

# Corporate Culture and CSR – How They Interrelate and Consequences for Successful Implementation

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## INTRODUCTION

Globalisation has changed the world and has created awe-inspiring opportunities for both consumers and companies alike. Considering globalisation from a consumer point of view, availability and consumption of products from around the world come to the fore. For corporations, a new and almost unlimited growth potential becomes accessible, not only in terms of sales but also in manufacturing. But globalisation has not yet receded from demanding revolution in the areas of technology as well as politics, the economy and society, enclosed in the all-embracing term of culture.

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Because of this worldwide expansion the role of multinational companies has changed and they can no longer deny their own significant influence, not only in relation to consumers and suppliers but also in relation to the environment and society as a whole. Additionally, the public has been sensitised and increasingly demands responsible business practices. Consequently it is not astonishing that most companies have recognised the importance of engaging in corporate social responsibility (CSR), encompassing not only their economic but also their legal, ethical and philanthropic responsibilities to society. That is why the CSR movement has gained momentum over the years, and the concept is now implemented around the world.

But where does this development come from?

There are five main fields of concern shaping the world today and in the future; they can be briefly stated as follows:

1. Shorter innovation times help companies reap financial rewards and revenues earlier, supporting their growth and the worldwide dissemination of products. The development of communication, information and medical technologies is realised more quickly, reducing the time span between research and implementation and enabling companies to enter markets faster while working on new products to be introduced shortly after. Shorter product lifecycles as described above represent a challenge to companies that have to stay abreast of innovations in order to survive among competitors and must also consider their impact on environments and societies.
2. Countries are losing ground *vis-à-vis* greater unity, as for example represented by the European Union, or a possible 'United States of Africa' or 'United States of South America' in the future. At the same time, new identities and structures are increasingly arising in regions. Today Europe amounts for an estimated 13% of the world's population; in 20 to 30 years it will be reduced to approximately 5%. At that time approximately

60 million people of Muslim origin will live in Europe. China and India may represent relatively poor countries, but with about 2.5 billion people they amount for approximately 40% of the world population. These developments represent a new cultural diversity with a multitude of attitudes, experiences, ways of living and working, offering new possibilities and insights into different cultures and how they affect people's behaviour. How will this affect people's individual culture? Will it foster the development of a new culture with universal shared values and norms? How will companies' way of doing business change within this new constellation?

These adjustments will not only have consequences for countries' identities by increasing cultural diversity, they will also affect agreements, trade and ethical standards – and consequently the way corporations do business around the world.

3. For decades the world has turned to the USA to benefit from political, economic and cultural ideas and theories. Economic theories such as Friedman's theory of monetarism (economic activity dependent on the monetary supply and demand) (Wöll, 2000) were adopted by European countries, and other theories followed, such as shareholder value or sociopolitical topics, namely corporate social responsibility. Europe has up to now accepted and absorbed US theories without critique, also accepting their superior role in the world. But the twenty-first century should not be shaped only by the USA. Europe has gained a stronger position in the world and should further develop its own identity and strengths to shape our culture. This way, one culture will not rise to eliminate another, but will coexist and find new ways of cooperation to survive.
4. The world faces new threats. Terrorism such as the 9/11 attacks and epidemics such as SARS threaten the lives of people around the world and have a disastrous influence on the economies. If a country like China were not able to participate

in world trade because of an epidemic such as SARS, this would cause major damage to the world economy. All in all, terrorism and epidemics have a cultural background, finding their implementation through religious beliefs and traditional ways of life. Being aware of these cultural influences will become of increasing importance in the future.

5. As part of our culture, religion and values are experiencing a renaissance. People's trust in politics, economies and companies has been shattered by scandals portrayed by the media, causing them to return to what they know. Their own values and religious beliefs provide them with a sense of security and truth, emphasising again the importance and significance of culture.

But what role do companies play in this constellation, and how does it relate to corporate culture and CSR? And what do they have to do to survive in the era of globalisation and participate in creating a peaceful world?

The described changes, processes and developments are not only of a political, economic or social nature; the process as a whole is a cultural process, in that it encompasses political, economic and social changes which are part of culture.

Relating this to corporations, we can observe that corporate culture is of increasing importance.

Multinational companies play a crucial role in shaping globalisation. At this point American, European or Japanese companies may dominate the world economy, but their behaviour will determine whether they rank among the winners or whether other nations replace them. This will be determined by the cultural make up of the companies. In India, for example, corporate culture encompasses different values, norms and beliefs, and therefore creates a different basis for action. One example for a possible rise of Indian companies is the fact that people have a higher tolerance of forbearance, resulting in a completely different approach to work and company performance.

The proportion of companies of different nationalities will therefore shift, and a range of underrepresented nationalities will improve their position in the world economy.

This change in market constellation describes a cultural shift, emphasising again the importance of corporate culture. Companies have to consider cultural issues on an international and national as well as on a regional and local basis to create a corporate culture that will help them survive among other cultures.

The impact of globalisation on corporations is reflected in their search for a new cultural identity that enables them to survive in the era of globalisation. This search has lately been characterised by a number of activities related to CSR and sustainability. Therefore it is worthwhile to take a closer look at corporate culture and how it influences companies, especially in their current effort to implement CSR.

## **WHAT IS CORPORATE CULTURE?**

As we have learned, culture is the driving force in changing the world. The question of how companies find a new identity in this world can only be answered by considering their corporate culture.

Corporate culture is a 'set of distinctive spiritual, material, intellectual and emotional features of society or a social group, and (it) encompasses, in addition to art and literature, lifestyles, ways of living together, value systems, traditions and beliefs' (UNESCO, 2002).

In other words, corporate culture comprises the attitudes, values, beliefs, norms and customs of a company, defining the way it acts, how it achieves its economic success and how it interacts with employees and suppliers. Therefore culture is the result of an evolutionary process, being established throughout the history of a company and formed through its leaders' beliefs and attitudes. These corporate leaders are responsible for communicating, defining and

translating culture into the corporations. But corporate culture can only be effective and sustainable when all parts of it, including corporate history (the cultural memory), CSR and research into future corporate culture issues, are considered and transferred into everyday business processes. A purely economic view would be incomplete, because all actions and decisions are made in respect of corporate culture. Therefore, corporate culture defines ‘good’ and ‘bad’ behaviour, and is not implemented only in ‘good times’, but instead represents the underlying force for all action – especially in ‘bad times’.

Just as culture generates all change processes in the world, corporate culture has the same influence in relation to activities and changes within companies.

Companies are consequently required to consider and preserve their corporate culture, because it is their only instrument for survival. This can be achieved by implementing an overall cultural strategy, particularly with regard to the future developments in CSR.

## **WHAT IS CORPORATE SOCIAL RESPONSIBILITY (CSR)?**

‘Corporate social responsibility is defined as the ongoing commitment by businesses to behave ethically and contribute to economic development, while improving the quality of life of its employees and that of the community within which it operates as well as society at large’ (Institute for Corporate Culture Affairs, 2005).

Put into practice, CSR is the practical steps developed out of a company’s set of values, beliefs and norms – namely its corporate culture. CSR should be embedded in and can only be realised through corporate culture to overcome the misrepresentation of being another ‘add-on’. Although today CSR as a concept seems to be accepted around the world, the individual implementation

is far from effective. One explanation may be the lack of a universal approach, resulting in a variety of theories and concepts all summarised under terms such as corporate citizenship, community relations, corporate responsibility or sustainability. These terms may all reflect the intention of integrating CSR, but in lack of an effective strategy, CSR is implemented without focus, resulting in a multi-project approach. The current implementation of CSR is limited to sponsorships or volunteer activities, mainly for theatre, opera, the arts or sports events. Furthermore, companies make donations to organisations such as UNESCO or support the work of the World Bank, thereby not assuming the necessary responsibilities themselves.

The top 500 companies spend an estimated US\$30 to 50 billion annually on sponsoring activities. The implementation of CSR is currently still reduced to more or less uncoordinated, ineffective spending, without any strategy or achievable goals. Companies basically sponsor many small projects with little effect. But being a 'good citizen' includes more than just sponsoring activities, it includes taking economic responsibilities into account, and at the same time considering the company's responsibility to society. Monetary support for organisations and current activities has to be continued, but corporations are also required to deploy their regional and local presence to make an even larger contribution to societies and environments.

To make a meaningful contribution and have an effective approach to CSR, companies need to understand that CSR is inextricably linked to the company's corporate culture. Therefore, understanding the relationship between CSR and the company's cultural memory is of importance to the developments in the field and in the companies themselves.

Corporate social responsibility is the practical instrument to help companies understand their culture, translate it into every business process and live out the underlying values and beliefs. In order to achieve complete integration, transparency and effectiveness, and

to make a meaningful contribution to sustainability, activities need to be integrated strategically into the organisational structure of the company, and must be afforded the same importance and status as for example economic departments. Organising and integrating CSR activities will be the task of corporate culture departments (CCDs) formally established within the company. CCDs are intended to provide a focus and strategy to the company's CSR approach and initiatives, thereby guaranteeing its importance and aligning CSR goals with overall business goals.

Although strategies need to be aligned, corporate culture and CSR require an independent strategy covering activities and goals, focusing initiatives to achieve the best possible contribution to society and environments. The need for an independent strategy is also expressed in the communication of CSR. Communication is an essential component of corporate culture, and companies do not only have the right to communicate their successes and failures but also the obligation to do so. Corporate social responsibility must be actively communicated in order to achieve the most success. Effective implementation represents only the first step to overall success; awareness among stakeholders such as suppliers, employees and the public represents an equally important factor.

Accounting rules and procedures have been established for controlling companies' actions and impacts. Such rules also exist for CSR. Reporting guidelines such as the Global Reporting Initiative (GRI) ([www.globalreporting.org](http://www.globalreporting.org)) are already available to guide communication to stakeholders and interested parties, and they represent an important communication tool. Communication is part of corporate culture, and part of the requirements for integration and for achieving transparency. Therefore understanding the historical background and the relationship of CSR and corporate culture is indispensable to disseminating a universal concept and creating unity.

As mentioned before, CSR does not represent the content, but the tool to implement the values, beliefs, attitudes and norms,



namely the corporate culture of a company. Establishing joint strategies as described above represents the only relevant and possible alternative to random approaches and ineffectiveness.

By using CSR as a tool, companies are able to meet the challenge of translating corporate culture into action, thereby taking into account the evolution of their culture and future challenges and opportunities without sacrificing business performance. Corporate culture is therefore the basis for all business activities and processes in a company, and needs an effective organisational structure.

But what are the practical consequences of this relationship?

In practical terms, corporate culture and CSR affect the way companies behave towards their stakeholders, and in turn influence how stakeholders perceive the company. Corporate culture represents the specific company's value system to be implemented with the help of CSR. Translated into everyday actions, a company's management – most of all top-level management – has to live up to its values and act as a role model. The implementation of this theory is best explained with an example such as the way CSR and corporate culture influence employees, suppliers and the society.

If a company values reliability and performance, managers have to portray these characteristics and behave accordingly, emphasising their values at the same time by offering rewards such as promotions or gifts, praise or other incentives to value their work; this will foster the desired behaviour and reflect the value system of the company.

Another example would be the integration of CSR in the supply chain.

Most companies have established codes of conduct or ethical norms to which employees must adhere. These rules for behaviour have been extended to suppliers, who are expected to accept and apply these rules in turn, thereby extending the reach of the company's corporate culture.

Companies value high performance levels corresponding to the theory of shareholder value. Performance results, however,

are linked to the education level of the workforce. Investing and designing educational programmes and training measures will benefit the company as well as its employees and the people of the communities. Employees receive appropriate training to advance their careers, and people living in the communities have the chance to acquire the necessary skills required in today's business world. This way companies and employees live their values, disseminating them throughout the communities; companies and society as a whole both benefit from this mechanism. At this point, many critics argue that companies act out of self-interest, only providing assistance and support for programmes and activities that benefit the company itself. The debate about companies' reasons for implementing CSR will continue; but at this stage it is crucial to understand that companies will support initiatives reflecting their corporate culture and will use the tools offered by CSR to translate their values into action.

## **HOW CAN ICCA HELP COMPANIES UNDERSTAND THE IMPORTANCE OF CSR AND CORPORATE CULTURE?**

Defining and creating the basis for future action in terms of CSR represents an insurmountable task for companies. Therefore, companies should turn to institutions with experience and expertise in the field of corporate culture and CSR, such as the Institute for Corporate Culture Affairs based in Frankfurt am Main, Germany.

As an international not-for-profit association aiming at mainstreaming CSR, ICCA recognises companies' roots in corporate culture and offers a variety of services, material and events aimed at establishing the necessary foundation for future progress on CSR. In order to establish this basis for action, ICCA defines the concepts, theories and relationships underlying CSR and corporate

culture. This institute stresses that CSR needs to be embedded in a corporate environment where values, beliefs and norms are cultivated (corporate culture), in order to ensure that CSR becomes not just an 'add on', but an integral part of companies' core business. Educating company representatives is therefore based on primary research, training, briefings, conferences and workshops, providing expert knowledge and experience to ultimately give CSR a physical appearance with the establishment of corporate culture departments. ICCA works to achieve this goal of strategic integration within the companies.

ICCA helps companies understand relevant concepts and theories and how to translate them into their everyday business. With its services and projects, the Institute helps companies integrate CSR effectively and efficiently.

Activities are aimed at cooperation between companies and academics, ensuring that participants and members carry newly gained knowledge, experience and their own perceptions back into their institutions, namely businesses and universities.

The Institute offers the tools for implementing a company's culture and considering its influence and importance, and works at the forefront of current developments and issues, creating a pioneer position on CSR projects and research.

## **IMPLICATIONS FOR THE FUTURE**

We have learned that globalisation has caused many changes in our cultures and that these cultural changes are manifested in science, relationships between countries, the strengths of different cultures worldwide and the risks and threats they face. Most of all, culture always has an impact on companies and therefore their own corporate culture. Corporate culture comprises the values and beliefs lived throughout the companies, representing an impetus for change.

However, corporate culture can only be translated by using CSR as a practical tool for implementation. CSR is a concept that is familiar around the world but is currently characterised by a lack of coordination and effectiveness, since activities are carried out without an appropriate strategy. Implementing CSR effectively requires an understanding of how corporate culture and CSR are related, and an awareness of the practical consequences reflected in the relationship to employees, suppliers and the society.

Companies' current support should be expanded to include not only organisations such as the Institute for Corporate Culture Affairs, but companies should also increase their strategically integrated contributions both regionally and locally. The ICCA helps companies understand and benefit from its specialisation on primary research through its main task as a knowledge broker. Cooperation between the academic and the business world will guarantee the recirculation of experiences and knowledge into companies and universities, contributing to the dissemination of good practices and knowledge.

The developments in the field of CSR require a sound basis of understanding of the relationships of theories and activities; only then can multinational corporations contribute to a sustainable and peaceful world and create a cultural identity that will ensure their future survival.

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