

# 리스크 관리의 경영 전략적 고찰<sup>†</sup>

송 일\*

## CSR and Sustainable Management as a Strategic RM

### Abstract

이 글은 줄고 '리스크 관리의 사고의 틀'(글로벌경영연구 제24권 제2호)의 후속 연구로 리스크 관리를 재무관리의 한 영역으로서가 아니고, 기업 경영의 통태적 위험을 연구 대상으로 삼는 전략적 접근방법에 초점을 둔 RM론이다. 소위 경영전략형 리스크 관리의 궁극적 지향점은 '기업도산의 방지'에 두어야 한다는 설이 통설인바, 이 글은 최근 지속 가능경영과 리스크 관리의 연동적 접근을 시도하는 전략적 사회책임 경영을 주요 논제로 삼아 검토하였다.

즉 전략적 리스크 관리와 전략적 사회책임경영이 함께 지향하는 '지속가능경영'이라는 동일목표를 공통적 포지셔닝 베이스로 삼아 하나의 통합모델로 전개할 수 있는가에 대한 가능성 탐색이 그 주제이다

기업의 전반적 경영위험은 대부분은 동태적 위험이며 기업의 생존경쟁력은 도산 리스크에 대한 통제력이라는 가설을 전제로 CSR 경영, 지속가능경영, 그리고 전략적 RM의 통섭적 모델화를 검토한 것이 이 글의 주요 내용이다.

## I. Introduction

In the 21<sup>st</sup> century, corporate social responsibility or corporate social contribution has become the basic theme of business administration. Hence, instead of

focusing only on profit maximization, firms also consider social responsibilities as an essential component in management and an active research topic in business administration. In modern times, corporate social responsibility has developed from simple social contributions to a strategic administration topic that seeks to improve and prolong the firm's future.

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\* 한국외국어대학교 경영학부 교수

Corporate social responsibility promotes sustainable management and reduce the chances of corporate bankruptcy, which is a priority in strategic risk management. Corporate social responsibility and corporate social contribution affects not only the firm's image, but also has a direct relation to financial performance. This is where strategic corporate social responsibility (strategic CSR) plays into the equation. This article reviews how Strategic CSR is supplied and its development for the future, and how one can contribute to the development of strategic risk management.

There are a lot of opinions regarding CSR's content and scope. There are three main factors that stress corporate social responsibility: opposition against firm's sole objective of profit maximization, reflection on short-term business administration, and attention to environment preservation. Social responsibility considers the benefits of the firm's employees, consumers, and community. Recent research confirms and reconfirms that CSR spending helps to create profit for the firm in the long run, and CSR is being seen in a different light.

Elkinton (1997) expressed the effects of CSR as the triple bottom line effect. This means the a firm can contribute economically, socially, and environmentally through

CSR. The reason why CSR administration gets so much attention is that it changes the firms priorities from short-term profits to increasing social welfare in the long-run, achieving both sustainable management and risk management. Hence corporate social responsibility can be seen as a strategic approach for the firm to contribute as a member of society and enable sustainable management.

## II . Strategic CSR and Sustainable Management

The profit maximization had been the goal of business profit maximization and that had been used as a basic principle for a corporate management. From the perspective of Stakeholder expenditure for the sake of social responsibility that has nothing to do with financial return for the company is not considered as scientific management oriented behavior.

Friedman (1963) insists of only one social responsibility of business using its resources and energy in activities designed to increase its profits and contends that corporate officials are in no position to determine the relative urgency of social problem. Friedman insisted that business

should produce goods and service efficiently and leave the responsibility for social problems to concerned individuals and government agencies. More recently, Friedman (1980) also argued that government intervention is often undesirable to implement programs, which actually gives little incentive business to solve social problems.

However, in the 21<sup>st</sup> century when it come to the concept of CSR which especially have been brought into the management environment, the Stakeholder Theory-based definition of CSR is not applicable any longer. The social investment theory provides another view on CSR. It contends that a company needs to improve the environment of communities where they belong in order to satisfy the needs of both stake holders and stockholders in the long run. Because the social investment of a company assure the interests of stockholders in the long term, a company should take a social responsibility in the manner to improve the environment of communities (Ferrell and Fraedricch, 2004).

Thus, CSR can be defined not only as company's compliance with social norms but as company's effort to integrate organically with a corporate environment and to build a friendly relation with its stake holders in terms of strategy for survival

and prosperity.

Therefore, the effects of company's activities relating to social responsibility are completely different from those of general volunteer work or donation.

Currently, the life expectancy of companies is getting shorter and shorter. As the average life span of companies is getting shorter, for instance 24 years for Korean domestic listed companies and 40 years for world's 500 leading companies, the interest of investors is shifting from companies which generate a large amount of profits temporarily to those which manage in a sustainable way (Song, 2010).

In short, corporate sustainable management is an effort for a company to develop continually in the societal, economic, and environmental aspects, understood as one of the social risk management (Toshiaki, 2008).

In the 1960's and 70's, movements for human rights, women's rights, anti-war, consumer productions occurred, and demands for consumer, employee, and corporate social responsibilities were made, making ethical management a topic of research in business administration. After 1980's competition between firms became fierce, and firms were pressured by shareholders to focus on short-term financial

performance. Shareholders did not like social contributions that sacrificed short-term financial profits. The focus on short-term performance brought very bad results, and anti-globalization and anti-corporation movements were established in the late 1990's starting from the United States.

As the world entered the 21<sup>st</sup> century, CSR was incorporated into one or two chapters in business administration textbooks. These changes in administration changed the firm's goals from short-term profits to long-term sustainable business systems. The definition of CSR has also changed from simple social contributions by corporations to a concept that links a firm's financial performance (Song, 2010).

New corporations join organizations for social contributions like BSR centered in the United States, and WBSCD in Europe. As their numbers grow, their influence also grows steadily. International organizations like the UN, World Bank, and OECD emphasize the need for social responsibilities, and many governments in Europe also advocate the need for social responsibilities. Corporate social responsibility and contributions can be separated to two types. One type involves the creation of a foundation that handles the social contributions, and the other would involve a

direct donation from the corporation. A social contribution that fits the corporation's characteristic well should be chosen, and should be placed strategically to benefit the corporations's finance and marketing instead of a simple contribution.

Samsung Economic Research Institut (2006) published a report that they were able to see positive results from their environmental management and social contribution activities. Environmental management complimented and contributed to the sales of their brand new eco-friendly products that were released, and the eco-friendly corporate image was able to raise the competitiveness of the firm in the long run. Social contributions may become a burden in the short run in terms of cost, but it is seen as a useful strategic tactic that raises good corporate image. In other words, CSR affects the firm's image in such a way that the consumers trust and like the firm. In this way, the firm's preference is raised, and the desire to buy that firm's product is also raised to increase marketing performance. The brand also gains trust from the consumers and brings a positive influence in consumer loyalty for the brand and products. CSR can be seen as an invisible investment to achieve sustainable management.

### III. Common Goal of Strategic CSR and Strategic RM

Accept that social responsibility is to search active ways to improve corporate profits in a long-term. CSR leading companies such as Wal-Mart or GE actually are making significant achievements. Expenditure on CRS, social contribution and environmental conservation is for long-term investment, not a one-time expense. The implementation of CSR investment is to target the long run performance and business plan according to the project.

Porter (2006), who is against the unconditional social responsibility management, emphasizes that a firm's expenditures should be in compliance with the business wised program, in that corporate CSR expenditure is not philanthropy but chances of somewhat strategic projects. such as creating business opportunities, corporate innovation, a source of competitive advantage etc., Porter's opinion about CRS is that there is no problem, even when viewed from the perspective of shareholder oriented American capitalism as far as CSR contributes to increase financial result.

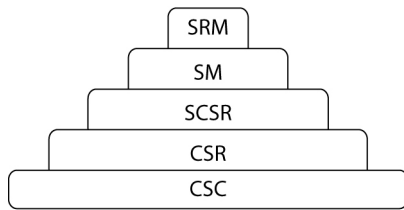
In reality, corporate social responsibility varies in countries, as well as to the influ-

ential degree of recognition by companies. The WBCSD has a global influence in the field of CRS and Novo Nordisk's strategic CRS is also well known as the model of succesful CSR management. The good examples of strategic CSR demonstrates in a distictive measurable way that they strengthen the competitiveness of enterprises and new business opportunities. Companies such as GE developed environment friendly products and supplies; Nestle and Unilever were impressed with India's low-income markets.

In fact result of the strategic CSR is difficult to be quantified because some favorable effect are hardly measured in mathematical method. The popular contemporary global issues such as social contribution or recent environment conservation movement needs to be accepted by the majority of the country's firms participating ISO 2600 as a corporate citizen.

From the 21<sup>st</sup> century, CSR has been naturally accepted by most firms, but there are firms that have stressed corporate social responsibility for a long time in its corporate history such as Yuhan Kimberly, Ltd of Korea and Body Shop of England. Nowadays many firms have made social responsibility a main goal in their agenda and are interested in investing CSR strate-

gically to enhance the firm's performance. So this article focuses more on the effects of CSR and how it brings about sustainable management and risk management.



CSC: Corporate Social Contribution  
 CSR: Corporate Social Responsibility  
 SCSR: Strategic Corporate Social Responsibility  
 SM: Sustainable Management  
 SRM: Strategic Risk Management

[Figure 1] Stage of CSR Management

Now It is safely said that strategic CSR makes sustainable management possible and there have gained recognition that sustainable management are paving the way to the strategic risk management approach. Another successful example of conglomerate CSR in the United States is the GE Ecomagination in terms of promoting efficient strategic CSR, and most employees of this company regard social responsibility and environmental responsibility as their normal and daily business activities. Board of trustee of GE strongly sponsored Ecomagination's CSR activities, and encouraged GE group to innovate business program with strategic CSR management.

Another case in strategic CSR manage-

ment is a cosmetics company, Body Shop that develops eco-friendly products, which has been successfully differentiated in the traditional market. 3M and HP utilized CSR as a business tool of saving costs. Nike and Shell gained reputation by emphasizing the importance of social responsibility employing a series of CSR oriented global events.

Meanwhile, Wal-Mart with the hundreds of hundreds its chains in global market established "Sustainable value Network" and has achieved great success by adopting CSR as part of business strategy. NGO, one of the leading logistic company created interacting system in corporation with academic institutions, supply chains and government agencies in a way to develop cost saving technology by \$ 200 million annually. Toyota Motor Corporation has adopted green policy as part of the management philosophy. Also, IBM and Cisco are known as the global leader in CSR management in various field.

#### IV. Requisitions to Strategic Approach

Since 2010s one of the most frequently mentioned mega-trend issues is green and climate change issue. It is said that so called

‘Green Revolution’ may have more revolutionary effect on management environment than ‘Information Revolution’ in 1990s. The climate change has already influenced not only on corporate social responsibility, but also has created many new business chances. Also, as the new type of works or services are developed to contribute the communities unexpected business models and opportunities are created for firms to sustain the profit oriented activities. The more individual corporate accomplish CSR the more chances firms would have to enhance competitiveness or to create core competence.

For example, if a corporate assists local education for youth, this will definitely contribute to enlarge the employee pool in long run, the result of which the company would benefit. And if a company support subcontract firms in terms of finance or technology that will help the company’s SCM system.

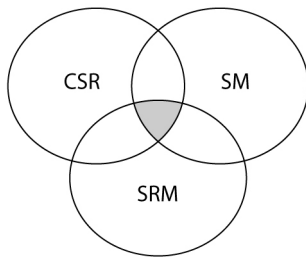
This is about what we would definite on strategic CSR, which is closely related with the framework of sustainable management. In the context with the long life of a firm the sustainable management is nothing but a strategic risk management as Toshiaki (1988) said: ‘Risk management is nothing but a scientific management to prevent bankruptcy.’

Corporate social responsibility tends to promote innovation from a firm. When contributing to society or pushing a green growth policy, a need for more eco-friendly products, a new business model that supports social contributions, or new management measures are felt by the firm. To preserve the environment, energy must be reduced, and energy supply methods must be changed. Hence, a compatible innovation for social responsibility management is created, and this is strategic CSR. In the 21<sup>st</sup> century, firms are trying to differentiate their new products or new business models from each other by relating their various materials and resources to eco-friendliness or green growth policy. This is because they create an opportunity to widen the firm’s chances. Prominent examples of this includes low carbon emission products and battery-powered cars.

Recent CSR management endeavor to take somewhat strategic positioning in business management not as a one-time project but reflecting the corporate vision. And long-term strategic program carried out in more strategic manner.

Chief executives has to oversee the strategy. Strategic CSR also has to be actively supported and carried out by the Chief Executive Officer of the board of

directors. It is essential that the top management and the board of directors to understand the concept of CSR for planning and implementing the strategic CSR. What is most important is corporate social responsibility should be recognized as the one of the core purposes in current goal before it is executed. Thus organizational consensus among the members is essential.



CSR: Corporate Social Responsibility  
 SM: Sustainable Management  
 SRM: Strategic Risk Management

[Figure 2] Correlation of CSR, SM and SRM

It is different between corporate social responsibility and strategic CSR in that the latter creates a foundation for sustainable management or strategic risk management by increasing company's long-term financial performance and enhancing the value of social existence.

## V. Conclusion

Since the 21<sup>st</sup> century, the demand of

corporate social responsibility began to rise significantly. In order to jump over the global wall, Korean enterprises must focus not only in profits, which is the objective of management, they should contribute to the society as good-willed corporate citizens. It is true that social contribution increased but enterprises taking strategic means are few.

Enterprises viewing social contribution as an increase of expenses started to decrease lately. Also, in most of the countries, the government gives benefits to the enterprises regarding the tax credit since they favor donations which reduces in scale the actual burden that enterprises face. Furthermore, many enterprises in the United States took part in the social contribution with donations even when the CSR management wasn't as universal as nowadays. At that time, participating in the social contribution only gave side benefits as tax deduction and image improvement.

On the contrary, the social contribution of the enterprises will not improve only its image. For example, an employee is a member of the local community and by investing in the society, the welfare of that employee will be affected. In the past, the sales growth and the productivity improvement, according to the social con-



tribution, weren't taken into consideration. Consequently, without the shareholders consent, there was a limit carrying out the social contribution. However, since the beginning of the 21<sup>st</sup> century, the social contribution was taken as responsibility by the enterprises and as one of the goals that must be achieved. Also, by using the CSR in a strategic way, many cases that achieved a sustainable management increased.

According to Ansoff (1965), risks will be a problem in two aspects. In other words, even if we try to predict our future as accurately as possible, with our abilities, it is not possible to predict every single event. Even in a situation in which prediction is possible, many elements are uncertain and unpredictable. Therefore, the safest risk management is the realization of the sustainable management and prolonging with it the life of the enterprise. Thus, a sustainable management is the most certain method against risk control which started to be recognized. In this sense, the strategic corporate social responsibility is rated as new approach against the strategic risk management.

In order to achieve the goal an enterprise has with the CSR, it is necessary to reflect all the opinions of the stakeholder and come up with a set of specific perfor-

mances in a strategical program. Also, to add up the contents of the majority of stakeholder without the executive's personal proceedings and what's more, the development of the program must include the participation of a CSR specialist. Therefore, to have a strategic deployment and a strategic risk management realization in the CSR activity, as having an insurance specialist or accounting specialist, a CSR specialist is necessary.

In other words, what is needed is not a community service leveled welfare specialist, is a CSR management specialist. In the future, during the MBA course in the business school, strategic CSR major programs must be opened and also training future strategic CSR specialists is utterly important.

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