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HOW DO WE BUILD CORPORATE SOCIAL STRATEGY?

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Introduction

The sagacious management of firm resources has been at the core of strategic management theory for half a century (Penrose, 1959). In fact, if strategic management scholars agree on anything, it is that firm success rests on how firms develop and acquire, organize and deploy resources in competitive market environments.

Accordingly, strategy rarely focuses directly on wealth creation or profit, but rather on the intermediate or proximate goal of competitive advantage. Profit, in this scheme, is the end result of having a competitive advantage and leveraging it (Porter, 1980, 1985). Create competitive advantage, get your products and services to the market, and the profits should come.

In our work on social strategy, our approach to creating competitive advantage focuses on resources as well. However, unlike many in strategy, we treat external and internal resources as equally vital to firm success. In the model developed in this chapter, we consider the external environment in terms of resource dependence (Pfeffer and Salancik, 1978), and the internal firm environment from the perspective of the resource-based view of the firm (Barney, 1991).

Though intuitively resource dependence and the resource-based view RBV would seem to be an obvious pairing – external and internal resource matching – in management research this is rarely the case. The reason is a recurring theme in academics; the theories come from separate disciplines. Resource dependence comes from a sociology tradition, whereas RBV was developed by strategic management microeconomists (Popp *et al.*, 2006). Furthermore, resource dependence is a macro-level concept initially designed to describe how populations of firms deal with the external resource environment, whereas RBV focuses on the unique internal resources of individual firms that give rise to competitive advantage.

Disputing academic camps are not particular to strategy management. However, the conflict in the 1980s and 1990s between Michael Porter's industrial organization approach to strategy based on choosing the right markets, and RBV's emphasis on unique firm resources, ripped apart an integrated and more accurate concept of strategy that the field is still struggling to restore. In developing social strategy, we have chosen what we believe is a more open, inclusive, and balanced approach to strategy in which it is possible to explain why RBV is compatible both with resource dependence and industrial organization economics. Social strategy is, in this respect, a throwback to earlier strategy models that take into account the firm's internal environment (resources and values) and the organization's reliance upon and interaction with an external environment composed of both market and nonmarket factors.

This integrated approach to strategy, market or social, is also much more in line with how managers work. To begin with, no self-respecting CEO can afford to think of her or his firm either as just an actor in a competitive environment or as the owner of unique resources swimming in vast blue oceans. Rather, effective management treats with equal weight what the world is like out there (less or more stable, dynamic, munificent, etc.) and the firm's resources (better or worse or unique talent, products, finances, social capital, etc.). We should not forget, nonetheless, that the resources required by social strategy are broader than those needed for traditional market strategy. Whether acquired from the external environment or developed internally is circumstantial, though the addition of social strategy-based resources and capabilities often requires investing in relationships with nonmarket stakeholders absent in traditional market strategy formulation. As we have argued earlier, social strategy extends competitive strategy to include a broader range of inputs and, in turn, expands the possibilities of achieving new and unique strategic positions.

This, we trust, provides a fair explanation of our understanding of the raw materials of social strategy. With this in hand, we now turn to a more practice-oriented discussion of how firms may choose to develop and implement a social strategy.

Social strategy as business development

This chapter discusses the design of corporate social strategy via the logic of a business development plan for a new product or service. The raw materials of corporate social strategy are social issues and stakeholder positions on those issues. From here, firms develop social action projects that acquire key resources from the environment and build on critical firm resources which, in combination, are difficult to imitate and lead to the creation of new products and services that provide additional value for current or new customers.

The following seven-step model of corporate social strategy provides a more structured explanation of the story we have just told.

Step 1: Analyze social issue opportunities, competitive environment, and nonmarket stakeholders (environmental analysis) including potential creation of competitive advantage.

Step 2: Analyze firm resources and capabilities to see whether the firm can take advantage of those opportunities.

Step 3: Evaluate firm identity (corporate culture, values, etc.) in terms of social needs and opportunities. Most firms initiate values projects first; we suggest that they first consider the social context.

Step 4: If the firm does not have the requisite resources and capabilities, determine the means and cost of acquiring them. Frequently, alliances and other forms of collaboration are necessary.

Step 5: Create a plan integrating issues, stakeholders, identity, resources, competitive environment and expected outcomes.

Step 6: Implement the plan.

Step 7: Measure and evaluate performance.

The rest of the chapter will be devoted to reviewing the seven steps. Most of our effort will be spent on Step 1. The issues central to Steps 2, 3, 4, and 7 each have a chapter devoted to them. In our discussion of Steps 5 and 6, we will limit ourselves to discussing only those aspects particular to social strategy.

Step 1

Step 1: Analyze social issue opportunities, competitive environment, and nonmarket stakeholders (environmental analysis) including potential creation of competitive advantage.

Identify social opportunities

Too often firms engage in social issues that are tangential to the firm's business. It is no wonder that corporate initiatives based on these issues do not create value for the firm. Michael Porter and Mark Kramer (2006) have developed an approach for how firms can identify relevant issues central to the firm's business. The firm should first look "inside-out" by examining its own value chain (Porter, 1985). Each element of the value chain has significant social and environmental impacts. The primary activities of inbound logistics, operations, outbound logistics, marketing and sales, and after-sales service all provide clues as to the potential impacts of the firm on society. In addition, support activities of firm infrastructure, human resources, technology development, and procurement provide additional opportunities to affect the surround-ing social and natural environment. Thus, Porter and Kramer (2006) recommend that within the universe of all possible social causes a firm might take up, the obvious candidates are those causes that relate to impacts of the firm's value chain.[1]

Firms should then examine those aspects of the firm's environment that impact the firm's activities. This is the so-called activity of "looking outside-in." Porter's (1990) diamond model provides one way of identifying these social impacts. The diamond model examines the context for firm strategy in terms of competitive rivalry, factor (input) conditions, local demand, and the strength of related and supporting industries. The diamond represents a subset of the firm's stakeholder map, but focuses on those elements of the stakeholder map that affect a firm's competitiveness (Hillman and Keim, 2001). Thus, as we will explain in greater detail in Chapter 5, social strategy acquires high levels of centrality when firms focus on those issues that either affect its value chain or are affected by some element of the firm's value chain. It is this subset of social issues that presents strategic opportunities for the firm.

Market Environment

The market environment has been conceptualized in two very different ways. On the one hand, strategy has examined the impact of managerial perception on decision-making; given bounded rationality, it is inevitable that managers across firms have varying understandings of the market environment. Drawing from industrial economics, strategy scholars have also examined markets in terms of industry structure, often using game-theoretic techniques. In this chapter, we focus on perceptual analysis and its importance to social strategy. In Chapter 6, we will also take up game-theoretic models of industry structure.

The market environment affects the success of firm strategies (Dess and Beard, 1984; Sutcliffe and Huber, 1998) as well as the development of capabilities that permit successful implementation of those strategies. The market environment can be grouped around three fundamental constructs: dynamism, munificence, complexity (Dess and Beard, 1984; Keats and Hitt, 1988; Amit and Schoemaker, 1993; Sutcliffe and Huber, 1998). These three dimensions, derived from the environmental analysis literature, are indicators of the relationship and dependence that competitors in an industry have upon suppliers and customers, and other primary stakeholders, and are key to managerial *perception* of opportunities for engaging in social strategy.

Why the emphasis on perception rather than factual data? There are two main reasons. One, the three constructs describe features of the environment that the firm does not control and for which timely data collection can be difficult – a textbook case of bounded rationality. Second, and perhaps more importantly, different managers will interpret the same data as more or less dynamic and so on. Managerial perceptions of the environment are similar to perceptions of risk; much depends on how individuals and collectives selectively respond to and, in effect, enact their environments (Weick, 1995).[2]

With this in mind, we describe the three constructs.

Dynamism. Dynamism measures the difficulty in forecasting external events that may affect the competitive environment (Aldrich, 1979). In dynamic market environments, the availability of resources upon which the firm depends is unpredictable. Complexity indicates the number and variety of environmental influences and their impact on the competitive environment (Duncan, 1972; Dess and Beard, 1984). Complex market environments are characterized by heterogeneous resources. Munificence refers to the relative abundance or scarcity of resources to support sustained growth in a given competitive environment (Staw and Szwajkowski, 1975; Dess and Beard, 1984).[3]

Increased dynamism in an industry leads managers to take more risks and implement innovation strategies in an attempt to overcome uncertainty and minimize the effects of environments they find hard to understand (Miller, 1987; Buchko, 1994). In this context, the incorporation of social change activities into the firm's business strategy enables the firm to break away from established industry practices and organizational routines. For example, social strategy may be a viable alternative where there are abundant nonmarket resources and the availability of market resources is unpredictable. In this way, such firms avoid the pitfall identified long ago by the American jurist, Oliver Wendall Holmes, with respect to the law when he wrote, "To rest on a formula is a slumber, which prolonged means death." In dynamic environments, firms that have not yet explored the possibilities of social strategies may find them to be a singularly adaptive mechanism when faced with unforeseen market changes.

The Body Shop is a classic example of the firm that took advantage of market dynamism. As a new market entrant, The Body Shop understood that a significant customer segment had rejected traditional beauty products. In an environment of new social trends and emerging lifestyles, The Body Shop pursued innovation through social strategy. Integrating social change initiatives of women's liberation, fair trade, and animal rights, Anita Roddick's firm configured a social strategy embracing market and nonmarket activities in the pursuit of inter-related, competitive advantages in stakeholder integration, perceived product safety, closeness to women customers, etc. Anita Roddick was nearly alone in perceiving dynamism in this way in the sector and understanding how social strategy might be used to build competitive advantage.

The Body Shop extended the concept of "natural" to encompass all firm activities within the value chain, including raw materials procurement via fair trade and eliminating animal testing of cosmetics. Within the dynamic environment in which increased opportunities for innovation occurred, secondary stakeholders were able to benefit, among them indigenous peoples' rights groups, animal rights activists and environmentalists. Thus, environmental dynamism, through the innovation that it fosters, increases the likelihood that social change activities will actually satisfy stakeholders and improve their perceptions of corporate social performance, while inducing customers to pay a price premium for social value-added.

During the period of its success in the 1980s and early 1990s, The Body Shop sought to eliminate the difference between its business strategy and its social strategy. As The Body Shop has since learned, the two strategies are not identical, however great the degree of integration. When competitors responded to The Body Shop's natural product line, the firm found both its social strategy advantage undermined and its cost structure untenable. The double shock led to Ms. Roddick's dismissal as CEO and the firm's sale to L'Oreal, an organization better prepared to manage, and integrate, a reformulated business strategy with The Body Shop's trademark social strategy. As The Body Shop case poignantly pointed out, even the most successful social strategy must be properly integrated with business strategy.

Complexity. Complexity impels managers to take into account a wider range of environmental factors and resources and therefore to pursue more complex strategies (Hart and Sharma, 2004). Among the factors are new competitors, new market segments, changing government regulations, eroding margins, globalization, and new technologies. Environmental complexity provides opportunities for firms to respond with social strategies that reconfigure relationships with stakeholders, converting nonmarket needs into new market-based products and services. One unexpected place where social strategies may be especially useful is following success in complex environments, when it is normal for rigidities to set in and restrict innovation

(Howell and Avolio, 1992; Miller, 1993); social strategies can motivate management to incorporate within the planning processes the requisite variety needed to understand and respond more effectively to such environments.

For example, Leche Ram in Spain was faced with a fragmenting dairy market in which store brands, a powerful market leader, and strong regional players had boxed it into a shrinking, unprofitable segment. Through a joint project with UNICEF, "Ni un niño sin leche" ("No child without milk"), the firm relaunched the brand, returned to profitability, and became known as a CSR-focused firm. Soon it became a favorite of NGOs and embarked on a number of other social projects with the support of its employees (Martínez and Allen, 2000). In a complex environment, Leche Ram was able to forge a competitive advantage and create economic and social value.

Munificence. Perceived munificence has been related to the ability of a firm to diversify into new markets (Keats and Hitt, 1988). In industries where there is high munificence, there are general patterns of diversification and innovation (Miles and Snow, 1978). Ordinarily, we would expect that innovative social strategies would more likely be found in high munificence environments. Given a munificent environment, we would expect many firms in the industry to grow successfully.

However, there is a counter-situation, *hostility* (Miller and Friesen, 1983), in which aggressive competition and severe demand fluctuations provide an opportunity for firms that seek to differentiate themselves from their competitors in low munificence environments. It is here, we believe, that social strategy offers greater opportunities to create competitive advantage through the innovative conversion of nonmarket environmental factors into firm resources. For example, the Spanish package transportation company, MRW, was faced with a hostile environment in which UPS, Federal Express, and powerful local competitors were cutting prices as they offered increased services. Undersized and underfunded, MRW's founder and CEO, Francisco Martín Frías, decided on a social strategy that consisted of hiring handicapped workers to do routine tasks, for which MRW received government subsidies and earned plaudits for its social programs. MRW was able to convert an undervalued resource – handicapped citizens – into a firm resource, creating a competitive advantage in cost and reputation, in addition to achieving strong employee loyalty in an industry plagued with high turnover. Though the same aid is available to all firms that hire handicapped employees, MRW is the only firm in its industry that has hired significant numbers of the handicapped, invested in training, and adapted their installations and work schedules to turn what most believe is CSR into a competitive advantage.

MRW did not stop there. In the last ten years it has engaged in eighty-five social action projects, and maintains thirteen aid programs for soldiers, students, families, and other groups to send packages at a discount. Yearly since 1993, MRW has given 1 percent of gross sales to social action. MRW's marketing program consists almost exclusively of its social action programs for which it wins numerous awards and nearly constant press coverage.

For MRW, low munificence or resource scarcity created an opportunity for social strategy to create a competitive advantage. Through consistent innovation, it has nurtured this advantage and has come about as close as possible to creating a sustainable competitive advantage. In an industry driven by costs and price competition, MRW has achieved remarkable customer loyalty.

It is possible that in the future we will see more of this type of social strategy. Wayne Visser (2008) has argued that while philanthropic CSR will be hurt as a result of the Great Recession, an environment of low munificence, strategic CSR will expand.

With regard to social performance, i.e., the amount of social action engaged in by firms, the relationship to munificence is difficult to determine *a priori*. In the case of high munificence, we would expect firms to have additional resources to devote to social programs; however, we would not expect them to feel the necessity to innovate through social strategy. In the case of low munificence, only those firms that perceive that there is an opportunity to create competitive advantage through new and innovative social programs are likely to increase their social performance. In low munificence environments, firms frequently cut back on social programs. On balance, it is difficult to predict the impact of munificence on social performance.

Nonmarket environment

We conceive of the nonmarket environment as consisting of all those relationships between the firm and its stakeholders, that are not mediated by prices. Freeman's (1984: 46) now classic definition of the stakeholder broadly includes all persons or groups that "can affect or [are] affected by the achievement of an organization's objectives." Although his definition is widely debated and numerous other definitions have been offered (Mitchell, et al., 1997), it is generally agreed that stakeholders, many of whom are nonmarket stakeholders, form the fabric of the social structure in which firms operate and determine to whom the firm must respond.

At the core of stakeholder theory is the need to manage "potential conflict stemming from divergent interests" (Frooman, 1999: 193). The interaction of stakeholders with divergent interests creates the issues, which provide the opportunities and threats with respect to which firms may then position themselves through their social change activities. Strategic choices must be made; not all stakeholders can receive the same attention from firms because attention is a limited resource that must be allocated efficiently (Simon, 1947). A firm's attention and response to a stakeholder will depend largely on that stakeholder's salience (Henriques and Sadorsky, 1999).

Salience, or the "degree to which managers give priority to competing stakeholder claims" (Mitchell *et al.*, 1997), is a function of the power and legitimacy of the stakeholders as well as of the urgency of the claims made by stakeholders upon the firm (Mitchell, et al., 1997). As is the case with suppliers and customers, the power of stakeholders is directly related to the firm's dependence on the stakeholder for valuable resources (Pfeffer and Salancik, 1978; Frooman, 1999), but with the additional factor of the structure of stakeholder networks that give stakeholders their legitimacy (Rowley, 1997). Empirical research has confirmed that a high correlation exists between power, legitimacy, and urgency on the one hand and stakeholder salience on the other (Agle *et al.*, 1999). Highly salient, "mixed-motive" stakeholders represent both a potential opportunity for cooperation and a potential threat to the firm (Savage *et al.*, 1991; Frooman, 1999).

By definition, the firm depends upon mixed-motive stakeholders for specific resources. Given their capacity and disposition to cooperate as well as to threaten the firm, these stakeholders play a fundamental role for social strategy. Scholars have observed that in the presence of mixed-motive stakeholders, firms tend to develop a collaborative strategy in which they work jointly with the stakeholder to develop integrative, mutually beneficial solutions (Freeman, 1984; Savage, *et al.*, 1991; Frooman, 1999). A social strategy provides a mechanism to enable cooperation in ways that contribute to competitive advantage. Because of the complex and path-dependent nature of relationships with mixed-motive stakeholders, competitors will find it difficult to imitate this kind of relationship.

For example, Autopistas del Sol (AUSOL), an Argentine highway construction company, faced considerable opposition to a project for a northern access road to Buenos Aires, which would run through both wealthy and poverty-stricken neighborhoods (Austin *et al.*, 2004). As opposition gathered, AUSOL quickly launched a strategy to meet the concerns of these groups, transplanting trees in the wealthier neighborhoods and relocating a school and providing assistance to help legalize property claims in poorer neighborhoods – both actions taken despite contract provisions that made the government responsible to resolve these issues. The effectiveness of this strategy depended upon the close relationships developed with local activists and community leaders. By acting swiftly and fairly, AUSOL was able to turn the presence of mixed-motive, nonmarket stakeholders into a catalyst for the social strategy, enabling the firm to achieve its social and business objectives. Additionally, as in the MRW case, social approval increased employee commitment to the firm's mission and helped boost productivity. Social strategy is especially likely to create competitive advantage precisely when firms are able to help highly salient stakeholders with mixed motives meet their objectives.

Mixed-motive stakeholders represent a special and complex element of social strategy. Dependence on highly salient mixed-motive stakeholders is a powerful motivation for firms to respond to their needs and demands (Mitchell *et al.*, 1997). At the same time, mixed-motive stakeholders often have resources that can be used in collaboration with the firm to carry out social action programs (Husted, 2003). Thus, the likelihood that social strategy will achieve stakeholder satisfaction is greater when salient mixed-motive stakeholders are involved. Returning to the AUSOL example, its social strategy fulfilled the demands of local organizations and thus created high levels of satisfaction in the community, which provided it with the ability to continue with the construction project.

Step 2

Step 2: analyze firm resources and capabilities to see whether the firm can take advantage of those opportunities.

Once again, we turn to consider firm resources and capabilities. The RBV of the firm asserts that competitive advantage depends on firm resources, which, according to Barney include "all assets, capabilities, organization processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness," (Barney, 1991: 101). Resources encompass physical, human, and social capital. Social capital is of special interest. First, social strategy, as it often rests on relationships with mixed-motive stakeholders, frequently depends on building strong social networks. Second, when social capital can be converted into a competitive advantage it is likely to be enduring, due to its causally ambiguous nature, which makes it difficult to imitate (Dierckx and Cool, 1989). Third, social capital is also an integral component of knowledge management (Nahapiet and Ghoshal, 1998).

Clearly, there are many resources and capabilities that may have a positive impact (Russo and Fouts, 1997), but here we discuss only continuous innovation and stakeholder integration (Hart, 1995; Sharma and Vredenburg, 1998; Klassen and Whyback, 1999), both of which we believe have a significant relationship to social capital.

Continuous innovation. Social strategy often involves the introduction of needed products and services to underserved and poorly understood markets (Prahalad and Hammond, 2002) as well as the development of new products and services with social attributes (Kanter, 1999; McWilliams and Siegel, 2001). The ability to generate solutions for such underserved markets or the development of social products and services depends largely on the firm's capability for continuous innovation (Hart, 1995; Sharma and Vredenburg, 1998). Such a capability may already exist on the business side of a firm, but must be redeployed in order to facilitate the development of social strategies that create appropriable benefits for the firm as well as benefits for the community. Such innovation can be incremental or even disruptive to the extent that it breaks with current development trajectories and ways of thinking about social problems (Christensen *et al.*, 2006).

For example, Cemex, the largest cement manufacturer in Mexico, decided to target the problem of housing among low-income Mexican families where the quality of construction tends to be substandard. The *Patrimonio Hoy* project involved helping low-income families save in order to take a more rational approach to self-construction projects as well as provide access to specialized technical assistance. The only way in which the project would be successful from both a business and social point of view was the development of culturally appropriate mechanisms to motivate reliable participation. In order to develop those mechanisms, Cemex sent two anthropologists to study self-construction practices among the poor. They identified the *tanda* – a type of savings program used among neighbors in Mexico – as a culturally consonant way to develop self-enforcing agreements to foster savings. The successful use of the *tanda* mechanism permitted Cemex to provide construction materials and technical assistance in a way that benefited both the company and its communities. The firm benefited from sales in an underserved market and the community benefited from better quality housing. Without Cemex's capability for continuous innovation, *Patrimonio Hoy* would probably have remained another well-intentioned project to help the poor. Instead, Cemex was able to extract economic value and achieve its social objectives at the same time.

Stakeholder integration. We have discussed already the vital role of mixed-motive stakeholders. Recognition of their importance must, of course, be accompanied by gaining their participation through stakeholder integration. Sharma and Vredenburg (1998: 735) define stakeholder integration as "the ability to establish trust-based collaborative relationships with a wide variety of stakeholders – especially those with non-economic goals." Jones (1995) recognized that firm-stakeholder relationships based on mutual trust enable the firm to create a competitive advantage.

In addition to high-level relationship, social-capital advantage, there are also practical advantages to working closely with stakeholders. For example, incorporating stakeholders into product-design teams drives innovation (Harrison and St. John, 1996) and collective learning, which benefits both the firm and its stakeholders (Heugens *et al.*, 2002).

In classic RBV terms, stakeholder integration contributes to competitive advantage because the required skills are valuable, non-substitutable, and rare (Barney, 1991). Moreover, they are complex, causally ambiguous and therefore difficult to imitate (Teece, 1987). Finally, stakeholder integration is a dynamic capability, which can be redeployed to solve other social problems as well as business challenges (Grant, 1996; Teece *et al.*, 1997; Eisenhardt and Martin, 2000).

Dynamic capabilities are particularly valuable, increasing the likelihood that social strategy will generate new resources that, in turn, lead to competitive advantage. Dynamic capabilities can arise from apparently quite simple social action programs, provided that they integrate nonmarket stakeholders into firm activities. For example, the Chilean drugstore chain, Farmacias Ahumada, SA (FASA) engaged in a program of strategic philanthropy with an NGO dedicated to caring for impoverished senior citizens.

FASA cashiers were trained to ask for a small donation to the NGO at the checkout counter. This practice strengthened the firm's business because they found that their employees became better sales people as they developed their fund-raising skills (Austin *et al.*, 2004).

Often, the social capital and social networks of the firm (or members of the firm) are vital to forging alliances and with nonmarket stakeholders with specialized skills and social networks. Such stakeholder integration also permits collective learning and dialogue that can improve the ability of social projects to achieve their objectives and thus improve stakeholder satisfaction. For example, the Brazilian healthcare and cosmetic products company, Natura, had a longstanding collaboration with the Matilde Maria Cremm School, located in a marginalized neighborhood on the outskirts of Sao Paulo. The school was concerned about the low quality of education it provided. Natura's management believed that its relationship with the school was paternalistic and decided to reshape the relation by entering into an iterative cycle of dialogue with the school's leadership and other community groups. Eventually, Natura and the school transformed their relationship into a more balanced and productive collaboration that helped Matilde María Cremm become one of the top five in the state (Austin *et al.*, 2004). Stakeholder integration made this success possible. Natura expects to benefit from its developing capability for stakeholder integration in future business and social action programs.

Step 3

Step 3: evaluate firm culture, corporate values, identity, and ideology, etc. in terms of social needs and opportunities. Most firms initiate values projects first; we suggest that they first consider the social context.

Corporate culture is a complex subject that has proven difficult for management researchers to get a handle on. No one doubts its importance, but it's hard to know where to start. Do values drive behavior, or is it ideology? Do firms have an identity, or are there multiple identities? How do corporate identities take shape, change? To what extent can a specific type of corporate culture be a competitive advantage or handicap?

Many of us would, if we could, avoid the complex and troubling issues of corporate culture. However, when a firm decides to engage in social strategy its success or failure inevitably depends on firm characteristics and behavior that we recognize as corporate culture.

Elsewhere, we will deal with a broad range of corporate culture variables. In this section, we focus on one key firm resource – corporate values – which has been on the agendas of large firms around the world.

Interest in corporate values is not new. Andrews (1971) originally included corporate values as one of the fundamental pillars of corporate strategy, alongside the market environment and firm strengths and weaknesses. This focus on values was then lost in Porter's (1980, 1985) work with its emphasis on industry structure, which came to dominate the field of strategic management in the 1980s. However, Barney (1986) argued that corporate culture is a firm resource and can be a source of competitive advantage. As components of firm culture, values and business philosophy are potential resources of the firm and are essential to its identity (Albert and Whetten, 1985) and in the decision of the firm to include non-economic objectives within its mission and purpose.

All managerial decisions include a values component (Simon, 1947). According to Kluckhohn *et al.* (1952: 395): "A value is a conception, explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable which influences the selection from available modes, means, and ends of action." The shared values, both explicit and implicit, of a sociocultural system constitute an important part of its culture. Explicit values are captured, in large part, by the concept of ideology, which is a key element in all sociocultural systems (Geertz, 1973; Pettigrew, 1979). Implicit values are associated with universal beliefs that are customarily expressed through more explicit values. Together, these beliefs and values, explicit and implicit, form the bedrock of a company's identity – how the members of the company see the organization.

Corporate identity affects strategy by helping to channel available firm responses to opportunities and threats. This identity affects managerial decisions based on their understanding of the firm's goals and objectives, and beliefs and values about how the world works (Prahalad and Bettis, 1986; Simons and Ingram, 1997) and thus, properly understood and managed, identity, too, can be a source of competitive advantage for the firm.

Similarly, corporate values may coalesce into a strong ideological support for or rejection of social action. Undoubtedly some value systems and ideologies are more likely to produce a commitment to social action than others. Research into corporate ideology systems has provided evidence that there are at least three relevant dimensions: progressive or participative decision-making, social responsibility, and organicity (Goll and Zeitz, 1991; Goll and Sambharya, 1995). Participative decision-making emphasizes a proactive search for opportunities, based on the use of analytic decision tools, open communication channels, and participative consensus-based decision-making. Social responsibility refers to a company's commitment to participating in the solution of social problems. Finally, organicity deals with the firm's ability to adjust to new circumstances (Goll and Sambharya, 1995). This framework is certainly not exhaustive, but provides a useful place to begin to examine the relationship between specific values and their impact on social strategy and corporate social performance. Given the conceptual similarity between the resource for continuous innovation and the organicity dimension of ideology, we will forgo a discussion of the organicity dimension and focus on the other two dimensions.

Social responsibility orientation. Social responsibility orientation (SRO) clearly channels the kinds of responses that managers make to social threats and opportunities. Research indicates that managerial values act as a frame for recognizing and evaluating the importance of social issues (Kahneman and Tversky, 1984; Sharfman *et al.*, 2000) and the salience of stakeholders (Agle *et al.*, 1999). These managerial interpretations of social and environmental issues directly affect the selection of social strategies (Sharma *et al.*, 1999; Bansal and Roth, 2000; Sharma, 2000). The ability of a social strategy to create these benefits depends, in part, upon the genuine commitment of top managers to social responsibility. Jones (1995) argues that firms must demonstrate a sincere concern for ethics and socially responsible behavior in order to obtain competitive benefits from its stakeholder strategies. Socially minded consumers, for example, are unlikely to pay a price premium for social products unless they believe the firm has a sincere commitment to its social responsibilities (Menon and Menon, 1997; Maignan *et al.*, 1999). A strong commitment to social responsibility is evidenced in the firm's application of significant resources to innovative, new social change activities. It is to be expected that this innovation will lead to the development of new resources that are valuable, rare, and non-substitutable (Barney, 1986; Barney, 1991; O'Reilly and Pfeffer, 2000). However, given the explicit nature of an SRO, it is a resource that is imitable and therefore may only provide a competitive advantage in the short run. Nonetheless, firms such as MRW, which combine SRO with continuous innovation, can develop such a strong program and reputation that its competitors will believe the strategic position is unassailable.

Perhaps the greatest risk of social strategy is that it is seen as insincere. Mixed-motive stakeholders may be quite vocal when the firm's social strategy appears to be characterized by pure self-interest, rather than a social responsibility orientation. For example, after Nike was criticized for the labor practices of its overseas suppliers, the company hired Andrew Young to monitor and report on its CSR activities. Nevertheless, the firm's past history and the perceived lack of conviction by its CEO harmed its attempts to improve its social performance and led to consistent distrust and disapproval (McCawley, 2000; Dunne and Dolan, 2004). Long after Nike had resolved the sweatshop labor issues, activists and other stakeholders continued to point to Nike as the classic example of social irresponsibility. Only after almost ten years did Nike's the reputation return to levels it enjoyed prior to the crisis.

Participative decision-making. A participative decision-making (PDM) orientation is especially relevant to social strategy because this orientation includes a commitment to employees in decision-making. It shares many of the characteristics of what Miles and Creed (1995: 361) call a "human investment philosophy," because of its focus on the development of the self-governance capability by employees in order to create a learning organization. PDM appears to be positively correlated with financial performance

(Goll and Sambharya, 1995). This orientation increases the likelihood that managers will select decision-making processes and practices that foster employee participation.

Theorists argue that the involvement of employees is the key to effective environmental strategy because it fosters process innovation (Sharma and Vredenburg, 1998). Similar to the SRO, participative decision-making is related to competitive advantage because it is valuable, rare, and non-substitutable. For example, from its inception in 1850, the Levi-Strauss family promoted social values associated with caring for employees. Without progressive human resource practices, such as employee participation in decision-making, these values would rightfully be considered paternalistic. Moreover, maintaining employee benefits when a firm is growing and creating wealth is relatively easy. As we have once again been reminded during the severe recession, the first people to be hurt by declining profits are employees. Levi-Strauss faced its first serious economic difficulties in more than half a century in the 1980s when foreign imports and changing fashions resulted in severely reduced revenues and losses. They had to cut one-third of the workforce. Robert Haas, CEO, insisted that the firm ground the process in the company's core values; employees steered the process themselves, deciding on the criteria for who would be let go; outplacement and support programs were set up to aid those who lost their jobs (Howard, 1990). While many other clothing manufacturers failed in this period, Levi-Strauss managed to survive and later prosper once again (Mares-Dixon *et al.*, 1999). Employee participation provided the company with the ability to make difficult decisions that were vital for the company's economic wellbeing and to ameliorate the negative impact on employees.

Admittedly, Levi-Strauss is an unusual case; in most cases, corporate values are off-the-shelf products that those at the top have convinced themselves the rest of the firm believes in. Of course, this is precisely why a firm's values and human resource practices consistent with those values can be a firm resource and a competitive advantage.

Step 4

Step 4: if the firm does not have the requisite resources and capabilities, determine the means and cost of acquiring them. Frequently, alliances and other forms of collaboration are necessary.

One of the main arguments of this book is that social activities can be managed for competitive advantage and value creation just as we customarily do with value chain activities. Accordingly, the acquisition of needed resources and capabilities for social action programs can and should be managed within the framework of the traditional make-or-buy decision. This decision, to incorporate activities within the firm's value chain or buy from a supplier, is at the heart of corporate strategy. Recently, a third alternative, alliances, has become an increasingly important option. Within social strategy, firms then have the option either to outsource social action through charitable contributions, to internalize social projects by undertaking them in-house, or to collaborate with NGOs and other allies. In Chapter 10, we discuss the conditions under which these options are likely to occur so as to produce the greatest benefit and we offer examples of how firms have taken these decisions as well our survey research on how firms make these decisions.

By way of introduction, a brief look at two firms that we have already discussed. In deciding to go ahead with an alliance rather than develop a social action program on its own, Leche Ram accurately assessed the necessity of having a partner, like UNICEF, which could establish who should receive milk and provide the legitimization for such a program. In the 1980s, Anita Roddick at The Body Shop established alliances first with Greenpeace and then with Friends of the Earth that failed. Roddick had a clear idea of how she wanted to integrate environmental issues into the firm's activities and found neither partner willing to accede to her approach. The Body Shop set up and staffed it own environmental affairs department, took stands on issues, and designed and implemented a strategy on its own. We should add, here, that most large firms engage in traditional philanthropy, in effect outsourcing their social action programs.

Steps 5 and 6

Step 5: create a plan integrating issues, stakeholders, identity, resources, competitive environment and expected outcomes; and Step 6: implement the plan.

We will be brief. We have combined steps 5 and 6 because the strategic planning process, formulation, and implementation for social strategy is largely identical to strategic planning for any other type of strategy, though the content may be different. We have introduced the key elements of social strategy in the previous sections, nearly all of which we return to in a later chapter. The only item pending for this section is a brief discussion of the one key difference that separates social strategy planning from traditional market strategic planning.

As the objectives include both business and social value creation, top management will need to have a good understanding of both. This involves knowledge, values orientation, and experience with social strategy. In relating the story of The Body Shop, we saw a CEO who had sufficient knowledge of environmental issues and experience in managing alliances with NGOs to chart out the firm's environmental action program and its implementation. Levi-Strauss's Robert Haas did much more than lead the downsizing of the firm in a manner consistent with the firm's traditional values. Working with company employees, most of them from underprivileged backgrounds with limited education, he developed the "Aspirations Statement." Unlike most corporate values statements that merely set out general principles, Levi-Strauss's "Aspirations Statement" was applied in defining occupational roles and responsibilities, performance evaluations, employee training, and in deciding key business decisions with employee participation. Haas' knowledge of the impact of corporate values on Levi-Strauss required years of experience as he learned about the industry, the firm, and the people in it.

The social capital required to talk convincingly about values does not come easily. This we have seen at firms like Enron that prattled on about their outstanding values and people, but in practice fomented unethical and illegal practices from the top down (Gladwell, 2002). The recent severe recession is, in large part, a consequence of the failure of firms that had "committed" CEOs, but no real commitment to anything other than growing revenues, profit, and compensation.

Social strategy, we believe, requires a much more solid, long-term investment in values, including participative management practices. A strategic plan for social strategy is not for a year or even two, but must be undertaken with the idea in mind that values that drive the strategy are enduring, though the specific social action programs may change. As we have insisted from the outset, one of the distinguishing characteristics of social strategy is that once a c*ommitment is made, the firm will be expected by stakeholders to honor it.*

Step 7

Step 7: measure and evaluate performance.

One key difference between business strategy and social strategy is the differing ways in which they measure performance and order activities. Business strategists first look at measures of financial performance (ROI and ROE) before considering secondary benefits of activities (trust, reputation, commitment, values, identity). Proponents of social action often cite as the key benefits what business strategists may consider secondary (trust, reputation, commitment, values, identity), while arguing that these lead to improved financial and social performance. In effect, social strategy interposes intangible performance measures between strategic behavior and financial performance and social performance.

We argue that neither approach fully captures how social strategies ought to measure and evaluate performance. Direct measures of both business performance and social performance (or impact) are required. One is not of a higher order than the other. Measures of intangible benefits for the firm are important, but this is entirely different from monitoring the economic effectiveness of social action projects where the beneficiaries are external stakeholders. Measurement of social action is relatively new and not widely extended. There are, nonetheless, a number of methods for measuring the economic value of social action, such as conjoint analysis and hedonic pricing techniques. In addition, real option methods of evaluation are especially relevant to the valuation of social projects. Yet, the evaluation of social impacts is often neglected. Firms without a strategic focus have generally been uninterested in the actual effectiveness of their efforts, being content to be engaged in good social causes. A strategic focus requires the careful evaluation of the costs and effectiveness of social projects. Cost-benefit analysis can be applied to the small-scale social projects of the firm. Firms can apply and adapt techniques used in risk management, project management, and marketing analysis.

While it may be argued that as long as economic performance is satisfactory there is no need to measure social performance, we would insist that over time, if social action projects do not provide significant social benefits this will become clear to stakeholders and the firm will lose their support, damaging the social strategy and the firm's reputation and profitability.

Conclusion

Our purpose has been to provide an overview of the seven-step model to help companies build social strategies that will have a positive impact upon both financial and social performance. We have drawn upon the literatures of strategic management, stakeholder management, corporate social responsibility, and environmental management to create a model of social strategy formulation. Certainly it is not the only approach, but it represents one avenue that social strategy research ought to explore if it is to make a greater contribution to the theory of the firm and the practice of management. Nor is the model exhaustive. It can be extended by incorporating additional aspects of industry structure, stakeholder relationships, firm resources, and corporate identity.

Notes

1 Porter's value chain is not the only model available. Grant's (2009) *Contemporary Strategy Analysis* provides an excellent up-to-date review of the value chain with detailed segments on both cost analysis and differentiation.

2 Weick's landmark readings, "Toward a model of organizations as interpretation systems"(1984) and "Collective mind in organizations: Heedful interrelating on flight decks" (1993), provided theoretical and empirical support for studying collective decision-making with the same rigor and interest as individual decision-making. Like John Searle, Weick explained how action flowing from perceptual acts can be examined as part of objective reality. Allow us to recommend Weick's "The collapse of sensemaking in organizations: The Mann Gulch disaster" (1993); the reading is a beautifully told and moving story that explicates his key theoretical concepts.

3 Elsewhere we will add hostility and controllability to the mix of variables. Together the constructs provide us with a basis for analyzing market opportunities for social strategies.

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CORPORATE SOCIAL RESPONSIBILITY STRATEGY: STRATEGIC OPTIONS, GLOBAL CONSIDERATIONS

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In 2003, *Corporate Governance* (Vol. 3 No. 3) published a series of readings on global responsibilities. Topics in this edition covered the global responsibilities of management (Pérez, 2003), the role of business schools in educating on a global perspective (Lorange, 2003) and the contradictions and consequences of global strategies (O'Higgins, 2003), among others. While we believe special issues on global responsibilities in journals such as Corporate Governance certainly add insight into an important topic, what we believe is missing are more substantive discussions of a firm's social responsibilities (hereafter referred to as corporate social responsibilities (CSR)) in the context of corporate strategy in a global context. More specifically, in his ground-breaking book on corporate strategy, Kenneth Andrews of the Harvard Business School argues that with respect to corporate strategy, strategists address what the firm might and can do as well as what the firm wants to do (Andrews, 1971). However, he also argues that strategists must address what the firm ought to do. The "ought to do", in Andrews' parlay, refers to CSR.

Unfortunately, according to Miles (1993), since the publication of Andrews' book on corporate strategy, CSR has had very limited impact on the field that has now become known as strategic management. This is unfortunate as CSR is ultimately a strategic issue, one that can not be separated from a firm's overall strategy (Andrews, 1971; Carroll and Hoy, 1984). Indeed, ignoring CSR can have dire consequences. For example, the total social costs that must be borne by US businesses due to socially irresponsible behavior (e.g. pollution, faulty/dangerous products resulting in consumer injuries, worker accidents due to poor safety conditions) is estimated at two and half trillion dollars per year (Estes, 1996).