important to design performance indicators that link CSR objectives with other business and operational goals to ensure that CSR performance is not evaluated in isolation but rather in combination with core business objectives. Additionally, performance indicators may evaluate the extent to which stakeholder expectations have been satisfied in the process of CSR strategy implementation.

5   Conclusions

In this paper, we presented a systematic framework for developing a CSR strategy stemming from our practical experience of the lack of fundamental strategy knowledge and systematic guidance for practitioners in this process. We started by discussing the importance of strategy and the general steps involved in a strategy formulation process. Thereafter, we transferred and specified those steps for the CSR context introducing specific tools and frameworks for each step that are of particular relevance from the CSR perspective. Although some of those frameworks are already being used by firms, they are often employed in a rather fragmented and disconnected manner hindering the formulation of a well-grounded, comprehensive CSR strategy.

With this practical framework, we aim to encourage firms to formulate more competitive CSR strategies comprising more innovative and unique CSR approaches. Although isomorphism can be beneficial in standardising and mainstreaming CSR, it is essential to have more distinctive and unique CSR strategies aligned with the overall business strategy to push CSR into its next stage of development with new sustainable business models and interesting solutions for society's challenges and opportunities of the future. Only when considered strategically, applying a firm's rare and inimitable resources can CSR become a source of strong social impact while simultaneously strengthening the competitive positioning of a firm in the industry.

In addition to its practical impact, we believe that our paper will also be of interest to researchers by serving as an analytical benchmark model for CSR strategy analysis. The framework can be used, for instance, to conduct comparative strategy analysis with the goal of identifying success factors of CSR strategy or analysing the influence of specific internal and external factors during the CSR strategy development process.

In its simple and simultaneously fundamental character, we believe that our process-based CSR strategy model will be useful for any person engaged with CSR management, consultancy in the field of CSR, or CSR strategy research. We have observed a continuously articulated demand for clarification of the question 'how can a CSR strategy be systematically developed?' and hope that this paper provides a useful answer.

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