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CORPORATE SOCIAL RESPONSIBILITY: A BUSINESS CASE APPROACH.

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Abstract: This paper aims to show that there is a business case for social responsibility. The methodology descriptive and literature review, no firms who embrace the proposal for a new approach and a quantitative method is not feasible. The firm operates within a world that is complex. In addition, this world evolves and the interactions within it gave place to emergent comportments. I propose that the interactions between firms and agents external to them, the interdependence between them, and the networks of agents can result in emergent outcomes that benefit the community, preserve the environment, can fight social exclusion, providing innovation and sustainably and at the same time create greater value for all involved entities.

Key-words: Corporate Social Responsibility; Business Case; Value Creation; Complex Systems.

1. The Context and opening comments

As part of the PME National Program, I gave a keynote speech at a seminar, Forum PME, (SME Forum) in 2010, on the subject of “Portugal Empresarial, Portugal Social”, and, among other things, corporate social responsibility was one of subjects. In the debate following the session one of the participants asked how could a small firm, with limited resources, in an aggressive business environment, be engaged in social responsibility activities without endangering its sustainability and survival? Alternatively, as he put it, where will he find the financial resources, the “funds” to finance CSR activities? In other words, where was the benefit to the firm arising from these activities? At the time, the business case for social corporate responsibility was not a relevant concern in my mind. To talk about how could a firm incur in costs related to such activities and at the same time safeguard, and even improve, its earnings was, in my thoughts, secondary to the goal of making known that the firm had social responsibilities concerns.

The answer I gave then is the starting point for the last part of this paper and its conclusions. My response to the question was that the SMEs should cooperate and create networks, pooling their resources to give back to the community some of the value the latter gave to the firms and collaborate with other actors in the

community. In my mind was, at the time, the example of a group of firms that had created an association that was actively engaged in preventing high school students from dropping out of the formal schooling system. This association, EPIS (Empresários para a Inclusão Social), is, at present, operating in 60 high schools in Portugal and the dropout rate in those schools is well on the way to zero.

However, before presenting the framework of the business case for social responsibility that I subscribe to, it is necessary to talk about how firms were looked at as systems since the advent of the neoclassical economic theory of the firm. This, I think, would help put in perspective my conclusions regarding the firm's problem of creating economic value and, at the same time, being able to put into practice social responsibility actions.

In the neoclassical paradigm, or metaphor, the firm was a closed system. That was the view, *inter al.*, of Weber, Taylor and Ford (Flood & Jackson, 1991). A closed system, also referred to as the "machine metaphor", is one that operates in a routine and repetitive form and has predetermined sets of activities, which seek to reach predetermined goals and objectives. The focus is on control and not on environment. Some functions of the firm are closed systems such as its production line, or fast food chains or the armed forces. As long there are rules, that the human element is willing to follow those rules and the environment is stable the system is closed.

Nevertheless, there are parts of the firm that are not a closed system, for instance, the human aspect of the firm. In an open system, also called "organic metaphor" (Flood & Jackson, 1991), is the environment that is paramount, and so are the relations of the firm with it, primarily with the clients, the suppliers, the government, the rival firms and the community.

Except in a handful of cases within it (production, for instance) a firm is an open system, and an open system interacts widely with its environment.

This brings me to another point. The environment is complex. Therefore, the firm operates in a complex reality, even when some parts within it are closed systems. It is a socially constructed system. The problem is that the environment changes and the firm must change with it. This is the realm of the complex systems theory, which will be the basis for a proposal for a business case I will present later.

The fact that the firm is an open system brings us also to the question of "embeddedness" (Granovetter & Swedberg, 2011), that is, behavior and institutions are constrained by ongoing social relations that rule out that they are independent. To sum up, the firm is an intrinsic part of the social and economic environment.

Being an open system a firm interacts with other actors, or agents, in its environment and as it receives from them inputs, it has the responsibility to act in a manner that does not produce bad outcomes for them and to share some of the results with the society.

As an open system, a firm is a complex system within a complex system. Ontologically it is a fusion between a complex ontology and critical realist ontology. Therefore, the nature of the firm is that of a complex-realist system, complex in scientific terms and realist in philosophical terms.

Beyond the ethics with which it has to deal with its costumers, its suppliers, its stockholders, it has responsibilities towards the community in which it is embedded, the environment and is accountable not only for its own sustainability but for the sustainability of the commons.

The world is not a linear place (Rihani, 2002). Thus, outcomes are not measurable. If the reality is broken into its basic components, and reassembled back together in the same way it was before (Byrne, 1998). The reason for this is precisely that the world is not a machine. Its whole is more than the sum of its parts.

One of the characteristics of a complex system is that the interaction between individuals - people and institutions - has emergent properties. These are outcomes, or proprieties, that result of the interactions and are not expected when taking into account the state in which the system was before those interactions took place (Byrne & Callaghan, 2014) (Holland, 2000). Emergence is one the main and defining characteristics of a complex system. They amplify the actions and networking/interactions of the agents in the system. That is, the outcomes are different and greater than those that would occur if there were no interactions.

In the case of corporate social responsibility, when firms cooperate with another or with other agents, say a NGO, the interaction produces a pattern of action that amplifies the individual actions and lead to a system wide behavior that spreads and amplifies social responsibility outcomes. Take the example of a firm or group of firms that engage in the endeavor of limiting the dimension of the dropout phenomenon in the education system as I exemplified above. In collaboration with the teachers and the students their actions result in an emergent pattern that reduces dropout rates. Obviously, this result occurs if the means used are the correct ones and the agents are truly engaged in this outcome and are not simply enriching their GRI reporting.

In the case I know better because I was involved in the planning of the networking, the cooperation between groups of nonprofit social solidarity entities and some firms are now producing fruits. Moreover, in all expectation their actions will become in fact emergent (Porto, 2012).

2. Is there a business case for CSR?

From the point of view of a firm, or its leader, to be engaged in social responsibility activities only makes sense if there is a business case for them. That is, if an investment in social responsibility brings the promise of positive results in terms of returns that justify the expenditure in those activities (Kurucz, Colbert, & Wheeler, 2008).

The question is, therefore, if there is a reason, a “business case”, for those expenditures. In broad terms, the reason is that the firm will probably do well by doing good. On the other hand, that it can have a better financial performance by engaging in its responsibilities regarding the creation of a better society along with the pursuit of its core business.

The literature on this question (Kurucz, Colbert, & Wheeler, 2008) (Vogel, 2005) is ambiguous. Some surveys deduce that the firm will perform better, others worse and others the same. Some studies (Orlitzky, Schmidt, & Rynes, 2003) in particular, mention, nevertheless, that correcting the surveys for sampling and measurement errors the performance is better in the case of investing in social responsibility activities. Kurucz et al. refer four business cases (for references see (Kurucz, Colbert, & Wheeler, 2008)) and propose a fifth, but we will discuss more at length only this last one, because it has to do with complex systems, and these are more near the reality for the reasons I put forward above. To the other four, and in order to provide a more complete context I will only make some passing remarks.

All the approaches emphasize that the recipients of economic value creation are the firm’s stakeholders (Benn & Bolton, 2011). I will address value creation (Benn & Bolton, 2011) below, at this point my question is, who are the firm stakeholders?

The list of firm stakeholders has evolved through time, first the stakeholders of the firm where only its owners or stockholders. However, with time, the list became vaster, the five forces model of Michael Porter (Porter, 1980) is an example and any recent book on Corporate Strategy lists a number of stakeholders that the neoclassical theory would never include. Based on (Benn & Bolton, 2011) when the issue is corporate social responsibility the list is vast: owners, employees, clients, suppliers, government, competitors, community, environment, professional and trade associations, unions, NGOs. In the present case all, or some depending on the activities undertaken, of these stakeholders should be recipients of the value created, but if we are talking of social responsibility the foremost stakeholders are the local and global communities and the environment. The firm emerges from the community; as embedded in it, receives largely from it and has to transfer to it some of the value it creates. This is the spirit of social responsibility.

To speak of value creation is to answer the question: As a society, what do we want from our economic system? The answer is straightforward: We want our economy to create value, we want our economic system to use resources to create products and services that we value more than the resources used to produce them, how to do this? Corporate social responsibility has the burden of the answer. In addition, it is simple: businesses should be committed to create economic value because it is what society wants (Beal, 2014). The real problem is how should firms go about it? The problem is not easy: the response depends on various things. Being the context in the firm operates whatever it may be; corporate social responsibility requires a commitment to value creation. To

choose which framework is more appropriate is the firm's task. (Beal, 2014). In this framework is the business case for social responsibility that provides the answer.

3. Four usual business cases approaches to value creation

In first approach to a business case known as the *cost and risk reduction* case (Kurucz, Colbert, & Wheeler, 2008) the firm uses social responsibility to reduce costs and risks. The idea is that social responsibility embodies a view of value creation as a form of trading interests among social, environmental and economic concerns. The primary focus is that the demands of the stakeholders present potential threats to the viability of the organization and the corporate economic interests, by lessening those threats using a determinate level of social or environmental performance they remain in suitable levels. So social corporate responsibility investments are limited to a level judged as sufficient to appease the desires of the social stakeholders and the value creation is constrained by this level.

In the *competitive advantage* (Kurucz, Colbert, & Wheeler, 2008) approach the social responsibility activities are strategically planned so that they provide the company with a competitive advantage over its industry rivals. This is an *adaptive* approach to building a business case for social responsibility, which strategically allocates resources toward the perceived demands of the stakeholders. This demands are not viewed as constrains but as opportunities to be leveraged for the benefit of the firm. It is adaptive because the firm observes the changes in population growth and poverty, among other things, in order to benefit the bottom of the pyramid of stakeholders, part of the value creation is channeled to this group as a philanthropic move.

The *reputation and legitimacy* (Kurucz, Colbert, & Wheeler, 2008) approach focus on creating a responsible brand or image. The firma uses the social responsibility activities to build value by means of gains in the firm reputation and legitimacy. This is an aligning perspective with the stakeholder's demands. The value created aims to achieve this alignment. The means include social and environmental responsible behavior, social responsible and ethical investing. This suggests an alignment between a firm's reputation in the area of social responsibility and its ability to attract talent and influence the stakeholder's perception towards the firm attitude regarding its social engagement.

The *synergistic value creation* (Kurucz, Colbert, & Wheeler, 2008) (Porter & Kramer, 2006), or win-win-win, approach seeks precisely to achieve win-win-win outcomes through seeking and connecting stakeholders interests and to create different definitions of value for multiple stakeholders at the same time. Underlying this approach is the view that creating connections between stakeholders by linking their common interests will result in overlooked

opportunities for multiple fronts of value creation. This approach advocates synergistic value creation and puts its focus on seeking opportunities of discover, relate, and synthesize the interests of various and diverse sets of stakeholders and is at odds with the traditional value creation approaches described above. The focal point is not on the firm and its alignment with its stakeholders themselves, but on the networking of these stakeholders. Instead of being an economic actor in this approach, the firm is a social actor with a cognitive logic and epistemological pragmatist, nearing a realist stance.

As can be seen all these approaches are forms of a firm to create the economic value that the society wants, depending, among other things, on the market conditions and other considerations relevant for the success of the firm (Beal, 2014). I will not refer to the epistemological, ontological and justification aspects of these four approaches although they are central to the construction of any business case, namely the justification for a firm to invest in social responsibility initiatives and can be used in a critique of the four cases. (Kurucz, Colbert, & Wheeler, 2008) conclude that for the four cases these are, to some extent, irresolvable and to address would lengthen this paper beyond its intended limits. Being so I think it is more productive, as the authors also think, to advance to a more unrestrained conception of a business case that seems to solve this noticeable contradiction. As we will see in the case proposed below the firm is more of a social actor than in the preceding cases.

To me, and in the light of the complex systems theory, this makes more sense and puts the firm where it belongs in the corporate social responsibility debate: in an equal footing with the other actors. All are part of the same set, with the firm solidly in the same group of actors in the social responsibility setting - this responsibility is not an afterthought for the firm. Or simply a means to obtain some advantage over the others, but a logical and realist posture in the real world that can provide new opportunities of business.

The four business cases succinctly described follow a pattern of modes of value creation that are time sequential but also overlapping (Kurucz, Colbert, & Wheeler, 2008). The first, and in some measure the second, give predominance to the shareholder as the agent to which the firm is accountable to. In second, the primacy enlarges to include the stakeholders and the same primacy is characteristic of the third approach. In all there is an "era" of social integration where thinking about social responsibility moves toward a societal approach. The focus on the fourth approach that views the business as an economical, political and social actor. The approach that I will try to describe now is a purely societal approach.

4. Complex systems theory

The rationale for my reflections on complex systems I made above is a fifth business case proposed by Kurucz and her co-authors in the reference cited, that is

a societal approach, which builds on and enlarges the synergistic approach. Here societal takes the sense that is a shared or collective approach encompassing all the involved actors and is mainly preoccupied with the conditions of the society.

Rihani (2002) defines Complex System as follows:

A Complex System has a large numbers of *internal elements* that are lightly but not thinly connected. These elements interact locally according to simple rules providing the energy needed to maintain stable global patterns, as opposed to strict order or chaos.

They have active internal elements that provide sufficient local variety to enable the system to survive as it adapts to unforeseen circumstances. There are vast numbers of microstates inside the systems resultant from numerous local interactions. There is, therefore, a high probability that at any time some of the microstates at least will find the prevailing conditions conducive to survival.

Variations in prevailing conditions result in many minor adaptations to the overall pattern of the system and a few large mutations, but it is not possible to predict the outcomes in advance.

Predictability in Complex Adaptive Systems is limited to global patterns rather than the chaotic local details. Fundamentally, specific causes are difficult to link to particular effects.

Strictly speaking, the scientific era concerned itself mainly with linear science up to a few decades ago. The linear paradigm, on which work based within the natural sciences, was gradually, and to some extent unavoidably, imported into most other fields. The “specialists” such as politicians, social scientists and economists, embraced the certainty and predictability promised by the Newtonian linear paradigm. All situations, they assumed, remain controlled to everyone’s satisfaction. Again, they seemed to know what they were doing and people were happy to leave them to it.

Overall, the scientific, linear method yielded indifferent results when applied in the socio-economic arena. Certainly, the outcomes were not as impressive as those achieved within the natural sciences, and as actual events diverged so much and so often from predictions and promises, the search for a new consensus gained momentum (as in the heterodox economic theory). Evidence is nowadays emerging from several quarters that recent research associated with complex systems might offer useful insights into the shape of things to come.

For Benn and Bolton (2011) as it relates to CSR complexity theory is a metaphorical (I prefer framework or, even, ontology) device for creating new insights into managing change because it implies:

Creativity, growth and self-organization, when the actor operates at the “edge of chaos”, employing simple ordering generating rules;

A self-organized process expedites continued reorganization – manifested in new products and increasing efficiency.

Cause-effect, top-down, command and control styles of management are less effective in constantly changing environments;

Managing continuous change requires the use of democratic principles (freedom to self-organize) and influence at the local level.

This offers insights into ways of addressing ordered and creative CSR responses within complex and dynamic interfaces between businesses, society and the natural environment that are present in the following proposal.

5. A proposal for a different business case

A shift to a new consensus that views social, political and economic phenomena as complex adaptive systems would entail more than just a change in style. Top-down and command-and-control, reductionist, management methods; ideally suited to linear systems as typified (as referred above) by the assembly lines common in industrial production, are inappropriate in nonlinear situations. Different, integrative or holistic, management tools are used in these cases.

It is upon this straightforward depiction that Kurucz and her co-authors build a proposal for a new business case for corporate social responsibility. They propose a business case that accepts complexity, which builds integrative capacity and encourages pragmatism (I prefer to call it realism in the Bhaskar (Bhaskar, 2008) (Byrne & Callaghan, 2014) sense of the word). Regarding the role of complexity theory in the field of corporate social responsibility, see also (Benn & Bolton, 2011).

To consider such a business case is not easy for the firm, mainly if the practitioners subscribe to the neoclassical theory of the firm. It requires that a position or locus of reference more expanded relative to the four cases I presented. In this case, it has to cease to be firm-centered and to be organization and society centered. Corporate social responsibility has to discard the substantive rational view (accepting, as a result, that rationality is only procedural or bounded). Moreover, the disorderly challenges of the radical pluralism (all actors are on same boat and not in distinct ones; or, in complexity jargon, they are all part of the same possibilities landscape) and view the firm or organization as part of an integral complex network or system, interdependent and complexly interactive. This is comparable, in some ways, to the embeddedness sociological view (Granovetter & Swedberg, 2011) or that the firm is not outside of the whole of the society but an essential and not a separate element of this whole and corporate social responsibility ceases to be an add-on to be an important part of the firm's functions.

Causal effects in complex systems can be, as I said already, linear and non-linear and complex living systems pursue multiple goals. This suggests that a new paradigm in which we move beyond the existing concepts of the current stakeholders to a view of social systems that uses insights from complex natural systems (Benn & Bolton, 2011) (Frederick, 1998). It is necessary for the firms

and the society to respond to a set of questions that are critical to them. This complexity view center on non-linear emergent outcomes, see (Rihani, 2010) (Rihani, 2002), and not in reductive and linear relationships.

In addition, the world, the reality, is a complex system where all agents interact to create emergent results, or emergent value, enhancing the integrative capacity of business so that holism is encouraged. This is another block of this business case proposal. Corporate social responsibility must surpass a divider, the economic/ethic one, by reducing the focus on reductive or disorganized approaches toward a more integrative perspective. This perspective is characterized by moving away from simple corporate attitudes, to value communities to a view of the integral commons (in the sense of collective resources) and by a capacity for the members of the firm or organization to view themselves and their work as a part of something larger and to assess if this purpose is satisfactory.

In this proposed approach (Frederick, 1998) it is essential to move away from the organization as the central focal point of social responsibility analysis, the base for the other approaches, to other focal point. It is essential to enlarge the context within which we judge human relations and change the center of the firm actions away from the normative reference for social issues in management. Others think that it is important to move from the concept of social responsibility to that of societal responsibility that will change the focus from creating organizational wealth to that of the organization as an instrument to create a broader societal value.

The firm is in this proposal an interdependent system that recognizes the complexity of globalization and the interaction of systems. This view leads to consider corporate social responsibility as the basis of strategic action instead of being an add-on to the other functions of the firm. This requires a profound change. From the stakeholder model of the firm to an inter-systems model of business, from the belief that firms are autonomous and consider their obligations to the community as secondary toward a view of the firm as part of the communities that created them, as stressed before. It represents a shift from an egocentric view of the self as separated and autonomous to a post-egocentric view of the organization as interdependent. The focus would shift from the exclusivity of the term *responsibilities* to an emphasis in the *social* aspect. Questions about the self and about communities need a reappraisal to permit new forms of social and economic life.

Finally the approach needs to be reasonable, or realist. From this perspective, by becoming more integral by acknowledging complexity and emergence, by being more integrative by building capacities and promoting holism, it results in the enabling of a more vast view of value creation, supported in interactions resulting in emergent results that otherwise would not occur. In his approach value is of difficult measure than in the other approaches but the results in terms of value creation would be, albeit more qualitative, explicit and a powerful support for the business case for social responsibility.

Emergence, interdependence, holism, integration, will produce outcomes that the atomization of actors would not permit and the (shared) value created would be greater, at least in qualitative terms, that that created in any other approaches. Moreover, the separation between firm and community will end and the social outcomes would be greater.

Firms, mainly the bigger ones or networks of small firms, can be involved in corporate social responsibility in several ways. There is the philanthropic way, with minimal social results, the risk management way which only benefits significantly the firm, and the value creation way.

6. Conclusions and further remarks

As a form of conclusion for this paper, it examines the purpose, impacts and benefits of value creation.

The purpose is innovative and promotes a sustainable business model; the firm also appropriates significant results. It has a profound strategic and operational impact because to create value, new ways of thinking are necessary, and they need to be part of the planning inherent to those two aspects of management.

However, the benefits are significant.

The value is shared between the firms and the community/society.

It promotes competitiveness and innovation, to create value you have to be better than the others do.

The resulting business model is sustainable.

The firms are integrated in the community. It develops human capital.

And, finally, the value creation becomes an integral part of the business strategy.

The realist/complexity theory/holistic approach is the way to achieve all this benefits in the most efficient way.

This proposal is a more formal answer to the participant in the SME seminar I talked about at the beginning of this paper. The stakeholders approach expands. All actors engaged in CSR activities are agents whose interactions result in holistic outcomes, or emergent effects greater than the sum of its parts. Although its proponents with bigger firms in mind thought it, it can be adapted to include networks or associations of firms and other agents, NGOs, social solidarity entities and others. Not wanting to be pessimistic there is, however, a caveat: the egocentric and isolationist view frequent in many businesspersons is the main obstacle to it. I hope that common sense prevails. The complex world we live in needs that all of us to be realists and procedural rationalists, as opposed to substantive rationalists, and embrace a complexity view of the world. The society and the environment also need this. Sustainability, of the firms and of development, depends, in my view, on this mind-set. As (Scherer & Palazzo, 2008) put it: in a globalized setting without correct boundaries in legal and moral

terms “*the sole emphasis on economic rationality will not contribute to public welfare, but rather may worsen the situation*”.

So I cannot refrain, in concluding, from stressing that individual social responsibility, as once said by the late Cardinal José Policarpo (Policarpo, 1998), and government social – and regulatory - responsibilities (Brito, 1998) have, also, to be fully engaged and, my words, to be an active and committed component of this complex system.

OECD studies (Carroll, 2008) concluded that the effectiveness of Corporate Social Responsibility - namely in Europe - is closely related to the effectiveness of more wide-ranging systems of both private and public governance. This leads me to express the desire that firms,- private solidarity institutions and governments - don't forget that their actions have a profound impact in the well being of the bottom of the pyramid. In addition, that less than adequate governance practices can have as a result that more and more people will tumble down expanding this bottom, compromising the sustainability of our economies. Working together, networking and practicing openness in the design and implantation of public policies, will go a long way in reducing the number of people in the bottom and in promoting sustainability. The complex systems approach is a means to promote these ends.

Appendix - Why not use a quantitative approach?

A quantitative approach is not feasible within the scope of this paper as defended in the Abstract. There is no practice and means to register the benefits of CSR and even if there was, an attempt to conduct a survey, it would at this time and would be extremely difficult to design, if at all feasible.

However, Manuela Weber (2008) presented a framework for a quantitative approach and applied it to the case of the Philips Pupils Fund for Caritas.

Weber proposed a model for the assessment of CSR Monetary Value Added using the equation below and establishing Key Performance Indicators (KPIs) for the firm improvement resulting of CSR. The equation is as follows:

$$\text{CSR Monetary Value Added} = \sum_{n=1}^{n=\infty} (B_n^{\text{CSR}} - C_n^{\text{CSR}}) \times \frac{1}{(1-i)^n}$$

Where n is the period, B^{CSR} the CSR benefits, C^{CSR} the CSR costs and i a discount rate. Weber identified the KPIs for Costs, for Benefits and for CSR itself. However, she couldn't assign values to them (except for costs). Therefore, the worksheets were she summarizes her findings, only register costs.

Weber could not calculate the benefits, because the firms lack a systematic and company specific method for evaluating these benefits. The work of Weber seems to validate my qualitative and literature review approach. A quantitative approach, although desirable and necessary, seems to be rather difficult, albeit

impossible, for now. Moreover, without a method for calculating those benefits, any corporate performance stemming from CSR may possibly be confounded as part of the benefits from publicity, marketing and others. In addition, as (Vogel, 2005) (Vogel, 2005a) writes it is doubtful that a positive direct and quantitative relationship between advertising and profit can be demonstrated, but it is unlikely that the case for advertising will be disputed. I stress, once more, a quantitative approach to CSR benefits is, at best difficult and for the time being impossible.

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