

Corporate Social Responsibility and Stakeholder Strategies: An Impact in Risk Management

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Abstract- *Nowdays, Corporate social responsibility has been studied by several authors, some of them focus in stakeholder theory, which has been proposed by many authors such as Freeman, 1984; Mitchell et al., 1997; Kaptein and Van Tulder, 2003 and Aguinis & Glavas, 2011. These studies have identified some relationships between financial results, management and development of business strategies. One of these strategies identify, is related to how the groups of interest impact in risk management and particularly in reputational risk in the organizations. This paper seeks to identify the theoretical framework related to these two variables (interest groups and reputational risks). Besides, the future study will focus in an emerging market country.*

Keywords- *Corporate Social Responsibility; Stakeholders and Reputational Risk.*

1. INTRODUCTION

Corporate social responsibility (CSR) has become important in the strategic planning of businesses in the productive sectors such as mining and agriculture (Serenko and Bontis, 2009; Wagner, Lutz, and Weitz, 2009; Wartick and Cochran, 1985 Wood, 1991 and 2010; Werther and Chandler, 2006). These plans of CSR produce positive impacts on the business community and encouraging sustainable social and economic development in time (Galán, 2006). It is noted that the presence of CSR in the extractive industries and production has been important in recent years, but only recently is being incorporated in the financial sector (Peloza, 2009, 2011, Lindgren, et al., 1999) to Because of the different social damage it has caused financial crises. A review of literature shows two lines of research that are addressed in this document (Wartick, 2002; Fombrun and Van Riel, 2002, Dalton and Croft, 2003) and are applied to Peruvian financial entities. First, measure the impact of CSR on social and economic development of the community (Garriga and Melé, 2004), and secondly the importance of CSR in building corporate reputation (Rayner, 2003; March and Shapira, 1987). The main aspect is about the impact and scope generated because, if the company decides to incorporate CSR into their strategic planning from the point of view of stakeholders, that is, considering all stakeholders associated with the company, then the perception of stakeholders on the actions and commitments of the company is positive, which strengthens the business reputation and reduce reputational risk. Also, two theories hold this research: the first is the theory of CSR from a viewpoint of stakeholders (Freeman, 1984; Mitchell et al., 1997; Kaptein and Van Tulder, 2003; Aguinis and Glavas, 2012), the second is the theory of corporate reputation and reputational risk associated (Marcus and Nichols,

1999). Figure 1 in the Appendix shows the relationship between CSR and reputational risk. First, the implementation of plans under the focus of CSR stakeholders will have a significant impact on reputational risk and welfare of the community. When considering all stakeholders associated with the company, then seek CSR plans intereres align with the business community, allowing these plans to meet the priorities of the community. At alcanzarse above reduces the probability of a particular interest group has not been considered, which will strengthen corporate reputation and reputational risk associated decrease. Second, reputational risk will affect the welfare of the company as they have a lower risk of reputational this is expressed in better benefits for shareholders.

2. LITERATURE REVIEW

The literature review is based on two theoretical pillars. The first is the theory of corporate social responsibility. In this theoretical framework emphasizes the vision of CSR stakeholders. The second is the theory of business reputation, which is associated with reputational risk.

2.1 Theory of Corporate Social Responsibility

Corporate social responsibility is the continuing commitment of business to contribute to sustainable economic development, improving the quality of life of its employees and their families and the local community and society at large (World Business Council for Sustainable Development - 2000 (WBCSD)).

According McElhaney (2009), corporate social responsibility is defined as a business strategy that is integrated with core business objectives and core competencies of the company. In addition, the author indicates that CSR is designed to create business value. The concept of corporate social responsibility is not new (De Bakker et al., 2006), but as an idea had already been taken

into account in the early part of the twentieth century, the modern study was pioneered by Howard R Bowen et. al. (1953) who suggested that companies should take into account the socio-economic consequences of their decisions. From the nineties and is not considered to corporate social responsibility as an isolated phenomenon within the company but cuts across the different areas of the organization (Manen, 2001). Carroll et. al. (1979, 1991, 1999) establishes four levels of corporate social responsibility, as shown below (see figure 2 in Appendix). Drucker (1996) complements this view by stating that each organization must assume full responsibility for the effect it has on their employees, the environment, customers and anyone or anything that extent, this is considered CSR. Based on the authors revised corporate social responsibility can be defined as how to manage or lead a company or organization in a manner that meets or exceeds expectations ethical, legal, commercial and public expectations that society has in relation to companies. In short, according to the literature reviewed, CSR involves the simultaneous fulfillment of economic responsibilities, legal, ethical and philanthropic. In addition, CSR must take the business to make a profit, obey the law, be ethical and CSR behaves as a good corporate citizen. The following table shows research and studies realized on the basis of corporate social responsibility (see Table 1 in Appendix). Aligned with Garriga and Melé (2004), theories of CSR presents four common dimensions: benefits, political action, social demands and ethical values. Under this premise, the authors classified the theory in four blocks as the emphasis each theory does in any of the four dimensions: instrumental theories, political theories, integrative theories and ethical theories.

2.2 Instrumental Theories.

Under this approach the company is seen solely as a tool for wealth creation, and social activities as a means to economic performance. In this group of theories include two approaches (Friedman, 1970, Windsor, 2001; McWilliams and Siegel, 2001, Carroll, 1979). The first refers to the maximization of shareholder value as the supreme criterion for assessing corporate social activities. The second focuses on strategies for competitive advantage. This latter group of theories presents three approaches: The first approach is the social investment in a competitive context (Roman and Slopes, 2008; Senet. Al., 2001). Advocates of this approach argue that investment in philanthropic activities can be used to improve the context of a firm's competitive advantage as it usually creates social value than they can create individual donors or government. The second approach is the perspective of the firm and dynamic capabilities based on natural resources (De Pelsmacker et al., 2005; Obermiller et al., 2009). This approach holds that a company's ability to achieve better results than its competitors depends on the interaction of human, organizational and physical over time and organizational and strategic routines by which managers acquire these resources, the modified, integrate and combine to generate new value-creating strategies. Finally

the third approach focuses on the strategy for the base of the economic pyramid (De Matos and Rossi, 2006; Narwal and Sharma, 2008), in which some authors see an opportunity to innovate more than a problem. One way of addressing this issue is disruptive innovation: products or services that do not have the same capabilities or conditions as those used by customers in conventional markets and, therefore, may not be introduced for new or less complicated between nontraditional customers with a low production cost and adapted to the needs of the population.

2.3 Integrative theories

In these theories the company focuses on capturing, identifying and responding to social demands. This claim social legitimacy and greater acceptance and social prestige. This group includes the management theories of social affairs, the principle of public accountability, the management of the groups involved (stakeholders) and corporate social action (Freeman, 1984; Mitchell et al., 1997; Kaptein and Van Tulder, 2003; Basu and Palazzo, 2008).

The management of socio-economic issues, defined as the processes by which the company identifies, evaluates and responds to social, economic and political factors that may significantly affect (Barone et al, 2000).

The principle of public responsibility. This principle holds that appropriate business behavior derived from relevant public policy, including the general pattern of social direction reflected in public opinion, emerging issues, legal requirements and formal execution or enforcement practices (Bowen, 1953).

The management of the groups involved (stakeholders), a people-oriented approach that influence or are influenced by policies and corporate practices. Its advantage is the increased sensitivity of the firm to its environment, but also a better understanding on the part of the agents of the dilemmas facing the organization (Aguinis and Glavas, 2012, Agleet. Al., 1999; Andriofet.al., 2002; Baro, 2011).

2.4 Reputational Enterprise Theory

In the literature there is a range of definitions of corporate reputation, however, they all share one thing in common: that the expectations and perceptions of the stakeholders involved with the company determine the degree of reputation for this. The following table is indicative of the main definitions of business reputation.

It is hoped that the various stakeholders have different interests and different expectations, so that corporate reputation depends on crossing those expectations with actual experiences resulting from compliance or non-compliance of the commitments made by the company. In this regard, the company should consider in their strategic planning principles that will address the relationship of this with the stakeholders involved. By knowing the company, the interests of all stakeholders, then plans to undertake corporate social responsibility may contemplan all those needs (interests). This will allow the perception of stakeholders on the actions of the company is good, which helps to improve the reputation of the company (see figure

3 in Appendix). In line with the above, corporate reputation is the result of confronting what the company is committed to do, and what really makes and the view of the stakeholders in this regard. This means they must align objectives and the values CSR declared by the company, with the behaviors and actions developed by this and the expectations of stakeholders.

2.5 Reputational Risk

Reputational risk can be defined as the possibility of loss or decline in the reputation of an organization in a way that adversely affects the perception that the social environment has on it, and to be an effect of direct or indirect loss in the value of a company (Rayner, 2003; March and Shapira, 1987; Bebbington, 2007). Reputational capital, understood as the reputation earned or accrued until today, is influenced by the interaction between the companies with interest groups (stakeholders). Thus, this reputational capital is created when managers convince employees to work with commitment, to consumers to buy their products and investors to buy their shares; grows when managers convince analysts and media to praise the company and recommend its units, and finally destroyed when stakeholders lose confidence in the managers, products, expectations or jobs. In line with Vizcaino (2010), reputational risk can be classified into two types:

The first is situational reputational risk, which is characterized as immediate, that is, it is impossible to anticipate RSC him to control the situation (Marcus and Nichols, 1999). For example, a terrorist attack.

The second is expected reputational risk, to which the company can anticipate RSC to plan communication strategies to employ in order to minimize the consequences. For example, a company that plans to close a plant communication campaigns carried out in good time to explain the reasons and try to minimize adverse reactions.

3. CSR AND REPUTATIONAL RISK

Reputational risk can be defined as the possibility of loss or decline in the reputation of an organization. This loss of reputation affects the perception that the social environment (including stakeholders) has on the company producing direct or indirect loss in the value of the company (Rayner, 2003; March and Shapira, 1987; Bebbington, 2007). Vizcaino (2010) indicates that reputational risk can be classified into two types: the first is the reputational risk or immediate situational, that it is impossible to anticipate, such as a natural phenomenon (earthquake), which could affect the normal operation of the company. The second is the expected reputational risk to which the company can anticipate CSR activities in order to minimize the consequences. For example, a company that plans to close a plant communication campaigns carried out in good time to explain the reasons and try to minimize adverse reactions. As above, CSR has an impact on reputational risk. Since the company's reputation depends on the perceptions of stakeholders, then each of them is a source of risk to be managed through the

company CSR plans. In addition, the company should manage their relations in respect of these stakeholders (Pfeffer and Salancik, 1978; Turban and Greening, 1997; Wagner et. Al., 2009). CSR is part of a cycle through which companies generate reputational capital, manage reputational risk and improve their performance. Companies invest in corporate social responsibility, which generates a reputation capital stock that is used for two purposes: firstly, it is a launch pad for future opportunities and, on the other hand, current safeguards assets, acting as buffer against the losses (Knox and Maklan, 2004; Ruiz, 2012). Through CSR programs is given cycle consistency and managed the reputational risk (see Figure 4 in Appendix). CSR is part of a cycle through which firms generate reputational capital, manage risk and improve their performance reputation. Companies invest in corporate social responsibility, creating a stock of reputational capital that is used for two purposes: firstly, it is a launch pad for future opportunities and, on the other hand, current safeguards assets, acting as cushion against losses. Through CSR programs gives consistency to the cycle and manages reputational risk (see figure 4 in Appendix). According to Knox and Maklan (2004), the final effects of CSR on corporate reputation pueden divided into four categories: earnings, risk associated with the loss of earnings, cost risk and cost reduction (see figure 5 in Appendix).

4. COMMENTS

The research will study the groups of stakeholders corporate social responsibility (CSR) strategy and the impact in reputational risk. It also can analyze the risk management (RM) from the perspective of standards such as COSOERMII and ISO 31000 guidance and to what extent the GImpacton GR. One contribution of this work is that it will consolidate not only the number but the types of stakeholders or "stakeholders" of the Peruvian financial sector companies. Today, CSR has been studied and has been adopted in various organizations, but the importance of considering the stakeholders of an organization, in the management of risks is a rarely explored. The implications that this work are large because it represents the beginning of an investigation that's would allow detailed knowledge variables and factors that determine the behavior of interest groups, but the connections with organizational risk and their management in of financial markets.

Furthermore, it is expected that this work will consolidate standardization systems that are characterized by involving your group interested in developing internal plans to improve service and ensure business continuity, this being part of risk management. A review of literatures shows three important conclusions. The first is that CSR has a positive impact on the reputation of the company. This finding not only theoretical (between different conceptual approaches), but also empirically. However, found that research in this field are mainly oriented towards developed countries. This is important because it opens a line of research that involves the application of the

theoretical frame work of CSR and Coporate Reputation (CR) in developing countries. Another conclusionis that amongthe various approaches to corporate reputation, which emerges as one who considers the perceptions of all stakeholders is the relational school. This is important because it allows integrating the ories related to the RSC. From the literature review found that this aspect has not been addressed the relationship between CSR and the CR from astakeholder perspective.

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APPENDIX

Figure 1: CSR and Reputational Risk

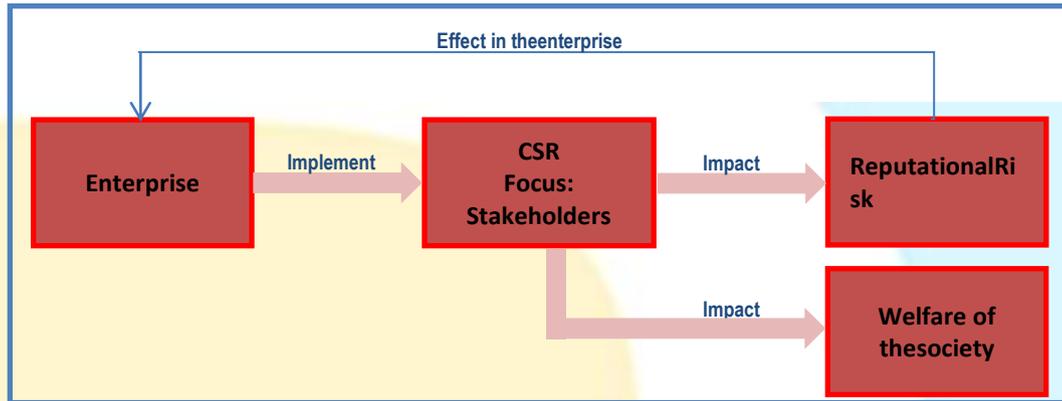


Figure 2: Carroll's Pyramid



Table 1: Researches about the relationship between CSR and strategy and stakeholders

Studies on the relationship of CSR to Strategy	
Mc Williams et al. (2006)	Develop a conceptual framework and strategic implications of CSR
Studies of the relationship between corporate social performance and financial performance	
Ullmann (1985)	Tri-dimensional model: Stakeholder Power, strategic position and economic performance
Orlitzky et al. (2003)	Theory on corporate social and financial performance.
De Bakker et al. (2005,2006)	They established an analysis of 30 years of research based on the relationship between CSR and corporate financial performance.
Critical analysis of the influence of corporate social performance and financial performance on corporate connection	
Rowley & Berman (2000)	Conditions under which groups of participants perform their actions to influence the company

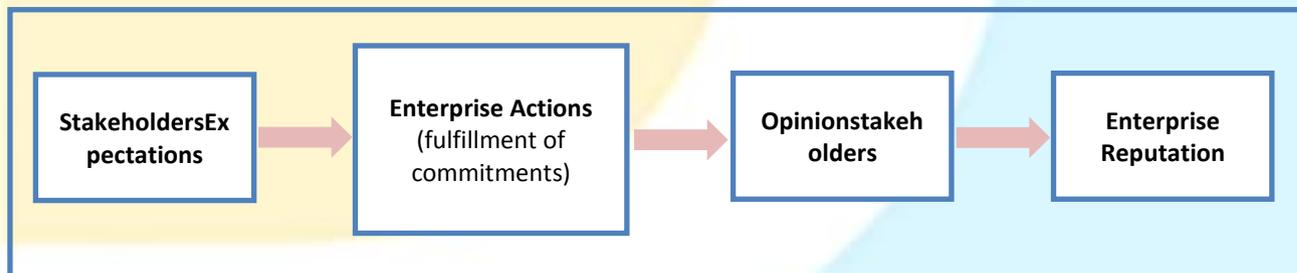
Source: Different authors/Elaboration: Own

Table 2: Corporate Reputation Definitions

Author	Definition
Wartick (2002)	Adding perceptions of each of the participants on how the organization responds and meets the demands and expectations of the stakeholders of the organization.
Fombrun & Van Riel (2002)	Collective representation of past actions and results that describes the company's ability to deliver this value to various internal and external stakeholders.
Chun (2005)	Sum of the values that stakeholders attach to the company, based on their perception and interpretation of the image that the company communicates and behavior over time.
Ferguson, Deephouse y Ferguson (2000)	Knowledge of the true characteristics of a company and the emotions they feel towards it stakeholders.
Villafañe (2002)	Recognition that the <i>stakeholders</i> of an organization make corporate behavior through the degree of compliance with its commitments in relation to their customers, employees, shareholders and the community.

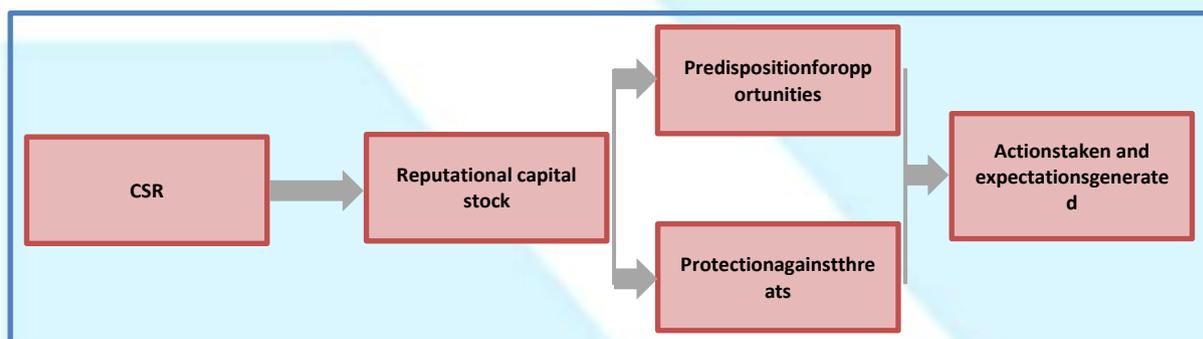
Fuente: Garicano (2011)

Figure 3: Stakeholders expectations and corporate reputation



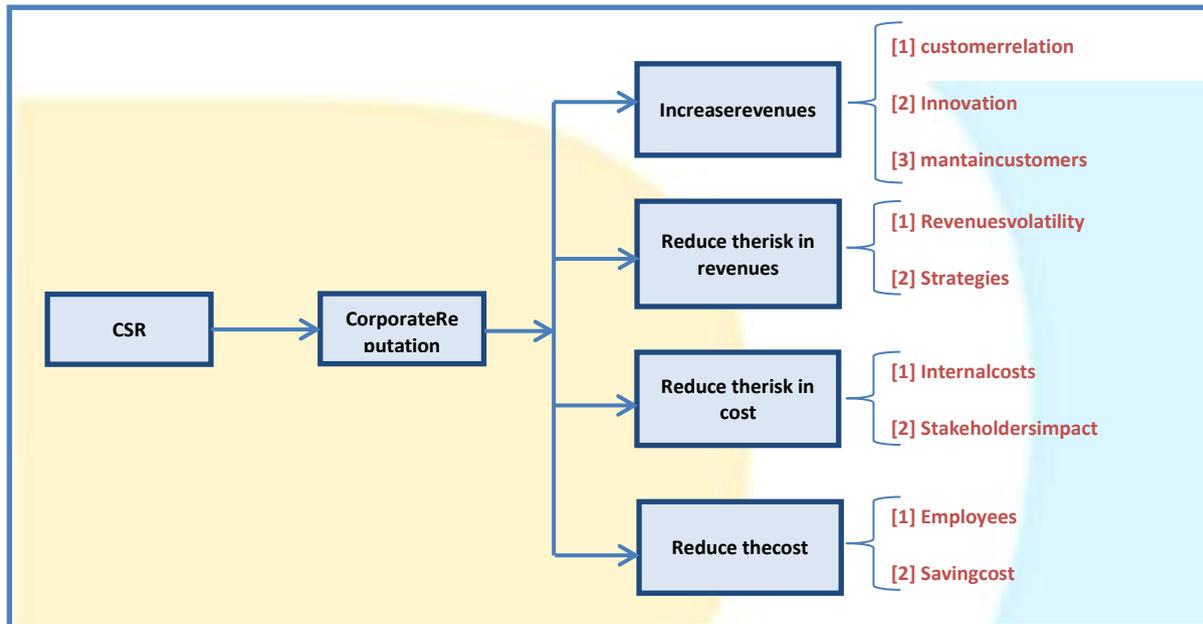
Elaboration: own

Figure 4: CSR and generated expectations



Elaboration: Own

Figure 5: Effects of the relationship between CSR and corporate reputation



Resource: Knox y Maklan (2004)

Elaboration: Own