Integration of CSR into Value Creation Chain: Conceptual Framework

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The main goal of this paper work is to suggest a framework which would help to determine where and what value might be created through Corporate Social Responsibility (CSR) in whole value creation chain. Concept of CSR is defined by the European Commission (2002, p. 5) and remembered by Steurer et al. (2005), CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. Many authors have debated the different possibilities of simultaneously incorporating social, environmental and economic concerns into management thinking and practice (Aguilera et al. 2007) in organizational behavior; Buyse and Verbeke (2003); Starkey and Crane (2003); Barin-Cruz et al. (2006) in strategic management; Hall and Martin (2005) in technological innovations. All those scholars have been developing concept of CSR from different point of view. This paper work presents value creation through CSR only as an economical category. But therefore in order to indicate areas of possible value creation, various all above mentioned aspects of CSR concept are analyzed. The review of theoretical and empiric researches showed that value created through CSR for the company might emerge as a part of any of the following benefits: financial benefits, better quality, marketing benefits, better organizational culture, effectiveness doing business globally. This paper work suggests a framework of value creation through CSR, considering CSR implementation might help to create shared value for few beneficiaries. The framework consists of all four types of responsibilities described by Carroll (1999), three major groups of beneficiaries (company, society, stakeholders) and areas of possible value creation. But, as theoretical research shows, this framework first should be adopted for value creation chain (VCC) before analyzing value creation through CSR possibilities in whole VCC. Considering specifics of CSR implementation in VCC the framework of evaluating value creation is suggested. The framework consists of seven stages which should be used as guidelines for program of empiric research. Further studies should concentrate attention on shared value creation through CSR in VCC where in every stage company is one of the beneficiaries. Measuring such value might be extremely difficult, because value received by stakeholders and society appear as use value quite often.

Keywords: corporate social responsibility, value creation chain, shared value.

Introduction

Scientific problem of the research is that value creation through CSR is researched only episodically, concerning specific aspects, but not a holistic point of view. Furthermore, there is no framework available which would help to measure the effect of value creation through CSR while integrated in VCC. The objective of the research is to present a conceptual framework for empiric research of CSR integration in VCC which would help to measure value created through CSR in whole VCC. The methodology of the research: scientific literature review, analysis of analytical and empirical studies and synthesis of fragmentary knowledge on the subject.

Possibilities of value creation through CSR

Many scholars (Lepak et al., 2007; Bowman & Ambrosini, 2000) have researched value creation in corporate (organization) level, therefore use and exchange value categories emerged. Generally it is agreed that new value is created when companies develop new ways of doing things using new methods, new technologies, and/or new forms of raw material. (Bowman & Ambrosini, 2000) introduced and differentiated two types of value at the organizational level of analysis: use value and exchange value. (Lepak et al., 2007) have focused specifically on value creation. Authors talking about use value have referred to the specific quality of a new job, task, product, or service as perceived by users in relation to their needs, such as the speed or quality of the performance on a new task or aesthetics or performance features of a new product or service. The exchange value by (Lepak et al., 2007) was defined as either the monetary amount realized at a certain point in time, when the exchange of the new task, good, service, or product takes place, or the amount paid by the user to the seller for the use value of the focal task, job, product, or service. Viewed together, these definitions suggest that value creation depends on the relative amount of value that is subjectively realized by a target user who is the focus of value creation – whether individual, organization, or society – and that this subjective value realization must at least translate into the user’s willingness to exchange a monetary amount for the value received.

There already has been made a distinction between value creation and value appropriation, recognizing that, in
some cases, organizations that create new value will lose or have to share this value with other stakeholders, such as employees, competitors, or society (Nohria & Ghoshal, 1994; Makadok & Coff, 2002; Chatain & Zemsky, 2011; Porter & Kramer, 2011). Framework for analyzing how frictions in the product market affect value creation and value capture might be adoptable in this case. Researching value creation through CSR, (Porter & Kramer, 2011) suggested concept of shared value. Shared value is defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress. Quite related approach was given even earlier by (Nohria & Ghoshal, 1994) - it was named as creating share value.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Shared</th>
<th>Non Shared (individual)</th>
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</thead>
<tbody>
<tr>
<td>Use</td>
<td>Use shared value</td>
<td>Used non shared value</td>
</tr>
<tr>
<td>Exchange</td>
<td>Exchange shared value</td>
<td>Exchange non shared value</td>
</tr>
</tbody>
</table>

Some scientists (Vaitkevicius & Stukaite, 2009; Valackiene & Miceviciene, 2011) acknowledge that corporate social responsibility (CSR) discussions often fall into a logical trap. If some socially desirable activity is profitable, then it is best described as “intelligent operation of the business”. If the socially desirable activity is not profitable, then companies will not voluntarily undertake it unless required to do so by law or regulation. When private profits and public welfare are aligned, CSR seems to be irrelevant. Companies will undertake this activity driven by their self-interest, even if they call their actions as CSR, and shared value will be created. Such value creation through CSR seems to be more sustainable, because its emergence less depends on corporate interests and government regulations. If company adopts CSR concept in its business activity, there is a great probability that shared value will be created. That value might emerge as use or as exchange value. Therefore all attention in this paper is focused on shared value creation through CSR.

**Forms of value created through CSR**

It is far well acknowledged that the CSR consists of four kinds of responsibilities: economic, legal, ethical, and philanthropy (Carroll, 1999; Aras & Abyars, 2010; Gholami, 2011; Valackiene & Miceviciene, 2011). Authors suggested different variables to reveal value in each part of CSR. It was offered that full disclosure, equal positions for employees, philanthropy, environmental actions, and quality of products and services can be as variables to measure four types of CSR. (Gholami, 2011) consisted all of four types of CSR’s dimensions including economic, legal, ethical, and philanthropic dimensions in his new framework of value creation cycle. The economic dimensions focus on obligations for businesses to create wealth and to face consumption requirements. This dimension is the foundation upon for other dimensions. The new framework suggests personal saving rate, business saving rate, inflation rate, and manufacturing lead time indicators to measure the economic dimension. The legal responsibilities dimension emphasize which process of the business should execute the vision and mission of their economic according to legal requirements (Gholami, 2011). Ethical responsibilities focus on businesses abides that to do what is right, just and fair. Moral rules should define as suitable behaviors in the organizations and society. The philanthropic responsibilities are called discretionary responsibilities emphasize being a good corporate citizen. And likewise focus on contribution resources for community and improve quality of life as a basic indicator for community. According to the (Normann & Ramirez, 1993) studies, value creation system is consisted of different economic players or actors. These actors are suppliers, business partners, customers that work together to co-produce value for their organizations and society. Organization interaction scheme suggested by (Susniene & Vanagas, 2005) take into account quite similar relationships parties: suppliers, personnel, customers and business associations. Developing conceptual model of value creation through CSR, all those relationship parties should be holistically combined as stakeholders.

There are quite many publications which generally concludes, that benefits from CSR implementations received by company remain in the center of most researches and might be grouped into two major trends: financial value and marketing benefits. Summarizing scientific publications, implementation of CSR might cause to emerge different forms of value, especially for the company as the key player in CSR activities.

- **Financial benefits.** (Stanwick & Stanwick, 1998) reviewed the studies that examine the effects of CSR on financial performance and concluded that there is a weak but positive relationship. (Similarly et al., 1997) found that 12 of 21 studies showed positive associations between CSR activities and indices of financial performance. (Kovaliov, 2009) has even developed the model of evaluation of CSR influence on the company value. Another financial benefit might be described as consumers voice expressed through practice, such as a willingness to pay more for certain goods and services (Smith, 1990), or consumer boycotts (Kozinets & Handelman, 2004).

- **Better quality.** Managers might have instrumental motives for persuading the company to engage in CSR efforts when those efforts are compatible with long-term employee welfare or investing in research and development of high-quality products (Hall & Soskice, 2001). There are assumptions that CSR efforts in R&D could lead to a number of business advantages such as better quality (McWilliams & Siegel, 2001).

- **Organization culture.** It was noted that integration of CSR issues is helping companies reassess their corporate cultures as a contribution to share responsibilities (McAdam et al., 1996). The changes in company culture include structure and responsibility, training and awareness, communication, documentation, control and emergency preparedness. Corporate culture includes elements such as core values and beliefs, corporate ethics, and rules of behavior (Deal & Kennedy, 1982).

- **Marketing benefits.** Research on brand image shows that, given the choice, some consumers will pay more for a
product from company with positive image rather than with negative image (Sen et al., 2001). Many other scholars as well mention possibility to gain competitive advantage via implementation of CSR (Juscius & Snieska, 2009; Ruzevicius & Serafinas, 2007). Therefore, the implementation of a CSR initiative should develop, establish and maintain procedures for improving the organizational ethical impacts that may be associated with the society’s collective good. CSR activities often create high value when they care to even very basic humanitarian needs. As an example, there could be a consideration that “green” issues may represent a significant driver of product differentiation, the introduction and greater attention towards the implementation of design for recycling, design for dismantling and design for disassembling techniques, allow the product manager to identify the best trade-off between a product’s eco-compatibility and its contribution to profitability. Concluding CSR benefits for marketing could be summarized as possibility to create or let consumers preserve higher value through better company reputation, ethics and higher level of innovativeness.

- **Effectiveness doing business globally.** International actions such as the UN Global Compact (substantive human rights standards) or the Global Reporting Initiative (social, economic, and environmental disclosure format) are important factors influencing companies to implement CSR initiatives and so become agents of social change (Aguilera et al., 2007). Under such assumption a CSR program may become the primary requirement for doing business globally. As (Kagan et al., 2003) argue, multinational companies, particularly the high-profile ones, are expected to be pioneers in adopting CSR initiatives to reach social expectations, which in turn reinforce other factors, such as consumers, and institutional investors

(Cegarra-Navarro & Martinez-Martinez, 2009) showed that social responsibility is not always detrimental to company goals and performance. Implementing CSR encourages admiration of the company and that leads to attracting stakeholders and society into CSR processes which lead to higher value creation in different fields. But results indicated that the benefits of CSR issues fall within five major categories: quality of products and services, global business, innovativeness, corporate culture, and ethical obligations. However, it is surprising to find that CSR had no significant effect on financial soundness. Gao (2009) in his conceptual framework has explained even more detailed reasoning of possible CSR failure.

Though there are many possibilities for value creation through CSR, scholars note some major problems especially related to CSR and stakeholders conjunction. (Juscius, 2007; Yuan et al., 2011) pointed the situation that, societal stakeholders’ increasingly demand for CSR initiatives, and simultaneous corporate managers require that any such initiatives should improve business performance. Such situation has triggered various alternative strategies to integrate CSR in prevailing business activities, but not all of them are successful.

As theoretical researches show, value can be created through CSR implementation as in large as well as in small companies. Though, not always CSR helps to achieve desired benefits, effective communication of CSR implementation is stressed as one of major factors of value creation through CSR. It should lead to further discussions about CSR implementation strategies and capture of created value. As concluding theoretical assumptions about value creation, it should be noted that different type value might emerge. Attention should be paid, that according to most scholars, only shared value creation through CSR seems to be sustainable. It’s already foreseen that CSR will evolve and value creation through CSR will change. Most likely, implementation of CSR will become more oriented towards creation of shared value.

The suggested framework shows all possible areas of value creation as well as beneficiaries of created value. The framework is proposed considering already performed theoretical and empiric researches on CSR activity benefits. There are two directions for further research of value creation through CSR using proposed framework:

1. The framework could be developed into calculation system which would be based on CSR efforts (as input for calculation) and created exchange value (as output). Empiric research should be performed in order to provide required correlation coefficients for value calculation. Though final result of the research would be expressed via formulas, automated calculation tables could be practically adoptable expression of the model. Yet it is for further development, but such calculation system could be useful in at least few ways:
   - it could forecast expected value volumes if company implements CSR activities at certain amount (or level);
   - it could show whether it is useful for company to implement certain CSR initiatives (costs of CSR activity versus value received by company);
   - to forecast allocation of created value - to show which beneficiary what value receives.

2. The suggested framework should be modified according to the concept of value creation chain. The main point is that not every created value is transferred further in value creation chain. So evaluating the effectiveness of CSR activities in the VCC, attention should be focused only on transferred value. The goal of new model would be to allocate and measure value creation and transfer in each stage of VCC. Such model would help to compare the effectiveness of different VCC as well as to look for possible synergy effect when CSR is smoothly implemented in all VCC.

**Integrated analysis of CSR in value creation chains**

The concept of value creation chain (VCC) evolved from the idea of supply chain (Rainbird, 2004) which describes the series of steps a product (usually a tangible one) takes from the manufacturer to the consumer. The word “value” was substituted for “supply” to suggest that each step in the chain should add value rather simply moves the product along. (Pietrobelli & Rabelloti, 2006) explain the concept of value chain as all activities necessary to “bring a product from conception to market”. Therefore, it includes product development, different phases of production, extraction of raw materials, semi-finished
materials, component production and assembly, distribution, marketing and even recycling. (Feller, 2006) offers involving the demand or customer activity in value creation. In such case value chain could be called an upstream flow of value, in the form of demand, from customers to supplier. As these activities may be spread over several different firms and countries, the value chain can become global.

Talking about CSR as value creation possibility, it is necessary to broaden the view up to the Global Value Chain definition. This term was developed along the lines of the concept of a global commodity chain by (Hopkins & Wallerstein, 1986), who focused on international chains for agricultural products. Such an approach usually involves analysis of price formation at the different stages of production and processing. (Humphrey & Schmitz, 2002) proved that there are governance trends in global value chains. Some companies, differently to simple market relationships, set and enforce the parameters under which others in the global chain operate. These parameters have a control function and may apply to the product definition, production process, production volume, time of delivery and price. CSR implementation in VCC was confirmed by (Cruz & Boehe, 2008) who proposed a new concept called “Sustainable global value chains” that might stimulate an emerging research field. Their research showed that such value chains might gain additional benefits including: bargaining power, differentiation strategy and awareness strategy. Sustainable global value chains, compared to conventional commodity global value chains, are influenced by certification agencies that usually set and enforce product and process related parameters. These environmental and social parameters impose new costs on the chain and may decrease the price competitiveness of CSR products. Consequently, the chain is driven towards a differentiation strategy, focusing on specific market segments that are willing to absorb CSR products. Though CSR as a distinct form of product differentiation has been acknowledged for more than decade, it still depends on particular success factors named by (Reinhardt, 1998).

Value is created and extracted in a network of relationships, and value can best be understood holistically as a function of the entire network. Network externalities such as information cascades, demand queues, social contagion, bandwagon, herding, and path-dependence in the cultural industries have been explicitly analyzed by (Kretschmer et al., 1999) – amongst others. Such externalities are named as a key feature to understanding value. (Watts, 2003) describes three types of externalities which are pertinent here:

- information externalities;
- coercive externalities;
- market externalities.

According to (Hearn et al., 2007) new value creation is achieved through manipulation of information and the characteristics of information are very different from ordinary goods. This is especially important while analyzing value creation chains and transfer of information. Information externalities occur when product choices are affected substantially by information outside the product. As (Watts, 2003) explains, coercive externalities result when a consumer is persuaded to make particular choices of products or suppliers. Market externalities operate when the value of the product increases in proportion to the number of people who use it. Implied in this shift is that value lies in the ability of the product to connect us to others. Moreover, it becomes increasingly difficult for the system to change, even though individuals might prefer a different product or service. The cost of the disconnect to the individual, and the impossibility of collective opt-out, means certain product classes become de facto monopolies or at least are dominated by the large hubs in the network of connections. It is quite possible that some value creation chains might create such products according to requirements of any CSR policy. The recent literature on standards in global value chains has emphasized the power of lead firms in defining standards and codes of conduct, as well as the ways in which CSR pressures can alter the nature of governance within the value chain (Altenburg, 2006; Gereffi et al., 2005; Hughes, 2005). This tendency suggests that companies might receive different value and take different costs of CSR action while implementing the same CSR policy. Some authors additionally offer to use the term of multi-stakeholder partnerships (that bring together public and private actors) as local stakeholders take more influence in the formulation, implementation and monitoring of CSR standards within global VCC (Prahalad & Ramaswamy, 2002). This might provide greater scope for coordination and harmonization of CSR amongst society, thereby reducing the need for individual brands to undertake their own audits of CSR implementation. (Prahalad & Ramaswamy, 2002) strongly support consumer-centric view of value creation and suggest the consumer:

- is an integral part of the system for value creation;
- can influence where, when, and how value is generated;
- need not respect industry boundaries in the search for value;
- can compete with companies or leverage companies against each other for value extraction;
- can co-create value with the company at multiple points of exchange.

As (Lund-Thomsen & Nadvi, 2010) noticed, in highly visible VCC compliance with social and environmental concerns are central to the organization and governance of the chain and the relationships between local suppliers and global lead firms. In contrast, less visible chains are those where external CSR pressures are driven by a wider set of actors/institutions and/or less dominant global lead firms. On the one hand, less visible chains may include smaller or medium-sized branded buyers less capable of enforcing their CSR demands throughout the chain. On the other hand, external CSR pressures in less visible chains may also reflect a mixture of international or national regulatory frameworks and media attention as important CSR drivers in the VCC. Considering all above mentioned specifics of CSR implementation in VCC the framework of evaluating value creation is suggested. The framework consists of seven stages which should be used as guidelines for the program of empiric research.
### Table 2

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>The setup of VCC scheme: all participants, processes and stages presented in consistent scheme</th>
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</table>
| Stage 2 | Main characteristics of VCC:  
1.1. visibility of VCC;  
1.2. level of globalization of VCC;  
1.3. leading companies (in context of CSR decision making). |
| Stage 3 | Identification of CSR activities and policies according to all four types of responsibilities: ethic, legal, philanthropic and economic. |
| Stage 4 | Cost assessment of CSR implementation for each participant of VCC. |
| Stage 5 | Identification of value creation possibilities through CSR:  
5.1. adoption of the framework for each participant of VCC;  
5.2. identification of value types and measurement possibility. |
| Stage 6 | Estimation of value created through CSR:  
6.1. by each participant of VCC;  
6.2. for each beneficiary in VCC. |
| Stage 7 | Comparison of results:  
7.1. total value created through CSR versus total costs of CSR;  
7.2. ratio of value created through CSR and costs of CSR for each participant of VCC;  
7.3. total value created through CSR in different VCC. |

### Conclusions

As already identified, consumers obtain information about social and environmental production conditions through four main sources of information: certification and labeling, corporate reporting, consumer guides and corporate marketing. Further empiric research of value creation through CSR should be performed by qualitative study, especially evaluating how CSR communication is performed via those information channels. Additionally quantitative study would help to measure value perceived by society and stakeholders. Results of quantitative study should be integrated into another qualitative study where value received by company is measured.

As analysis show, shared value creation seems to be most sustainable way in implementing CSR; further studies should concentrate attention on shared value creation where company is one of the beneficiaries. Evaluating such value might be extremely difficult because value received by stakeholders and society appear as use value quite often. Considering this, further researches of CSR in VCC could be simplified in the following way:

1. The company is an implementer of CSR, so measuring its received value is crucial. The methodology of further researches should allow any kind of value to be converted or measured as exchange value. If company receives lower value than takes costs to implement CSR policy, sustainability of CSR activity will be put under question.

2. If any society or any group of stakeholders receives any exchanges value it should be counted in currency or in any other unit. But if use value emerges for society or stakeholders, it is not necessary to measure it as exchange value. The most important point is whether society or any group of stakeholders has received any use value or not while company was implementing CSR initiatives. If it was and company received value for itself then shared value was created. The only unanswered question will remain – on what proportions this shared value was distributed for company and stakeholders or society.
References


Moksline tyrimo problema yra ta, kad vertes kūrimas, laikantis įSA, dažniausiai tiriamas tik epizodinčiai, dėmesį sutelkiant į akcentuojant tik į konkrečius aspektus. Šiaip tariant, šiuo klausimu pasigamenda holistinio požiūrio. Štai nesirimo ar modelio, kuris padėtų įvertinti vertę visoje vertės kūrimo grandinėje (VKG), sukurtą įgyvendinant ĮSA, t. y. integravus ĮSA į VKG. Tyrimo tikslas – parengti teorijų modelį, kurio pagrindu būtų galima sudaryti empirinio tyrimo programą bet kuriai VKG turit, sukurtos vertės per ĮSA aspektu. Tyrimo metodai: moksliškės literatūros analizė, teorinių ir empirinių tyrimų duomenų vertinimas ir idėjų sintezė.

Empirinių tyrimų duomenų vertinimas ir idėjų sintezė


Įvadas ir rekomendacijos

- 70 -

The article has been reviewed.