Ethics and CSR: the strategy debate

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ABSTRACT
The aim of the paper is to find a link between CSR, ethic and strategy. First we analyze the evolution in the concept of Social Responsibility, the ethical dimension of CSR and the integration of ethics and CSR in the business strategy. In the paper the strategy becomes part of the culture of the economic entity and it is fully integrated into long-term strategy. In the second part of the paper, to better understand the link between CSR, ethic and strategy, we consider two Italian companies that have distinguished themselves for their CSR strategy: Olivetti and Luxottica.

Key words: Ethics; Corporate Social Responsibility; Strategy.
INTRODUCTION

The aim of the paper is to find a link between CSR, ethic and strategy. In today’s increasingly competitive economic market and globalized economy, forcing the company to seek the integration of economic success with social cohesion and environmental protection, the Corporate Social Responsibility (CSR) has become not just a general practice, but almost a necessity for business development.

Indeed, a growing number of companies promoting their corporate social responsibility in response to a variety of social, environmental and economical pressures. The aim is to send a signal to the various stakeholders with whom they interact: employees, shareholders, investors, consumers, public authorities and NGOs.

By planning out CSR as part of a company’s strategy, organizations can ensure that profits and increasing shareholder value don’t overshadow the need to behave ethically to their stakeholders.

Strategy becomes part of the culture of the economic entity and as such is fully integrated into long-term strategy, thus finding its natural place in the value chain. The creation of long-term value is only possible through the implementation of a strategy to develop socially and environmentally sustainable. For a company it is a strategic decision to fund the creation of value that binds to improving the quality of life of employees and the communities in which it operates.

In the second part of the paper, to better understand the link between CSR, ethic and strategy, we consider two Italian companies that have distinguished themselves for their CSR strategy: Olivetti and Luxottica. The first is the Italian company driven by Adriano Olivetti, that at a time not suspect voluntarily deployed policies on CSR and articulated effective in their great company.

For the second company responsibility and ethic are central in the life of the organization; they are the daily guidelines in business decisions and relationships with their stakeholders.

Both examples show how CSR is successful if it is integrated into the strategy and if there is an ethical vision.

THE CONVERGENCE IN THE COMPANY OF MULTIPLE INTERESTS

The institutional goals of businesses derive from the ultimate purpose of the participation in the development of people forming the business community (Masini, 1978, p. 16-17). This statement has to consider the following elements:

1. Satisfaction of economic (salaries, etc.) and non-economic (conditions of individual development) needs of the workers involved in the development of the company with their overall personality;
2. Meeting the expectations, especially economic, of the shareholders (in family businesses non-economic expectations are also important).

3. Active participation in the economic and social development of the country or countries in which the company operates.

This interconnection between private purposes and social role reflects the convergence in the company of multiple interests referring to external subjects: they are economic non-institutional interests of and non-economic institutional interests. The common goal for the company is the production of remuneration for participating in the community which is the company (shareholders and employees). External interests that are identified as priorities, affect directly the sustainability of the entrepreneurial project. Other external interests - not priority - are those to which the business must make socially responsible behaviour. We therefore identify three levels of interest: institutional interests, the interests of stakeholders and the general interests of social communities in which the company refers to.

The social role of business is not revealed only indirectly through the adoption of governance systems that facilitate balanced relations with other organizations and stakeholders. The social responsibility of business is based on a relatively simple thesis: it is only if the company is designed (and designs) as a community of interest around a specific common goal, it likely maintains the economic and social relations and fair with other institutions (primarily with governments, organizations, non-profit and family). Firstly, the company makes a specific contribution to economic and social progress of contemporary society through innovation processes it manages to succeed. Then, through the inter-institutional relationships it develops and grows, the company brings a part of its contribution to each of the other institutions with which it interacts to continue its own common goal.

The reference to global social responsibility involves all countries in which the company operates, invites us to go beyond a narrow vision of citizenship that is often the cause of a traditional community approach (Novara et al, 2005). That is why, very broadly, the company is also directly involved in the development of societies in which it operates: at least local communities for SMEs, the global society for large firms champions of globalization. However, Simon Reich noted with caution that, in the issue of social responsibility, multinational companies do not seem to follow a global model that globalization has imposed, but prefer practical questions and issues directly related to their country of origin (Reich 2005). Thus the issues of social responsibility,
that companies take into account to modify their practices, do not find their legitimacy in the economic activity itself, but in cultural, political and legal institutions of a given society, which alone can reveal where are the problems to deal with.

We can summarize the following propositions:

1. Principles of ethics and economics, founded the company as a community of people who identify themselves with a specified common goal, describing the institutional purpose of the enterprise itself.

2. This purpose is the production of value to meet the expectations of those who are the economic subject of the company and participate in the business community.

3. The creation of value for the economic subject of the company depends on the creation of value for stakeholders and for society in general.

4. The social responsibility of the company thus goes beyond the satisfaction of the interests of individuals who provide critical resources for the survival of the company (Colombo and De La Ville, 2008).

**The evolution in the concept of Social Responsibility**

The changes in the economic and social context mean that a greater attention to the satisfaction of the expectations of the stakeholders will impact the success of the firm in dealing with new challenges:

1. the globalization process places new responsibilities on firms regarding the evolution of the economies of poor countries;

2. the reputation of the firm is inextricably linked to its environmental policy;

3. the social sensitivity of consumers has grown, and is increasingly more attentive to the behaviours and to the ethical values promised by the firms;

4. the weight assumed by the respect of human rights and the rights of workers imposes new constraints on the management of the human resources of the entire supply chain;

5. the growth of human capital underscores the need for personnel policies that productively employ staff;

6. the unification of financial markets calls for growing levels of correctness in behaviour and transparency (Molteni, 2003).

Companies should recognize the importance and need to consider concepts like: ethical, moral, ethical programs, ethical behaviour, social responsibility, equity and also try to implement in their organizational culture. (Nunes and Simescu, 2010)

These factors lead to a growing interest and to the evolution of CSR in the concept of social responsibility (De Bettignies, 2002), with the shift from the respect of stakeholder expectations
to the responsible behaviour of firms intended to bring out and strengthen the social citizenship of the firm (Vaccari, 1998) and the “rectitude of the firm” (Keeley, 1988).

The social responsibility of the firm thus defines a transparent corporate behaviour based on ethical values and on the respect of co-workers, of society and of the environment. Above all, the ethical aspects of correctness, responsibility, transparency, and respect for basic rights take on a fundamental role, since the social legitimation of business activity – without which the firm cannot survive and grow – depend on them. However, the businessman cannot achieve these if he does not publicly show that he takes account of the compatibility between his development plans and the shared values of the social environment in which he operates.

The social citizenship of a firm – which is based on the awareness that economic far-sightedness and social responsibility are not antithetical – expresses the commitment to create well-being in the community of operation, in virtue of the knowledge that a cohesive society is one that makes the most productive use not only of its excellent resources but also of its marginal and residual contributions, recognizing the dignity and value of the latter.

The social citizenship of the firm depends on the relations the firm has with its political, social (Perrini, 2003) and environmental systems – from which no firm is cut off – and, in particular, on its ethical obligation to contribute to this system and to use precaution methodologies and means in order not to damage the collectivity of reference, while respecting the laws, enhancing the social customs and the local culture, playing an active role in the cultural and political life, safeguarding the environment through non-destructive systems for managing natural resources and efficient recycling systems, and investing in projects to preserve and upgrade the environment (Gazzola and Mella, 2006).

We are assisting to an increasing demand for transparency and to growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance. As it was just noted, we are passing form a conception that perceives CSR as an obligation to one that recognizes CSR as a strategy with opportunities to exploit.

The European Union, through its European Commission on CSR, defines CSR like “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.” This definition helps especially to emphasize that:

- CSR covers social and environmental issues, in spite of the English term corporate social responsibility.
CSR is a voluntary concept.

An important aspect of CSR is how companies interact with their in-house and external stakeholders (employees, customers, competitors, non-governmental organisations, public authorities etc.). CSR is not or should not be disconnected from business strategy and operations: it is about integrating social and environmental issues into business strategy and operations.

Recently the European Commission has put forward a new, simpler definition of corporate social responsibility as “the responsibility of enterprises for their impacts on society” (European Commission 25/10/2011).

This definition considers all the impacts of the companies on society that integrates social, environmental, ethical and human rights in their activities and strategy, in close collaboration with its stakeholders, with the aim of:
- Maximizing the creation of value for its shareholders and other stakeholders and the community, through a long-term strategic approach to CSR and development of products, services and innovative business models.
- Identifying, preventing and mitigating its possible negative impact (Gazzola, 2012).

**The ethical dimension of CSR**

The business has a social role in society. This role, normally, is understood like the economic, legal, ethical, and philanthropic responsibilities that companies may have (Carroll, 1991).

We can say that CSR involves:
- Conducting business in an ethical way and in the interests of the stakeholder
- Responding positively to emerging societal priorities and expectations
- A willingness to act ahead of regulatory confrontation
- Balancing shareholder interests against the interests of the stakeholder
- Being a good citizen in the community

Social responsibility is the assumed obligation of business to society. Being socially responsible means maximizing the positive effects and minimizing the negative effects on society (customers, owners, employees, community, suppliers, and government).

Ethical dimension of CSR refers to behaviours and activities that are permitted or prohibited by organization members, community, society, even if they are not codified by law.

Corporate social responsibility and corporate sustainability represent the way companies achieve enhanced ethical standards and a balance of economic, environmental and social imperatives addressing the concerns and expectations of their stakeholders. CSR reflects the way companies address legal responsibilities, and therefore provides the foundations upon which corporate sustainability practices can be built to
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Enhance responsible business operations. (Colombo and De La Ville, 2008).

Ethics are fundamental in determining the success or failure of an organization. They affect a company’s reputation and help to define a business model that will thrive even in adversity. Therefore, the motivation for a company’s social responsibility actions may result from the principle of legitimacy (institutional level), i.e., from a desire to maintain credibility and legitimacy as a responsible societal actor in a shared environment. Alternatively, the motivation could result from an organizational sense of public responsibility. Finally, the motivation could result from the choices of individual managers and their personal responsibility preferences and inclinations, (Jamali and Mirshak, 2007) because ethics is connected with morality: the morality is the personal rule that regulates the relationship between the individual and the community and ethics are the aggregation of personal moralities for the purpose of common action (Veca, 1993; Sapelli, 2002).

If we accept these definitions, we can argue that individual’s morality, and in particular Managers morality, do shape the ethical profile of the company (Bartolomeo and Savoldi, 2002)

A socially and environmentally ethical approach ensures a company’s ability to thrive in the long-term by protecting its reputation, its license to operate, its supply chain, its relationships with partners and its ability to recruit talent.

INTEGRATING ETHICS AND CSR IN THE BUSINESS STRATEGY

Social Responsibility cannot be just a response to problems when they arise. Only if the company includes ethical concerns since its foundation and includes ethics in businesses strategy, social responsibility, as a concept, is integrated into daily decision making.

Business strategy determines how the firm will use human and financial resources to achieve its objectives. The value system of corporate and stakeholders has a profound effect on corporate strategy implementation. There are some postulates in this respect:

- business strategy must reflect the understanding of organization members and stakeholders value;
- business strategy must reflect the understanding of the ethical nature of strategic choices;
- business strategy should consider important stakeholders.

If these postulates are accepted, then ethics becomes a central concern in business strategy (Jucan and Jucan, 2010). These companies are adhering (or professedly adhering – Laufer, 2003) to CSR standards and practices and integrating CSR principles and goals into their overall corporate strategy (Godfrey & Hatch, 2007; Lee, 2008; C. Smith, 2003).
However, we have to remember that first of all the development and implementation of CSR depends on the management style of the company, and on the significance assigned to the task. Manager’s strategic choices are typically influenced by their ambitions, attitudes toward risk, values, ethical beliefs, and business philosophies. Then managerial values shape the ethical quality of an organization’s strategy and influence Company’s attitude with respect to CSR.

The KPMG in the International Survey of Corporate Responsibility Reporting (2011) has studied the drivers behind integrated reporting of the G250 companies, drawn from the Fortune Global 500 List (2010). The companies that do disclose their motivations for Corporate Responsibility (CR) reporting, the most commonly cited driver (by more than half of integrated reporters) was the desire to integrate CR into the core business, reflecting the common belief that – if CR is to truly be integrated into the business strategy – it must therefore be an integral component of annual reporting as well. The survey also identified a number of other key business drivers including innovation, reputation and access to capital or increased shareholder value.

Source: KPMG International Corporate Reporting Survey 2011

Figure 1 – Integrated reporting drivers
Companies, realizing a CSR strategy, maximize the value of corporate responsibility commitments. The identification of critical stakeholders, the definition of objectives in order to satisfy them, and the utilization of a reporting tool are crucial steps to launch a CSR strategy. Preferably, to obtain best results the CSR strategy should be aligned with the company’s specific corporate objectives and core competencies. Further, organizational management that truly cares about CSR is proactive rather than reactive in linking strategic action and ethical behaviour.

OLIVETTI: PIONEERING EXPERIENCE OF CORPORATE SOCIAL RESPONSIBILITY

The experience of Olivetti spa in the period between the beginning of the ’30 and the end of the ’50, under the direction of Adriano Olivetti, is remarkable at least for two different components: the firm reaches an extraordinary technical -organizational excellence and it becomes a pioneering and anticipatory experimentation of corporate social responsibility principles and practices in the Italian and probably European context.

Firstly, Olivetti spa has been a physical and virtual place for experimentation of the relationship between entrepreneurs -Olivetti- and employees, citizens, local authorities, urban planning, architecture, culture and education. Its founder was Camillo Olivetti and the son Adriano continued along his father’s path, by institutionalizing his strategies and intuitions.

Olivetti, at least until the death of Adriano in the ‘60, is considered a unique and pioneering experience of corporate social responsibility where most of the innovation in terms of industrial relations in Italy have been imagined and implemented.

The second factor, intrinsically related to the previous one, is a sort of intellectual heritage transmitted by the father, a sort of responsible entrepreneur of the beginning of the century, to the son. (Caizzi, 1962; Gallino, 2001; Novara, 2001).

A last important variable that could explain Adriano Olivetti management style is the relationship with local communities and the physical space.

The Olivetti’s model for CSR modifies the relationship with external stakeholders and influences the ability of the company to directly and indirectly sustain local economic development. In particular, the whole process originates from the morality and intuition of an individual that concentrated all the efforts in making things happening, without really institutionalizing corporate social responsibility and promoting its diffusion within the organization and the society (Colombo and Gazzola 2012).
LUXOTTICA: THE INTEGRATION BETWEEN ETHICS AND CSR

Luxottica characterizes the Italian reality of nowadays, with its welfare program, is positioned as a pioneer in its commitment to social responsibility towards the reality in which it operates, the environment and people.

The company has focused primarily on “involvement” with the conviction that the organization has to make everyone feel part of them as belonging to a large family in which the contribution of the individual is precious for the good of all. All these concepts revolves around the idea that the sense of identification, the will of commitment and personal adherence of the employees’ to the activities and the objectives of the firm constitute, in the uncertainty of today’s market scenario, vital resources for business competitiveness (Salomoni 2011).

Corporate Governance and Corporate Social Responsibility influence the Group’s future and its long term value. The system of Corporate Governance is based on 5 pillars:

- The set of values is defined in “Codice Etico”，
- The central role of the Board of Directors,
- The efficiency and transparency of management decisions,
- The adequacy of internal control,
- The correct and transparent discipline on the related party’s transactions and on the handling of privileged information.

Luxottica has managed to combine financial objectives with those of the CSR. Proof of this is the foundation of OneSight Group. Since 1988, OneSight dedicates to charitable programs philanthropic Improving vision in the world, helping people in need through research and education, employee volunteering missions to Developing Nations, and donations. Luxottica has reached its global leadership without forgetting respect for people and the environment.

Luxottica strategy pushes the integration of environmental and social indicators alongside financial in everyday business decisions and performance measurement system throughout the company.

All this to generate the conditions for increased durability of the Company in a fast changing world.

CONCLUSION

The experience of Adriano Olivetti was long time ago but it is very useful. He constructed his activities around two fundamental concepts: the first was the conviction that in a backward society like Italy’s, the ‘factory’ represented the ‘modern principle’ of economic and social development; the second that the factory’s primary goal was to grow through the quantitative and qualitative development of its manufacturing
Ethics and CSR factors, capital and labour. According to this vision, the firm had to create value not only to distribute to shareholders, but also to invest in self-financing of the activity itself, and therefore in better wages and salaries that could encourage a commitment to work, in social and welfare services for employees, continuous training and even shorter working hours for the same salary competitiveness. “Adriano Olivetti pursued his goal of spreading a strong corporate culture.

The experience of Luxottica is a current example of a company that integrates CSR ethics and strategy. Luxottica is increasingly oriented to frame it within their own competitive strategies in order to create value and new market opportunities.

In Luxottica CSR, through which a company incorporates social, environmental, and ethical aspects into its business model, has become integral to long-term growth and success. They think that brands that make CSR a priority are showing great business success. The programs of Luxottica have to be sustainable in the long-term they constantly debate the best way to maximise benefits for people and communities.

In this period of open world economy, brand reputation, repositioning of government activities and privatization, it is increasingly important to do business ethically, morally and with concern for the society.

The interest that has developed on the “social responsibility” of the company and issues of Business Ethics is a sign of recognition of the need to achieve a renewal of the “culture of profit”, accompanied by an expansion of the role of the social system.

Incorporating ethics and CSR into strategy means developing sustainable business models because:

1. Strong ethical policies that go beyond upholding the law can add great value to a brand, whereas a failure to do the right thing can cause social, economic and environmental damage, undermining a company’s long-term prospects in the process.

2. Once they have adopted an ethical approach, companies will often find there are bottom line benefits from demonstrating high ethical standards.

3. The ethical tone comes from the top.

4. High quality management information on social, environmental and ethical performance is vital for monitoring the environmental and social impacts of a company and for compiling connected reports showing how effective its governance arrangements are.

5. Corporate communications and reporting on sustainability need to do more than just pay lip service to the green agenda. They need to provide hard evidence of the positive impact on society, the environment and the strategic returns for the business, and how any negative
effects are being addressed.

6. Management accountants have a particular ethical responsibility to promote an ethics based culture that doesn’t permit practices such as bribery (Smart et al, 2010).

7. Ethics must be embedded in business models, organisational strategy and decision making processes.

The socially responsible actions should be designed as an opportunity strategic (rather than as a constraint to economic efficiency and competitiveness company), as they can contribute significantly to the generation this wealth of intangible assets, which are the foundation of competitive advantage of modern enterprises. The resources spent on public policy in for the community in this context are “an investment for the future.

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PROPUESTA DE UN ESQUEMA TEÓRICO PARA LA IMPLANTACIÓN Y GESTIÓN DE LA RESPONSABILIDAD SOCIAL COOPERATIVA

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RESUMEN
Las sociedades cooperativas poseen una sólida cultura organizacional asentada en un conjunto de principios y valores cooperativos que las configuran, de entrada, como entidades socialmente responsables. Más allá de esta naturaleza responsable innata, estas sociedades han comenzado a desarrollar de una forma más expresa su Responsabilidad Social, la llamada RSCoop. En este trabajo se presenta un modelo teórico que permite profundizar en las implicaciones sociales y competitivas de la RSCoop con el interés de apoyar la implementación de estas actuaciones así como su revelación. De forma más concreta, y ante la inexistencia de trabajos específicos sobre esta materia, nuestro estudio ofrece un marco de trabajo que permite apoyar y guiar a las cooperativas en la aceptación e implementación de su RSCoop.

Palabras clave: Responsabilidad Social; Sociedades Cooperativas; Revelación Social.