



Estonian Business School

CORPORATE RESPONSIBILITY: A KEY TO SUCCESS

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WHY?

Corporate Responsibility

- The world around us has changed
- Human being has changed
- Values have changed
- Working, meaning of work has changed
- Business has changed, its form, meaning and impact have changed
- Society's expectations have changed
- Capitalism = system of social cooperation
- Business enterprise, organization = social citizen



Importance of the Topic

- The increased role and impact of corporations;
- Grown demands for corporations, from both inside and outside of organization;
- Responsibility to respond to these demands > corporate responsibility (CR / CSR);
- Increasing number of research supporting positive impact of CR in long-term perspective and sustainability.
- Recent research showing positive effect in crisis situations and for surviving in turbulent times.
- However CR activities have to be tightly linked to core business goals and lead strategically > strategic corporate responsibility (SCR).

Corporate responsibility

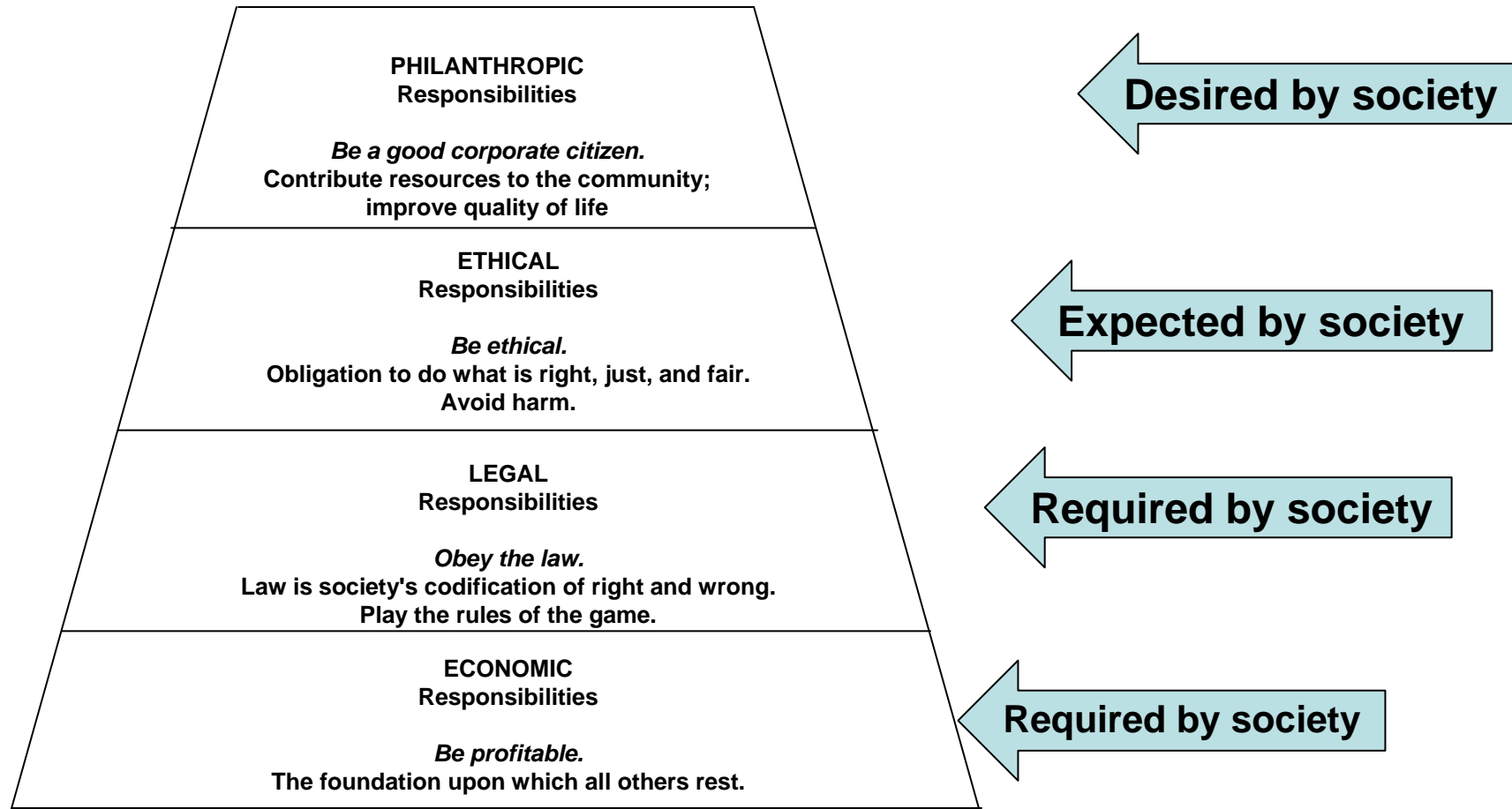
- CR is a catch-all term
- Has many dimensions, relates to many areas of policy
- Also known by: corporate social responsibility, corporate accountability, corporate ethics, corporate citizenship, sustainability, stewardship, triple bottom line and responsible business, etc.
- A value-creating activity (triple P: profit, people, planet) (thus part of Corporate Citizenship)
- A form of cooperation between various stakeholders
- More than charity
- Goes beyond legal requirements
- But: definition depends on the socio-political environment, historic traditions, specific circumstances (crisis), and current economic trends

CR - Business and society

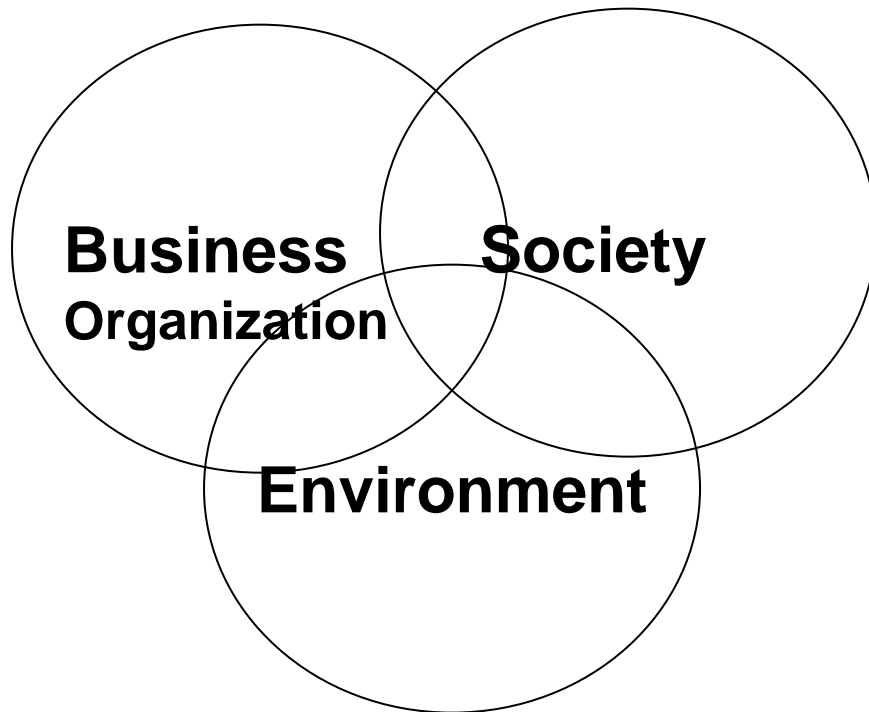
- CR means changing problems into opportunities.
- More developed and competitive society creates more successful organizations.
- Working together, partnership relations give best results, being role models for others.
 - Supporting education and training;
 - Activities for changing value orientations and view points;
 - Better understanding of environments, social views.
- Giving money just for charity and sponsoring is easier, but may not be sustainable in the long run.
- **CR is an investment not a cost**
- **CR should be a strategical choice**

The Pyramid of Corporate Responsibilities

(Carroll, 1991; Carroll, Buchholtz, 2000)



Old and new view (Charlie O'Malley)



Economic results



**Sustain-
ability**

**Results related to
natural environment**

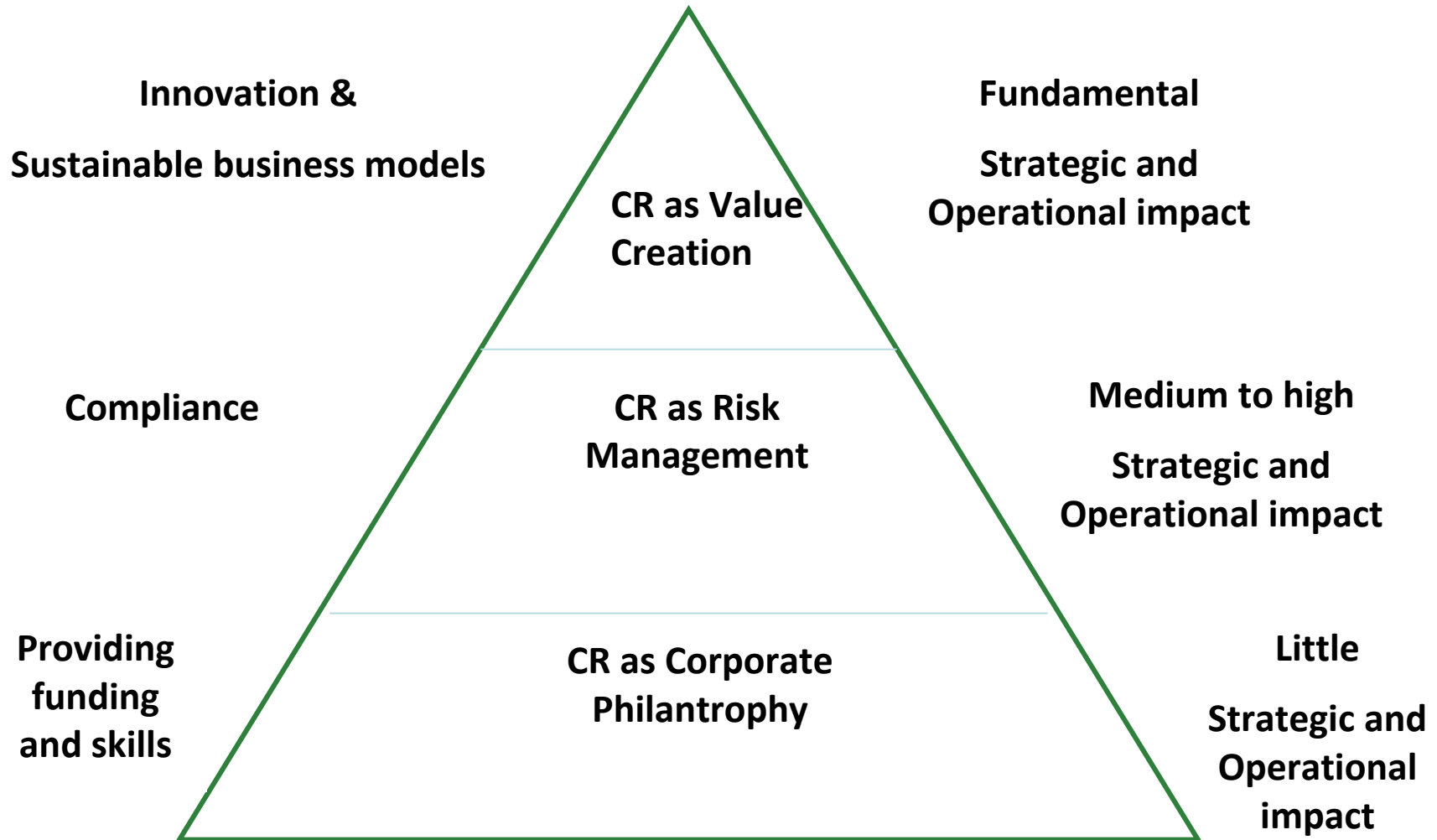


**Results related to
social environment**



Corporate Responsibility means integrating economic, environmental and social dimensions into organisation's management and activities, while considering all affected stakeholders and creating value to all who are involved. (Kooskora, Rääsk, 2009)

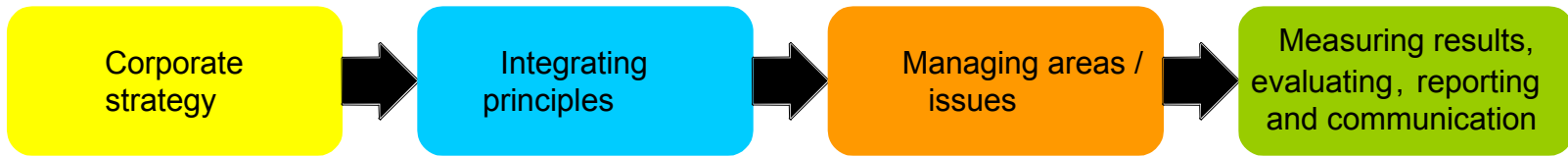
Three approaches to CR



Source: UN Global Compact, 2009

A responsible organization makes sure that:

- It provides highest level of performance, reliability, and quality consistent with the price of the goods or service.
- The product or service meets the specifications on which a buyer makes his/her decision.
- Does no harm or as little harm as is technically and economically feasible.
- This provision applies to a firm's subcontractors and other suppliers.
- All employees treated equally with respect to process.



- Community
- Natural environm
- Working environm
- Market environm

See: Responsible Business Index in Estonia
<http://www.csr.ee>

Ethics view
“CR is something we should do”
Moral and ethical obligations

Strategic view
“CR is good management / leadership”
Need to manage business and avoid external intervention

Economic view
“CR helps to earn / increase profit”
CR benefits > costs



Applying CR principles
Developing action plan / strategy for practicing CR

Enhancing economical and social development

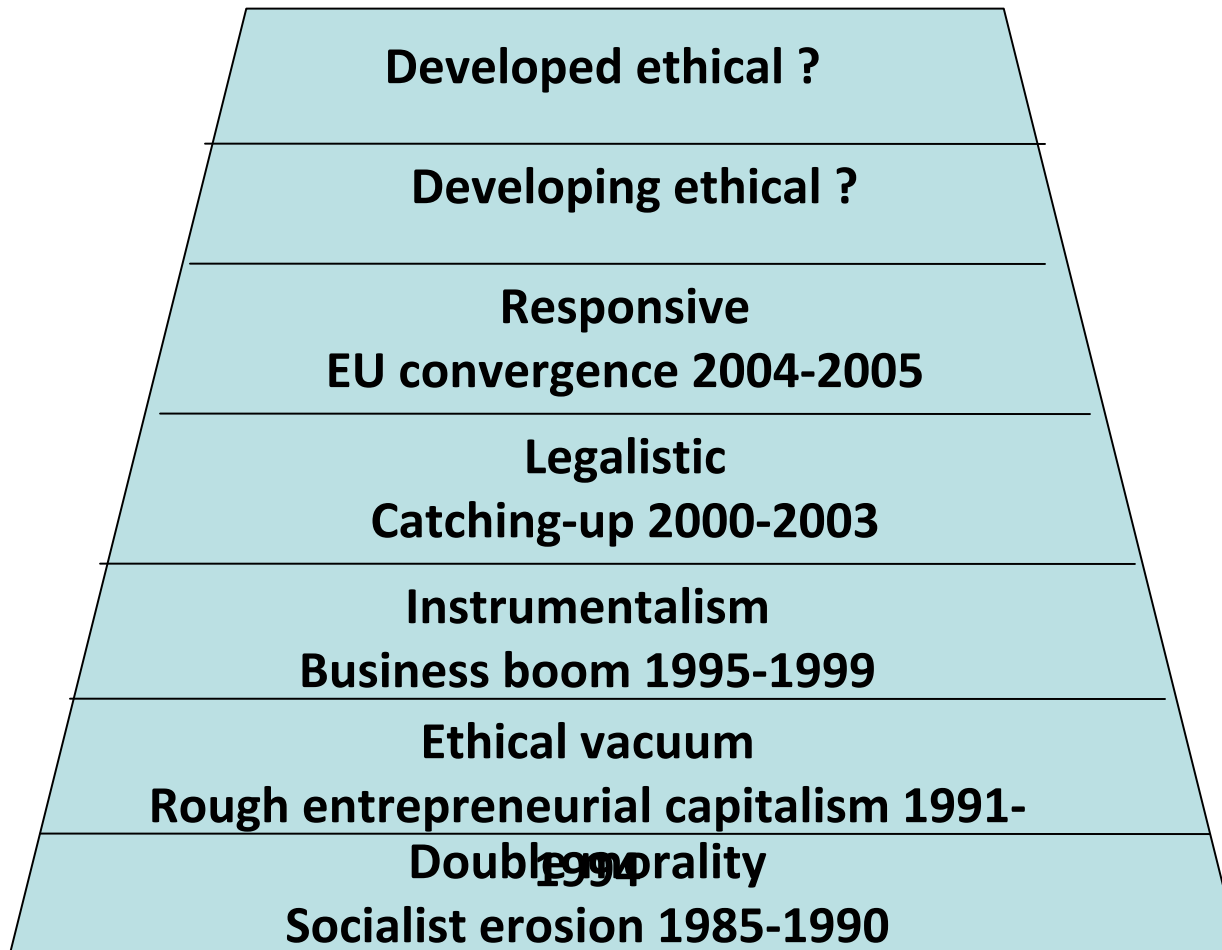
- Responsibility towards environment, society
- Stakeholders, including employees
- Why an organization has to invest in CR:
 - Better working environment, good employees will remain in the organization
 - Products / services, which are needed and what are liked by the organization and its customers
 - Pleasant cooperation with partners
 - Organizations' activities are profitable
 - Produces wealth for the owners and shareholders (also immaterial)
 - Increasing reputation

Typologies of Kohlberg's cognitive MD and Reidenbach & Robin's corporate MD (Kooskora, 2008: 25)

Kohlberg's levels of Moral Development (MD), 1984	Kohlberg's stages of Cognitive MD of individual; social orientation	Reidenbach & Robin 1991, p. 274 Corporate Moral Development
Pre-conventional	Obedience and punishment orientation	
	Reward orientation; Individualism, instrumentalism, exchange	Amoral Maximum profit at all costs
Conventional	Good-boy / good-girl orientation Law and order	Legalistic Follows the letter of the law, legal=ethical
	Authority orientation	Responsive Helps local community, social responsibility if profitable
Post-conventional	Social contract orientation	Emerging ethical Balancing ethics and profit, has ethical artefacts
© Mari Kooskora	Ethical principles orientation	Developed Ethical Principle-driven



CMD model in Estonian business environment context 1985-2005 (Kooskora, 2008)



CMD in Estonian business community context 1985-2005, new model

- Double morality – referring to the period of Socialist erosion (1985 – 1990)
- Ethical vacuum – referring to the period of rough entrepreneurial capitalism (1991 – 1994)
- Instrumental – corresponding to the commercial boom (1995 – 1999)
- Legalistic – a period of catching-up (2000 – 2003)
- Responsive – referring to the period of EU convergence (2004 – 2005)

Synthesis of the dev. of CMD in the Estonian business context (1985 – 2005)

CMD Est. context	Double Morality	Ethical Vacuum	Instrumental	Legalistic	Responsive
Period Est. bus. community	Socialist erosion (1985 – 1990)	Rough entrepr.cap (1991-1994)	Business boom (1995 – 1999)	Catching-up (2000-03)	EU convergence (2004 – 2005)
General description	Officially a closed state-controlled system, soviet ideology with its norms and values; unofficially managers and politicians on higher positions utilizing opportunities for self-benefit, low level of trust, high level of corruption.	Nobody thought and cared about business ethics; short-term survival of the business at any price was the main aim. Reaction to the changed environment, practically no regulations, in places wild, often criminal activities.	Profit was the ultimate goal, there was no place for business ethics; maximum profits at all costs. Breaking the law was not considered serious, tendency to avoid and neglect laws and regulations.	Business ethics over the law has no place in business; however, following the letter of law is mainly respected, thus legal = ethical	Ethical statements and concerns are emerging in businesses as a tool to create positive image; business ethics pays when profitable

Main conclusions of previous CSR studies, Spring 2004

- Small companies (less than 50 employees)
 - CSR activities = providing work; coping in the society; number of activities as small as possible and only when exact benefits are seen; long-term planning and strategic thinking are not considered very important.
- Middle-sized companies (50-250 employees)
 - Awareness somehow higher, but often CSR is equalised to sponsorship; main purpose is to earn profit and CSR activities are considered to be a 'fad' which prevents organisations working with 'more important' issues.
- Large companies (over 250 employees)
 - Viewpoint that all their activities are in general social responsibility and the society can not cope without these companies; quite a perceptible distinction is made between different hierarchical levels, employees on higher levels are more 'own' than the others; at times involved in charity activities in order to gain a better reputation or earn benefits.

CSR research in Estonian org, Spring 2005 – main results

- o **Most important areas of CSR activities:**

- o Being a good employer
- o Obeying laws and regulations
- o Sponsoring and charity

- o **Main drivers for CSR:**

- o Improved relations with partners
- o Owners interest
- o Improving company image

- o **Main barriers for CSR:**

- o Lack of governmental support
- o Lack of financial resources
- o Lack of time resources

CR – concluding remarks

- Capitalism – system of social collaboration
- Most important – how values are created
- CR means organization's devotion to sustainable development
- CR – has to increase well-being and quality of life
- Organization = social citizen
- Different stakeholder groups – one has to focus on the ones who are most important
- Not just giving something back to the society, but to invest in the future, CR is part of everyday business activities, strategical choice!
- Working together and creating value together!

How to begin?



- The real image of the organization starts from inside and therefore more emphasis should firstly be on inside competences, then moving outside.
- Valuing, caring and supporting employees.
- Inclusion, participation, listening and considering employees' ideas in decision making process.
- Opportunities for self-development, building and developing career.
- Continuous, open, multi-level communication, sharing relevant information to all levels.
- Finding balance between work and life; work and family; work and free time, etc.
- Meaningful and varied job tasks, salary that is fair and values an individual, good and supportive working conditions, environment.



Estonian Business School

STRATEGIC CORPORATE RESPONSIBILITY: A KEY TO SUCCESS IN TURBULENT TIMES

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Purpose of the Research

- The purpose of our research is to:
- Find out whether and how CR is related to strategic management, business objectives and leadership competences, and
- Whether the responsible activities of an organisation correspond to the attributes of strategic corporate responsibility (SCR).
- For illustration the results of our study conducted among Estonian organizations that took part in Responsible Business Index (RBI) study 2009 and 2010 are discussed and analysed.

Understanding CR

- CR - a cluster concept overlapping with such concepts as business ethics, corporate philanthropy; corporate citizenship; sustainability and environmental responsibility; sustainable development, social enterprise, global citizenship, and values-driven business, natural, spiritual and compassionate capitalism and triple bottom line, 3 Ps.
- Business contribution to sustainable development by meeting the needs of various stakeholders (e.g. Blowfield et al, 2008).
- A key to sustainable performance and helps organisations to survive and succeed through turbulent times.

Understanding SCR

- A business strategy that is integrated into the company's main activities and key competencies in order to create value for the company and has become a part of corporate culture and daily business processes (McElhaney, 2007).
- SCR > CR goals and activities are aligned with the company's core business objectives and core competencies, linked to the mission, vision and values of the organisation.
- In order to be as part of an effective corporate strategy, CR should be unique to each company based on that company's objectives, risks, opportunities, and competencies.

Developing Stages in CR

- Zadek (2004) identified five stages of CR organisational learning that the companies adopt as they mature in understanding and practicing CR:
 - defensive (when a company denies CR practices, outcomes or responsibilities);
 - compliance (company adopts policy-based compliance approach as a cost of doing business);
 - managerial (embed the CR issue in the core management practices);
 - strategic advantage (integrate CR into their core management practices) and
 - civil (company promotes broad industry participation in CR, corporate citizenship, Matten and Crane, 2005).

CR Maturity and Public Expectations

- Zadek (2004) combined those five stages with four stages of intensity to measure the maturity of CR issues and public expectations around those issues.
 - latent (where there's awareness of CR issues only among activists);
 - emerging (awareness seeps into political and media communities);
 - consolidating (much broader awareness is established) and
 - institutionalised (where's there a tangible reaction from powerful stakeholders).
- Combination of those stages shows the organisations which stakeholders and issues pose the greatest opportunity and danger (Werther and Chandler, 2010).

CR Maturation Process

- McElhaney (2008) described the CR maturation process, where company's CR growth takes place from:
 - philanthropic activities (i.e. donations and grants) through
 - transactional (i.e. event sponsorships, cause-related marketing, employee volunteerism) toward
 - integrative stage (joint advocacy and joint action, deep partnerships, clear financing principles and changing rules of the industry).
- CR management system includes: management's responsibility, determining the expectations of stakeholders, strategic planning, managing resources, processes and systems, measuring and analysing, managing change and constant improvement.
- CR should be treated as the organisation's strategic resource, for improving the corporate performance and quality of life of all stakeholders.

Brief Overview of our Study

- Goal: to find out whether and how CR is related to strategic management, business objectives and leadership competences, and whether the responsible activities of selected Estonian organisations correspond to the attributes of SCR.
- Participants: Estonian organisations who took part in Responsible Business Index (RBI) study in 2009 (no 49) and 2010 (no 55).
- Timeframe: comparative study in 2009 and 2010.
- Idea: public ranking based on the CR performance, filled-in questionnaires.
 - In 2009 partly pre-fulfilled questionnaires, based on the publicly available information (home-pages, annual reports, corporate policies, media releases, etc), were sent to the organisations' representatives, mainly to CEOs.
 - The CEOs were asked to complete the questionnaires and make necessary changes.

Methodology / Approach of the Study

RBI Questionnaire

- The RBI questionnaire has a 4-part structure:
 - questions about business strategy (give 20% of the total 100);
 - integration of CR principles (20 %);
 - issues management (including areas such as community, natural, working and market environments, give 40%), and
 - stakeholder reporting and communication (20%).
- The maximum 100% demonstrates the result which can be regarded as the ideal in our Estonian context, considering our economic, political and social environment and the stages of corporate moral development (Kooskora, 2006; 2008; 2009).

Methodology / Approach of our Study

- Restructured the RBI questionnaire into four new sections: strategic management, measuring performance impact and engaging stakeholders; CR activities, and measuring and communication.
 - **strategic management** – linkage between CR activities and strategic management, corporate objectives and competences and existence of CR principles in company's vision, mission and core values, making strategic decisions; involvement of senior management and the board, following CR principles during crisis situation;
 - **measuring performance impact and engaging stakeholders** - company's awareness of their impact, initiative in enhancing CR issues, awareness of the important stakeholders, considering their expectations, engaging in CR discussions, and also raising awareness about CR and involvement in dialogue with the community, issues of leadership and risk management

Methodology / Approach of our Study 2

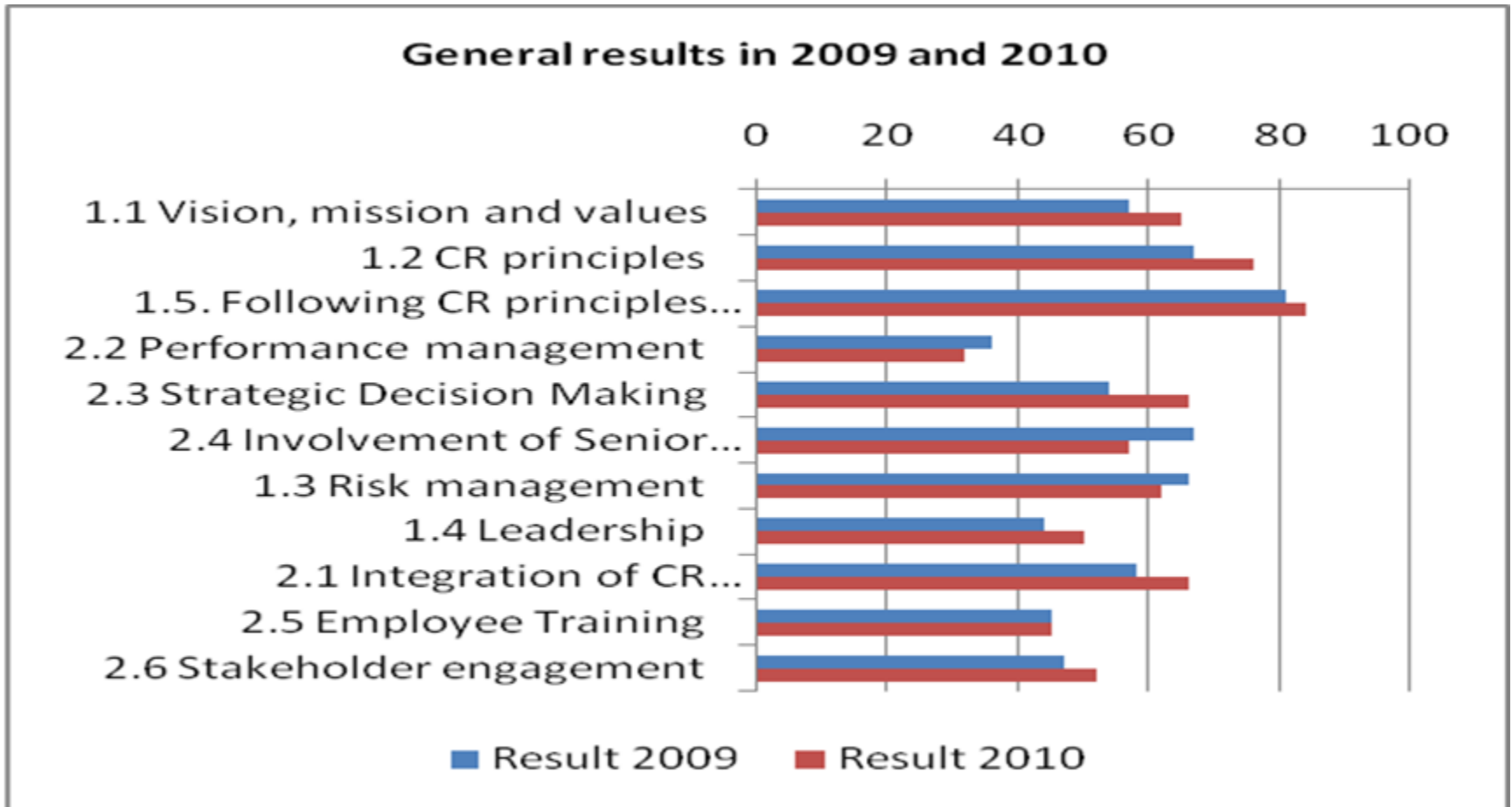
- Restructured the RBI questionnaire into four new sections:
 - **CR activities** - concrete CR activities and whether these are performed according to CR principles, corporate values, mission and vision, CR features in different areas, and
 - **measuring and communication** – measurement and communication of CR activities towards community, natural, working and market environments, the scope of CR reporting, existence and application of CR standards and certification.
 - Innovation - using CR principles in widening product range or creating new products or services to tackle or offer solution to some social problems; the linkage between and impact on CR activities and product and process innovations.

Some Characteristic Findings

Selected Aspects of Responsibility	Score 2009*	Score 2010*	Change
1. Average total score	60%	62%	+ 2
2. Issues management (highest)	71%	71%	-
3. Measurement, reporting, communication (lowest)	51%	48%	- 3
4. Integrating CR principles among employees	52%	54%	+ 2
5. Issues mngt - Working environment	67%	71%	+ 4
6. Issues mngt – Market environment	62%	76%	+ 14
7. Following CR principles during recession times	82%	84%	+2

* Score % shows the maximum 100%, which demonstrates the result that can be regarded as the ideal in our Estonian context.

Comparison of General Results of Sections I & II in 2009 and 2010



General Ranking of Leading top 10 Companies in 2009 and 2010

	Year 2009		Year 2010	
Rank	Company	Score	Company	Score
1.	Swedbank (Hansapank AS)	92,7	Coca-Cola HBC Eesti AS	95,8
2.	Tallinna Vesi AS	92,7	Swedbank	90,6
3.	Coca-Cola HBC Eesti AS	88,4	Eesti Energia AS	89,2
4.	Eesti Energia AS	87,9	Microsoft Estonia OÜ	84,9
5.	Eesti Statoil AS	86,6	Eesti Post	84,8
6.	Microsoft Estonia OÜ	85,1	ABB AS	83,5
7.	Lennuliiklusteeninduse AS	83,0	Ecoprint AS	79,4
8.	Tallink Grupp AS	81,1	Riigimetsa Majandamise Keskus	79,3
9.	Ragn-Sells AS	78,6	If P&C Insurance AS	79,0
10.	Riigimetsa Majandamise Keskus	77,5	Lennuliiklusteeninduse AS	75,4

Concluding Remarks

- CR and CSR are hot topics, but SCR is much less discussed and even less practiced.
- SCR as key to survive and succeed in turbulent times.
- Our study can not be generalised to all Estonian organisations, but still shows some trends.
- Participants already aware of and practicing CR, and want to move forward, develop further.
- Strongest in keeping to the principles during recession time, cuttings in charity and philanthropic expenses, but movement towards a more strategic approach.
- Further studies may give more generalisable data.
- Positive: development is seen and growing number of organisations are involved and want to develop further.

Thank you for your attention!



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