CSR and Total Quality: An issue of Interdependence

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Introduction

Although quality and corporate social responsibility (CSR) are viewed as two critical but separate activities that help companies attain sustained growth in a highly competitive global environment, they are in essence interconnected and co-dependent to each other. As Taguchi and You had noted, "quality is the loss of a product causes to the *society* after being shipped," (Taguchi and You, 1979). Similarly, Deming alluded to social responsibility when proposing his 14 points system of total quality by emphasizing job creation, self-improvement, and consistency of purpose for improving products and services (Deming, 1986).

The international organization for standards (ISO) has further legitimized the link between quality and CSR by proposing new standards for CSR that are built around the original ISO standards that introduced the quality standards such as the ISO 9000 series of quality certification. The ISO is a not-for-profit international body established in 1947. It is a network of national standards institutes from 157 countries, with a secretariat based in Geneva (http://www.iso.org). The main objectives of ISO are to coordinate and unify the various industrial standards. Since 1947, ISO has published more than eighteen thousand international standards and has broadened its activities to include agriculture, construction, mechanical engineering, information technology, and so on (ISO story).

What is quality?

In the simplest of terms "Quality is meeting or exceeding the expectations of a consumer". Therefore, a consumer in the market for a family sedan has a different set of quality standards compared to a customer who intends to buy a luxury automobile. In practice, quality is more complex and challenging for businesses and organizations. There are various strategies that could be employed to attain quality and some of them do need careful attention to details. Hence, total quality management (TQM), is a process that tries to address quality issues at every stage of the process, is fundamentally consumer driven, and its goal is elimination of all defects. In practice, the preparation, training, and coordination required to achieve the TQM is time consuming and requires a top down commitment to quality. Similarly, the six sigma approach is a focused quality control system that relies on data and statistical analysis to identify defects to reduce variability and achieve as close to zero defects as possible.

ISO 9000 and Quality Standards

ISO 9000 is a series of standards for quality management systems. The standards are administered by accreditation and certification bodies. A company or organization that has been independently audited and certified to be in conformance with ISO 9001 may publicly state that it is "ISO 9001 certified" or "ISO 9001 registered." Certification to an ISO 9001 standard does not guarantee any quality of end products and services; rather, it certifies that formalized business processes are being applied. The three ISO 9000 quality standards include ISO 9000; ISO 9001; and 9004. ISO 9000 Quality Management Systems were originally introduced in 1987.

Corporate Social Responsibility

It is generally accepted that beyond their normal profit-maximization goals, businesses have a responsibility to society at large, referred to as corporate social responsibility. CSR is defined as follows: "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time Carroll, 1979)." Called the three-domain model of CSR, it stresses that all three elements are equally important and that managers need to find a balance among the three in developing their strategies (Schwartz and Carroll, 2003). The definition implies that social responsibility requires companies not only to strive for economic gains, but also to address the moral issues they face.

For-profit organizations are concerned mostly with profits and other related economic gains to enhance value for their investors (U.S. model). Some argue, however, that managers' duty is to balance shareholders' financial interests with the interests of others, including employees, customers, and the local community, even if it reduces shareholders' returns. In their opinion, employees, customers, and the general community (called the stakeholders) contribute either voluntarily or involuntarily to a company's wealth, creating capacity and activity, and are therefore its potential beneficiaries and risk bearers.[12] The principle of social responsibility means that companies need to be concerned as much about the wider group of stakeholders as about the typical company stockholders.

Various CSR Standards

There is no single universal framework describing the activities that are part of CSR initiatives. The difficulty stems from the varied assumptions under which CSR principles and activities are developed. Moreover, CSR also appears to be geographically and culturally driven; that is, companies' activities and society's demands on companies vary from country to country (Neelankavil, 2009). For example, in Europe the public demands that companies be more responsive to environmental concerns, whereas in the United States firms are driven by increasing shareholder value.

The concerns of stakeholders and corporate concerns about satisfying their interests are probably less than a hundred years old. The earliest recorded reference to stakeholders was made by E. Merrick Dodd, Jr., a Harvard law professor, who, based on information from General Electric executives, referred to shareholders, employees, customers, and the general public as part of the stakeholders of a company.[14] The formal introduction of the stakeholders concept, though not the name, into the management literature is credited to William R. Dill, based on a 1958 Scandinavian field study (Dill, 1958). Other equally important figures in the evolution of the stakeholder concept and general stakeholder theory are Edward R. Freeman (Freeman, 1984) and James D. Thompson (Thompson, 1967), who formalized the stakeholder principles and wrote extensively about them. Stakeholders are defined as "an individual or group, inside or outside the organization that has a stake in and can influence an organization's performance (Hopkins, 2003).

Transition of ISO from Quality to Other Standards

Based on its acceptance within a wide network of agencies, associations, and countries, ISO has ventured into other areas besides quality standards that affect day-to-day business decisions. Its entry into other business areas has paralleled the development of the industrial sector. During the Industrial Revolution and thereafter, production of goods and services was emphasized, and since demand outstripped supply, this business model succeeded. During the twentieth century, improved production techniques combined with a better-trained labor force allowed supply to catch up with and in fact exceed demand. Consumers had choices and items were not in short supply, and hence marketing and sales took on a more critical role in the marketplace. During the 1960s, *cost cutting* and *improved product offerings* became the catchphrases ushering in the era of innovation and efficiency. This was followed in the 1970s and 1980s by the introduction of quality principles that were popular because they helped businesses gain competitive advantage. The quality concept was easy for businesses to adopt, as it assured them of loyal customers, reduced waste, and helped them avoid harmful product-liability concerns.

The introduction of the quality principles might have been a prime motivator for the introduction the ISO 9000 series. In the 1990s, environmental issues were of major concerns for the public and policymakers; hence the impetus for ISO to introduce environmental and sustainability standards. These too were easily and quickly embraced by many businesses as they sought to reduce laws that might follow if the environmental concerns were not addressed. The twenty-first century brought social and stakeholder concerns (social responsibility) to the forefront of various interests groups, and, as in the past, ISO decided that it needed to streamline the various standards and governing agencies to formulate a cohesive and comprehensive standard that benefited all concerned. Compared to the quality and environmental standards, the corporate social responsibility (CSR) standards are not that easy to package as a boon to businesses. It is

difficult to quantify the benefits of CSR in dollars and cents; there are definite costs associated with adopting CSR initiatives, but resulting returns are not clear.

The ISO and its links to quality and CSR

After the acceptance and the widespread application of the ISO 9000 quality series, the standards authority issued standards for other areas including the ISO 14000 series, introduced in 1996 which governs the standards for effective environmental management systems (EMS) for various organizations. One of the key benefits of the ISO 14000 series is its potential to minimize the risk of regulatory and environmental liability fines and to improve an organization's efficiency (Delmas, 2001). The standard for CSR (ISO 26000) is the latest set of standards introduced by ISO (http://www.corporatecitizen.at.)

Although, these principles seem unrelated to total quality we observe very close connection between the two. Basically, both total quality and CSR are concerned about welfare of the consumer and the stakeholders. In the paper that we plan to develop we attempt to show this relationship and how companies can make use of it from a competitive point of view.

Practical applications of the Quality-CSR connection

Research studies have demonstrated that, a firm that pursues CSR may directly or indirectly enhance its internal capabilities including quality improvements. For example, in a study of 2950 firms over a 11 year period, Hoje and Harjoto found that the CSR choice is positively associated with the internal and external corporate governance and monitoring mechanisms, including board leadership, board independence, institutional ownership, analyst following, and

anti- takeover provisions, after controlling for various firm characteristics. Furthermore the results show that CSR engagement positively influences firm value measured by industry-adjusted Tobin's q. Specifically, the study found that CSR activities that address internal social enhancement within the firm, such as employees diversity, firm relationship with its employees, and product quality, enhance the value of firm more than any other CSR subcategories (Hoje and Harjoto, 2011). Similarly, in a study of young Chinese consumers buying electronic products, researchers found that a brand offered by firms who practice CSR and product quality with innovation are chosen over brands that do not practice such corporate associations (Yi and Peng, 2011).

As a further evidence of the link between CSR and quality, researchers in India observed that in the IT industry, the focus for customers when buying IT services is quality and CSR. If a company offers high quality service and at the same time is involved in CSR activities, customers are more likely to purchase IT services from such firms. Between the Indian firms and the MNC's serving in India, the research found that the foreign MNC's were more likely to have both high quality and more involvement in CSR (Tewari, 2011).

The link between quality and CSR is further demonstrated by the fact that ten of the most admired companies with high quality standards among the Fortune's annual list of 50 top companies also happen to be included in the most admired socially responsible companies. It is no wonder we find that companies like Walt Disney, Google, Amazon.com, P & G, GE, IBM, McDonald's, Intel, HP, and Coco-Cola are always identified as offering high quality products and services and at the same time viewed as socially responsible.

Conclusion

Offering high quality products in an age of highly competitive global marketplace is a requirement for companies to succeed. This has been well understood by most of the world's companies as they enter foreign markets. The success of innovative companies with a high quality standards such as Apple, Mercedes-Benz, and Google have demonstrated the importance of focusing on these qualities. To this we now add the concept of CSR. As the ecological issues such as pollution, water contamination, changes in earth's climate, and other concerns seem to be in the minds of people, more and more are demanding that companies who appear to be the main culprits of these issues step up their efforts to offer a solution for some of these concerns. Therefore, the stakeholder concept (that is beyond the share holder responsibilities) are taking root and consumers, policy makers, and the general public as a whole is demanding positive action by the large and small firms to direct their resources in correcting some of the ecological issues facing the world. In this environment, companies that offer high quality products and services and at the same time are more deeply involved in CSR activities seem to have a competitive advantage.

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