Social Responsibility and HR Strategy

- Research shows a growing global consensus on basic standards of corporate behavior while socially responsible business practices are moving to the center of corporate strategy.

- A stronger integration of social responsibility into business strategy emphasizes responsible employment practices and HR's strategic role in communicating, protecting and maintaining business values.

- The trend toward viewing social progress in alignment with business strategy could strongly influence the development of strategic HR practices in the years ahead.
The concept of corporate social responsibility (CSR) is not a new one. The idea that business must consider the impact of its decisions and operations on the well-being of employees and other stakeholders—and not only on business owners and shareholders—influenced the development of business practices throughout the Industrial Revolution and into the Progressive Era as ideas of what constituted a modern workplace were first beginning to take shape. But while the concept of socially responsible business practices is relatively deep-rooted in the history of modern business management, recent trends suggest that it is undergoing an important transformation that could have major implications for the HR profession.

The convergence of business strategy and socially responsible business practices

The relative strategic importance of human resource management as a function and profession can, in many ways, be correlated to the strategic importance of social responsibility in business practices. Human resource management as a profession evolved to a great extent in response to the social imperatives and pressures of the times, particularly the need to maintain standards of health and safety for workers as the modern manufacturing era developed. As the interface between worker and employer, HR has always had a better insight into the importance of responsible business practices than any other business function, especially as they pertain to the well-being of the employee. For this reason, the recent shift among business leaders in both the corporate and academic realm from viewing socially responsible business practices as a peripheral issue, related mainly to brand perception or public relations, to a central strategic issue—and in particular a potential source of innovation that leads to competitive advantage—marks a dramatic change and a significant leadership opportunity for HR professionals.

A growing global consensus on standards of corporate behavior

Of course, considering social progress as a central part of business strategy is not yet a universal business principle. But a growing number of influential business thinkers, led by corporate leaders and social entrepreneurs who are actually putting these ideas into practice, are bringing the concept of social responsibility as a key component of business strategy into the mainstream.

There are two aspects to this mainstreaming—practice and theory. The first is reflected simply in the increase in the number of organizations around the world that include some aspect of CSR in either their business practices or company policies and the resulting growing global consensus on basic standards of corporate behavior. A recent SHRM pilot survey on CSR in multiple countries shows that a majority of HR professionals in countries around the world report that their organizations have CSR practices in place (see Figure 1) and that these practices cover a wide range of issues (see Table 1).

Greater attention given to accepted codes of conduct and CSR by corporate leaders may be led in part by legal developments across the world. In the United States, both the NASDAQ and New York Stock Exchange require listed companies to disclose a code of conduct, while the European Commission has issued directives that encourage and promote standards of corporate responsibility, particularly in relation to employment. Multinational bodies such as the United Nations, International Labor Organization and Organization for Economic Cooperation and Development, as well as regional bodies not only in North America and Europe but also in Asia, Africa and South America, have issued CSR guidelines and conduct codes.

Globalization of supply chains has led to interdependence among regions, meaning that pressures to develop codes of conduct in one region inevitably have an influence on other regions. Company codes of conduct may have even greater implications for corporations that have operations across national boundaries than they do between supply chain partners. As companies expand their operations around the world, company codes of conduct that span across national and regional borders are likely to further integrate views on corporate conduct across regions.

There is evidence that this is, in fact, already happening. Given the large number of different sources of business codes of conduct—from those offered by nonprofit advocacy groups to national and regional governing bodies, in addition to those developed internally by individual companies—it has been difficult to identify overarching trends in the kinds of issues covered in most codes. However, recent research indicates that a common set of imperatives and even a kind of global consensus on codes of conduct are developing. A team of Harvard Business School researchers analyzed and compared codes of conduct to identify similarities and motivating principles. Though the researchers did find differences, particularly between codes developed through businesses themselves and those written by bodies representing...
Figure 1 | Corporate Social Responsibility Practices (by Country)

Table 1 | Selected CSR Practices (by Country)

<table>
<thead>
<tr>
<th>Practice</th>
<th>United States (n = 420)</th>
<th>Australia (n = 266)</th>
<th>India (n = 161)</th>
<th>China (n = 108)</th>
<th>Canada (n = 1,084)</th>
<th>Mexico (n = 109)</th>
<th>Brazil (n = 152)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donate/collect money for local charities</td>
<td>88%</td>
<td>84%</td>
<td>60%</td>
<td>64%</td>
<td>90%</td>
<td>76%</td>
<td>74%</td>
</tr>
<tr>
<td>Donate/collect money for natural disasters</td>
<td>77%</td>
<td>68%</td>
<td>70%</td>
<td>69%</td>
<td>51%</td>
<td>61%</td>
<td>30%</td>
</tr>
<tr>
<td>Support the community through company-sponsored volunteer projects</td>
<td>66%</td>
<td>51%</td>
<td>57%</td>
<td>26%</td>
<td>58%</td>
<td>45%</td>
<td>73%</td>
</tr>
<tr>
<td>Consider the overall social impact of business decisions</td>
<td>47%</td>
<td>52%</td>
<td>38%</td>
<td>35%</td>
<td>54%</td>
<td>26%</td>
<td>62%</td>
</tr>
<tr>
<td>Partner with woman- or minority-owned suppliers/companies</td>
<td>39%</td>
<td>12%</td>
<td>22%</td>
<td>-</td>
<td>19%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Monitor the impact of business on the environment</td>
<td>34%</td>
<td>50%</td>
<td>39%</td>
<td>23%</td>
<td>53%</td>
<td>42%</td>
<td>65%</td>
</tr>
<tr>
<td>Partner with environmentally friendly suppliers/companies</td>
<td>27%</td>
<td>36%</td>
<td>39%</td>
<td>22%</td>
<td>38%</td>
<td>37%</td>
<td>70%</td>
</tr>
<tr>
<td>Cause marketing/branding</td>
<td>25%</td>
<td>32%</td>
<td>31%</td>
<td>31%</td>
<td>32%</td>
<td>27%</td>
<td>48%</td>
</tr>
<tr>
<td>Monitor global fair labor standards/practices</td>
<td>15%</td>
<td>17%</td>
<td>39%</td>
<td>19%</td>
<td>22%</td>
<td>53%</td>
<td>73%</td>
</tr>
<tr>
<td>Track sources of global raw materials/suppliers</td>
<td>7%</td>
<td>9%</td>
<td>13%</td>
<td>10%</td>
<td>8%</td>
<td>19%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Note: Data sorted in descending order by the U.S. data. Percentages do not total 100% due to multiple response options. The response option “partner with woman- or minority-owned suppliers/companies” was not available to respondents from China. The data from outside of the United States were based on a pilot study; caution should be exercised when interpreting results with small sample sizes.

Source: SHRM 2007 Corporate Social Responsibility Pilot Study
multiple stakeholders, the findings enabled them to create an overarching set of principles and conduct standards into a Global Business Standards Codex.

Out of the approximately 130 precepts examined in the 23 sources, researchers identified eight basic principles underlying the evolving global standards for business.

- **The Fiduciary Principle** is described as carrying out business diligently and professionally through the prudent use of company resources.
- **The Property Principle** involves respecting property and the rights of property owners. This principle deals with theft and waste or misuse of property entrusted to the firm.
- **The Reliability Principle** includes honoring commitments and promises such as paying partners and suppliers on time.
- **The Transparency Principle** focuses on openness and truthfulness in agreements, financial records and respect for confidentiality and privacy of stakeholders such as employees, customers, partners and suppliers.
- **The Dignity Principle** is the principle that places the most emphasis on human rights, especially health, safety and privacy. It involves many stakeholders as it seeks to respect and support the human rights of all “within the company’s sphere of influence.” Recognition of employees’ right to free association and collective bargaining is also part of this principle.
- **The Fairness Principle** covers the practices of nondiscriminatory employment such as fair compensation and equal employment opportunities.
- **The Citizenship Principle** emphasizes respect for the law and cooperation with public authorities, avoidance of corruption in the form of bribery or improper involvement in politics. It also involves contribution to the communities where the company does business.
- **The Responsiveness Principle** addresses the response to the concerns of investors, customers, employees and the public. It can range from offering quality products that address customer needs to responding to local issues by supporting practices that promote social or economic development.

The eight principles that support the Global Business Standards Codex demonstrate how central HR practices are to the evolving global consensus of proper business conduct. Some examples are obvious and longstanding parts of HR’s work, such as establishing fair and equal recruitment and compensation practices. Others are growing more relevant, such as the respect for employee privacy and the safeguarding of employee information from threats such as identity theft. Because each of the principles involves the obligations between the organization and its main stakeholders—of which employees are among the most crucial—the underlying principles that are shaping ideas on proper business conduct are also helping set the parameters of many of the most common HR processes.

**Seeking competitive advantage in social responsibility**

Another reason a global consensus on a basic set of principles that guide company conduct may be developing is that large-scale social problems are increasingly being viewed as major business threats. A good example at the U.S. national level is the growing number of individuals, families and children without health insurance—which has gradually moved from being seen as a social or political issue to a threat to national competitiveness. Globally, climate change and other environmental problems are coming to be viewed not only as potentially devastating to ecosystems but also as a threat to businesses and economies.

Conversely, solutions to major social or environmental problems are increasingly seen as new sources of business opportunities. Thus, offering products and services tailored to those at the “bottom of the pyramid” may be a way to tap into a potentially vast market of consumers made up of the world’s approximately 5 billion people living in poverty, while venture capitalists’ investments in new “green” technologies may be a way to get in on the ground floor of potentially world-changing—and highly profitable—new sources of energy and productivity.

The convergence of the growing business threat of global social and environmental problems with the business growth opportunities that solutions to such problems offer has helped to break down the idea that business and social needs are automatically in opposition to one another. At the same time, the enormity of today’s challenges has also made clear that, as powerful a force as business is, individual organizations—even large multinational corporations—cannot address every problem with equal effectiveness. Put together, these factors are leading to the recognition that CSR must be approached strategically in order to have a real impact.

This recognition is being reflected in both the theory and practice of business strategy. In the theoretical and academic realm, leading business strategy academics such as Harvard’s Michael Porter are rethinking CSR as a strategic issue. According to Porter, business and civil society have focused
far too much on the points of friction between them and not enough on their mutual dependence. In an article written with Mark Kramer, a business adviser on the social impact of business practices, Porter outlined how “both business decisions and social policies must follow the principle of shared value. That is, choices must benefit both sides. If either a business or a society pursues policies that benefit its interests at the expense of the other, it will find itself on a dangerous path. A temporary gain to one will undermine the long-term prosperity of both. To put these broad principles into practice, a company must integrate a social perspective into the core frameworks it already uses to understand competition and guide its business strategy.”

According to Porter and Kramer, how businesses integrate a social perspective into the development of their business strategies involves identifying where their own operations and society have the strongest points of intersection. This in turn helps them choose which social issues are most critical for them to address. Organizations guided solely by public image objectives are less likely to choose the issues that enable them to have the strongest impact over the long term. They may also be more likely to choose too many issues and end up having no discernable positive influence over any of them. By clearly identifying where their strongest business drivers most closely intersect with social issues, organizations are more likely to address social issues most effectively. Porter and Kramer organize this degree of intersection into a framework of three basic levels of prioritization.

- **Generic Social Issues** are important but are not significantly influenced by the company and do not have any impact on the organization’s competitiveness over the long term.
- **Value Chain Social Impacts** are social issues that the organization’s normal business activities significantly affect.
- **Social Dimensions of Competitive Context** are the factors that have the greatest influence on the organization’s drivers of competitiveness.

For a small local organization, assessing the issues that fit into these categories may be relatively straightforward, whereas for a larger organization with operations around the world, the dimensions of each could vary depending on the environmental, political and social context of each location, business unit or function. In some cases, the role of HR and of itself may become part of the strategic considerations related to social responsibility.

CSR as an active component of creating competitive advantage has now moved well beyond theory. Many innovations and technologies that have developed in order to address environmental problems or to meet the needs of low-income markets and solve social problems have proven to be among the most profitable in recent years. Among the most high-profile examples are the success of the Toyota Prius hybrid gas-electric car or Nokia’s and Ericsson’s efforts to bring

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**Figure 2 | The Role of Business in Society**

Which of the following statements best describes the role that large corporations (public and private) should play in society?

Focus solely on providing the highest possible returns to investors while obeying all laws and regulations

Generate high returns to investors but balance with contributions to the broader public good

Which of the following statements best describes the overall contribution that large corporations (public and private) make to the public good?

Generally or somewhat positive

Generally or somewhat negative

Neutral

Source: Global survey of business executives
mobile communications technologies to developing nations while opening up potentially vast new customer markets in the process.

In fact, investors are now beginning to investigate sustainability practices as a potential sign of innovation, intangible assets and competitive advantage. In just a few years, there has been rapid growth in research among banking and investment firms into how social and environmental factors may influence future corporate competitiveness. The sustainable or socially responsible business practices that companies are putting in place today are being used as markers to identify which firms may have a competitive advantage in meeting market challenges in the years ahead. Brokerage-led research groups studying intangible assets are looking beyond conventional financial performance metrics to learn about the effect of factors such as employment practices, health and safety records, litigation, regulatory and supply-chain management history, and energy use.

Investment firms seeking to unlock the value in previously unexamined factors are still in the early stages of the process and continue to experiment with the best way to assess and measure the impact of specific practices. One thing seems clear: a simple list of company CSR practices alone is not enough to forecast future financial performance. Investment research firms cite several examples of companies with strong CSR brands and only mediocre financial results. The companies that seem to do the best are those that consider sustainability and socially responsible business practices through a strategic lens. This supports Porter’s contention that generic socially responsible practices in a vacuum are often of little value. Though this makes measuring the influence of specific factors much less straightforward, sustainability efforts and social responsibility may come to be seen as important signals to consider in the financial valuation of businesses as these metrics grow more sophisticated and as the impact of different factors becomes better understood.

Social responsibility and strategic HR practices

The growing recognition of the strategic importance of socially responsible business practices could have a significant influence on HR’s strategic role for several reasons. Along with the growing value of intangible assets as a share of overall company value, attempts to measure the impact of socially responsible business and employment practices are emphasizing the importance of new kinds of metrics, many of which are the direct responsibility of HR. In addition, while CEOs and other business leaders are recognizing the strategic importance of socially responsible and sustainable business practices, they are not yet confident in their abilities to handle the new pressures these issues represent. A 2006 McKinsey survey found that business executives around the world believe, by an overwhelming margin, in the idea that obligations to shareholders must be balanced with contributions to the public good (see Figure 2). But the same survey also found that 46% think their own companies have “substantial room for improvement” in anticipating social pressures. Many of the steps they believe to be the most effective for this involve the development and implementation of policies on ethics and CSR issues, engaging stakeholders and improving compliance with laws and regulations. These are all areas where HR could have a significant responsibility, giving HR professionals an opportunity to provide leadership in developing and implementing strategies that determine competitive advantage.

Many of the social issues business executives in the McKinsey study think will have the largest effect on share-

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Table 2 | Direct HR Involvement in CSR Issues (by Country)

<table>
<thead>
<tr>
<th></th>
<th>UNITED STATES (n = 431)</th>
<th>AUSTRALIA (n = 286)</th>
<th>INDIA (n = 170)</th>
<th>CHINA (n = 117)</th>
<th>CANADA (n = 1,145)</th>
<th>MEXICO (n = 114)</th>
<th>BRAZIL (n = 153)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directly involved in corporate social responsibility programs</td>
<td>66%</td>
<td>64%</td>
<td>64%</td>
<td>69%</td>
<td>64%</td>
<td>80%</td>
<td>83%</td>
</tr>
<tr>
<td>Directly involved in community outreach programs</td>
<td>65%</td>
<td>40%</td>
<td>56%</td>
<td>61%</td>
<td>52%</td>
<td>87%</td>
<td>68%</td>
</tr>
<tr>
<td>Directly involved in corporate governance regulation</td>
<td>49%</td>
<td>44%</td>
<td>49%</td>
<td>49%</td>
<td>55%</td>
<td>59%</td>
<td>80%</td>
</tr>
</tbody>
</table>

Note: Data sorted in descending order by the U.S. data. HR professionals who indicated that their organizations did not have CSR policies or were unsure of their organizations’ policies were excluded from this analysis. The data from outside of the United States were based on a pilot study; caution should be exercised when interpreting results with small sample sizes. Percentages exceed 100% due to multiple response options.

Source: SHRM 2007 Corporate Social Responsibility Pilot Study
### Table 3 | Positive Outcomes of CSR Programs (by Country)

<table>
<thead>
<tr>
<th></th>
<th>United States (n = 309)</th>
<th>Australia (n = 214)</th>
<th>India (n = 134)</th>
<th>China (n = 82)</th>
<th>Canada (n = 844)</th>
<th>Mexico (n = 88)</th>
<th>Brazil (n = 135)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stronger public image</td>
<td>74%</td>
<td>65%</td>
<td>67%</td>
<td>67%</td>
<td>76%</td>
<td>67%</td>
<td>81%</td>
</tr>
<tr>
<td>Improved employee morale</td>
<td>61%</td>
<td>63%</td>
<td>58%</td>
<td>26%</td>
<td>50%</td>
<td>61%</td>
<td>68%</td>
</tr>
<tr>
<td>Increased employee loyalty</td>
<td>48%</td>
<td>44%</td>
<td>43%</td>
<td>28%</td>
<td>41%</td>
<td>55%</td>
<td>59%</td>
</tr>
<tr>
<td>Increased consumer/customer confidence</td>
<td>45%</td>
<td>36%</td>
<td>40%</td>
<td>51%</td>
<td>45%</td>
<td>48%</td>
<td>60%</td>
</tr>
<tr>
<td>Increased brand recognition</td>
<td>42%</td>
<td>44%</td>
<td>56%</td>
<td>61%</td>
<td>41%</td>
<td>45%</td>
<td>66%</td>
</tr>
<tr>
<td>Position as an employer of choice</td>
<td>39%</td>
<td>38%</td>
<td>35%</td>
<td>37%</td>
<td>44%</td>
<td>40%</td>
<td>59%</td>
</tr>
<tr>
<td>Increased employee retention</td>
<td>24%</td>
<td>24%</td>
<td>16%</td>
<td>12%</td>
<td>29%</td>
<td>32%</td>
<td>23%</td>
</tr>
<tr>
<td>Increased recruitment of top employees</td>
<td>19%</td>
<td>18%</td>
<td>18%</td>
<td>17%</td>
<td>25%</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>17%</td>
<td>15%</td>
<td>22%</td>
<td>13%</td>
<td>17%</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>Increased workforce productivity</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
<td>7%</td>
<td>12%</td>
<td>19%</td>
<td>26%</td>
</tr>
<tr>
<td>Positive financial bottom line</td>
<td>15%</td>
<td>8%</td>
<td>16%</td>
<td>6%</td>
<td>14%</td>
<td>14%</td>
<td>19%</td>
</tr>
</tbody>
</table>

*Note: Data sorted in descending order by the U.S. data. Percentages do not total 100% due to multiple response options. HR professionals who indicated “not applicable; we do not have corporate social responsibility programs” were excluded from this analysis. The data from outside of the United States were based on a pilot study; caution should be exercised when interpreting results with small sample sizes.*

*Source: SHRM 2007 Corporate Social Responsibility Pilot Study*
holder value are also those that directly involve HR, including the management of job loss and offshoring, pension and retirement benefits, privacy and data security, health care and other employee benefits, pay inequality between senior executives and other employees, workplace conditions, and safety. HR's direct involvement in CSR issues is already quite high (see Table 2). Still, it is not surprising that most HR professionals expect their role in promoting CSR to grow even more—72% of HR professionals in the SHRM Workplace Forecast say their organization is already increasing or planning to increase HR's role in this area.

HR professionals are already leading their organizations in the development of employment policies that overlap with major social issues such as public health, privacy and retirement security. In addition, they are likely to be called upon to build on existing HR metrics that assess the impact of intangible assets in order to develop new metrics that can measure the return on investment of socially responsible business practices—something organizations around the world are finding difficult to do (see Figure 3).

Not only could HR help its business leaders develop socially responsible business strategies and measure their effectiveness, but a new emphasis on socially responsible business practices could give HR more support in its existing responsibilities. The carrying out of standard employment practices may increasingly be viewed as an indicator of socially responsible business practices, and many of the most positive outcomes of CSR practices appear to affect employees through improved morale, increased loyalty, retention and the organization's position as employer of choice (see Table 3).

Conclusion
Current trends suggest that social responsibility and sustainability are likely to be even more important in the years ahead. There are continuous developments in regional and state legislation on everything from health insurance to renewable energy, and more than ever before, customers and employees, particularly those in Gen X and Y, may weigh social responsibility as a major factor in deciding where to work or what products to buy. HR professionals will not only have the opportunity to work with their organizational leadership on developing strategic initiatives built around social responsibility, but will also have the responsibility of helping employees deal with the transition to new ways of working that may result from these changes. A new emphasis on CSR could also help organizations develop a purpose and a set of values that are built for the long term. Communicating and maintaining the values that enable organizations to create strategies that look beyond short-term profit could be one of the most important contributions HR professionals will make as they work with their business leaders to develop winning business strategies that also contribute to the greater good.

Resources


