Strategic Corporate Social Responsibility through Redefining the Firm’s Value Chain

B.A. Nuresh Eranda¹, Nalin Abeysekera²

ABSTRACT

Strategic corporate social responsibility (CSR) is the mechanism to reconnect the society and business which are interdependent entities. Thus, this paper examines how CSR can integrate with the strategy of the organization. The study adopts a qualitative embedded single-case design and the case study is referring to an out-grower program in one of the leading export oriented condiments manufacturers in Sri Lanka. As per the findings, organization requires to redefine their value chain activities in integrating CSR into the strategy. Moreover, organization needs to consider social issues as strategic issues and has to identify the social issues which can directly link with the core operations of the business. The benefits of strategic CSR are much more appealing and beneficial for the stakeholders and those initiatives provide solutions for social issues at the local level in the presence of relevant stakeholders’ support.

Keywords: Social issues, Sri Lanka, strategic corporate social responsibility, value chain.

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1.0 INTRODUCTION

Corporate Social Responsibility (CSR) has been intensely discussed topic among academicians and practitioners (Carroll, 1999). Most of these discussions were aimed at identifying the types of types of social responsibilities and the role of the business in the society. Moreover, some of the recent studies focused on identifying the relationship between CSR and organizational performance (Aguilera et al., 2007; Chand & Fraser, 2006; Margolis & Walsh, 2003; McWilliams & Siegel, 2001). However, still the confusion has been remaining in the literature regarding how to integrate CSR in to the overall strategy of the organization.

CSR propels the business organizations to transform its activities to focus on its stakeholders requirements. However, the organizations without understanding this notion they are trying to practice CSR for the sake of its existence in the society and initiate CSR activities as a mechanism to face the
external pressure derive from the stakeholders. These typical types of CSR activities include developing organization's codes of ethics, initiating triple bottom line reports, starting public relations programs. However, according to Davis (2005) these approaches are disconnected from the strategy of the organization. Furthermore, CSR practices have not been received a greater scrutiny in terms of its strategic nature in the academia. According to Porter & Kramer (2006) corporate social agenda should look at both social progress and economic benefits for the organization simultaneously and this is termed as strategic CSR. However, there is a paucity of empirical literature for the practice of strategic CSR.

Hence, the purpose of this paper is to add to the knowledge of strategy-driven CSR practices which has been paid little attention in developing countries mainly in Sri Lanka. Accordingly, this paper explores how CSR can integrate with the strategy of the organization. Researcher adopted a qualitative case study strategy in undertaking this study and the case study is referred to an export-oriented agriculture based company in Sri Lanka.

Therefore, paper will start with examining the concept of CSR and strategy-driven CSR by reviewing the existing literature. Thereafter the methodology of the study is explained and justified with the case study company profile. The next section presents the findings and discussion on the redefinition of value chain activities for crafting strategic CSR. Subsequently, the social issues addressed through strategic CSR practices are discussed and finally the concluding remarks are provided with relevant policy implications.

### 2.0 CORPORATE SOCIAL RESPONSIBILITY

CSR has been considered as an enlightened business approach, but its resurgence is evidenced in recent years. The initial view of CSR can be identified by referring to Howard R. Bowen’s landmark book Social Responsibilities of the Businessman (1953). According to Bowen (1953, p. 6) social responsibility refers to “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” In the case of CSR activities it is important to go beyond the abiding by the rules and regulations and should contribute something to the society’s well-being. Based on this, Davis & Blomstrom (1975) defined CSR as the obligation of decision makers to take actions which protect and improve the welfare of society as a whole along with their own interests.

One of the mostly cited definitions on CSR is provided by Carroll (1979) and he identified four-part definition of CSR which concentrates on the types of responsibilities the organizations have to consider. Accordingly the social responsibility of business encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time.

Carroll’s four-part definition can be viewed as an extension of previous definitions which shows the directions for organizations to follow in their CSR activities. By further elaborating the above definition through graphical means, Carroll (1991) proposed the Pyramid of CSR as a framework to understand the CSR which includes economic, legal, ethical and philanthropic responsibilities. Economic responsibility is about producing goods and services society requires and earns profit from it. Business organizations are expected to operate within the legal framework of the country under the legal responsibility. Ethical responsibility is about behaving in an ethical manner, in other words obligation to do what is right and avoid harming to the society. Under the philanthropic responsibilities organization wants to be a good corporate citizen by contributing resources to the community to improve the quality of life.

World Business Council for Sustainable Development (WBCSD) defines CSR as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large” (WBCSD, 2000). Accordingly, CSR initiatives of business organizations have an obligation to meet the needs of diverse stakeholders. Particularly, through CSR practices organizations need to create a positive impact on the society.
It is important to answer the question "Why does the company undertake CSR?" Porter & Kramer (2006) identified four arguments for this by looking at the proponents’ ideas: moral obligation, sustainability, license to operate and reputation. Moral obligation means organizations have a duty to be good citizens by doing the right thing for the society. Sustainability refers to the famous triple bottom line of economic, social, and environmental performance. License to operate is a way for a business to identify and consider the social issues involve with stakeholders. Finally, the reputation justification is pointed out based on the improvements in company’s image, strengthening the brand and stock value. According to Porter & Kramer (2006) these four arguments for CSR do not look at the interdependence between business and society. Specially, these arguments create a generic rationale for undertaking CSR and they are not tied to the strategy and operations of the organization. Consequently, CSR efforts are not in a position to address the social issues in order to make an impact for the peoples’ lives. Therefore, this is a big lost opportunity to create social benefits.

3.0 STRATEGY DRIVEN CORPORATE SOCIAL RESPONSIBILITY

Majority of the companies view their CSR initiatives as a separate phenomenon of the business. Mostly, the organizations undertake CSR practices in order to boast their responsibility towards the society, and Porter & Kramer (2011) have termed this as reputation-driven CSR initiatives. Accordingly, the difference between traditional and strategic CSR is given in table 1.

<table>
<thead>
<tr>
<th>Traditional CSR</th>
<th>Strategic CSR</th>
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</thead>
<tbody>
<tr>
<td>Engage in social actions which are not incorporated with firm’s interest</td>
<td>Engage in social issues which are linked with firm’s interest and operations</td>
</tr>
<tr>
<td>Consider social issues in general</td>
<td>Consider social issues which present market opportunities</td>
</tr>
<tr>
<td>Core business activities are not directly linked with social issues</td>
<td>Core business activities are directly linked with social issues</td>
</tr>
</tbody>
</table>

Source: Compiled by researcher

Therefore, the idea of strategic CSR is to maintain an alignment of philanthropic activities with the business goals which results in the reconciliation of social and economic benefits. Jamali (2007) contended that achieving higher shareholder value, while promoting societal value is a favorable condition for businesses. Moreover, Galbreath (2009) stated that social issues are just a part of external environment issues that managers can consider in developing strategies or in other words social issues are part of strategic issues. Hence, managers need to think social issues as strategic issues when integrating CSR in to the strategy of the organization.

Porter & Kramer (2006) developed a three-tiered framework to incorporate social issues into the strategy of the organization. They developed this as a guide for organizations to prioritize among stakeholders and the relevant social issues they have to deal with. Accordingly there are three levels of interactions including generic social issues, value chain social impacts and social dimensions of competitive context (See table 2).

<table>
<thead>
<tr>
<th>Prioritizing Social Issues</th>
<th>Value chain social impacts</th>
<th>Social dimensions of competitive context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic social issues</td>
<td>Social issues that are significantly affected by a company’s activities in the ordinary course of business.</td>
<td>Social issues in the external environment that significantly affect the underlying drivers of a company's competitiveness in the locations where it operates.</td>
</tr>
</tbody>
</table>

Source: Adapted from Porter & Kramer (2006, p.7)

Porter & Kramer (2006) pointed out that, from generally speaking those issues which are closely
associated with the business including value chain social impacts and social dimensions of competitive context represent the greatest chance for creating shared value. Shared value is all about simultaneous advancement of economic and social conditions in the communities where the organization operates and in other words this can be referred to as strategic CSR. This kind of CSR initiatives are emerged when a firm focuses on actively benefitting the society due to its value chain operations and the strategic philanthropic activities (Porter & Kramer, 2002). So that strategic CSR actions should derive directly from the core business activities in the organization in other words those actions have to be incorporated with the organization’s value chain.

Development of unique value proposition is critical for any strategy to be succeeded which is a unique customer need organization is trying to satisfy in the market place. In order to be more effective in strategic CSR, organizations have added social dimensions in to their value proposition (Porter & Kramer, 2006). Specially, organizations can consider social issues in developing their CSR initiatives mainly by redefining the value chain activities.

An organization can influence the society through its normal business activities. Porter & Kramer (2006) explained this as the inside-out linkage. Each and every activity in an organization touches the local community in which it operates, and this creates positive or negative social consequences. These social impacts are depicted in figure 1. This approach allows organization to focus its CSR activities for achieving the best effect. Further, it can avoid organizations undertaking CSR activities based on impulses or reacting to outside pressure which lead to traditional CSR.

**Figure 1: Mapping social impact in the value chain**

![Mapping social impact in the value chain](image)

Source: Adapted from Porter & Kramer (2006)

The social impact in the value chain activities is mainly referred to the social values created in the society. According to Portocarrero and Delgado (2010) social value is “the pursuit of societal betterment through the removal of barriers that hinder social inclusion, the assistance to those temporarily weakened or
lacking a voice, and the mitigation of undesirable side effects of economic activity”. Therefore, in creating social value it is important to link the organizational activities with the social issues. Particularly, Dees (2001, p. 5) mentioned that social value creation is all about resolving social issues such as generating income for economically excluded people and delivering medical supplies to poverty stricken areas. Therefore, in looking at values created for stakeholders through CSR activities, research concerns about the social issues addressed.

4.0 METHODOLOGY

This study adopted a qualitative embedded single-case design as the methodology of the study (Yin, 2009). The case study is an export oriented out-grower program of HJS Condiments Limited which is a subsidiary of Hayleys Group in Sri Lanka. This out-grower program is located in “Gatakulayaya” in Kumbukgate area in Kurunegala District which is a remote rural area in the country. The farmers involved in this program grow Gherkins which is used as a condiment in food preparation.

Data was collected from several key informants including the top management involved in value chain operations, extension officers and the farmers. In-depth interviews were conducted with the interviewees to understand the strategic nature of CSR activities and how they create value for the stakeholders.

The list of interviewees:
- General Manager, Supply chain, HJS Condiments Limited
- Extension officer in-charge of Kumbukgate region, HJS Condiments Limited
- Number of farmers in out-grower program: 10

The selected General Manager in Supply chain is the direct supervisor in managing this program under the Hayleys Group. The Extension officer is directly involved in implementing the out-grower program and he is working with farmers for around 12 years. Farmers were selected based on judgmental sampling for the study (Saunders et al., 2012). In selecting the sample of farmers the extension officer was helpful by choosing the knowledgeable and successful respondents for the study. Researcher also asked some initial questions to test the knowledge of farmers to make sure that they are knowledgeable about out-grower program. Neuman (2005) also pointed out that judgmental sampling is often used when working with very small samples in case study research and to select cases that are particularly informative.

Two main sources of data collection were used: secondary data (consisting of company documentary evidence and the company’s home page) and primary data (consisting of in-depth interviews). Secondary data was necessary to verify the accuracy of the primary data provided by key informants. Data analysis consisted of using documentary analysis and synthesizes the findings in a cross-respondent synthesis. The cross-respondent synthesis focused on questioning what kinds of similarities exist in terms of addressing social issues.

5.0 CASE STUDY COMPANY PROFILE

HJS Condiments Limited was initiated by Hayleys Group in 1993 as a joint venture with Sanyo Food Products Company Limited in Japan. Currently the company engages in producing six major product lines including pickled whole gherkins, pickled cut gherkins, relish, exotic pickles, paste and chutney and organic foods. The cultivation of gherkin was started in 1988 and there was a rapid demand growth for this product. According to company data, 43% of country’s total fruit and vegetable exports are handled by them and exporting to many countries. They are supplying products to world-renowned brands including reputed hamburger chains with ISO 9000, and HACCP certification. Further due to halal certification, company becomes a selected supplier to the Islamic countries as well. Further the company implements Japanese 5S system to improve productivity, product quality, safety and employee safety.
As a good corporate citizen HJS focuses on its social obligations and this will be discussed in detail from here onwards. Particularly, HJS’s sister company Sunfrost Limited which is also a subsidiary of Hayleys Group handles the cultivation undertaken by out-growers. HJS has been awarded the Global Development Alliance Award by the United States Agency for International Development (USAID) in 2010. This was awarded due to the company’s involvement in promoting the sustainable agriculture which increased the farmers’ income in Eastern province of the country. Therefore, HJS is contributing to the well-being of farmer community through its operations in Sri Lanka.

6.0 REDEFINITION OF VALUE CHAIN ACTIVITIES FOR DEVELOPING STRATEGIC CSR

The redefinition of company’s value chain activities was examined through reviewing company documents as well as by interviewing to identify the nature of strategic CSR initiatives.

Hayleys Rural Out-grower Project Report states:
"Out-grower program undertakes the technology transfers to farmers, provided material inputs on credit and guaranteed prices to farmers for their agricultural produce…… Knowledge transfer and creation of market linkages helped the farmers to increase their commercial farming income through better utilization of their land resources…… The links with the global market, out-grower program will empower local agricultural producers through production and supply of high quality seed material’ (Hayleys Rural Out-grower Project Report, 2014). So that, the way HJS join with the global market is important for sustaining the local agricultural producers. Specially, the company transfers the knowledge gathered by being a supplier in the global market to the local farmers.

General Manager, supply chain stated:
“Even the farmers have land and water the main problem they will face more often is lack of capital. Therefore, they borrow money from local lenders with higher interest rate. HJS has removed this barrier and provide all the inputs required for the farmers including seeds, fertilizer, agro-chemicals, and yarn at a concessionary price and credit basis. Sometimes, even the company undertakes ploughing the land, if the farmers do not have adequate capital” (General Manager, supply chain, 2012).

HJS home page reiterates:
"HJS provides advisory agricultural extension services in the out-grower program to improve the productivity. Extension officers are appointed by the company to provide necessary farmer training and education in order to protect the crop and to achieve the maximum level of yields. They are required to meet every farmer at least once in every five days’ (HJS home page, 2014)

Extension officer stated:
“During one season I visit a farmer for around 50 times, and in other words one visit for every two days. However, if the farmer is more experienced and capable I visit him once for every four or five days. In addition to me, the area manager also visits the farmers to provide the necessary knowledge. Farmers can earn higher revenue from gherkin compared to other crops if they follow the training guidelines properly. For the farmers the first training program is conducted indoor. Thereafter a practical training will be given in a farmland and it is conducted before the cultivation, two weeks before the crop appeared, and during the harvesting time. For the existing farmers we undertake the reminding about harvesting and engage in providing solutions for specific problems appear like diseases for the crop. A special training officer from the company is involved in these programs. Moreover, the university academics in the field of agriculture are also involved in specific cases to help the company and farmers. Sometimes, the training will be provided for some other crops apart from gherkin.” (Extension officer, 2012)

Using the company’s extension officers HJS ensures that farmers are adhering to the required quality. Since these Extension officers are working in these areas for many years they select the farmers for the cultivation based on farming skills, commitment, knowledge and credibility.

General Manager, supply chain stated:
“The crops are purchased at a guaranteed price. This guaranteed price is determined before starting the cultivation based on the expected cost of production for the season. Therefore, the farmers’ income becomes much more stable. More importantly this guaranteed price strategy is a good solution for farmers’ burning issue of unavailability of guaranteed purchasing price for paddy” (General Manager, supply chain, 2012).

Farmer 1 stated:
“The guaranteed price is the main reason to engage in out-grower program. Since the company can exactly disclose the purchasing price for harvest before starting the cultivation we are much more confident about gherkin cultivation” (Farmer 1, 2012).

Extension officer stated:
“Unlike the other crops farmers are not required to bring their harvest to the market, where they are facing severe problems in selling to intermediaries. The HJS Company directly comes to the village and establishes a place to purchase the harvest. Mostly for this one of the leading farmer’s house is selected to where the others can easily bring their harvest” (Extension officer, 2012).

Farmer 2 stated:
“When the crop is damaged due to natural disasters like drought or flood, company does not charge the cost incurred from us. So this is a very valuable thing for some of our members who depend on rain water” (Farmer 2, 2012).

**Figure 2: Mapping strategic CSR at HJS using Porter’s value chain**

<table>
<thead>
<tr>
<th>Firm infrastructure</th>
<th>Advisory agricultural extension services, linkages with universities, water restoration, safe and fair work environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRM</td>
<td>Education and training programs for farmers, career guidance for youth, employment opportunities for women, no child labor</td>
</tr>
<tr>
<td>Technology development</td>
<td>Technology transfer to farmers, special treatments for diseases</td>
</tr>
<tr>
<td>Procurement</td>
<td>Guaranteed price for farmers, direct purchasing, no charging from farmers for natural disasters, careful handling</td>
</tr>
</tbody>
</table>

**Inbound logistics**
Material inputs on credit, guaranteed prices for farmers, high quality seeds

**Operations**
Ploughing farm lands, purchasing in the village, safe & fair work

**Outbound logistics**

**Marketing & sales**

**Service**
Not applicable

Source: Adapted from Porter & Kramer (2006)
Social Accountability Policy reports:
‘HJS provides and maintains safe and fair work environment to all its employees and non-company personnel (this includes out-grower farmers)’ (Social Accountability Policy report, 2014).

HJS home page reiterates:
‘During the crop, Extension Officers provide the necessary farmer training and education required to protect the crop and to get maximum yields, whilst ensuring that only approved crop protection chemicals are used. Crops are purchased at guaranteed prices, giving stability for farmer income. Collecting centers are located within the growing area and the crop is carefully handled using plastic crates and trucks for transportation to the factory’ (HJS home page, 2014).

These findings can be depicted using the Porter’s value chain in order to show how HJS creates an impact on the local farmer community (see figure 2). Among the primary activities HJS provides inputs for farmers conveniently, setting a guaranteed price and supporting farming activities in different ways. In the case of secondary activities HJS supports farmers by providing water restoration, safe working conditions, training programs, technology transfer, direct purchasing and assistance during natural disasters. These primary and secondary activities directly influence HJS’s financial bottom line and also the organization creates value for its farmers and local community which is the foundation for creating strategic CSR.

7.0 ADDRESSING SOCIAL ISSUES THROUGH STRATEGIC CSR

This section examines the social issues addressed by HJS in redefining the value chain activities (Table 3). In other words, it illustrates the social values created through strategic CSR initiatives of the company. This table is developed based on the findings of in-depth interviews with farmers.

<table>
<thead>
<tr>
<th>Social issue</th>
<th>Lack of farmers’ income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer 1</td>
<td>Satisfied with the income increase due to the out-grower program. Since the money is received at once, it can be saved unlike the other cultivations.</td>
</tr>
<tr>
<td>Farmer 5</td>
<td>Compared to other cultivations gherkin generates more money.</td>
</tr>
<tr>
<td>Farmer 7</td>
<td>Family income situation is much more stable during the gherkin cultivation season.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social issue</th>
<th>Absence of fixed price for the harvest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer 3</td>
<td>For the paddy there is no stable price and it is volatile, however gherkin has a fixed price all the time where all the farmers and the company personnel agree before starting the cultivation.</td>
</tr>
<tr>
<td>Farmer 6</td>
<td>Most of the farmers become debtors to money lenders in the area and face many problems in cultivating vegetables and paddy. This can be overcome in gherkin cultivation due to the fixed price.</td>
</tr>
<tr>
<td>Farmer 8</td>
<td>Because of the guaranteed price for the gherkin most of the farmers prefer to cultivate this.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social issue</th>
<th>Low productivity in agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer 4</td>
<td>If gherkin is cultivated in one acre a farmer can earn roughly Rs.300000 altogether and from that he is able to save Rs.100000 in a bank account. In cultivating some other crops it is hard even to find the costs spent for that.</td>
</tr>
<tr>
<td>Farmer 7</td>
<td>Farmers are mostly benefitted from the support of the company staff, which provides continuous support during the season. So, the problems like diseases for the crops can be overcome easily unlike other cultivations.</td>
</tr>
<tr>
<td>Farmer 10</td>
<td>When a farmer cultivates gherkin in the ‘Yala’ season, the paddy harvest in the same block of land is increased in the ‘Maha’ season compared to other lands which do not cultivate gherkin. Therefore, gherkin cultivation enhances the harvest of other cultivations as well.</td>
</tr>
</tbody>
</table>
According to above analysis, farmers were able to enjoy benefits since the redefinition of value chain activities address the social issues common to them. Therefore, HJS considered social issues as part of their strategic issues in developing strategic CSR initiatives.

8.0 CONCLUSION AND POLICY IMPLICATIONS

CSR provides benefits for both the business organization and its stakeholders. However, its lack of integration with the strategy of the organization does not bring the expected results for both parties. Therefore, CSR should be strategic in nature to provide more impact on the organization as well as other stakeholders. To develop this strategic nature of CSR organizations can redefine their value chain activities. In other words, it provides a way to link CSR initiatives with the core operations of the business.

The redefinition of value chain activities in the organization provided solutions for social issues experienced by farmers. These activities increased the farmers’ income and able to gain a fixed price for the harvest. Further, the productivity of agriculture was enhanced and it increased their harvest and the income level. Moreover, farmers were able to enhance their personal assets. More importantly, employment opportunities are created especially for women and for the unemployed people to improve their quality of life. This has implications for trade associations and the relevant government ministries where they can identify the priorities in the Sri Lankan society to enhance the peoples’ quality of life. In this case, each and every business organization should be instructed to identify the most relevant and closest social issues that they can focus rather than spreading in to several.

Moreover, from the analysis it is evident that strategic CSR needs to incorporate the stakeholder approach. Particularly the treatment of local farmers as a key stakeholder group of the company is critical. Company should continuously look at the main problems face by local farmers and then adapt its out-grower program accordingly. Therefore, the implication of this for the management in company is to engage in continuous dialogues with the farmers to identify the social issues, where the front-line employees such as extension officers can play a major role. So that, continuous communication with the relevant stakeholders should be promoted in order to practice strategic CSR.

Even the company is successful in terms of redefining the value chain; it has no control over the international markets in marketing the product. However, if the company is able to get some power over the marketing function, they can consider about connecting customers with the farmers through sustainable means like organic and ethical products. The implication of this for the Sri Lankan government is to facilitate the companies engage in international markets by providing the necessary
infrastructure and tax benefits. Moreover, it is needed to undertake some positive changes for attitudes of farmers preparing for these new sustainable developments in the agricultural sector. Therefore, the relevant government institutes and the Chamber of Commerce can engage in linking farmers with the corporate sector in order to disseminate new knowledge about modern market oriented agriculture.

REFERENCES


