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The Perspective of Social Business for CSR Strategy

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The Perspective of Social Business for CSR Strategy

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Abstract

The growing practice of corporate social responsibility (CSR) has led to increasing research attention in the literature to the role of CSR strategy. CSR strategy is a concept for maximizing profits or benefits for both society and the company. Studies of CSR strategy during the 1990's and the early 2000's were mainly limited to examining the concept of CSR, and merely discussed the needs and importance of the strategic development of CSR. Recently, strategy researchers have proposed more specific CSR strategies by applying their knowledge of strategic management.

This paper first summarizes these CSR strategy studies and then proposes an approach to CSR strategy from a new perspective. This paper also identifies issues that a company may face when implementing CSR and suggests approaches to CSR strategy to overcome these issues. To overcome the CSR issues, the paper discusses (1) a framework for recognizing the contribution that CSR activity makes to corporate performance, and (2) approaches to CSR strategy for resolving tradeoffs inherent to the CSR activity.

This paper proposes that a company design its CSR activity so that it expands the company's stakeholders, resources and capabilities. Secondly, because the impact of CSR activity occurs both through external factors, such as legitimacy and reputation, and through internal factors, such as implementation and learning, efforts to stimulate the processes are discussed. Lastly, based on the above considerations, the outcome of CSR, corporate performance and the resolution of tradeoffs inherent to CSR are further examined. This paper concludes by pointing out that, from the perspective of CSR strategy, it is most important for a company to implement CSR activity regarding it as a social business, based on a careful review of its core business.

1. Introduction

1. 1. Difficulty in CSR and the need for strategy

The intentions of companies that work on CSR are varied. Some companies take a "reactive approach" to CSR in response to changes in the corporate environment, or external pressure to introduce CSR, or as a means of hedging risk. Other companies

take a more “active approach,” attempting to gain a competitive advantage through differentiation and branding by introducing CSR.

To put it simply, CSR is nothing but corporate efforts to ensure that corporate activities do not cause negative effects (harm) but bring higher values (contribute) to society. However, while seemingly simple, the corporate activities and society that need to be addressed in CSR contain the whole content and processes of corporate activity, as well as all the sites associated with the activity and stakeholders. CSR is said to concern all spheres of management, and is also said to embody the management itself. Furthermore, CSR requires a company to consider the whole of society and the stakeholders that are affected by companies, as well as the achievement of corporate goals and the survival of the company. The difficulty is sometimes expressed as “a dilemma between the society’s demand for CSR from a company, and the shareholders’ demand for the maximization of profits in the short-term” (Porter and Kramer, 2002). Upon further consideration, the difficulties associated with the implementation of CSR can be broken down into the following two main areas.

The first difficulty is to recognize the effect of CSR activity on society and the company. Even if CSR is viewed as an investment, if the effect is not recognized by society and the company, it is merely considered as a cost. In this case, CSR activity is only regarded as a means to cope with external pressure, and the efforts to implement CSR would be regarded as reactive and passive, and limited to the minimum.

Therefore, there is a need to develop a framework in which CSR activity positively affects society and the company, and in which its effects can be recognized. As in other business strategies, it is necessary to clarify the themes and targets of CSR activity, examine the cost performance, carry out the planning and run the “Plan-Do-Check-Action” cycle to ensure the effect of CSR activities on the society. However, it is difficult to recognize and observe the main effects of CSR on the company. This is why a lot of CSR’s benefits for the company are intangible in the long term.

The second difficulty is in the implementation of CSR because CSR activity itself contains many tradeoffs. For a company, the scope of “society” is very broad. When the society is viewed as stakeholders, they can be classified into two types based on the degree of their relationship with the company.¹ The primary stakeholders are those who are important for the company to survive, and who have business relationships with the company, while the remaining ones are the secondary

¹ Some studies classify stakeholders into three types. See Clarkson, M.B.ed. (1998), Wheeler, D. and Silanpaa, M. (1997) for the definition and classification of stakeholders.

stakeholders. CSR must be implemented also giving due consideration to the secondary stakeholders. CSR is an activity to pursue the ultimate, ideal state where higher economic, social and environmental values are to be evenly provided to all stakeholders. However, the company and stakeholders will encounter tradeoff situations everywhere with regard to the values to be provided. For example, providing values to one stakeholder may negate values to another stakeholder. Tradeoffs may occur between corporate profit and the economic, social and environmental benefits received by the primary and secondary stakeholders if the CSR activity is not strategically designed.

Therefore, a company needs to recognize who their stakeholders are, develop a map showing its relationships with each stakeholder from the perspective of CSR, and implement the activity with all stakeholders in mind. It is also recommended to refine and place priority on the target stakeholders and values whenever any CSR activity is considered (Carroll and Buchholts, 2002).

1. 2. The purpose and contents of this paper

Accomplishing CSR in an ideal fashion is quite challenging. This is why developing the concept and scenario, or “strategy,” is absolutely necessary. From the perspective of the previously mentioned factors that make the accomplishment of CSR particularly difficult, the following needs can be addressed: (1) a framework that recognizes corporate performance in CSR activity, and (2) an examination of the concept of CSR strategy from the perspective of resolving tradeoffs inherent to CSR.

The purpose of this paper is to present the concept of CSR strategy from the perspectives of (1) the framework for examining corporate performance in CSR activity, and (2) the resolution of tradeoffs inherent to CSR.

We identify the standpoint of this research questions through the review of the preceding study in the second chapter. In the third chapter, the framework in order to enrich environment inside and outside the company is presented. This framework would recognize corporate performance in CSR activity. In the framework, we consider two processes (the external factor and the internal factor) in order to enrich environment inside and outside the company. CSR strategy in this paper is to design the CSR activity which makes the two processes revitalize as a result of the above work. The forth chapter examines the way of thinking to design CSR activity as a social business based on the reconsideration of profit seeking business (i.e., company’s core business) through a case study in order to resolve tradeoffs inherent to the CSR activity as well as to make the two processes revitalize.

2. Review the concept of CSR strategy

2. 1. Studies on CSR strategy between the 1990's and the early 2000's

CSR strategy is a strategy which aims at “the maximization of profits for both the company and the society” and “the maximization of values for stakeholders in and outside of the company.”² Let us review the previous studies concerning CSR strategy.

Among studies concerning CSR, there are studies of strategic philanthropy that focus on philanthropy. Many of the studies in the 1990's explain the reasons and context for why corporate philanthropy was redefined in strategic terms.

Strategic philanthropy refers to activity that links social assertion and social behavior to corporate goals and businesses. Its representative methods include cause-related marketing (CRM), strategic sponsorship licensing, community trade, employee volunteers and non-monetary donations (in-kind donations) (Carroll, 1996; Yankey, 1996; Adkin, 1999; Post, et al., 1999; Steckel, et al., 1999). While society's demands for corporate donations have increased, the competitive environment surrounding companies has become harsher, resulting in a low growth rate for corporate donations. The justification for corporate philanthropy began to be discussed under the difficult corporate environment. In order to balance donations with the corporate bottom-line and shareholder profits, a concept of philanthropy as a social investment in society and business was disseminated from the mere concept of philanthropy as charity (Stendard, 1992; Smith, 1994; Buchholts et al.; 1999; Steckel, et al.; 1999). Furthermore, a decrease in traditional donations and the growth of CRM have supported strategic philanthropy (Simon, 1995; Marx, 1996)³.

In the articles by Logsdon, Reiner and Burke (1990) and Post and Waddock (1995), the needs for (1) introducing a strategic process into social activities such as donations, and (2) linking social activities to corporate goals, are discussed as an advanced form of strategic philanthropy.

In addition to the “enlightened self-interest” that has conventionally been pointed out, the effects of strategic philanthropy on corporate goals may include

² The CSR strategy in the article used the article by the Yokoyama (2003) and the draft by the Yokoyama (2006) as references.

³ As described, strategic philanthropy refers to the method of targeting both effective philanthropy and corporate profits within a limited philanthropy budget. Examples include linking donations to NPOs to the company's own marketing activities, and focusing the theme on the company's business-related subjects to best utilize its management resources. For developing a philanthropy program, it is basic to refine themes and link the program to the company's core business (i.e., utilize its management resources, especially its core technology and competencies). Other methods proposed include collaborations with NPO, CRM (cause related marketing) and community trade.

marketing effects and improvements in the work environment.⁴ Additionally, cost performance can be measured to some degree by using a method of strategic philanthropy such as CRM. However, the methods of strategic philanthropy may possibly be considered hypocritical, depending on the way in which they are implemented. In that case, there is a possibility that even the effect of traditional enlightened self-interest cannot be expected (Yokoyama, 2003).

Authors such as Freeman (1984) and Ansoff (1990) have discussed the need for integrating CSR with corporate strategy. Burke and Logsdon (1996) presented a more specific concept of strategic social responsibility, discussing social responsibility-related programs and methods that would enable a company to increase profits and meet the social needs of stakeholders. Martin (2002) explained plainly what CSR strategy is. In social activity, a company may voluntarily choose to follow the law and prevailing social norms to conform to these norms, while in other cases a company may be mandatorily required to follow the law. According to Martin (2002), there is another case where a company creates its own social activity (i.e., activity in a new area) which improves both society welfare and the shareholders' profits. This is considered as strategic behavior. Social activity in a new area that does not lead to increased shareholders' profits is classified as structural behavior.

These studies strongly presented the need for and the direction of CSR strategy; however, they were yet to address any specific and effective guidelines. Although the studies in the 1990's and the early 2000's discussed the importance of the strategic development of CSR, they did not fully examine the role or the content of CSR strategy.

2. 2. Emergence of the study of CSR strategy by strategists

Since 2006, applying their knowledge, business strategy experts have proposed more specific strategies concerning CSR strategy. In particular, an article by Porter and Kramer (2006) presented a specific guideline for a comprehensive CSR strategy which was derived from their strategic philanthropy theory published in 2002.⁵ The article by Porter and Kramer (2002) merely presented the philanthropy guideline for companies to improve their competitive environment by applying Porter's diamond model (1990).

⁴ The concept of enlightened self-interest argues that CSR activity by corporations will benefit them in the long run for the following principal reasons. CSR activity by a corporation will (1) improve the infrastructure of the society in which the company belongs, and leads to the improvement of general environment, and (2) obtain a positive reputation and favorable feelings from stakeholders which lead to a trusting relationship with its stakeholders. Of course, it is impossible to accurately measure the costs as opposed to the benefits (Yokoyama, 2003).

⁵ The article won Harvard Business Review's McKinsey gold prize in 2006.

This paper explains that, when implementing a CSR strategy, a company needs to identify, select and focus on the social issues that benefit both society and the company. This paper also proposes to use the frameworks of the value chain (Porter 1985) and the diamond model from the perspective of recognizing meaningful social issues that a company should work on for its CSR strategy. The effect of corporate activity (value chain) on society can be recognized by using a value chain chart. The use of the diamond model enables us to understand the effect of society on a company's competitiveness. These frameworks enable a company to clarify its corporate activities from the perspective of CSR with regard to a mutually-beneficial relationship between the company and society. They point out that, from these activities, the company should select an activity that brings significant advantages to both the company and society, and concentrate its management resources on that activity. They explain that this is a true CSR strategy.

Furthermore, they refer to the case of Nestle's milk business in developing countries. They point out that if the investment in the competitive environment is consistent with the activities of the value chain, the distinctions between CSR and the company's routine operations would no longer exist. Such cases are also examples of the development of the BOP (base of the economic pyramid) market, which Bruggmann and Prahalad (2007) explains. Bruggmann and Prahalad (2007) explains a business model that develops the BOP market, which exists at the bottom of the economy.⁶

2. 3. The focus of this paper

Bruggmann and Prahalad's (2007) study focuses on developing CSR activities as a business, and explains cases of such business models. If a social issue can be resolved through business means, this would then become a quite meaningful solution. However, there are many CSR activities that cannot be developed as a business. These include the role of CSR on the value chain in the existing business and philanthropic environment.

For example, Yokoyama (2003, 2006) classifies CSR strategies using the two axes shown in Figure 1: "Characteristics of CSR activity (social activity)" and "methods of CSR activity." The classification according to the characteristics of CSR activity is made in terms of whether the activity is engaged in a profit-seeking business or a non-profit business. From the perspective of Carroll's (1991) pyramid of CSR, economic, legal and ethical responsibilities are relevant to the running of a profit seeking business, and they are classified in the former category. Philanthropy is classified as the latter category. Classification according to "methods of CSR activity"

⁶ The article particularly focuses on the collaborative business model of corporations and NGOs.

is accomplished in two ways: working on CSR in the existing system, or working on CSR as a new business. Based on the above combinations, CSR strategies can be classified into the following four types: (1) strategic social responsibility, (2) strategic philanthropy, (3) social business as a profit seeking business, and (4) social business as a non-profit business (NPO business). Among these, a company also needs to work on (1) strategic social responsibility and (2) strategic philanthropy, which does not require the development of a new business. Developing a business (social business) is not everything about CSR strategy.⁷

Figure 1: The four types of CSR strategies

Characteristics Methods of CSR activity	Profit-making business	Aside from a profit-making business
In existing structure	Strategic social responsibility	Strategic philanthropy
In new structure (new enterprise or organization)	Profit-seeking social business	NPO business

Meanwhile, Porter and Kramer (2006) reacknowledges CSR issues in terms of the numerous social issues that surround a company, and present a framework that helps to identify the social issues that can benefit both the company and society. They present a practical tool that contributes to raising awareness of the company for achieving both corporate competitiveness and resolution of social issues. However, CSR is a broad activity theme that involves everything about management. It is necessary not only (1) to focus on and select social issues that enable the company to achieve corporate competitiveness and create common values with society, as they point out, but also (2) to examine each CSR activity in detail and devise a plan to implement the activities.

In addition to their practical framework, it should be meaningful to present a perspective that enables us to (1) observe the corporate performance realized by CSR activity, and (2) resolve tradeoffs inherent to CSR, which are discussed in this paper, for promoting CSR in a broad manner. Put another way, this paper examines the points to be noted regarding CSR strategy from other perspectives than their practical tools for

⁷ Though due to limited space we cannot discuss in detail, there are other types of CSR strategy which are not discussed here. With regard to CSR business, other social issues (CRS issues) may occur during the process of establishing a business to resolve a social issue.

recognizing and selecting social issues when planning CSR. An approach to planning a future CSR strategy is then presented.

As previously mentioned, the purpose of this paper is to present the concept of CSR strategy from the following two perspectives of overcoming CSR issues: (1) A framework for observing corporate performance realized by CSR activity, and (2) the resolution of tradeoffs inherent to CSR.

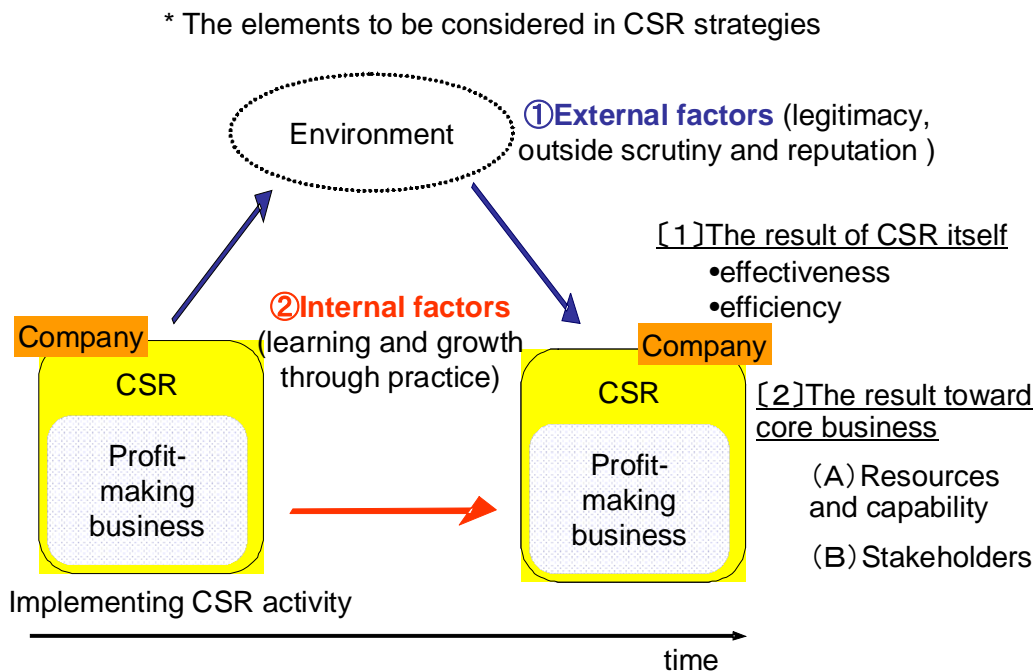
3. Approach to CSR strategy for overcoming CSR issues

3. 1. Approach to CSR strategy

CSR strategy is a strategy that aims at “maximizing profit for both a company and society” and “maximizing profits for stakeholders in and outside of the company.” In this chapter, a framework for observing corporate performance realized by CSR activity is presented. Figure 2 illustrates the elements to be considered when designing a CSR strategy.

To achieve the CSR strategy (to balance it with corporate goals, in particular), the following two approaches are required.

Figure 2: Analysis framework: The results of CSR



(1) CSR activity and the environment inside and outside a company

With CSR activity, favorable changes need to be produced both within and outside the corporate environment. The favorable influence inside and outside the corporate environment means two types of performance: [1] social performance of the CSR itself and [2] corporate performance.

A company needs to positively effect CSR activity in its core business (profit seeking business) in a broad sense, and pursue its corporate goals by [1] attaining the social performance of CSR itself utilizing its core business (A) resources and capabilities, and (B) stakeholders, as well as [2] designing CSR activity so that its (A) resources and capabilities, and (b) stakeholders can be expanded.

(2) The process that links CSR activity to the environment inside and outside a company

In terms of the process that disseminates to [1] the society (performance of CSR activity itself) and [2] the company's core business (profit-seeking business), namely the process that aims at expanding both (A) and (B), two processes involving the following need to be considered: ①External factors (legitimacy, outside scrutiny and reputation), and ②Internal factors (learning and growth through practice).

3. 2. CSR activity and the environment inside and outside a company

The above approaches reflect some of the logical knowledge stated below. They are explained in due order.

[1] Influence on society = Performance of the CSR activity itself

The effect on the society is considered as the performance of the CSR activity. The performance of an organization can be measured by its effectiveness. Effectiveness indicates the effect and efficiency in achieving the stated goal (Pfeffer and Slancik, 1978).

[2] Influence on the company = Contribution to the corporate performance

Corporate strategy is to design mutually beneficial relationships between the company and the environment inside and outside the company. There are various ways to understand the environment inside and outside the company. The well-known approaches include analyzing the internal environment, external environment, general environment, task environment, value chain and competitive context. This paper applies the concept of the stakeholder approach and resources-based theory to understand the

corporate environment in relation to CSR. The stakeholder approach considers the corporate system as a dynamic system of influence or of a nexus of contracts. (Mitchell, Agle and Wood, 1997; Freeman, 1984; Svendon, 1998).⁸ The resources-based theory considers the company as a bundle of resources (Penrose, 1959; Wernerfelt, 1984).⁹

To consider the CSR strategy, the relationships between the company and society as a whole, which include the interests of secondary stakeholders and non-economic aspects, need to be addressed. At the same time, resources and capabilities, which cannot be understood by the relationships alone, also need to be considered. In other words, strategic management theory according to the resources-based approach is not sufficient to understand the external environment, and it may overlook the relationships between the company and various stakeholders. Meanwhile, by understanding the corporate system through the stakeholder approach (in strategic management theory), the inside environment can only be understood by analyzing the employees and managers; abstract elements, such as resources and capabilities, may be overlooked. Therefore, the environment both inside and outside the company must be understood from the perspective of both stakeholders and resources/capabilities. Based on the above, the influence measurement variables were determined which represent variables that measure the recognized changes inside and outside the corporate environment due to the CSR activity¹⁰.

Measurement of the environment inside and outside the company = Influence measurement variables of the company

(A) Resources and organizational capabilities (hereafter, capabilities)

(B) Main constituent within stakeholders (hereafter, stakeholders)

Stakeholders can be classified into the internal stakeholders consisting of the company's internal constituents, and the external stakeholders consisting of the

⁸ The contract mentioned here is a broad concept that includes formal as well as tacit agreements. There are a number of definitions of stakeholders, including those expressed in terms of contracts, interests or influential relationships. Mitchell, Agle and Wood (1997) used the definition of Freeman (1984) as a broad classification. This article refers to Freeman's (1984) and Svendon's (1998) definitions, and uses them in a broad sense.

⁹ In resource-based theory, the definitions of resources and capability are not necessarily the same. Although many studies view the relationship between resources and capability in terms of a hierarchy, this paper makes no distinction between resources and capability in its analysis because there is no agreement in the interpretation of these terms. In recent years, the corporation which has invisible assets and organizational capability that is unique and impossible to imitate has been considered to have continuous competitiveness (Itami 1984, Kusunoki, 1999).

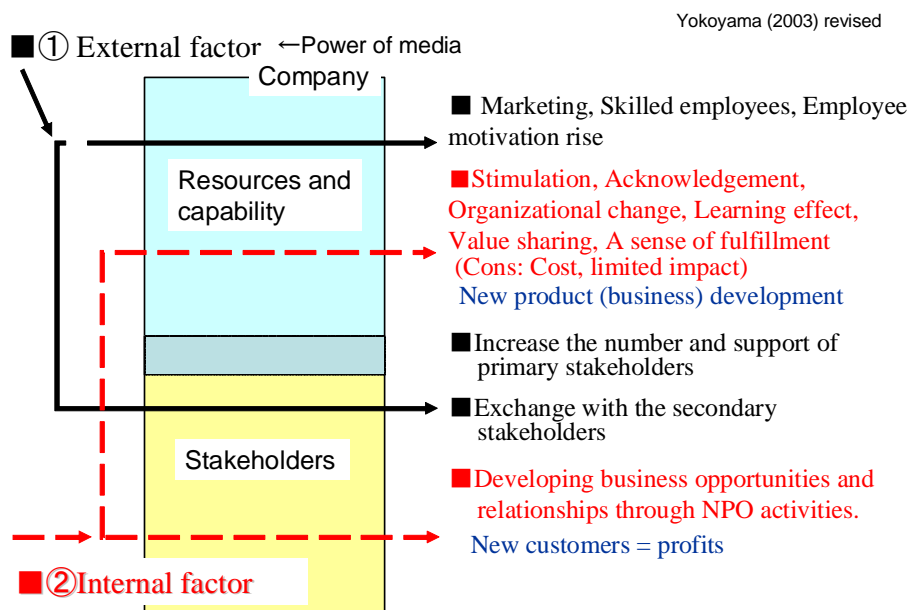
¹⁰ There are some authors to link the resource-based view with CSR on the purpose that they'd like to consider the association between CSR activity and competitive advantage or core competence. Hockerts (2003) describes that the core competencies made up of antagonistic assets as well as complementary resources are important for competitive advantage and competitive advantages of organizations with a capability of deliberate resource misfit for antagonistic assets are more likely to be sustainable.

company's external constituents, in addition to the broad primary and secondary stakeholder classifications.¹¹ Therefore, in any analysis of the changes in the stakeholders, changes in the internal stakeholders necessarily overlap with the category of resources and capabilities.

3. 3. Process that links CSR activity to the environment inside and outside the company

CSR activity produces various changes (i.e., changes in the influence measurement variables) in the environment inside and outside the company through internal and external factors. Figure 3 is an example that is considered the influence on the company in Figure 2.

Figure 3: Influence on a Company



(1) Processes involving external factors (external eyes and evaluation)

This is a process whereby the stakeholders' views on the company are altered as a result of CSR, influencing its (A) resources and capabilities, and (B) stakeholders. Previous studies have referred to this process as earning the legitimacy and goodwill of

¹¹ As mentioned earlier, stakeholders can be classified into primary and secondary stakeholders. Though the definitions differ slightly among the authors, the common distinctions between the primary and secondary stakeholders are the influential power to corporations, and degree of influence they receive from corporations. The main classifications include the importance for corporate existence (Clarkson, 1995), the presence of market relationships (Ri, 1998) and the presence of formal contracts (Carroll, 1996).

the stakeholders. By earning legitimacy and goodwill from the environment (stakeholders) surrounding the company, both (A) resources and capabilities, and (B) stakeholders will change. For example, the following changes may occur.

- Strengthened trusting relationships with stakeholders
- Possibility of newly-formed relationships with the secondary stakeholders
- Improved morale and motivation among employees
- Positive influence on sales and recruitment
- Strengthened relationships with customers

(2) Processes involving internal factors (growth by implementation)

This is a process that involves changes resulting from the implementation of CSR activity. Although many studies on social responsibility have discussed the advantages of external factors, internal factors have received limited attention in the literature.¹²

This paper considers the influence of both factors. Examples of the changes in (A) resources and capabilities, and (B) stakeholders resulting from the implementation and learning include the following:

- Resources in the company are stimulated or revitalized.
- Learning opportunities increase due to increased contacts with society.
- Network of new stakeholders associated with the business is developed.
- A seed for new business can be found: new business, product development.
- Enhanced task environment in the company (specified environment that is directly or potentially associated with organizational goals, market, technology or competitive environment that is important for conducting the company's core business)
- Quality assurance of business activity

Taking philanthropy as an example, in the case of monetary support, (1) external factors generally have a lot more influence than (2) internal factors on the feedback process for corporate performance, though it depends on the approach. Conversely, with regard to philanthropy promoted by employees in cooperation with various outside organizations, the feedback process is considered to involve not only (1) external factors, but also (2) internal factors.

Therefore, the CSR strategy considers not only the performance of CSR itself, but also the two processes involving (1) external factors, and (2) internal factors to

¹² Dentsu Communication Institute Inc. (1991) indicates the influence by internal factor.

design a CSR activity that ultimately expands the company's (A) resources and capabilities, and (B) stakeholders.

3. 4. Stimulating the process that contributes to corporate performance

According to the framework in Figure 2, effective CSR activity not only accomplishes the functional strategy, which aims at the effect and efficiency of CSR itself, but also stimulates processes involving (1) external factors, and (2) internal factors. If the processes involving (1) and (2) are stimulated to function more strongly, the feedback to (A) resources and capabilities, and (B) stakeholders will also be improved, and this will have a favorable impact on both CSR and the company. Based on this, let us discuss the approach to CSR activity that would stimulate the processes involving (1) and (2).

(1) To stimulate processes involving external factors

In terms of philanthropic activity, the following are required to be [1] recognized and valued by others (i.e., secure justice, earn goodwill and earn reputation)¹³:

- Attract attention (achieve good CSR performance)
- Sizable social impact (i.e., resolution of social issues with a high level of urgency and needs)
- Significance of the company's involvement (i.e., story, relation with mission)
- Effective and fair manner of involvement
- Uniqueness, innovation, initiative and continuation(nurture) of CSR activity

(2) To stimulate the process involving internal factors

Meanwhile, to stimulate the process associated with the implementation of CSR activity, such as [2] the effect of learning, the following approaches should be designed so that the effects of learning and dissemination from CSR activity are enhanced:

- Consider designing CSR activity that is related to core business and managerial resources
- Design CSR activity that helps to learn technology related to core business, know-how and management
- Arrange the interaction with other organizations and communities to enrich their own task environment

¹³ We consider the stimulate processes involving external factors in CSR activity itself. It is required to consider that CSR communication with stakeholders to stimulate processes involving external factors in the second stage, for example, Morsing and Beckmann (Eds.) (2006) explain three CSR Communication strategies.

- Measures that can create circulation between CSR (philanthropy) and core business

This paper further examines the approach to CSR strategy (strategic philanthropy) from both perspectives of stimulating processes involving (1) external factors, and (2) internal factors, and resolving tradeoffs inherent to CSR. Based on the two perspectives, an approach that considers CSR activity and philanthropy as a social “business” can be proposed. Now, let us examine the significance of the approach to CSR strategy (strategic philanthropy) as a “social business based on the reconsideration of profit seeking business (company’s core business).”

4. CSR strategy based on the idea of social business

4. 1. Idea of social business and CSR

Recently, the concepts of social enterprise and social business have become widespread. A social enterprise can be explained in terms of three elements: social-issue resolution (society), social business (business) and social innovation (innovation) (Tanimoto, 2006). Social business means to conduct business that involves elements of society, business and innovation, and does not necessary be profit seeking. Considering CSR activity that includes philanthropy as a social business, a company needs to develop a business system in an innovative fashion and to implement socially-meaningful activity on a continuous basis.

Additionally, concerning philanthropy that is not profit-seeking business (company’s core business), it is also important to “give careful consideration to the company’s core business.” Below, the significance of considering CSR, which includes philanthropy, a “social business based on the reconsideration of profit-seeking business (core business)” is examined from the perspectives of the resolution of tradeoffs in CSR, and the idea of the framework shown in Figure 2.

For example, in strategic philanthropy, “linking to the company’s core business” means mainly the utilization of its management resources. It is especially desirable to utilize its core resources, which are the basis of competitiveness, to attain social performance and provide feedback to its core business.

As the next step, however, it is necessary to broaden the idea of profit seeking business (i.e., company’s core business) itself. From the perspective of CSR, both the benefits (i.e., values, meeting society’s needs etc.) and costs (i.e., burdening society, causing social problems etc.), which a company’s core business brings to society are

addressed. Although the value offer is often discussed as a part of strategic management, it is also important to make efforts for providing solutions to the social issues that industries and companies generate (have). With the resolution of the social issues generated in mind, CSR strategy (including strategic philanthropy) needs to be developed so that a company implements social business as either a profit-seeking business or a non-profit business (philanthropy).

Among tradeoffs inherent to CSR, the values and social issues generated by businesses and industries are to be resolved with high priority. Thus, when considering CSR or philanthropy, it is important for a company to at first make efforts to resolve the social issues that the company is associated. If a company can develop a social business that links the resolution of social issues (CSR activity) to the value offer of its core business, both processes involving (1) external factors and (2) internal factors will surely be stimulated.

4. 2. Case study

Let us look at a company in the pet industry. PETsMart, the largest US specialty pet retail chain, has achieved rapid growth by becoming a one-stop provider of pet grooming needs. The company has set the management principle of animal and environmental protection, and acquired the broad support of pet lovers. One of its activities has been the establishment of a fostering and adoption center called “Love a Pet.” With the cooperation of animal protection groups, humane societies and volunteers in the region, the company helps to find foster parents for unwanted puppies, kittens, stray dogs and cats. Although this is a philanthropic activity, people who became foster parents through the center are said to have become the company’s regular customers.¹⁴

In 1994, an NPO organization, PETsMart Charity, was founded as an independent organization of PETsMart to professionally promote a pet adoption activity called “Love a Pet,” and various activities based on animal protection, and activities to produce good relationships between people and pets. PETsMart is the largest supporter of PETsMart Charity. In partnership with this NPO, PETsMart implements philanthropy that not only donates money but also utilizes its core business. The company provides the PETsMart Charity with resources necessary for the care of pets, such as places for the adoption center and pet food. The adoption center currently operates under the name

¹⁴ The following articles were used as references for the PETsMart case. Nikkei Marketing Journal (1995) July 4th, (1995) September 5th and (1997) November 11th. <http://petsmartcharities.org/index.php>. PETsMart does not sell living animals.

of “PETsMart Charity Adoption Center.” In collaboration with local animal protection groups, the company offers “an in-store adoption center” in more than 840 PETsMart stores.

Because of the aging society with fewer children, changes in family structure and societal changes, pets are now regarded almost as equivalent to family members. The pet industry has grown into an indispensable industry in society. Meanwhile, considering the aspect of selling lives, this industry is in a business where “life” is merchandized. When animals become inventory or unwanted by the consumers who bought them, they are treated like trash, and this has become a major issue. Through a form of philanthropy, PETsMart has created a system that generates a favorable circulation between the company’s core business and the social issues caused by the pet industry. The reason why this philanthropic activity is valued as a social business is because the company directly faces the social issues that its business and industry are responsible for (society), and takes an innovative and long-term approach that generates good circulation with its core business (business, innovation). Furthermore, this philanthropy is highly evaluated because it also stimulates both processes involving (1) external factors, and (2) internal factors.

(1) Stimulating the process involving external factors

Because PETsMart takes a positive approach to the difficult social issues created by its business and industry without neglecting them, the company’s philanthropic activity is highly justified and easily understood. In addition, PETsMart’s unique and innovative system attracts attention because it generates circulation between the problem-solving of the social issue caused by their industry (philanthropy) and their business. The partnership with the NPO and local animal protection groups is considered to enhance the trust and belief in the value of this philanthropic activity.

(2) Stimulating the process involving internal factors

The implementation of philanthropy creates favorable circulation with their business. People who consider becoming foster care parents, or who actually became one, would visit PETsMart stores. The adoption centers in the stores are places for contacting potential customers. If one becomes a foster parent, the customer would keep shopping at PETsMart to provide care for the pet. PETsMart’s philanthropic activity increases and strengthens the relationships with new and existing customers. Furthermore, because this activity takes the form of applying their management

principles into practice, its method is easy to understand, and helps disseminate the company's management principles to stakeholders, such as its employees.

The network with the NPO and local animal protection groups provides the company with the opportunity to learn and consider the role of animals and environmental protection, the relationship between pets and the local community, and the role of the industry. In operating retail stores with a close relationship with their community, it is possible for the company to find a seed for new approaches. PETsMart has developed and provided various services, such as a dog training school for pet lovers. The information and expertise acquired from the diverse network are believed to help the process. Managing stores while making consistent and continuous attempts that are socially meaningful should also help the company enhance its branding.

5. Conclusions

This paper has discussed the idea of CSR strategy to approach CSR activity as a social business in accordance with reflection on their core business based upon the theoretical consideration and the case study. The theoretical study starts to consider the framework in order to overcome CSR issue. Figure 2 provides us the base of recognizing contributions to corporate achievements as a result of CSR activities and developing the idea of CSR strategy that stimulate the processes of external and internal factor. Furthermore, the important idea of CSR strategy is to extend the frame of their core business by reviewing core business, to recognize social issue in core business and to resolve the social issue by creating the social business. The case study is the complement to the theoretical study. It is required to investigate this idea by many cases and the each type of figure 1 in the future.

Every industry contains both aspects of meeting social needs and burdening society (causing social issues). Regarding social issues caused by industry, it is important to look at improvements in the legal and social systems for the public interest and creative approaches developed by members of the community as a whole to successfully resolve the issues. Moreover, the efforts of companies and industry groups and their creative ingenuity to resolve issues serve to strengthen the significance of the role of industry and companies. Because "conducting social business based on the reconsideration of the company's core business" is convincing and persuasive to any stakeholder, a process involving [1] external factors is likely to be effective. If a company can devise a system that helps it to continue as a business in an innovative

fashion, and create circulation between its core business and CSR activity, then the process involving [2] internal factors should also be stimulated.

In short, as an essential idea for a CSR strategy of the future, a company needs to recognize important and relevant social issues as a high priority according to the nature of its core business, and work on these issues as a social business. A reconsideration of the company's core business leads to the reacknowledgement of its identity in the industry and the society. The social issue identified in the reconsideration of its identification is essentially the most important CSR issue that should be worked on. Figure 1 "Types of CSR strategy" provides alternatives to choose from. With the points indicated in Figure 2 in mind, a company needs to design a CSR strategy considering innovative solutions, networking with other organizations, and the appropriate organization style and process for its implementation.

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