CORPORATE SOCIAL RESPONSIBILITY AN OPEN SYSTEMS PERSPECTIVE

Andrew, H. T. Fergus, Thompson Rivers University

ABSTRACT

Integrating Corporate Social Responsibility and Environmental management into a company’s strategic plan is a major challenge for today’s business organizations. Increasingly the expectation is that business organizations do more than superficially engage with the concepts; they are expected to integrate them directly into their operations. These demands add to the dynamic complexity of issues facing today’s business organization leaders, yet adaptation to these changing demands is critical for organizational survival. Through examining an ‘open systems’ organizational model, this paper provides an embedded notion of the business organization that understands the multifarious processes and relationships of corporate social and environmental responsibility not as independent entity’s but as a complex and dynamic whole. We suggest that from understanding this embedded and integrated perspective a business leader will avoid the critical challenges in moving towards a strategic direction based on corporate environmental and social responsibility - Organizational vulnerability, Entrenchment and the Silo Effect.

Keywords: Corporate Social Responsibility, Open Systems, Change management, Business Environment, Environmental Management.

INTRODUCTION

Integrating Corporate Social Responsibility and Environmental management into a company’s strategic plan is a major challenge for today’s business organizations. Increasingly the expectation is that business organizations do more than superficially engage with the concepts, they are expected to integrate them into their operations and in doing so take into account a broad range of stakeholders (Eweje, 2011, & Fooks, Gilmore, et al, 2013), receive social sanction for activities (Devinney, 2009), and perform financially (Belu & Manescu, 2013). These demands add to the dynamic complexity of issues facing today’s business organization leaders, yet adaptation to these changing demands is critical for organizational survival, as Tom Peters bluntly states business organizations need to “change or die” (Jick & Peiperl, 2004: xv). Understanding and managing this complex business environment with its increasing uncertainty and ambiguity is now essential for organizational survival, there is a great need for leaders and managers to have the skills and abilities to manage these increasing demands and expectations.

One major development that has inextricably changed the environment in which today’s business organization operates is our technological advancement, specifically how we communicate. The volume and speed of information moving around the world has increased exponentially, an acute result of which is an increased awareness of the world outside of our immediate locality. Couple this amplified flow of information with an increased awareness of an organizations actions in terms of social impact, add into the equation a more accurate understanding of our effect on the natural environment, and the socially responsible business organization now finds that its actions are increasingly scrutinized and publicly evaluated,
resulting in a demand for improved environmental and social corporate responsibility. Understanding and managing this challenge ‘social exposure’ (Hall, Matos, et al, 2005) is now the reality of doing business in a globalized world. ‘Globalization’ as the changing dynamics of global business is often referred to is institutionalized in usage yet debated with respect to its meaning (Ricks, 2003; Rugman, 2003), however the discussion of whether an organization is operating in what is described as a global arena or between a ‘triad’ of trading blocks is in this case is not the pertinent focus of this paper. In both cases the socially responsible organization is operating in culturally and ecologically diverse environments and is both effected by and having an effect on these environments (Husted, 2003). The new communication technologies and the increasing scrutiny and exposure only add to the pressures of doing business. Additionally, the emotional natures of environmental and social responsibility issues often result in a very public debate that can be quite damaging to the organization, sometimes regardless of whether the organization is ‘doing the right thing’. The issue discussed here is not how to negate the public pressure, as this can be warranted, but to provide the manager a framework for understanding how to manage the increasing pressures for corporate environmental and social responsibility.

Through the examination of an ‘open systems’ organizational model, and resulting ideas of environment, boundaries, and equilibrium, this paper provides an embedded notion of the business organization that understands the multifarious processes and relationships of corporate social and environmental responsibility not as independent entity’s but as a complex and dynamic whole. We suggest that from this embedded and integrated perspective a business leader or manager will be able to understand a more complete picture and avoid what we see as the critical challenges in moving towards a strategic direction based on corporate environmental and social responsibility – Organizational vulnerability, Entrenchment and the Silo Effect.

To survive, “especially for the long term” organizations must be able to change and adapt to the environment in which they operate (Burke, 2002: 1). We argue that without an integrated, open systems understanding of how the organization is embedded within society which is in turn embedded in the natural environment, the business organization, and in particular the socially responsible business organization will likely collapse due to a failure of understanding its responsibilities and adapting accordingly.

CHALLENGES

The challenge of constant adaptation exposes an organization to many challenges. Regarding social and environmental responsibility three critical issues stand out, ‘Organizational Vulnerability’, ‘Entrenchment’, and the ‘Silo effect’. It is to these issues that this paper is focused, and through doing so develop and propose a resolution.

Organizational Vulnerability

Socially responsible business organizations face the challenge of diverse values, and resulting differences in culture, language, laws, and values provide many hurdles. With the recent awareness in environmental and social issues many organizations are undertaking programs to be proactive and mitigate issues before they arise. Additionally, proactive management in environmental and social issues has been traditionally described as an effective strategy for developing competitive advantage (Hart, 1995; Porter & van der Linde, 1995; Hart & Milstein, 1999; Senge & Carsted, 2001).
However two crucial issues result from this movement to environmental and social responsibility. The first issue focuses on how organizations expose themselves to increased societal scrutiny and have to manage what Hall and Vredenburg (2003, 2005) call “stakeholder ambiguity”. Explained through their ‘Double-Edged Sword’ model, Hall and Vredenburg (2003) recognize that the risks involved in taking a proactive stance to social and environmental issues are often more complicated and demanding to understand and manage than is often realized. Existing business models, skills, and managerial attributes are ideal for dealing with the expected problems and issues found in the conventional fields of business. However, with environmental and social issues the operational fields are changing. New unknown operational environments are created and organizations expose themselves to unexpected risks, new forces driving the change process, and different public expectations of success. Conventional business attributes are now only a part of the needed skill set for managers. Successful management of the changing environment is now even more critical if an organization is to be successful. As companies such as BP, Monsanto, Nike, and Shell Oil have all demonstrated the challenges produced by environmental and social issues can be quite destructive (Hall & Vredenburg, 2003). Nonetheless like any destructive change there is also opportunity for differentiation and competitive advantage (Schumpeter, 1934, 1942).

The second difficulty and one which increases the impact of organizational vulnerability is the manner in which problems are resolved. Issues are seen as technical in nature, and often resolved through innovation. Understood in isolation, the process of managing the issues are found through the identification of a problem, the creation of a solution, and the implementation of plan. The procedure is very much based on what directly effects the organization and how it can best utilize its available resources. With this approach managing issues often entails organizational change that is incremental in nature and embedded in organizational processes. The difficulty arises with how that incremental change is perceived. What is understood as incremental at an organizational level can frequently be perceived as radical or revolutionary by other stakeholders. This uncertainty in perception is particularly prominent with secondary stakeholders (Clarkson, 1995), those individuals and groups that are not directly involved in the organizational value chain, but still have a significant influence on the organization. Disparity between the organizational and secondary stakeholder perceptions can be very unpredictable and volatile, especially when concerning environmental and social responsibility. Hall & Vredenburg (2003) describe these phenomena as “stakeholder ambiguity”. Ambiguity differs here from the notion of uncertainty as it refers to not knowing the outcome or the variables involved. Uncertainty refers to not knowing the outcome ref. The challenge for a manager is in understanding that not only do they not know what various stakeholders will do; they probably not even know who is a stakeholder.

Significantly it is the perceived difference in terms of value that is often the catalyst for such conflict. Environmental and social issues are volatile as they often deal with concerns that transcend economic values and involve deep rooted cultural values. It is the disparity in values that heightens any conflict and increases an organizations vulnerability to destructive forces of change. To explain why a socially responsible organization in particular can have difficulties in the way it manages this emotional and volatile change, we turn to the notion of entrenchment and the work of Christensen & Overdorf (2000).

Entrenchment
According to Christensen & Overdorf (2000) three organizational attributes are critical to organizations resources, its processes, and its values. The key point here is to understand the dynamics of how an organization understands its operations. When asked what the capabilities are of an organization, the answer predominantly revolves around its resources. However a more accurate measure of an organizations capability is found in the strength of its processes. These are, as Christensen & Overdorf (2000: 68) describe “patterns of interaction, coordination, communication, and decision making employees use to transform resources into products and services of greater worth.” The dichotomy here is that for the organization to be successful these processes need to be embedded into the organizations culture. The larger and more complex the organization the more established they need to be. However this creates organizational rigidity, which in turn creates a serious problem in terms of adapting to disruptive change. For the socially responsible organization the entrenchment of organizational process can be quite apparent, as the size and scope of an organization can be quite substantial. Entrenchment of process also provides an answer to why organizations often resolve environmental or social issues in the same manner as they would a resource issue. The pattern for problem solving is embedded in the organizations processes and culture. Corporate social and environmental responsibility issues often require a different approach, a change in the organizational processes, and without such a change can be quite disruptive. As Pascale, Milleman, and Gioja (2000) suggest, overcoming organizational inertia can be very difficult. Yet for managing disruptive change it is critical to achieve.

Organizational values are the third attribute that is influential in how an organization can adapt to change. As an organization develops there is an increasing need to establish organizational values. These act as a guiding structure within which employee’s are able to operate independent of constant senior management approval. Again the notion of entrenchment is critical, for if the organization is to be successful organizational values have to be a fundamental element in the organizational culture. Once more creating rigidity and reducing an organizations capability to adapt to the challenges of change.

With respect to corporate environmental and social responsibility the entrenchment of corporate values can create a discursive disconnect between the organization and the affected stakeholders. Values often provide an ethical or moral implication (Christensen & Overdorf, 2000), and are thus critical in the development of shared values. A difference in values leads to a difference in meaning, which can in turn lead to conflicting actions. The socially responsible organization is particularly vulnerable at a value level, as it is exposed to a large diversity of values and meanings. The corporate values so strongly integrated into the organization may be at odds with the values at the local level. It is thus prudent for such an organization to be flexible and adaptable in how it understands its role in the world. However as Christensen & Overdorf (2000) suggest this is against what is regarded as good management, “A key metric of good management, in fact, is whether such clear, consistent values have permeated the organization.” The disconnect in both processes and values can increase an organizations vulnerability, however the entrenchment of both that is so encouraged with respect to managing large organizations, also creates a third challenge to the organization, the ‘Silo effect’.

**The Silo Effect**

Through the establishment of specific rules, regulations, and processes for achieving success, coupled with increasing growth, an organization often suffers from increased differentiation between internal departments, specializations, leading to divisions of labor and a
general separation of the organization into smaller sub systems (Burke, 2002). It is this differentiation that creates the silo effect. The organization becomes the sum of many independent parts that increasingly interact less with one another, likened to working in separate tall concrete silos. The consequence for environmental and social responsibility is that issues that are in fact embedded are separated and dealt with as separate elements by different parts of an organization. Often through processes that are not designed for these types of issues and also as we have suggested with a set of values that may be very different form what is needed. Isolating environmental and social issues may result in some immediate reactive action, but it is often a remedy for a symptom and not the deep more pervasive issue.

If an organization, particularly a socially responsible organization is to be successful in its approach to corporate environmental and social responsibility it is critical that it meets the challenges just described. Without a complete understanding of the risks involved, and the manner in which an organization negates those risks effects; or an appreciation of how the entrenched processes and values that have provided success may not be applicable; or how through its success the organization has become a network of independent entity’s, resulting in a separation and isolation of issues. The socially responsible business will become increasing vulnerable to disruptive change brought on by poor management of environmental and social responsibility.

These challenges are not insurmountable but they do require a rethink in how we view the organization and its relation to society and the natural environment. An ‘Open systems’ approach provides valuable insight into how corporate responsibilities and environmental, management need to be seen as part of an integrated whole.

Open Systems

The movement toward corporate environmental and social responsibility acknowledges a growing appreciation of the impact an organization has on the social, cultural, and ecological environments in which it operates. However as described, an organization faces both opportunities and increased risk when moving in a strategic direction based on corporate environmental and social responsibility. The opportunities can be fruitful, but in many cases are only available to first movers, and quickly become extinct as growing regulations move to institutionalize any positive advantage. The risks on the other hand are compounded by the entrenched organizational process and values that are bought to bear on any issues. The difficulty is that managers need to develop an alternative approach and model to understand the relationships between the organization and the external context in which it operates. Without such an approach an organization will struggle with the rapid changes underway in terms of the expectations of organizations regarding their responsibility to environmental and social issues. A detail that is particularly acute for the socially responsible business organization with its increasingly diverse and complex operational environment. It is to meeting this challenge of providing an alternative approach that we explore the idea of the “open systems approach” to organization.

The notion of an open systems approach to organizations is founded upon the established theoretical work of Ludwig von Bertalanffy (1950) and General Systems Theory. Using the concept of wholeness and an appreciation of the relationships between elements, von Bertalanffy (1950: 148) suggests that we are unable to understand the complete picture of the “whole”, through the examination of the “isolated parts”. Through examining the organism and its organized structure, the way it interacts and adapts to the changes in the natural environment von
Bertalanffy (1950: 155) developed the foundation for open systems theory. In a system the relationships between elements, and between the elements and the environment in which they exist, are critically important. Without the deeper systematic appreciation, any comprehension of an organizational structure is a two dimensional understanding of a three dimensional issue. Thus to consider the full implications of change, it is critical to undertake a full systems perspective. von Bertalanffy’s (1950) theoretical base provides the foundation upon which organizational researchers developed a notion of an open systems model of human organization, Figure 1.

**Figure 1**
An Open Systems Model of the Organization

Amongst those researchers that found value in such thinking Katz & Kahn (1978) established the most recognized set of distinguishing criteria for an open systems approach to organizational understanding (Burke, 2002). Table 1, provides a summation of these characteristics.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>CHARACTERISTICS OF KATZ &amp; KAHN’S OPEN SYSTEM (Burke: 2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristics of an Open System Katz &amp; Kahn (1978)</td>
<td>Organizational Perspective</td>
</tr>
<tr>
<td>Importation of Energy</td>
<td>A human organization needs an external input of energy, it can not be self-sufficient</td>
</tr>
</tbody>
</table>
Throughput

The processes involved in an organization that transfer the input into output, can be resourced based, administrative, and or managerial.

Output

The product of the organization, often the desired outcome of the process. However can also be in the form of negative output: pollution, theft, inefficiencies, discontent amongst staff.

Systems are cycles of events

The boundaries of an organization are not concrete or material, they are as Allport (1962) suggest is a series of events, It is the ‘social structures’ – the chain of events between and among people that create the boundaries.

Negative Entropy

An open system can store energy and acquire ‘negative entropy’. An organization needs to import more energy that it needs. The main source of negative entropy is from sales; therefore the throughput process needs to add value. However the negative entropy also has to overcome any negative outputs.

Information, Input, Negative Feedback and the coding process

The feedback process is crucial as it provides information to the organization of, how successful its output is, and how the environment is changing. Openness to a diverse source of feedback is critical, however in this information rich society, relevance is also critical.

Steady-State and Dynamic Homeostasis

A successful organization is understood as achieving a ‘steady state’, which does not mean that there is no activity but that the organization is achieving an equilibrium between the through out processes and the environmental conditions within which it operates.

Differentiation

Through growth an organization tends to isolate and specialize processes, departments and resources; creating the silo effect mentioned earlier.

Integration and Coordination

To negate the differentiation effect, it is important to share, through communication, interaction, and openness, our norms and values: potentially lading to a common sense of shared understanding.

Equifinality

The organization can reach the same goal a number of different ways, what is important is the understanding that the organization is not an entity with closed boundaries it is in fact a very open and permeable social construction.

ORGANIZATIONAL PERSPECTIVE

Three significant central themes are crucial in understanding the relationship between socially responsible organizations and environmental and social issues. Although distinct in configuration from Katz & Kahn’s (1978) characteristics, they do share many of the same ideas and concepts. However, these key themes are related specifically to the relationship under examination.

Key Themes: Environment, Boundaries, & Equilibrium

The first of these themes is concerned with the environment. Not the ecological environment or business environment, but the complete context within which the organization operates - environmental, cultural, social, economic, geographical, and political. Traditional management theory understood the organization as independent of the environment; with the machine as a common organizational metaphor (Morgan, 1997). This perspective treated the organization as a closed system, therefore focusing on internal processes and design. More recently, through the development of the open systems model, the environment has been
recognized as significant in its influence on the organization. However, as we have suggested this recognition is still framed within the entrenched processes of business - processes that often have their roots in the classical management perceptive of organizations as mechanized systems. The entrenchment of processes leads to a separation of issues and a resolution practice that is narrowly based on organizational values. The issue of concern, we argue, is that the environment is only understood here in the open systems context in terms of resources. There is recognition of the importance and influence of the environment on the organization, and an understanding that the organization can influence the environment, but the boundaries of the organization are still understood as fairly concrete. The environment is predominantly understood as a source of resources for the organizations processes. There is little recognition that the organization is actually embedded in the environment and that the boundaries of the organization are permeable, socially constructed, and constantly changing, depending on the focus at any particular time (Solomon, 2004).

As Allport (1962) suggests the boundaries of an organization are created through events - interactions between individuals. For example a customer is critical to many organizations, however often not understood as member of the organization. Yet without a customer most organizations will cease to operate, thus the customer is more a part of the organization than say many of the employees. It is the relationship, the serious of interactive events between the customer and other members of the organization that create the new boundaries (Driver, 2006). However through not understanding the customer as part of the organization, even if it is only for a finite time period, there is a risk of not appreciating the importance of that individual to the organization. They are seen in terms of their capacity for contributing to the output, but not as an integral part of the organization, even for a brief time, and thus a depth of understanding is lost. Consequently there is only a limited level of feedback back into the core of the organization, thus inhibiting the ability of the organization to fully understand its contextual environment.

The feedback loop is critical to keeping the equilibrium of the organization within accepted boundaries. By equilibrium we mean the balance that an organization keeps in its constant adaptation to incremental changes. An organization that appears at a steady state is in fact not motionless but adapting its process and operations within limits that do not significantly change the structure of the organization (Colbert, 2004; Katz & Kahn 1978). There is constant motion in the throughput but the internal mechanism, the processes and values keep the organization from losing control, or falling into a chaotic state. However those process as we have stated are based on the processes of the organization that in turn restrict the flexibility of the organization to adapt. The difficulty lies when environmental and social issues are referred to the organization for they often involve process and values outside of the organizations equilibrium limits. The reaction from individuals in the organization is to deal with the issues within equilibrium limits, that is the known paradigm. Issues then become isolated and dealt with at a specialist level, unfortunately increasing the divergence of understanding as those process and limits are often perceived to limited for meaningful discourse (Freeman & Liedtka, 1991). Consequently the issue and resultant conflict is heightened, which is in turn is frequently met with further entrenchment from the organization. Increasing the organizations vulnerability, through creating a situation of potential disruptive change.

**DISCUSSION**

Whether an organization is forced through regulations, or moves by choice, toward a strategic direction focused on corporate environmental and social responsibility, does not matter.
The issue is that in both cases the organization becomes vulnerable to disruptive change through the mismanagement of often emotional issues concerning the environmental and social concerns. A fundamental reason for this is the difference in process and values. Corporate organizational, particularly socially responsible, process and values are often out of step with the society in which they are operating. This is caused by the cognitive separation of the organization from the environment and society. An open systems perspective however changes this understanding and introduces the idea that an organization is a socially constructed entity, which is integral and embedded within the society it operates (Kauffman, 1992). The organization is a part of society that generates a particular focus, is reinforced through a cycle of interactions (Wilbur, 2000). The implications for this in terms of environmental and social responsibility is that these issues then become direct issues integral to and not independent of the organization. Reducing the likelihood of what we term organizational vulnerability because through recognition of the organizational boundaries as permeable, changing and social constructed, there is a more responsive feedback mechanism thus reducing the likelihood of a disparity in process and values. The entrenchment of organizational processes and values thus become weaker through the increased openness and appreciation that other ways of thinking and doing are possible. As Katz & Kahn (1978) suggest there is a good deal of equifinality in an open system - there is more than one route to reaching a specific goal. Through inclusively, openness, and understanding of the interdependence of the organization and contextual environment in which it resides, it is possible for the socially responsible organization to reduce it organizational vulnerability and overcome the entrenchment of rigid organizational process and values.

This paper describes the challenges of managing disruptive change found with integrating CSR and the use of an open systems perspective to help manage these challenges. This approach leads to a number of further research questions. The first is methodological in nature and concerned with how are we going to measure the impact on the organization of taking and open systems approach. It is one thing to suggest that integrating CSR is a worthwhile approach, but to really understand the full impact we need to develop tools and techniques that accurately record and measure the influence of this approach on the organization. Building on this is a second research question that focuses on the feedback aspect of taking an open systems approach. A fuller understanding of what feedback process and methods are effective in providing the needed information is required. This will further enhance our understanding of the full impact of an open systems approach and lead to a deeper integration of CSR practices into an organization’s operation. The last area of research builds on the understanding found with the first two areas of further research and asks how might an organization adapt to the challenges of change while still maintaining an operational steady state its activities. Understanding how to move an organization whilst keeping it effective is critical if there is to be a more universal uptake on the integration of CSR practices.

REFERENCES

*Academy of Management Review*. 20, 92-117.


