

Beyond CSR: Democratizing CSR towards ESG Compliance

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Abstract. The Corporate Social Responsibility (CSR) concept evolved from a commonly-doubted understanding to a measurable framework. It compensates for negative socio-economic externalities emulated by consumerist societies. Its progressive takeover on market mindsets set the pathway for Environmental, Social, and Governance (ESG) factors implementation in alignment with global plans for greener practices like the Kyoto Protocol. Ultimately, CSR-driven initiatives under democratic rules enable a swift Green Ocean Strategy and a dynamic integration from the business environment to the business ecosystem. So far, CSR and ESG transitions have been criticized for their labor and cost intensiveness, not necessarily translating into shareholder's short-term financial interests. This paper explores the efficient implementation and execution of a strategy that extends CSR to ESG. It provides transitional frameworks for organizations to transform their CSR activities into achieving ESG compliance using shared intellectual capital in a structured and profitable way.

Keywords: Corporate Social Responsibility · New Product Development · ESG · Green Ocean Strategy · Agile · Scrum · Human Resources · Company Democracy · Management · Business Ecosystems · Innovation Family Business

1. Introduction

Amid a rise in complex company policies, managers have increasingly sought a solution in Corporate Social Responsibility (CSR) practices to outweigh the negative externalities businesses have created by running programs to improve their communities. Nevertheless, CSR programs did not always indicate desired results. CSR programs that have been undertaken in the past didn't serve a serious reputation as a corporate restructuring practice but rather as an extra pro-bono marketing tool towards

social or sustainable capitalism [1]. Some companies were blamed for greenwashing or thought their economic contributions were sufficient [2].

According to Keith Davis " social involvement by a business is inevitable and a fundamental development that is a long-run secular trend regardless of temporary cyclical swings. It is not a fad moment." [3]

CSR today aims to revamp and improve the organization as a whole and from within, rather than facilitating quasi-charitable work for socio-environmental causes. Business is not concerned "merely" with profit but also with promoting desirable "social" ends; that business has a "social conscience" and takes its responsibilities seriously for providing employment, eliminating discrimination, avoiding pollution [4]. Effective CSR relies on the degree of openness organizational cultures have and the degree of democracy on designing and executing CSR strategies and projects for the people, from the people. The Company Democracy Model (CDM) presents a suitable tool that can set the appropriate democratic corporate culture from which the proper CSR response can emerge [5].

CDM utilizes the firm's intellectual capital for shared value innovation [6]. The Y theory type open management framework promoted by CDM facilitates for CSR challenges a collaborative environment for knowledge generation, exchange, innovation, and review. The CDM democratized knowledge-based culture functions as a gateway to innovation while producing pioneering and profitable products and services that allow organizations to score on the ESG index (Environmental, Social, Governance), an impactful valuation index for organizational investments [7], [8].

This paper attempts to provide a new solution, a logical strategy to tackle negative externalities commencing with the restructuring of internal perspectives and processes that can extend CSR and link such activities with the corporate ESG strategy.

2. CSR Expectations and Opportunities

The underlying challenge CSR and ESG indices imposed are implied by the market leaders' lack to accurately measure and represent standards and metrics that can be applied not only industry-wide but also globally. Although the two are very different in theory and often distinguished from one another as a green activity and investment strategy, they are not entirely different from a practical perspective. Many synergies have not yet been recognized.

While smaller organizations often fail to meet fundamental, impactful objectives with CSR programs, medium-sized organizations struggle to obtain a measurable and long-term success that exceeds the competition. Therefore, if taken, CSR activities for small and medium-sized organizations target more reputational and marketing objectives for immediate results than meaningful and impactful contributions to society.

However, the problem is identified in the large-scale organizations from which the society has higher expectations due to their ability to seriously create long-term investments in direct CSR strategies and actions with practical and measurable success. As a result, large organizations fail to realize an opportunity they have to prove their CSR commitment and sensitivity and transition from CSR strategies to ESG strategies and obtain the most out of their efforts.

3. The CSR to ESG Democratic Transition

At present, CSR programs aren't intended to go beyond the ordinary good deed, bypassing the momentum where substantial effects on both the organization and the society can be made. Moreover, human capital is commonly deployed inefficiently in ESG strategies which deter from maximizing efforts and ultimately results in nonalignment of project scope and the ability to reach the desired outcome. Many have yet to realize the difference democratically involving employees can make, particularly when seeking to go beyond CSR.

The research presented in this paper explores the efficient implementation and execution of a strategy that extends CSR to ESG. This approach's foundation is built on the Company Democracy Model (CDM), which promotes organizations to establish a democratic corporate culture, receptive to employees' ideas, ideally leading from CSR innovation to CSR competition to ESG optimization and success.

The CDM represents a culture reflected in several G (governance) and S (social) requirements of the ESG index. It is also a tool to extract social and environmental knowledge from people and turn it into "a knowledge-building engine" that reinforces collective decision-making. Ethical behavior requires good governance, which is the democratic element that must be represented in CSR to score on ESG indices. Thus, the combination of CSR under democratic organizational cultures can bring organizations closer to being involved in all the ESG activities by building on their previous CSR programs and efforts.

4. The CSR to ESG Facilitator

One of the first steps an organization shall take in developing a new democratic approach for managing CSR in line with the highest ESG scoring is to assign a CSR to an ESG facilitator. The facilitator's role is to coordinate employees, decision-makers, and social entities through the various stages that develop and execute a democratic strategy beyond CSR.

A human resources specialist can be the suitable facilitator as s/he is in the center of the organization, in direct communication among various hierarchy levels, and with solid knowledge of its capabilities and maturity. The goal is to predominantly comprehend the CSR project objectives by promoting the employee's democratic participation and collaboration. The facilitator drives CSR consensus among the organization and the employees on the market expectations, the societal needs, and stakeholder stewardship duty. Having an on-site facilitator hedge against operational inefficiency and maintains momentum in energy-intensive output delivery.

This transitional phase stabilizes the core CSR-related initiatives and identifies those who have the potential to go beyond CSR. It is yet a critical phase heavily relying on the democratic culture introduced and led by the facilitator. It determines future CSR programs' outcome and standardizes an organization's internal process measuring future CSR strategy outcomes. The aim is to establish a co-evolutionary culture amongst employees that will provide common ground and the democratic space needed to incentivize individuals to participate in knowledge sharing [9].

Under the facilitator's guidance in a democratic process, knowledge is elicited and validated first. This ensures that ideas generated through the knowledge network are resilient enough and always CSR-driven to be transformed into innovative CSR practices that will eventually lead to operational, financial, and above all, genuinely reputational competitiveness.

5. The Democratic CSR to ESG Model

The democratic CSR facilitator operates within a democratic CSR model that manages activities to create CSR ideas, transformation to CSR projects and initiatives, and their extension to ESG measurable achievements. The model's pyramid structure indicates the knowledge progression journey from the abstract CSR ideas to the ESG impact achievements (Fig.1).

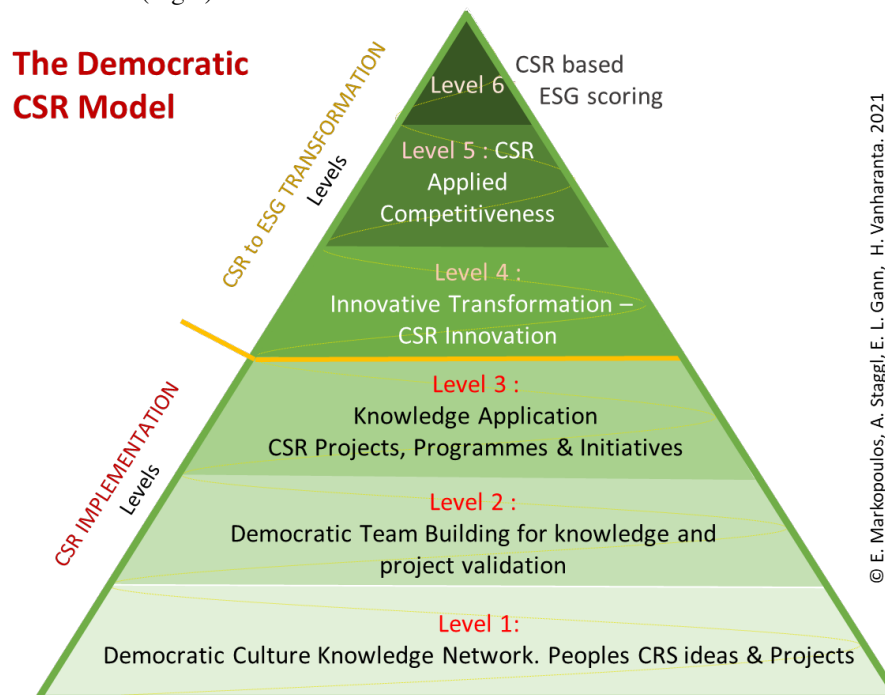


Figure 1. The Democratic CSR Model.

At level one, the knowledge network is established to democratically collect ideas, knowledge, and information from all employees who wish to participate. The facilitator ensures that employees are constantly active with each other in an environment that triggers ideas for innovations. Democracy is essential to allow everyone to contribute ideas on how the organization can strategically progress by making a difference in its environmental and societal impact.

Level two evaluates the employee's ideas. It separates wishful thinking, which can be a source for creative imagination, from the practical and well-justified review that

can be considered for implementation. Whether an idea can be realized or not is determined by allowing the knowledge owners to defend its value by answering why, when, where, for whom, and how the idea can be used. The facilitator oversees the validation of CSR ideas and their transformation into action plans. Such plans that derive from the employees align the organization with society's needs. At this level, the facilitator reports validated ideas to the board, deciding which ideas should be implemented in level three.

The third level is implementing the idea into a CSR project, program, or activity and its execution with the owner's involvement in a decision-making position. Throughout this process, an organization develops practical CSR activities that match society's expectations while rewarding and promoting those who contributed to them.

Regardless of its size or sector, any organization can deliver the first three levels of the model. However, the upper levels of the pyramid show greater complexity. Level four allows one to move into CSR innovation, presuming that the knowledge applied in the previous levels has been transformed into an outstanding initiative with the potential to be patented, protected, or further developed for broader applications or innovativeness. Green leaders must therefore always be on the lookout for new ideas generated democratically by knowledge owners.

The fifth level returns to the organization the competitiveness obtained from the CSR innovations. This is where a company experiences higher customer retention as a repercussion of standing out in the CSR market among their competitors. The innovation in CSR practices allows the organization to form a stronger relationship with its employees and society.

Level six is the outcome of applying the democratic CSR model. Innovation and competitiveness enable the organization to score on the ESG index and reach a Green Ocean [10] and/or a Pink Ocean [11] to create sustainable or socially innovatively developed markets. The six levels form a roadmap to CSR-based success for the organization within the market and its society. Customers, employees, the market, and society can recognize such success and results by setting new standards for CSR projects, programs, and innovations.

6. Agile implementation of the democratic CSR to ESG model.

The Scrum methodology is an agile project management approach for incremental project implementation with tangible deliverables in each implementation iteration [12]. The Scrum manifesto [13] establishes a working framework that begins with the requirements collection of the desired project or product. The product backlog requirements are prioritized according to their importance for gradual development towards completing the project. The implementation takes place in sprints which are short time intervals in which the implementation objectives are met. The implementation process is repeated with as many sprints needed to complete the project.

Instead of placing a project manager to run a project in one implementation cycle (requirements, analysis, design, development, test, and deployment), the Scrum methodology suggests a more holistic approach, replacing the team structures as needed and as many times needed based on the number of sprints. The Scrum Facilitator enables the team to do their work the best way possible and empowers them to take

ownership of their respective tasks. Quick failure allows a steep learning curve and high innovative impact.

The application of the scrum methodology on the Democratic CSR model divides the model in two partitions (Fig. 2). The first partition consists of the Levels 1 to 3 where the organization designs and delivers a CSR program which derived democratically from the knowledge of its employees. The implementation sprints execute the requirements needed for the CSR program to compete each level. These sprints are managed by the CSR program facilitator, or scrum master.

The second partition consists of the levels 4 to level 6 where the results of the CSR program are transformed into CSR innovation through the development of innovative CSR products and service. The second partition is executed with another group of sprints for innovative SCR new product development. These sprints are managed by the CSR innovation facilitator.

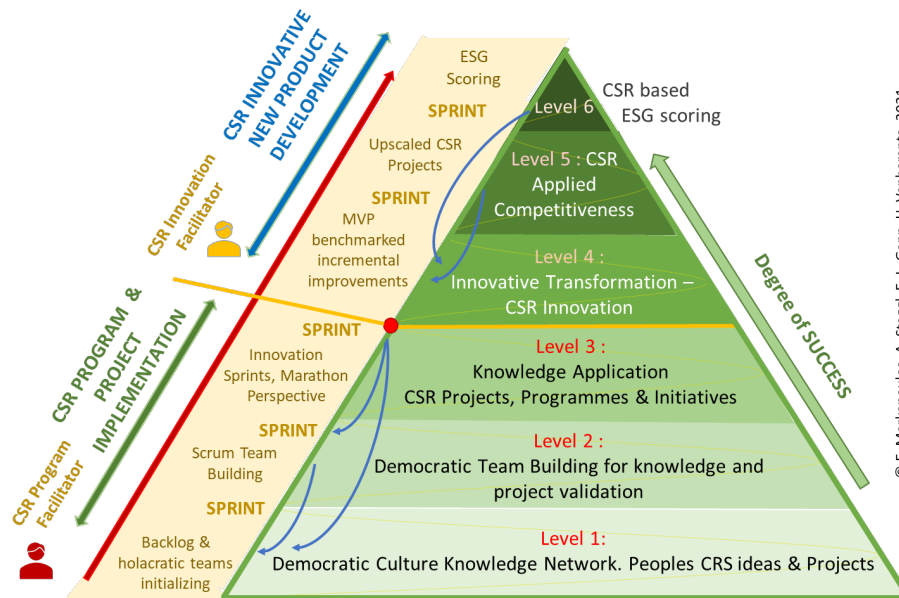


Figure 2. Agile implementation of the Democratic CSR Model.

7. The Democratic CSR Organization-Society Co-Evolutionary Model

By replacing the New Product Development process of the Democratic Innovation CSR Model with the Democratic New Product Development Model (DeNPD) which involves citizens participating in the development of new products, can extend their benefits to the design and implementation of projects in which the society gets involved.

The DeNPD model of knowledge management indicates that the highest level of innovation can be reached if a company creates a culture that encourages knowledge-sharing through the internal involvement and empowerment of the employees and the

external involvement of citizens as society members [14]. Represented in a reverse pyramid structure, this model depicts a superficial idea's development into a competitive new product while simultaneously describing the individual's transcendence from an outsider to an organization's integrated member.

The agile integration of the democratic new product development model with the democratic CSR model allows companies to develop innovative and effective CSR campaigns while minimizing cost and maximizing the societal impact (Fig.3). This organization – society co-evolutionary relationship extends beyond CSR and leads an organization to ESG as it practically addresses all ESG dimensions.

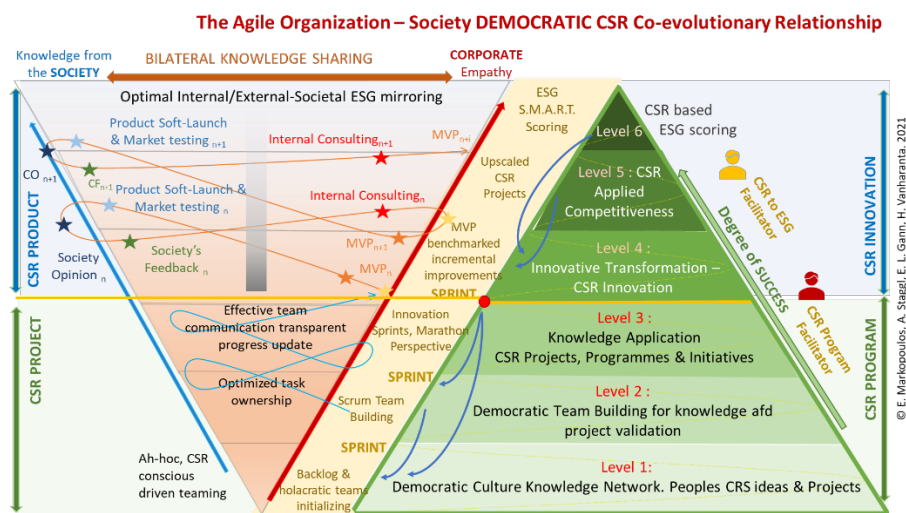


Figure 3. Organization-society co-evolution in the democratic CSR model.

8. The Democratic CRM Organization-Society Co-Evolutionary Model

The democratic CRM organization-society co-evolutionary model (Fig.3) is composed from the Democratic CSR model pyramid and the reverse DNPD pyramid that describes the society members' co-evolutionary growth in corporate CSR programs.

Both pyramids have six stages. The first three stages of the CSR pyramid indicate the evolution of an employee's CSR idea into the development and execution of a CSR program. The reverse pyramid represents the society where externals to the organization citizens can contribute to the development of the CSR project with their participation or other types of knowledge or networking contributions. The more the CSR idea grows in the organization from one level to the other, the more opportunities are for the external collaborators (citizens) to get engaged and benefit from this co-evolutionary and co-existence in the same CSR goals and objectives.

It must be noted that the two pyramids are not necessarily connected and related to each other. If a citizen decides to step down from the CSR idea at any level, then the

opportunities to grow and benefit from the CSR program, as it grows, are stopped. Therefore, the maximum benefit a citizen can get from such a co-evolutionary model is related to the total time s/he remains active in the CSR program.

The evolution from one level to the next, in both pyramids, is done upon completing several sprints that implement each level's activities. This agile project implementation approach has been selected. It offers the knowledge space to mature over several sprints and develop with a broader team structure composed of employees and citizens.

Level three is a critical level in the Company Democracy Model and all of its derivative models. Therefore, in this case, level three maintains this criticality as it is the level whose completion transforms a CSR idea from project to product or service.

The first three levels of the pyramid are based on the transformation of a CSR idea (level 1) to a CSR program (level 2) and its execution (level 3). These are three levels that can be delivered by any organization regardless of its size, type, or industry.

The CSR project's success determines if this initiative can extend beyond CSR based on its impact and innovative design and execution. Suppose there are vital creative elements widely accepted by society with strong and measurable impact. In that case, the organization extends the CSR project and transforms it into a product that can be offered widely as a new product or service to new markets.

In this case, the organization moves beyond CSR towards ESG as the common good achieved by a CSR idea, which was turned into a CSR product, can now be offered globally, either as a CSR activity or as a new product or service. This evolution maximizes the role of the society involved in the journey. The citizen or citizens engaged in the initial stages of the CSR idea can remain part of this success and ambassadors of the product at the markets. Such synergies prove that social and sustainable products can be made democratically from the people with the organizations to be the co-evolutionary success facilitators.

9. Limitations and areas of further research

The democratic CSR model, as a derivative of the Company Democracy Model and, can inherit its implementation best practices and achieve the desired results up to level 3. However, levels 4 to 6 are the ones who extend CSR to ESG. The paper indicates this extension process, but it does not specify each level's alignment with the ESG elements. This research can be extended to identify the number and the type of ESG elements that can be addressed in each level of the democratic CSR model.

Existing literature indicates the need for a practical categorization of the ESG elements in CSR activities [15], but the absence of a model that will host this categorization and create a roadmap for the CSR to ESG transition was missing.

This mapping will help the organization track the CSR to ESG progress and plan the integration of the correct elements in the processes of each level [16]. Such an approach can be a strong incentive for organizations to adopt the model. They compare ESG progress and scores from project to project and measure CSR's impact to ESG initiative in their overall organizational valuation [17].

10. Conclusion

The CSR programs' goal is to create long-term value for organizations, a collaborative and striving working environment for employees, and a measurable impact on society and the environment. Exceeding ordinary CSR initiatives requires economic, social, and environmental planning. However, they need applied knowledge, insights, and ideas that can be transformed into meaningful and impactful CSR programs. Such knowledge exists in all the organizations that seek it. The use of democratic knowledge elicitation practices and models can create the employees' culture to contribute with ideas that can benefit society.

This paper presented the Democratic CSR model in a theoretical and practical dimension. It integrated it with the agile scrum methodology for CSR staged implementation that delivers gradual results and the opportunity to adjust or improve the CSR program based on the staged deliverables. It also integrated the reverse pyramid of the Democratic New Product Development in which members of the society can get involved in the company's CSR programs. This holistic approach extends CSR's democratization and the benefits of the organization and society. Going "Beyond CSR" can be reflected in the organization's ESG index and lead to Green and Pink oceans through CSR innovations.

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