INTEGRATING CORPORATE SOCIAL POLICY INTO STRATEGIC MANAGEMENT

Archie B. Carroll and Frank Hoy

The 1960s saw the birth of corporate social responsibility. In the 1970s, companies focused on the management of social responsiveness. In the 1980s, corporations are grappling with the issue of making social responsibility a part of overall strategic management. The authors examine some of the ramifications of the search for a new definition of social responsibility.

Articles in recent issues of the *Journal of Business Strategy* have expressed concern over the misuse of the terms "strategy" and "strategic management" [9, 12]. A close examination of the literature shows that the lack of universally accepted definitions is more than just a matter of semantics. Depending on whose conceptualization you accept, different factors are given quite different weight. This is especially true when consideration is given to the social environment and social responsibility issues and the role they play in corporate strategy.

It is our contention that most conceptualizations of strategic management pay scant attention to corporate social policy and its integration into corporate strategy. In this article, we pose a way of thinking about corporate social policy that (1) integrates it into strategic management/corporate strategy concepts and (2) illustrates how social policy and goals can be operationalized into organizational practice.

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Strategic Management and Social Policy

The impact of the social environment on business organizations is becoming more pronounced each year. It is an understatement to suggest that the social environment has become tumultuous, and a brief reminder of a few actual cases points out the validity of this claim quite dramatically. Such recent experiences as Procter & Gamble and the Rely tampon recall, Firestone and its radial tire debacle, Ford Motor Company and its disastrous Pinto gas tank problem, and Anheuser Busch and its ill-fated Chelsea beverage are reminders of how social issues can directly affect a firm's product offerings [11]. A host of other illustrations could be provided, but the point is clear based upon these actual cases.

What started as an awareness of social issues and social responsibility in the 1960s matured to a focus on the management of social responsiveness in the 1970s and now looms on the horizon as an emphasis, if not a preoccupation, with corporate social policy in the 1980s and beyond.

The term "corporate social policy" has circulated for the best part of a decade now. However, few writings have attempted to define it or to elaborate on how it meshes with the notion of corporate strategy or with the emerging nomenclature, strategic management. For the most part, when it has been used it has been employed in a rather general or collective fashion to refer to top management thinking about social issues and their impact and how management should respond to these social issues. Perhaps the most notable exceptions to this rather general usage are Sawyer's work [18], Steiner and Steiner [21], who conceptualized social policy as a specific part of business policy, and Melvin Anshen in his book [3].

This article extends earlier general notions and proposes that social policy be fully integrated into the goal-setting and implementation processes of the corporate structure. In addition, a brief discussion will be presented of operational social goals which, when combined with social policies, form the basis for achieving corporate social performance. The net result, it is anticipated, will be a more thorough comprehension of what corporate social policy is and how it relates to and meshes with evolving notions of strategic management.

The concern for corporate social policy has grown out of an orientation which openly acknowledges that social concerns (consumerism, environment, ethics, discrimination, occupational safety, etc.) are facets of decisionmaking that cannot be ignored [7]. Decision processes, while varying among firms, may generally be described as responding to immediate social pressures and are labeled by Votaw and Sethi [23] as pressure-response models. The responses may range from protective, defensive approaches to imaginative response approaches [18].

From these reactive decision processes, Ackerman [1] has concluded that two major deterrents exist which inhibit the complete integration of social policy into corporate strategy formulation. The first is the view that the social role of a firm is divorced from daily business activities and, therefore, should be treated as an appendage. The second deterrent is the notion that social goals represent a cost or reduction in profits to the firm. Ackerman, among others, has found, however, that some companies have been more proactive in their approach to the social environment and have employed more of a business policy model. This approach is one that moves the firms through a process of active social responsiveness. Using this approach, once a social issue has suggested a need for response, efforts are then directed toward articulating top management's overall posture and designing policy positions that reflect current management philosophy. Top management then becomes the design architect of corporate social policy.

The Various Levels

Various authors have found it useful to distinguish between those levels of an organization at which missions and policies are conceptualized and formulated and those levels at which policies are operationalized and implemented. As there is no generally accepted paradigm for such a division, our approach here will be to ascertain a line of demarcation from a sample of recent paradigms which can aid in understanding corporate social policy.

Bates and Eldredge [4] proposed three system levels for use in analyzing managerial activities and skills. At the organizational level, managers are involved with designing and formulating goals and strategies. High-risk decisions are made by top-level managers regarding the relationship of the organization with its environment. Managers' time horizon is relatively long term. Coordinative level managers coordinate and integrate activities across and among functional areas. While the risk level is moderate and time horizon of concern is short to midterm, these managers are oriented to organizational goal achievement rather than the goal accomplishment of specific functional areas. At the functional level, emphasis is one implementation. The time horizon is short and risk level relatively low.

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Harvey [13] also has distinguished three levels of managerial concern. The highest level is labeled strategic. Its purpose, like that of Bates and Eldredge's organizational level, is to relate the organization to its environment. Harvey's two lower levels are differentiated by their concern for implementation of strategic plans and by their focus on units with a scope that is less than organizationwide. Middle management resides at the coordinating level and determines the functioning and control of operating units. Lower level managers make decisions on the operating level. Again corresponding to Bates and Eldredge's functional level, managers implement policies of lower risk and on a shorter time schedule.

Hofer and colleagues [14] have developed four levels of strategy. The societal strategy level addresses the role the organization assumes in society and the processes by which that role is defined. Important social questions here include the nature of corporate governance, the composition and role of the board of direc-

EXHIBIT 1
Levels of Strategy in Business Organizations

	Bates & Eldredge [4]	Harvey [13]	Hofer et al. [14]	Pearce & Robinson [16]	Thompson & Strickland [22]	Characteristics
			Societal			Organizational goals
				Corporate	Corporate	Higher-level decisionmaking
Macro	Organizational	Strategic	Corporate			Concept formulation
				Business	Business	Higher risk
	Coordinative		Business			Longer time horizon
						Functional goals
		Coordinating			Functional	Lower-level decisionmaking
Micro			Functional	Functional		Operational implementation
						Lower risk
	Functional	Operating			Operating	Shorter time horizon

tors, the firm's involvement in political activities, and tradeoffs between economic and social objectives. The corporate strategy level addresses questions such as (1) "What business(es) should the company be in?" and (2) "How should this set of businesses be managed to maximize the company's ability to achieve its objectives?" The business strategy level examines the question "How should a firm compete in a given business/industry?" Of particular importance here is an analysis of the macroenvironments (social/cultural, economic, political/legal) in which the industry is located. The functional strategy level is the operational level and addresses the integration of the various subfunctional activities of the firm. It also assures that changes made at the societal, corporate, and business levels are integrated into the firm's everyday operations.

A fourth paradigm has been devised by Pearce and Robinson [16]. Their three levels are corporate, business, and functional. Strategic activities at the corporate level are conceptual in nature, involving high risks and potentially high returns. At the business level, decisions are more operational and less risky than at the corporate level, but are similar to the business level of Hofer and his colleagues in that they focus on the firm's ability to compete within its industry. Typical business level decisions include plant location, distribution channels, etc. At lower management levels, strategy is operationalized. The functional level is characterized by lower-risk, shorter-range activities.

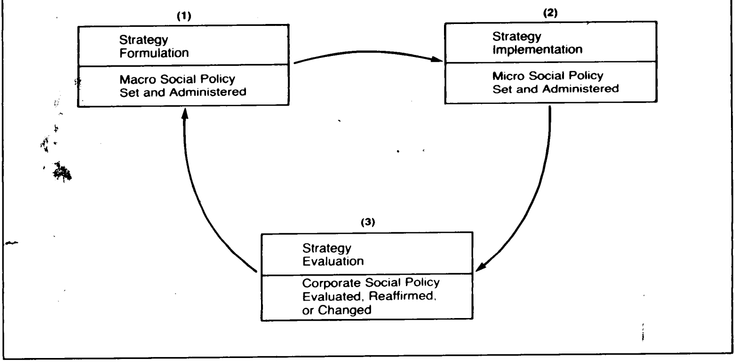
The last paradigm consists of four levels as described by Thompson and Strickland [22]. Corporate "strategy is composed of two main elements: (1) the firm's scope of activities and (2) the priorities and patterns whereby internal resources will be allocated among these activities" [22:40]. It is at the corporate level that policy is established positioning the firm relative to its external environment. The business strategy level also relates the firm to its environment, but in a more narrow sense, i.e., to a single market or market segment. The two lower levels are concerned more with specifics. At the functional level, support strategies are devised for the management of a major support activity in order for that subactivity to contribute to the accomplishment of overall organizational goals. Operating level strategies are those guidelines that lower-level managers follow in carrying out day-to-day responsibilities.

One concern in this article is in differentiating between what we term the macroview of corporate social policy which would reside at higher levels of an organization and the microview which would reside at the functional level. Exhibit 1 portrays this distinction and its relationship to the five paradigms just described. From our review, we see that it is possible to draw a distinction between policy levels using the criteria of scope of goals, level of managerial decisionmaking, conceptualization versus operationalization, level of risk, and time horizon.

The Macroview

The macroview of corporate social policy corresponds with the upper section of Exhibit 1 and deals with how top management perceives the concern for a social orientation and how much consideration is given to this social dimension as management frames its overall strategy or strategic posture. Corporate strategy refers to the top-level decision process of determining basic organizational purpose. At this level, management is concerned with what business the firm is in and what kind of company it chooses or intends to be. At this level, commitments are made that will define the un-

EXHIBIT 2
The Strategic Process and Corporate Social Policy



derlying character and identity the organization will have. Since top management has so much to do with establishing this basic character and identity and setting the tone for everyone else and all decisionmaking, it is also developing the company's fundamental posture on the degree to which social factors are going to be considered in company operations. One aspect of the company's strategy or strategic posture, therefore, will be its overall corporate social policy.

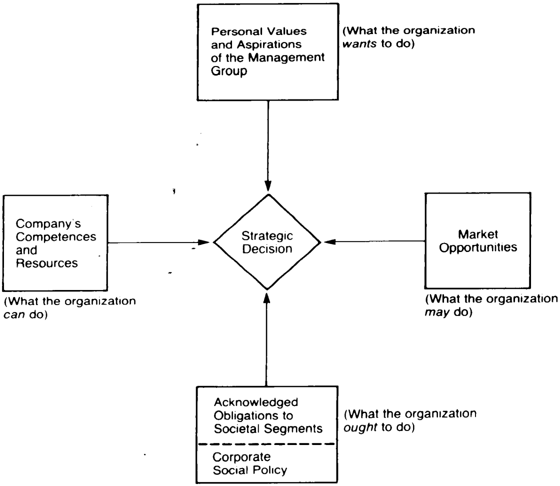
There are at least three major phases in the strategic process: (1) strategy formulation or design, (2) strategy implementation, and (3) strategy evaluation [14]. It is in the first phase that (macro) corporate social policy is designed and articulated. In the second phase—strategy implementation—micro or functional social policy is set and administered. Thus, the basic nature of the relationship of the two types of social policy is revealed: Social policy is first established and then specific policies are derived from it. Exhibit 2 depicts this relationship and illustrates how the evaluation phase fits into the total scheme.

A most crucial step in the strategic process is strategy formulation or design. It is at this stage that basic choices are made and consideration is given to the various factors that do and should impinge on the strategy decision. One way to look at corporate social policy—the macroview—is to consider it as just one of the crucial elements or factors that goes into the organization's choice of strategy.

Several authorities have taken this approach as they have argued that strategy is a result of considering four aspects or factors which shape overall corporate policy—the company's decision as to what it is and is to be. They argue that the four aspects or factors are these: (1) the company's competences and resources, (2) market opportunities, (3) personal values and aspirations of the management group, and (4) acknowledged obligations to societal segments [10]. The first two of these are most fundamental—they have to do with what the organization can do and what market opportunities are in existence (what the organization may do). A third factor is what the organization wants to do—or more specifically, what top management or ownership wants to do as a statement of corporate strategy.

The fourth factor—acknowledged obligations to societal segments—is the corporate social policy element. It refers to what management and the organization ought to do, and thus refers to the question of how social responsibility meshes with, affects, and helps determine overall strategic choice. To some, the orderly, rational process of determining overall company direction and policy should not be subjected to such value-laden considerations as those bound to be represented by considering responsibilities which

EXHIBIT 3
Factors Affecting Strategy: Role of Corporate Social Policy



extend beyond legal obligations. While there definitely are problems involved, the business person who cares about social policy must examine the impact on the public good of the policy alternatives freely elected. Exhibit 3 illustrates the four factors as they impinge on the strategy decision of the firm.

It is straightforward to draw a diagram as presented in Exhibit 3. It is far more complex and difficult to develop an overall business strategy that fairly takes into consideration all the diverse factors that merit attention in the decision process. Conflicts are inevitable. Regardless, social trends have been established and top-level managers must apply their management knowledge to the social realm and devise corporate strategies which embody a corporate social policy that stockholders of the firm consider acceptable.

As alluded to earlier, social responsibility has been frequently treated as an environmental factor to which corporations adapt. Bernstein [5] presents a more recent view, one which the present authors consider transitional, from which social responsibility is described as one of the "softer" strategic goals, to be pursued simultaneously with other goals. The approach in this article is more comprehensive and is consistent with the recommendation of Schendel and Hofer [19] and Saunders and Thompson [17]. The strategy formulation process is incomplete without incorporating social issues and responsibility as one of the elements of the policy decision.

There are at least three basic reasons for managers to examine the impact of policy decisions on the public good. First, professional managers today realize their legitimacy depends upon being responsive to the full range of their social responsibilities—economic, legal, ethical, and discretionary [6]. Thus, there is a professional concern for legality, fairness, and decency developed as a result of their socialization and careful assimilation of all that has come to be expected of them by shareholders and the public. Second, there is the continuing and very real threat of increased government regulation. This regulation may be forthcoming if business behavior does not meet the standards that are being set for it by society. Third, it is becoming increasingly obvious that developing a responsive corporate social policy makes sound managerial sense. The variables that now affect business success exceed the simple (by comparison) stable social, economic, political, and technological factors of the past.

Intricately intertwined into this third point is the question of business's success and, ultimately, its continued existence. At stake are opportunities that, if properly addressed, could mean added success. Social issues and forces can and should have an impact on corporate strategy, at least in those cases where management is able and perceptive. Sawyer [18] suggests that as society changes, the resulting social forces should influence at least three types of near-term corporate strategic decisions: (1) marketplace decisions capitalizing on changing tastes and needs, (2) decisions based on protective reaction and, hopefully, on imaginative response to particular social issues, and (3) decisions anticipating fundamental change in our society. Through responses of these types, modern businesses today have the opportunity to "relate social issues to [their] ongoing flow of strategic decisions, and to benefit significantly as a result" [18].

At the corporate level, management is concerned with what business the firm is in and what kind of company it chooses or intends to be.

In sum, corporate social policy, though it does not have a clearly accepted definition among those who write on and study these issues and among management practitioners, deals with managerial philosophy, thinking and commitment at the highest reaches of the organization. The macroperspective assumes that once a social issue has been identified and acknowledged to be a social responsibility, efforts are energized toward integrating this perspective into the firm's overall strategy. Whether the issue becomes (1) just another factor that must be considered, or (2) a specific goal to be achieved along with others turns out to be a function of managerial commitment, necessity, or corporate social policy. Corporate social policy, therefore, embraces management's highest order of commitment to the pursuit of social goals as well as economic goals. It mandates that management ask not just "What do we owe the shareholders?" but "What responsibilities do we have to consumers, environmentalists, minorities, government, employees, and other stakeholders while we pursue profits?"

Exhibit 4 illustrates how social policy at the macrolevel is but one part of the organization's overall corporate strategy. As seen in the figure, other major policies are developed also, and strategic management requires that they all be considered in top management decisionmaking. The corporate strategy and policies were established after considering a host of factors residing in the organization's environment.

As Exhibit 4 depicts, the social response entails social policy formulation, implementation, and evaluation. Related to our present discussion, this requires the setting of social policy at the macrolevel (to include societal, corporate, and business levels of strategy, using the Hofer model) and the eventual establishment of specific social policies and operational social goals (functional level of strategy).

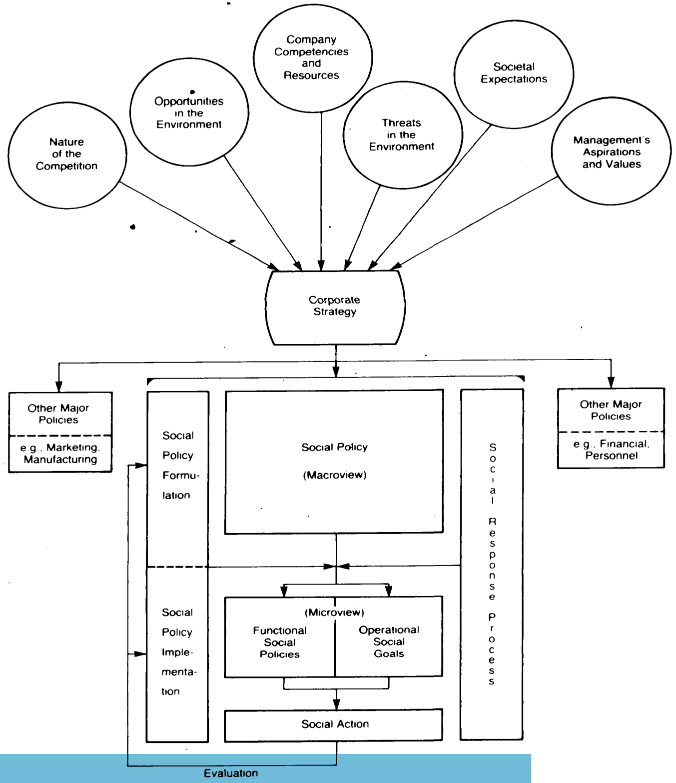
The Microview

Earlier, it was stated that functional or microsocial policies were derived from the organization's larger statement of social policy or strategy. We have now traced how that larger view of social policy has been translated into corporate action through the development of a view of social performance and the social response process. Exhibit 4 summarized the essential elements in this process.

The notion of functional or operational social policies (at the microlevel) refers to specific guides for decisionmaking, which, when coupled with social goals, should facilitate corporate social action. Policies at this level are vehicles or guides for helping operational managers carry out the larger view of social policy held by the firm. Social policies as we are viewing them here would likely have been set at some middle-management staff level, perhaps during the second phase of the corporate social response process. The purpose of such policies is to channel managerial decisionmaking and, hence, company action in desired directions. Such policies should provide for a more rational, systematic, and uniform company social performance.

Some of the best examples of social policies have been provided by George Steiner [20]. These serve as guides in providing a rationale perspective to a company's social efforts. Several illustrations are worth examining.

EXHIBIT 4
Corporate Strategy and the Social Policy Process



It is the policy of this company to concentrate action programs on limited objectives. No company can take significant action in every area of social responsibility. It can achieve more if it selects areas in which to concentrate its efforts.

The logic behind this policy is that a company can accomplish more if it identifies a few, good social objectives and concentrates on those. The alternative is to pursue many social objectives with the result being diluted effort and limited or superficial success with every activity pursued. By limiting the objectives pursued, particularly those in the philanthropic category, the organization can achieve a unity of effort that otherwise is impossible.

It is the policy of this company to concentrate action programs on areas strategically related to the present and prospective economic functions of the business.

Companies should look to their own communities first in their selection of social programs.

The position taken here is that if a company is going to pursue social objectives, it might as well pursue those that are also in its strategic economic best interest. According to this policy, a bank would be more supportive of a United Way campaign that helps people in the community in which it exists rather than the environmental group "Friends of the Earth" which espouses causes more remote to the banking industry.

It is the policy of this company to begin action programs close at home before spreading out or acting in far distant regions.

Since all companies have financial constraints on what they do, this policy only makes sense. It argues that companies should look to their own communities first in their selection of social programs. One illustration of this would be the large financial contributions the Coca-Cola Company made to Emory University, both of which are located in the Atlanta area. Many firms have sufficient resources that they can pursue national efforts but this is frequently not the case.

It is the policy of this company to facilitate employee actions which they can take as individuals rather than as representatives of the company.

This policy places a high premium on employees pursuing programs of their own choosing. The policy takes the position that it is being socially active or responsive by facilitating or accommodating employee efforts. In this connection, a number of companies have given employees time off with pay to serve on community benefit committees and have allowed managers to use company resources (e.g., secretarial time, reproduction facilities, postage) while pursuing social objectives.

There are many other policies that could be mentioned, but these illustrate well the point that is being made. Companies can lend an added degree of rationality and uniform effort if they are simply willing to take the time to do so. The result can be a social program that is strategically related to the economic interests of the firm, and one which is undergirded by sound managerial judgment as to what is in the mutual interests of both the company and the recipient groups. The view taken here is that management should apply its judgment and knowledge to the social realm just as it does so in the economic realm. If this is done, the company's corporate social response and performance can be the best for all affected.

Operational Social Goals

Side by side with functional social policies, as seen in Exhibit 4, were operational social goals. Social goals, when combined with specific policies, work together to form the operational nucleus for implementing the social aspects of the firm's corporate strategy. All too often in the past, managers have not attempted to reduce their broad, platitudinous statements of social aspirations to goals that could be achieved as part of the organization's overall effort at implementing corporate social policy [8].

It is proposed here that management set specific operational goals that will serve as guides for business social action. These goals, patterned after operational goals that have been used for years in MBO (management by objectives) programs, should convert general goals into specific ones for which goal attainment is readily accomplishable, identifiable, and measurable. An MBO approach, with its emphasis on evaluation based on goal achievement, has the added advantage of implying that benefits accrue to the organization from the accomplishment of social objectives. As Bates and Eldridge [4] have suggested, cost-benefit analysis techniques can be applied to the social aspects just as easily as the economic aspects of corporate strategy. The productivity of a machine is expected to exceed the capital investment required over its useful life, although initial costs are almost certainly higher than immediate benefits. Social expenditures are also unlikely to provide an instantaneous return to the organization, but may be evaluated in terms of their longer-term implications.

Three illustrations for operationalizing social goals follow. The framework from which these examples are derived is provided by the three categories of social roles that enter the strategy system, as defined by Ackerman and Bauer [2].

The first category of social policy concerns issues not directly related to activities resulting from corporate strategies. An example might be urban blight. Provided below is a general objective, followed by a specific operational statement derived from the objective.

- *General objective*. To be a good community citizen by supporting urban renewal projects.
- *Operational objective*. To begin a program of urban improvement by holding the first meeting of the downtown revitalization committee at company headquarters on June 30, 1983, and provide initial financial support not exceeding $10,000.

The second social category relates to issues in which corporate strategies may have direct, external impacts in the course of regular economic activity. This case may be illustrated by the closing or moving of business operations from a locality that has been economically dependent on the enterprise.

- *General objective*. To minimize dysfunctional economic impacts on communities in which corporate operations are terminated.
- *Operational objective*. To establish a committee to assist displaced workers upon plant closings in transferring or finding comparable employment and to donate $20,000 to the industrial development commission of the affected chamber(s) of commerce to aid in attracting new industry to the community.

The final social policy category is internal to the firm and results from normal business activities. Employment health and safety is an example.

- *General objective*. To ensure a safe working environment for all employees.
- *Operational objective*. To provide each employee with a written set of safety procedures relevant to job descriptions and a required affidavit that procedures were read and to conduct safety seminars twice a year with mandatory attendance.

To summarize, general objectives relating to corporate social policies can be developed as functional guidelines, but must be specified as operational objectives to be accomplished by middle- and lower-level managers. By so doing, the implementation of corporate social policy is enhanced.

Conclusion

The accelerated evolution of strategic management in recent years has been underemphasizing one vital link: the area of social policy. Current practice is generally to treat social responsibility as a residual factor in the environment or as one criterion among many by which to evaluate organizational effectiveness. The purpose of this discussion has been to emphasize the need for incorporating social policy into strategic management processes and to prepare the means for effecting such a meshing of policy formulation and implementation.

It is at the macrolevel (to include the societal, corporate, and business levels of strategy) that a more proactive stance is needed for dealing with social policy. Corporate executives should be including social policy guidelines in their strategic plans from which functional policies can be derived and administered. Ultimately, much of the burden of actually achieving social goals must and should rest on middle- and lower-level managers. These managers cannot be expected, however, to achieve broad, abstract social objectives. There is a need to specify the objectives in the same way that economic objectives are specified.

The ideas presented here are proposed as aids to those who seek to convert social responsibility platitudes into effective corporate social actions or to understand the vital role corporate social policy can assume in the strategic management process.

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