

Corporate Social Responsibility for Charity or for Service Business?

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Abstract

Following this introduction, this paper presents two conceptual and theoretical analyses-(i) CSR and its relation to profit and charity (ii) CSR as part of a service business model. The paper then illustrates these concepts using a comparative study of four service firms, with particular emphasis on their different CSR activities and how these affect the mission of each company. All four of the service companies are global actors with strong Service Brands (Edvardsson, Enquist and Hay, 2006) and a leading position in using CSR as a driving force for doing business: IKEA, Starbucks, H&M and the Body Shop. The paper then draws together the conceptual analysis and the case studies in a discussion of how CSR can be a proactive driver in the service business. Because of the limit space for a QMOD paper the focus is on the conceptual and theoretical analysis part and the empirical part and discussion/conclusion has to be further developed.

1. Introduction

This is the first article in the service literature which combines Corporate Social Responsibility (CSR) and the service logic. To attract and retain customers, and thus make a profit, companies are continuously searching for innovative ways to create value and differentiate their market offerings (Shaw and Ivens, 2002). Gummesson (2006) is critical about the axiomatic pillars of marketing. He argues that these pillars are an exaggerated and simplistic reliance on a 'free' market economy; the marketing concept of customer needs and satisfaction seems to be the highway to profit; maximization of short term profit (shareholder value) is the only purpose of business; unlimited growth seems to be beneficial; corporate citizenship diluted to charity; and blindness to the effects of unethical and criminal action and black economies (ibid. p. 340). Gummesson (ibid.) looks for a broader view in marketing. Gene Laczniak argues for an expansion of the service-dominant logic for some societal and ethical dimensions (Laczniak, 2006). He has expanded four of Vargo and Lusch's foundational premises (FPs) 3, 4, 6 and 8 from Vargo and Lusch (2004). This article will, in an explorative way, counter this critique by Gummesson (2006) and also expand the service-dominant

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logic for some societal and ethical dimensions (Laczniak, 2006) using CSR and show real business cases where CSR is an important part of value creation and value-in-use, from a stakeholder perspective (Enquist, *et al.*, 2006). The focus is on CSR as part of the dominant-service logic (Lusch and Vargo, 2006), with the following two research questions in mind: Is CSR only for charity or can it be an active part of a service business? If it can be part of a service business, how will that look? This article is the first in service research to specifically focus on CSR.

2. Conceptual and Theoretical Analysis

2.1 CSR and its Relation to Profit and Charity

The role of CSR in business management has been under debate. Friedman (1970) questioned whether a business can have any 'responsibilities' other than the responsibility to increase its profits; however, other authors have disagreed. Grant (1991) dismissed Friedman's (1970) restricted point of view as fallacious. Carroll (1991) argued for a 'pyramid' of four kinds of social responsibilities-economic, legal, ethical, and philanthropic-thus integrating CSR with a stakeholder perspective. According to Carroll (1991, p. 43), there is a "... natural fit between the idea of CSR and an organization's stakeholders." This view was supported by Kotler and Lee (2005). The changing nature of CSR has also been debated. Andriof *et al.* (2002) argued that the prevailing business imperatives in CSR were originally 'profitability,' 'compliance,' and 'philanthropy'; however, from the end of the 1970s and onwards, these authors assert that the prevailing business imperative became 'corporate social responsiveness'. Zadek (2001) has also referred to the idea of 'responsiveness' in calling for 'responsible corporate citizenship.' In a similar vein, Elkington (2001) has argued that "... citizen CEOs and corporations can fuse values and value creation." The relationship between CSR and brands was canvassed by Willmott (2001, p. 202), who introduced the concept of 'citizen brands.'

Vogel (2005) has utilised a broader concept of CSR when describing it as "the market for virtue." He investigates in his article whether there is a business case for CSR. His answer seems to be yes, with the first constraint that CSR does make business sense for some firms in specific circumstances and with the second constraint that no researcher has answered the question of whether there is a positive relationship between CSR and profit, but, as Vogel also says, no one has ever proven the opposite. Recently, Xueming and Bhattacharya (2006) have tried to answer the question between CSR and profit. In a JM article (*ibid.*) based on secondary data where the relationship between CSR, Customer Satisfaction and Market Value is investigated, they have two research questions: (1) Under what conditions do CSR initiatives result in positive financial performance? (2) Does customer satisfaction matter in re-

relationships between CSR and firm performance? An important contribution made by this article is that their results regarding the significant CSR → customer satisfaction → market value causal chain suggest that a firm's CSR helps build a satisfied customer base and that customer satisfaction partially mediates the financial returns to CSR (ibid.). This is most significant for innovative firms: "In particular, our finding that the positive financial returns to CSR, are amplified in firms with higher product quality indicates that internal corporate abilities likely generates and sustains financial value for the firm" (ibid. p. 15). But the opposite will occur in less innovative firms. Here, CSR activities will have a negative affect on profit. We are not surprised about this result. Roberts (2001) has argued that CSR provides a new form of 'visibility'-i.e. environmental, social, and ethical visibility as a supplement to financial visibility, and what he calls the "ethics of Narcissus" are not so much a concern for others as a preoccupation with being seen to be ethical (Roberts 2001, p. 125). There is a big difference between CSR as a defending or as a proactive strategy. This is something which has been communicated both by Roberts (2003) and Zadek (2004). In the empirical part, we will look at enterprises based on contextualised data from four leading service companies where CSR is an important part of the service logic and from these we will learn (both theoretical and practical implications) about CSR as a proactive thinking/tool for value creation in the service business.

How is the relationship between CSR and charity? Carroll (1991) talks about philanthropy as the top of the CSR pyramid while Kotler and Lee (2005) argue for "Doing the Most Good for Your Company and Your Cause." Gummesson (2006) holds a critical view when he talks about the mainstream of marketing where corporate citizenship (which can be seen as part of CSR) is diluted into charity. "Doing Good to Do Good" is the old style of CSR says Vogel (2005). Andriof *et al.* (2002) talk about the same shift. The new world of CSR is, with regard to Vogel (2005), "Doing Good to Do Well." Porter and Kramer (2002) show, in their HBR article (Porter and Kramer, 2002), that philanthropy is in decline but, when used in a proactive way, can be a "Competitive Advantage." "Most companies feel compelled to give to charity. Few have figured out how to do it well" (ibid. p. 57) is the message of the authors and they show in the article that there has to be a convergence of interests between philanthropy and business. It is when corporate expenditure produces simultaneous social and economic gains that this convergence will occur (ibid.). Thinking about corporate philanthropy in this way, you have to use CSR activities as part of your business model.

2.2 CSR as Part of a Service Business Model

In his article, Vogel (2005) shows that there is room for a business case for virtue using CSR. But this in the sense for some firms and in specific circumstances (ibid. p. 42). Xueming and Bhattacharya (2006) show, in their article, that innovative companies using CSR have a positive relationship with profit. Using a brief literature review, we will outline CSR

activities as part of the service business model based on an expansion of the dominant service logic (Laczniak, 2006). In the next chapter, we will then use this framework as a description and analytical model for our four case studies in order to better understand that there is room for a business case using CSR.

A United Nations (UN) initiative, the 'Global Compact,' was launched in 1999 to bring companies together with UN agencies, labour, and civil society in order to support ten principles in the fields of human rights, labour and the environment, and anti-corruption. These principles can be seen as a good start for CSR thinking. All four case firms are members of the Global Compact. In the book "The Market for Virtue," Vogel (2005b) critically reflects on the potential and limits of CSR. CSR in the world of Vogel (*ibid.*) focuses on CSR for the Working Conditions in developing countries; Corporate Responsibility for the Environment, and finally CSR for Human Rights and Global Citizenship. We argue for expanding the dominant service logic from a social and ethical point of view (Laczniak, 2006), as well as from an environmental point of view (Gummeson, 1999), when we use CSR as an integrated part of a service business model. Vogel (2005) sees CSR as a proactive strategy tool. CSR includes a stakeholder perspective which is broader than both shareholder value and customer value (Enquist *et al.*, 2006). To be able to analyse and understand how CSR activities will govern those value creation processes for value-in-use (Vargo and Lusch, 2004) for stakeholders, we need a description based on a service operation perspective. Johnston and Clark describe a service operation perspective from a business focus; from an operational focus, and from an encounter focus (Johnston and Clark, 2001). We will use these three areas to describe CSR as follow:

2.2.1 Business-related Concerns

Strong corporate values bring value-in-use to stakeholders and also affect the service brand (Edvardsson, Enquist and Hay, 2006). From a review of the literature on this subject, it is apparent that there must be a 'good fit' between the internal perspective and the external perspective of a service company (Berry, 1999; Grönroos, 2000; Hatch and Schultz, 2001; Ind, 2004). To achieve this, the core values of the firm appear to play a crucial role in sustaining the brand (Edvardsson, Enquist and Hay, 2006). Values-based service (*ibid.*) shifts the focus of managerial control from a preoccupation with financial control to a wider awareness of CSR and the importance of 'triple bottom line' thinking using the three perspectives (i) economic; (ii) social; and (iii) environmental (Enquist *et al.*, 2006; Edvardsson, Enquist and Hay, 2006).

2.2.2 Operations-related Concerns

By defining CSR through the lens of a company's strategies and operating practices, a practice-based stakeholder view of the corporation is taken, broadening understanding of the

stakeholder to whom a firm is accountable (Waddock, 2006). She talks about “Responsibility management” (ibid.) which has taken its inspiration from quality management (TQM), but has a stakeholder perspective instead of only looking at employees and customers, which TQM focuses on. Values-based thinking not only includes the economic, ecological and social perspectives, but also a stakeholder view of leadership, responsibility, and ethics (Pruzan, 1998). Strong service companies which can be seen in terms of “The Globally Integrated Enterprise” (GIE) (Palmisano, 2006) have their own codes of conduct (Cramer, 2006; Waddock, 2006) which force suppliers to meet quality standards as well as social and environmental standards in the supplier and value chain of the GIE. HRM and corporate climate (Schneider and White (2004) is a concept which also has a major impact on companies’ strategies and operating practices and is related to CSR activities and shared values and meanings (Edvardsson and Enquist, 2002). In achieving the integration of the various elements of a wider conception of CSR, Zadek (2004), has talked about “the five stages of organizational learning.” The two stages lying beyond compliance and relating to operational concerns are: The managerial stage: i.e. to embed the CSR concepts within the organisation’s core management processes by integrating responsible business practices into daily operations; The strategic stage: to integrate the CSR concepts into the organisation’s core business strategies by aligning CSR concepts with strategy and process innovations.

Roberts (2003) also describes CSR adoption (Enquist *et al.*, 2006) as a learning process, similar to Zadek (2004). Roberts (2003) third manifestation of CSR, ‘the responsible director,’ is related to operational concerns and seeks to provide CSR with broad support by introducing new forms of internal social and environmental controls. These are coupled to rewards and incentives that complement existing management accounting.

2.2.3 Encounter-related Concerns

In a service centre view, value in-use is a central part (Vargo and Lusch, 2004). Communicating the values which drive value is of major importance and will occur in different ways and via different media in a service business where it has to achieve a fit between internal and external communication (Edvardsson, Enquist and Hay, 2006).

The CSR initiative is about building trust in the stakeholder network (Enquist *et al.*, 2006). Kristensson Uggla (2002, p. 415), from a philosophical point of view, has tried to make the concept of trust capital more understandable. He says: “Trust capital is a sharing capital and can only coexist in a shared reality, as something that lodges relations in a communicative relationship.” (ibid. p. 415) This capital can only be developed via a relationship with ‘the other’ (Roberts, 2003). In the stakeholder perspective, the ethical dimension must always be considered (Freeman, 1994) if trust is to develop within the relationship. The relationship, in the service-centred view, is about value-creating where value is defined by, and co-created with, the customers and other critical stakeholders (Enquist *et al.*, 2006).

Encounter-related concerns involve these dialectic relations. Roberts' (2003) final manifestation is termed "dialogue with the vulnerable," and this refers to "... the necessity and potential of dialogue across the corporate boundary with those most vulnerable to the effects of corporate conduct" (ibid. p. 263). But this dialogue is not only with the customers. GIE companies also work together in collaboration with company-NGO engagement in "a social compact" (Brugmann and Prahalad, 2007). Here, a more proactive Corporate Philanthropic can also come into place (Porter and Kramer, 2000) and the company can be a "leading corporate citizen" (Waddock, 2006), both in local and global society.

3. Empirical Study

We have been studying the development of the Swedish furniture producer, IKEA, for several years. This has involved: (i) the extensive perusal of documents; (ii) multiple interviews with IKEA managers; (iii) the collection of narratives about IKEA from the media, the Internet, and books; (iv) personal observations at IKEA stores in Europe, Asia, and North America; and (v) supervision of several masters' theses on related subjects. At the same time we have also start studying other, what we label, values based service firms, such as Starbucks, H&M, and The Body Shop. We also have in our international master program, which tutored by Enquist: developed case studies and master thesis around these companies and selected data in the same way as for IKEA. This extensive research involvement has provided us with a solid basis for selecting representative empirical data for this article.

In assessing the gaps between the public statements of these organisations: vision, mission statements, and code of conducts that was accessed from their documents and websites, and their practices, we adopted the three concerns. Where all the companies will be described from the three service operations concerns: business, operational and encounter. The views of the activists/NGOs also described as a counter argument. As well, it is imperative to asses it based on the five stages of Zadek (2004). It is found that all the five companies are beyond the "Compliance" stage and in the "managerial" and/or "strategic" stages, which analysed in the operations concern. However, all the five companies are working to practice CSR in reality and reaching the fifth "Civil" stage; as first movers they also have been exposed to the critics of NGOs and activists. This creates for these companies a potential for a positive relationship between increasing productivity and living standards of their employees and other stakeholders, as well as political and social rights and conditions (Sen, 1999).

| | IKEA | Starbucks | H&M | The Body Shop |
|------------------------------------|--|--|---|---|
| Business-related concerns | <p>Vision: "To create a better day-to-day life for many people"</p> <p>Business concept: "To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them"</p> <p>Testament: The strong culture of IKEA is based on "shared values and meanings". In this regard, the "Testament of a Furniture Dealer" will be of great importance in visualising those values.</p> | <p>Mission Statement:</p> <ul style="list-style-type: none"> - To provide a great working environment and to treat others with respect and dignity. - To embrace diversity as an essential component of business. - To apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of coffee. - To enthusiastically acquire satisfied customers. - To contribute positively to communities and the environment. - To recognize that profitability is essential to future success. | <p>Vision: "to bring fashion and quality at the best price."</p> <p>Business concept: "Our design and purchasing departments create the H&M collection and make it possible to offer the latest fashions and cosmetics with unbeatable value at the best price."</p> <p>The H&M "Business philosophy" which involves ensuring and improving the quality of their goods at the best prices is rooted in a strong culture of values and value creation.</p> | <p>Mission Statement:</p> <ul style="list-style-type: none"> - To dedicate our business to the pursuit of social and environmental change. - To creatively balance the financial and human needs of our stakeholders. - To courageously ensure that our business is ecologically sustainable - To meaningfully contribute to the local, national and international communities in which we trade. - To passionately campaign for the protection of the environment, for human rights, and against animal testing. - To narrowing the gap between principle and practice. |
| Operations-related concerns | <p>Code of conduct: IWAY (The IKEA Way on Purchasing Home Furnishing Products). IKEA believes that it can contribute towards steering suppliers towards more competitive production, improved working conditions, and a reduced environmental impact.</p> <p>HRM and Climate: IKEA offers co-workers opportunities and responsibility. Co-workers and leadership have an intertwined relationship. IKEA selects people who are strong leaders and who embrace</p> | <p>Code of conduct: C.A.F.E. Practices (Coffee and Farmer Equity Practices) Guidelines for working with coffee farmers to ensure high-quality coffee and promote equitable relationships with farmers, workers and communities, as well as to protect the environment.</p> <p>HRM and Climate: One of the main goals of Starbucks mgmt is to create and provide a great working environment by promoting a respectful workplace culture, fostering diversity and inclusion, taking care</p> | <p>Code of conduct: Covering the working environment, child labour, fire safety, working hours, minimum wages and the environment</p> <p>It is to ensure that products are produced under ethical working conditions and to protect environment.</p> <p>HRM and Climate: H&M believes in working with a set of values rather than manuals. Basic values include believing in people, teamwork, a fast pace of working and constant improve-</p> | <p>Code of conduct: Body Shop Community Trade (CT) is about paying a fair price for goods and paying fair wages for labour. CT ensures that all five core values are addressed at once: Community Trade, Self Esteem, Protecting the Planet, Human Rights and Opposing Animal Testing.</p> <p>HRM and Climate: The global HR strategy recognises employees as the company's most critical asset. It focuses on providing a unique employment proposition that supports the company's retail vision, respects its social and environ-</p> |

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|--|---|--|--|---|
| | <p>the IKEA vision and culture. Shared values define the IKEA company culture.</p> | <p>of its partners' (employees') well-being, providing opportunities for training and career growth and ensuring a safe workplace.</p> | <p>ment. Offering employees the most competitive and comprehensive benefits and compensation package available.</p> | <p>mental mission, and enables employees to use and develop global skills.</p> |
| <p>Encounter-related concerns</p> | <p>Communicating: The values which drive value are communicated through advertising, publicity, the Internet, an IKEA 'customer club', and directly in IKEA stores using customer placement and by co-workers interacting with customers.</p> <p>Trust capital as a global and local corporate citizen: IKEA initiates and supports a wide range of activities and projects, globally as well as locally. IKEA mainly works to improve health and education, focusing on children and women, and to protect the environment where the focus is on forestry. IKEA co-operates with a number of companies, trade unions and organisations throughout the world. These partnerships enable IKEA to share its experiences and accomplish more than it could have done by working on its own with social and environmental issues.</p> | <p>Communicating: "We're not in the coffee business serving people. We are in the people business serving coffee" It has always been Starbucks partners (employees) that have been able to inspire the customer to come back.</p> <p>Trust capital as a global and local corporate citizen: Starbucks' success in new and established markets hinges on its ability to cultivate meaningful relationships with customers, local community leaders, and neighbours - relationships that are built on trust. Starbucks works hard in supporting and encouraging its partners' volunteer efforts. Starbucks stresses its commitment to corporate social responsibility and communicates its activities within the company and between its stakeholders to create a responsible environment for future growth.</p> | <p>Communicating: H&M makes shopping an easy and pleasant experience through qualified employees while great importance is attached to the layout of the stores, and location. Also, communicating via advertising, the Internet and the customer club.</p> <p>Trust capital as a global and local corporate citizen: H&M initiates and supports a wide range of activities and projects, globally as well as locally. H&M mainly works towards poverty alleviation and education, focusing on children, young people, and women. Environmental protection focuses on chemical avoidance and eco-labelling products. H&M is working in cooperation with a number of NGOs and initiatives like GRI and Amnesty International.</p> | <p>Communicating: TBS is a customer-focused business offering goods via three retail channels: TBS stores, The Body Shop at Home™-home party experience, and e-commerce. Customers are always at the forefront of everything we do, say and deliver. We strive to create a fantastic experience for everyone who shops at The Body Shop and who works at The Body Shop.</p> <p>Trust capital as a global and local corporate citizen: The Body Shop is committed to allocating a share of its profits to charities around the world. TBS support a wide range of charities and communities directly through volunteering, cash and making product donations. The majority of charitable donations are channelled through "The Body Shop Foundation," founded in 1989 as a way of distributing funds from The Body Shop International plc and its extended family.</p> |

4. Discussion and Conclusion

What is the contribution made by the conceptual and theoretical framework of this article? There is a positive relationship between CSR and profit in innovative firms, as we saw in Xueming and Bhattacharya, (2006) based on secondary data where the relationship between CSR, Customer Satisfaction, and Market Value is investigated. The result of that article is of acontextual nature but can be used as the input for a more contextualised analysis. We have also learnt that today CSR is not for charity to doing good for doing good but more for doing well. With this in mind, a descriptive and analytic framework has been developed as a CSR business model. Using that CSR business model, our four companies, IKEA, Starbucks, H&M and the Body Shop, have been described and analysed.

What can be learnt (both theoretically and as regards practical implications) about CSR as a proactive thinking/tool for value creation in the service business in this article from our empirical findings from our four leading service companies where CSR is an important part of the service logic? Berry *et al.* (2006) pointed out nine success drivers of Market-Creating Service Innovations. We will use these nine drivers as our framework for describing and analysing our CSR business cases to show that CSR drives innovative business.

4.1 A Scalable Business Model

All four companies have a scalable business model for their expansion success based on different ways of triple bottom line thinking. Attractive offers in attractive stores, strong supplier chains including social and environmental benefits, strong citizenship.

4.2 Comprehensive Customer-experience Management

All four companies have developed scripts for customer experience which are part of a joint co-creating value process with the customer. In IKEA, it can be seen as customer placement in the in-store showrooms (experience rooms) (Edvardsson *et al.*, 2005) and will be supported by the catalogue and the Internet. For Starbucks, it can be described as the Starbucks experience. H&M talks about shopping as an easy and pleasant experience while the Body Shop talks about the fantastic experience. We can talk, in all four cases, about experience quality (Enquist, Edvardsson and Sebhatu Petros (2007).

4.3 Investment in Employee Performance

For both IKEA and Starbucks, the co-workers and partners, as is also the case for the Body Shop and H&M, are of great importance for a strong corporate culture as regards living the brand and sharing the values. High performance is about operational skills, cooperating with others and sharing values and meanings. H&M employees are values-driven and, for the

Body Shop, the employees are the most important assets of the company. All four companies focus on investing in employee performance as a key strategy for company success.

4.4 Continued Operational Innovation

All four companies are retailers which control development processes such as design and product/concept development, but which use suppliers for production. All four companies invest heavily in logistics and stores and material/product know-how from a triple bottom line perspective. All four companies have their own code of conduct to safeguard their social, environmental, and quality standards.

4.5 Brand Differentiation

All four companies have very strong brands. We can talk about values-based service brands (Edvardsson *et al.*, 2006) since all four companies are driven by strong values.

4.6 Champions of Innovation

All four companies have had strong champions during their history. IKEA has Kamprad, Starbucks has Schultz, H&M has its founder Erling Persson and later on his son Stefan Persson, and finally the Body Shop has for several decades had its founder Anita Roddick. These champions of innovation have built a unique business concept in each company, which has then been reproduced/recreated and further developed over decades through shared values and shared meanings (Edvardsson and Enquist (2002).

4.7 Superior Customer Benefit

Superior benefit is not only for the customer. Value-in-use for the stakeholders of the firm is of major importance in all four companies, where responsible local and global citizenship (Waddock, 2006) is key for all four firms.

4.8 Affordability

All four companies offer affordable service solutions. The price strategy differs in all four cases but each offering is still affordable.

4.9 Continued Strategic Innovations

All four companies' business developments are based upon continued strategic innovations. The innovative solutions often originate from smart and/or different solutions in environmental and social areas.

This article has been of an explorative nature whereby we have pointed out that CSR is not for charity in order to do good but more of a strategy for innovative service business.

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