



Corporate Governance

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Article information:

To cite this document:

Irina Lock Peter Seele , (2016), "CSR governance and departmental organization: a typology of best practices", Corporate Governance, Vol. 16 Iss 1 pp. 211 - 230

Permanent link to this document:

<http://dx.doi.org/10.1108/CG-01-2015-0010>

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CSR governance and departmental organization: a typology of best practices

Irina Lock and Peter Seele

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Abstract

Purpose – This paper aims to study the state of the art of corporate social responsibility (CSR) governance and operational structure within the most sustainable companies to arrive at a typology of CSR organization. Whether companies consider corporate social responsibility (CSR) a strategic management task is mirrored in the department and governance structure of CSR.

Design/methodology/approach – By conducting a web content analysis, the authors apply a “best practice” approach to examine the vertical and horizontal organization of CSR within the “most sustainable companies worldwide” (Robeco SAM, 2013).

Findings – The results show that most corporations have in place governance structures for CSR that organize it horizontally in stand-alone departments. Three types of CSR organization best practice emerged: the single-headed, two-headed and infused types.

Practical implications – The paper indicates three different ways that companies can organize CSR internally. The authors discuss the feasibility of such organization for large and small companies and their day-to-day business.

Originality/value – The paper addresses the under-researched area of vertical and horizontal CSR organization at the micro level. The authors analyze the state of the art of organizational and governance structures of CSR in the most sustainable companies and deduce three types of CSR governance and operational architecture.

Keywords Organizational structure, Corporate social responsibility, CSR governance

Paper type Research paper

Introduction

Corporate blunders from the past 20 years, such as the Deepwater Horizon disaster or the Volkswagen emission manipulation scandal, have given rise to discussions about corporate social responsibility (CSR) and corporate governance (Peters *et al.*, 2011). Large multinational companies across the globe have therefore started to communicate about these topics (Kolk, 2008) to foster public trust in their organizations and to safeguard their license to operate (Donaldson and Dunfee, 2002). However, to be credible, this communication about CSR must also reflect business practice.

The relationship of words and deeds is crucial in CSR: “[A]ssessing the organizational integration of CSR in daily business practices and routines is critical for distinguishing between CSR ‘talk’ and CSR ‘walk’” (Baumann-Pauly *et al.*, 2013, p. 3). Every major corporate function[1] has a dedicated organizational structure (and budget) that supports it; for example, human resources is led by a separate department, finance is managed in auditing or controlling and communications are managed from a public relations function. Thus, given the strategic role of CSR and its importance for corporate reputation (Fombrun *et al.*, 2000; Hillenbrand and Money, 2007; Singer, 2013; Haigh and Brubaker, 2010), it should also be supported by an organizational structure.

Received 22 January 2015
Revised 3 August 2015
18 November 2015
19 November 2015
Accepted 20 November 2015

Few publications have tackled issues of CSR organizational structure (Klettner *et al.*, 2014; Asif *et al.*, 2013; Perera Aldama *et al.*, 2009), and these few have illustrated the gap between theory and practice (Pollach *et al.*, 2012; Morgan *et al.*, 2009; Elving and Kartal, 2012; Strand, 2013; Griffin and Ebert, 2002). Furthermore, practitioners appear to be uncertain about how best to integrate CSR into companies' organizational structure (Business for Social Responsibility, 2002; Boston Center for Corporate Citizenship, 2009). Hence, academics (Morgan *et al.*, 2009; Pollach *et al.*, 2012) and practitioners (Aldama *et al.*, 2009) have called for more research on the organizational structure of CSR within companies. Two levels of organization are considered: the vertical (governance) and the horizontal (operational) integration of CSR (Kathuria *et al.*, 2007).

Although previous studies tackled questions of CSR governance at a macro level (De Graaf and Stoelhorst, 2009; Aras and Crowther, 2008; Mason and Simmons, 2014), the micro level is under-researched (Klettner *et al.*, 2014). A stakeholder approach to corporate governance suggests that ethical issues should be included in governance structures (Young and Thyil, 2008) because in that way, awareness of CSR is fostered and its strategic goals are supported (Mason and Simmons, 2014). However, questions of how CSR is and should best be governed are still unanswered.

Too little empirical research has been conducted on the way CSR is operationally structured within corporations (Asif *et al.*, 2013; Perera Aldama *et al.*, 2009). To align with other corporate functions, CSR can be structured in cross-disciplinary corporate communication departments given communication's important role in CSR (Christensen and Cornelissen, 2011). Alternatively, stand-alone CSR departments can be seen as the manifestation of CSR strategies within the organization. However, research on the state of the art of departmental CSR organization is lacking. Thus, practitioners and researchers are equally confronted with the challenge of how best to implement CSR in organizational structures (Vallaster *et al.*, 2012).

To study this issue, we took a pragmatic approach and focused on the most sustainable companies worldwide, that is, the corporations with the best performance in economic, social and environmental terms (RobecoSAM, 2013). The objective of this study is to analyze the current best practice of CSR governance and operational organization by companies that lead in sustainability. By conducting a web content analysis, we aimed to investigate how the most sustainable companies organize their CSR on the operational and governance levels. As a result, we present a typology of CSR governance and organization models that represents the state of the art of CSR governance and organization in today's global sustainability leaders.

The paper proceeds as follows: After a literature review that provides an overview of CSR in today's organizations and existing research on CSR organizational and governance structures, we describe the method, sample selection and data analysis. Then, we present the empirical results on transparency and responsiveness, vertical and horizontal integration and top management support. From these findings, we develop a typology of CSR organization leading to the *single-headed*, *two-headed* and *infused* types. These models are discussed with respect to relevant literature before we conclude the article by presenting limitations and suggestions for practice and future research.

Literature review

CSR in today's organizations

CSR is not a management trend or a recent phenomenon (Sahlin-Andersson, 2006), rather it is increasingly established in today's businesses. From a stakeholder perspective, CSR can be defined as "a response to the specific demands of largely external stakeholders, such as governments, NGOs [non-governmental organizations], and consumer lobby groups, with regard to a firm's operations, or with regard to generalized social concerns"

(Basu and Palazzo, 2008, p. 122). CSR, here, is seen as a response to internal and external stakeholders' requests.

The amount of professional communication material that is published regularly on CSR emphasizes its vital role in everyday business, and the list of terms used to describe corporate responsibilities is almost endless: CSR, corporate responsibilities, sustainability, corporate citizenship (van Marrewijk, 2003)[2]. CSR Web sites, CSR reports, CSR blogs and other corporate publications serve as evidence of CSR's implementation in business. Based on the majority of material published on the subject, CSR has often been viewed as a public relations (PR) task. Thus, the concept has earned criticism for being merely a PR or marketing vehicle (Jahdi and Acikdili, 2009; Fleming and Jones, 2012), rather than a credible corporate strategy.

Such critique has led to skepticism toward CSR and the communication surrounding it (Illia *et al.*, 2013). However, CSR is vital for a company's reputation (Fombrun *et al.*, 2000; Hillenbrand and Money, 2007) and plays an important strategic role in business (Singer, 2013; Haigh and Brubaker, 2010). As CSR is built on stakeholder expectations management through communication (Seele and Lock, 2015), responsiveness is a key issue. By being responsive, organizations can better evaluate and manage potential risks through stakeholder involvement (Katsoulakos and Katsoulacos, 2007). Responsiveness is facilitated by transparent communication about activities in the CSR and governance realms (De Graaf and Stoelhorst, 2009). This is also reflected in the four principles of corporate governance: transparency, accountability, responsibility and fairness (Aras and Crowther, 2008).

In the field of CSR, transparency, open discourse and responsiveness are crucial with regard to credible communication (Habermas, 1984; Dando and Swift, 2003). Studies on the strategic use of transparency in CSR (Christensen *et al.*, 2011; Coombs and Holladay, 2013), its implications for credibility and its benefits for social reporting (Hess, 2007) emphasize transparency's crucial role in CSR communication and corporate governance issues. In this vein, we aim to investigate whether the most sustainable companies communicate transparently and responsively about their CSR organizational structure:

RQ1. Do the most sustainable companies communicate transparently and responsively about their CSR organizational structure?

Organizational and governance structures of CSR

The internal structure of organizations, the design and influence on organizational variables has been researched for more than 50 years (Burns and Stalker, 1961; Miles and Snow, 1978; Mintzberg, 1980, 1981; Child, 1973) and has emerged as an important field of study in management and related disciplines.

Organizational structure can be viewed as the "anatomy of the organization" (Dalton *et al.*, 1980, p. 49). Research on the structure and forms of implementing CSR within organizations (referred to as corporations in this study) began in the 1970s. At that time, CSR officers in executive boards were a new phenomenon: "The position itself [. . .] represents a departure from past corporate activities, and there are no guides as to where it should fit in the organization hierarchy" (Eilbirt and Parket, 1973, p. 46). Others stated that "[t]here are hopeful signs that large corporations [. . .] are developing processes for converting the rhetoric of corporate responsibility into meaningful action" (Ackermann, 1973, p. 98).

Indeed, CSR has become more and more formally organized in organizations. The Boston Center for Corporate Citizenship (2013) found that among its members, 60 per cent has a board member responsible for CSR and 14 per cent has installed a stand-alone CSR department, with numbers rising steadily as compared to 2009. CSR activities mediate the relationship between structure and effectiveness and can help departments in adapting more quickly to changes in the firm's environment (DeGroot and Brownlee, 2006).

Perera Aldama *et al.* (2009) stated that the CSR structure is a driver of organizational change and found that the larger the company, the more likely it is that CSR structures exist. The role of firm size in CSR structures was also confirmed by Baumann-Pauly *et al.* (2013, p. 2), who found “distinctive implementation patterns of CSR”. Even though large companies communicate their CSR structures better to the public, small firms do best in implementing CSR into daily business practice (Baumann-Pauly *et al.*, 2013).

In general, the internal organizational CSR structure can be subdivided into two levels: governance and operational. Beginning at the top of the firm, the governance structure can be seen – allegorically speaking – as the “head” of a company and corporate governance can be defined as “the system by which companies are directed and controlled” (Cadbury, 2000, p. 8). Corporate governance is regarded as a broader concept that involves not only structures at the top management level (Spitzeck and Hansen, 2010) but also reporting lines and formal organization within the firm; hence, a governance structure can be defined as “the sum total of all formal procedures according to which a firm’s decisions are made” (De Graaf and Stoelhorst, 2009, p. 286). Such governance structures mediate the impact of environmental pressures and can foster CSR (Aras and Crowther, 2008). Thus, to take on their corporate responsibilities that affect global public issues (Matten and Crane, 2005), firms should also have an internal control system in place that governs these activities.

CSR governance refers to the vertical integration and control of CSR strategy within the company, such that “elements of organizational strategy cascade down to all levels and, thus, create a fit among organizational objectives, targets, and processes” (Asif *et al.*, 2013). Existing research on CSR governance implementation appears to be contradictory: Morgan *et al.* (2009), who studied a small US-based sample, found that CSR governance bodies are diminishing and that in recent years, companies have followed a less integrated strategy regarding CSR governance. On the other hand, according to Spitzeck (2009, p. 500), who examined a larger UK-based sample, CSR is becoming increasingly “infused and embedded” in corporate governance structures, as the existence of CSR committees increased from 2002 to 2005. Supervisory boards are “best supported by a separate CR committee” (*ibid.*), and there is evidence that corporate governance bodies for CSR also lead to better social performance. Furthermore, involving the supervisory board is essential for CSR (Perera Aldama *et al.*, 2009). Eccles *et al.* (2014) found that companies engaged in sustainability are more likely to have a separate board committee responsible for CSR than companies without a sustainability strategy. To clarify this, we ask whether the most sustainable companies have in place CSR committees or supervisory boards responsible for CSR:

RQ2. Do the most sustainable companies have in place CSR committees or supervisory boards responsible for CSR?

In addition to the vertical integration of CSR within the company, horizontal alignment is crucial (Kathuria *et al.*, 2007). At the operational level, coordination among the departments is key to ensuring smooth processes and a coherent pursuit of corporate objectives to efficiently use resources and competencies (Asif *et al.*, 2013). Thus, corporations are expected to coordinate their CSR strategy with the firm’s overall strategy. This “consistency between”, or internal consistency, aims at a strategic alignment of CSR and other areas of corporate conduct (Basu and Palazzo, 2008; Yuan *et al.*, 2011). Such alignment is needed vertically, from the corporate level downward, as well as horizontally, between departments (Kathuria *et al.*, 2007). Hence, to affect business operations, CSR should be infused into the corporate structure not only through “soft” but also through “hard” wiring of organizational systems and structures (Mason and Simmons, 2014). To achieve this, it is important to develop a coherent and thought-through structural organization for CSR at the departmental and governance levels.

Strategic consistency can be established by aligning thinking and doing CSR. This might best be achieved in a stand-alone CSR department, a symbol of the institutionalization of CSR within the firm (Schultz and Wehmeier, 2010), with specific corporate resources

dedicated to CSR. In contrast, corporate communication scholars have argued for the integration of CSR and communication departments to counter the PR criticism and to communicate about CSR in a more coordinated manner (Pollach *et al.*, 2012). Coherence between both strategies might be achieved that way. However, such approach also bears the risk that CSR is managed as a communication exercise rather than a strategy integrated throughout the entire business. In Europe, the USA and Chile, companies have installed separate CSR departments (Pollach *et al.*, 2012; Boston Center for Corporate Citizenship, 2013; Perera Aldama *et al.*, 2009). Thus, we ask whether CSR is organized as a stand-alone department in the most sustainable companies:

RQ3. Is CSR organized as a stand-alone department in the most sustainable companies?

The vertical integration of CSR departments into a company's structure is vital for understanding the role that the function plays within the organization (Cornelissen, 2008). Thus, we dig deeper into the topic of departmental organization and aim to see where CSR departments are "anchored" in the complex body of the organization. Recent studies suggest placing the CSR department at the top management level, as it has high strategic value and needs senior level or even chief executive officer's (CEO) support (Pollach *et al.*, 2012; Morgan *et al.*, 2009; Elving and Kartal, 2012). Hence, CSR should start at the top (Griffin and Ebert, 2002). This would open the door for including stakeholders' demands at the top management level of the firm, where directors are traditionally said to have a duty toward shareholders only (Waring, 2008; Spitzeck and Hansen, 2010). A recent study revealed that only one-third of CSR leaders works within the top level of the executive board and only 60 per cent of organizations has a board member responsible for the topic (Boston Center for Corporate Citizenship, 2013). On the contrary, Strand (2013) found that more than 80 per cent of US-American and Swedish companies has no CSR officer on the board of management. However, the trend might head toward dedicated chief CSR officers serving on boards of management as an "institutionalized symbol" (Strand, 2013, p. 726). This shift would show that CSR is becoming mainstream and an important topic for the company. Hence, another objective of this study is to investigate whether CSR in the most sustainable companies is anchored at the top management level:

RQ4. Is CSR anchored at the top management level in the most sustainable companies?

Method

Most studies on the departmental and governance structure of CSR have been conducted using survey methods (Eilbirt and Parket, 1973; DeGroot and Brownlee, 2006; Perera Aldama *et al.*, 2009; Pollach *et al.*, 2012). However, such self-reported information is not always reliable (Morgan *et al.*, 2009) and surveys have been criticized as a "limited method" (Baumann-Pauly *et al.*, 2013, p. 3) for the study of organizational and governance structures (Spitzeck, 2009). Therefore, this study used publicly disclosed data on corporate webpages (company Web site, CSR or governance Web site) and online (PDF or HTML) reports as the basis of a web content analysis (Krippendorff, 2013). This is consistent with the tendency of companies to disclose more information publicly when it comes to CSR, as transparency is about to become the "currency" in the CSR discussion.

Sample selection and data collection

We sampled data from the list of sustainability sector leaders as established by the RobecoSAM sector leaders ranking 2013, similar to Eccles *et al.*'s (2014) sampling logic (see Appendix A2 for a complete list of sampled companies). Each company that is a named industry leader is "considered to be the company within its industry that is best prepared to seize the opportunities and manage the risks deriving from economic, environmental and social developments" (RobecoSAM, 2015). Companies with a strong sustainability strategy have distinctive organizational processes for sustainability and

outperform firms that do not engage in sustainability (Eccles *et al.*, 2014). Thus, this population was chosen in a pragmatic approach to reflect the current best practice of CSR across a variety of countries and to avoid the strong industry bias found in CSR (reporting) research (Sweeney and Coughlan, 2008; Simpson and Kohers, 2002; Mitnick, 2000). As a first step, information available online from a population of 58 companies worldwide was collected for this study. If no information was publicly available (21 companies), in a second step we emailed the contact person for CSR listed on the Web site and asked for the relevant information. This way, data from four additional companies were collected[3]. Ultimately, we content analyzed information regarding the CSR department and governance structure in a sample of 41 companies.

Codebook and data analysis

The content analysis codebook comprised 21 formal and content variables[4]. The codebook was developed in a two-step process. First, the literature was consulted for existing coding categories and codes on the topic. Second, we inductively analyzed the published material regarding CSR organization in a sample of 10 companies from the RobecoSAM, 2012 ranking to complete the coding sheet with missing codes. The sample of web contents was analyzed during May 2013. In addition to written descriptions of the corporate structure, illustrations in the form of graphs or organizational charts and diagrams were sampled and coded by two coders, resulting in an intercoder reliability of 76.3 per cent (Holsti formula)[5]. All in all, 41 companies (70.7 per cent of the population) from 15 countries in Europe, Asia, North America and Australia disclosed information about their departmental CSR structure. Most of the companies employ more than 10,000 people (79.3 per cent), and most firms have a turnover between \$1 billion and \$50 billion a year (73.2 per cent). The sectors included industries such as aerospace and defense and food and beverage (see Appendix A2). We analyzed the coded data descriptively using the statistical software package SPSS.

Findings

Transparency and responsiveness

Given that this study involved a web content analysis and thus was based on publicly disclosed data, the transparency of disclosure and the firms' responsiveness in case of inadequate information were important parameters. *RQ1* was concerned with the transparency and responsiveness of communication of the most sustainable companies and served as a prerequisite to study the following research questions.

Only one-third of the most sustainable companies publish information on CSR organizational structure; most of the non-disclosers are European companies (47 per cent). In terms of responsiveness, less than half provided an individual CSR email contact. Looking at continental differences, almost two-thirds of the European companies listed an individual sustainability email address, while only one-eighth of North American companies listed such contact. Furthermore, companies in only one-fifth of the cases named a specific contact person whose job title was CSR, sustainability or the like. When trying to contact the CSR departments via email, most did not respond (81 per cent). Furthermore, more than half of the sample did not communicate a CSR or sustainability contact email address publicly. In brief, the most sustainable companies do not communicate in a transparent and responsive manner about their CSR organizational structure.

Generally, the CSR report still seems to be the primary means of CSR communication (Hooghiemstra, 2000). Descriptions of the CSR department and governance structure were mostly provided in the CSR report (48.8 per cent) or on the CSR Web site (26.8 per cent). Of the companies that published a description, most provided a graphic illustration of the CSR structure in the form of a chart or graph. Usually, this chart was found in the CSR report (36.6 per cent) or on the CSR Web site (29.3 per cent).

Vertical integration of CSR: direct and indirect governance

The results regarding the governance structure of CSR within the most sustainable companies are clear: 92.7 per cent of the sample has in place governance structures for CSR. Most of the firms (80.5 per cent) have also installed a governance board or committee solely responsible for CSR. Regarding the position and reporting lines of this governance body, we found that 39.4 per cent of these boards or committees reports to the board of management. Given this direct line of reporting to the executive body, we label this the *direct governance* structure. Furthermore, we observe that 27.3 per cent reports to the supervisory board; this type is named *indirect governance* because information from the CSR governance body takes a detour via the supervisory board until it reaches the board of management. The most sustainable companies have governance structures for CSR; thus, they have a CSR “head” (RQ2). From these results, we deduced the graphical illustrations of governance types shown in Figures 1 and 2.

The tasks of these CSR governance bodies are twofold: strategy formulation and/or oversight. In the *direct governance* type, the vast majority formulates the CSR strategy, while more than half names oversight as a task. Around one-third of the CSR governance bodies does both, formulates the strategy and oversees CSR conduct. We observe similar results for the *indirect governance* type: Most indicate formulating the strategy, more than half engages in oversight and less than half does both (Table I).

The leaders of these governance bodies are diverse. One-fourth is headed by the CEO, followed by 17.1 per cent that is headed by a director from the supervisory board. This proves to be true also for the variety of names given to these governance bodies: one-fourth has “sustainability” in its name; 22 per cent carries “CSR”, 12.2 per cent carries “CR” and

Figure 1 Direct governance

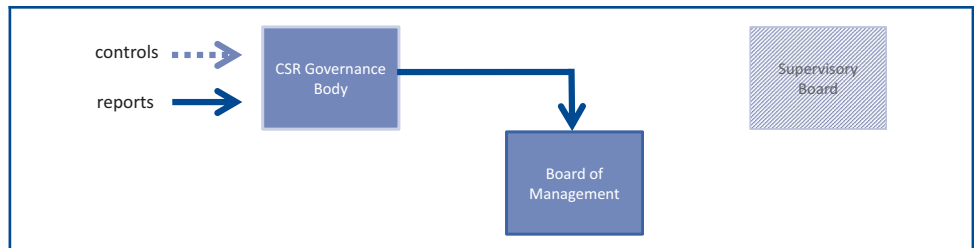


Figure 2 Indirect governance

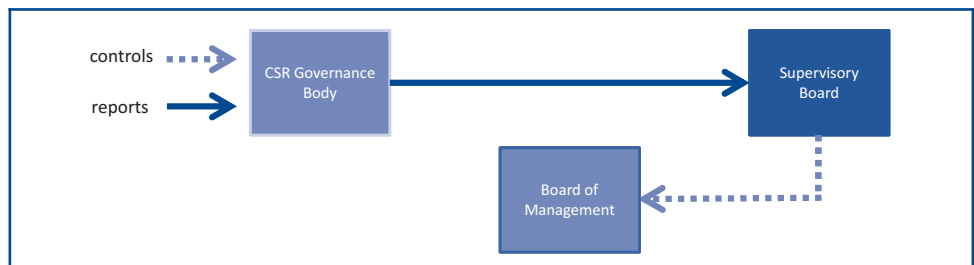


Table I Tasks per governance type given in percentages

Task/type	Direct governance	Indirect governance
Strategy formulation	86.4	88.9
Oversight	54.5	55.6
Both	36.4	44.4

24.4 per cent carries other names, such as “Ethics and Sustainable Development Committee” or “Safety and Sustainable Development Committee”. Most firms call the body “committee”, but the words “council” and “board” also appeared. However, we did not find any indication that the naming also reflects differences in type.

Horizontal integration of CSR: functional and embedded operations

Operationally, CSR departments seem to be widely implemented; 82.9 per cent has an operational department for CSR. We therefore find support for *RQ3*; CSR in the most sustainable companies is organized as a separate department. However, again, we find different types. Half of these departments involve classic corporate functions (*functional types*), where 65 per cent reports directly to the board of management (*Type 1 functional*) and one-fifth reports to the CSR governance body (*Type 2 functional*; [Figure 3](#)).

CSR departments of the *Type 1 functional* engage in strategy implementation as their main task, but also perform strategy formulation and management. *Type 2 functional* departments similarly are mainly concerned with strategy implementation (three-quarters of the sample) and management (half of the sample) and less with strategy formulation (one-fourth of the sample).

During the data analysis, a third type of operational department appeared, which is not functional but situated at the business unit or regional level of the firm: the *embedded type* (accounts for one-fifth of the sample; see [Figure 4](#)). Departments of this type report only to the CSR governance body. Their tasks are strategy implementation and management; therefore, they are not concerned with the strategic or policy level of CSR ([Table II](#)).

In general, the naming of CSR departments is heterogeneous: corporate responsibility, CSR, sustainability or environmental management is combined with teams, committees, departments or units. Therefore, we confirm the observed lack of “uniform understanding of the CSR function” ([Perera Aldama et al., 2009](#), p. 513) within corporate structures.

Top-level support

As apparent from the illustrations of CSR organization in the figures, the most sustainable companies anchor their CSR activities (whether operational or governance) at the top management level. We, therefore, affirm *RQ4* and state that CSR in the most sustainable companies is anchored at the top management level. At the governance level, more than half of the companies with a dedicated CSR governance body reports to the board of management and 27.4 per cent of the governance bodies reports to the board of directors, 85.4 per cent of all operational departments reports to the top management level and almost half (44.2 per cent) of them to the board of management, while 41.2 per cent reports directly to the CSR governance body.

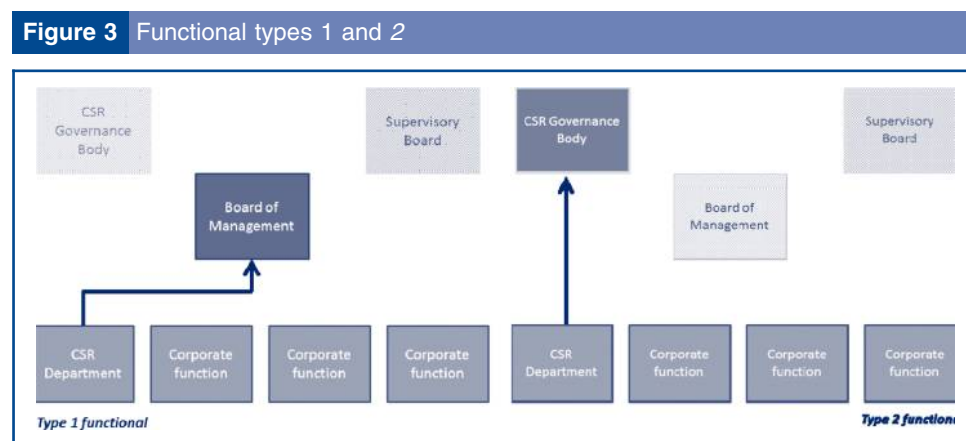
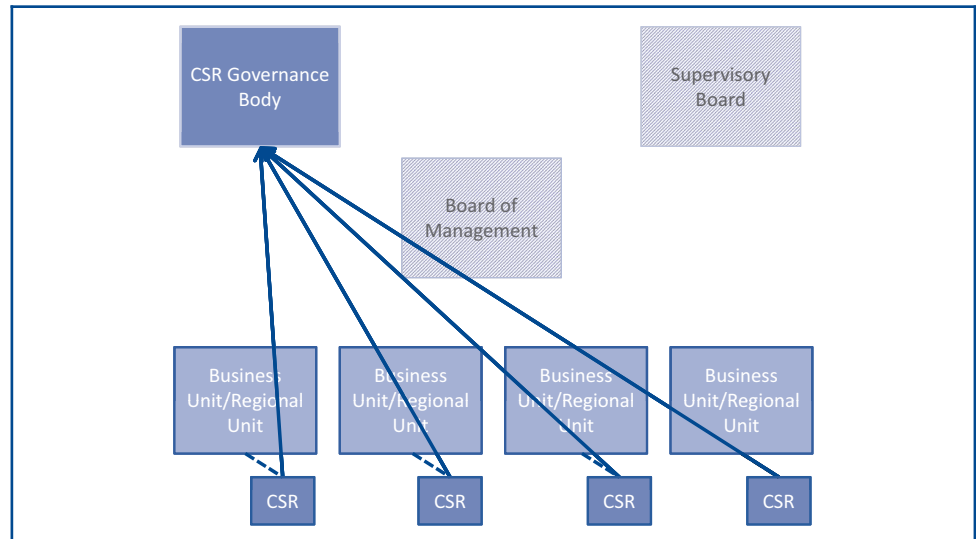


Figure 4 Embedded type**Table II** Tasks per operational type given in percentages

Task/type	Functional 1	Functional 2	Embedded
Strategy formulation	60.0	25.0	0
Strategy implementation	80.0	75.0	85.7
Management	60.0	50.0	85.7

Development of a typology

Based on these findings, we aim to establish a typology that directs how to organize CSR on the governance and operational levels. Here, communication plays an essential role. To deduce the models from the data analysis results, we looked at the reporting lines between the single organizational bodies. These reporting lines show how information within the organizations with regard to CSR flows and, therefore, paint a picture of the organizational structure of CSR within the most sustainable companies. A combination of the different types of departmental and governance structures along the reporting lines leads to six different types of governance and operational structures (Table III).

Three of these types each account for only for 4.9 per cent of the whole sample (crossed boxes in the table); hence, the focus is on the three prevailing types of CSR organization, *single-headed*, *two-headed indirect* and *infused*, which are discussed in detail in the following sections.

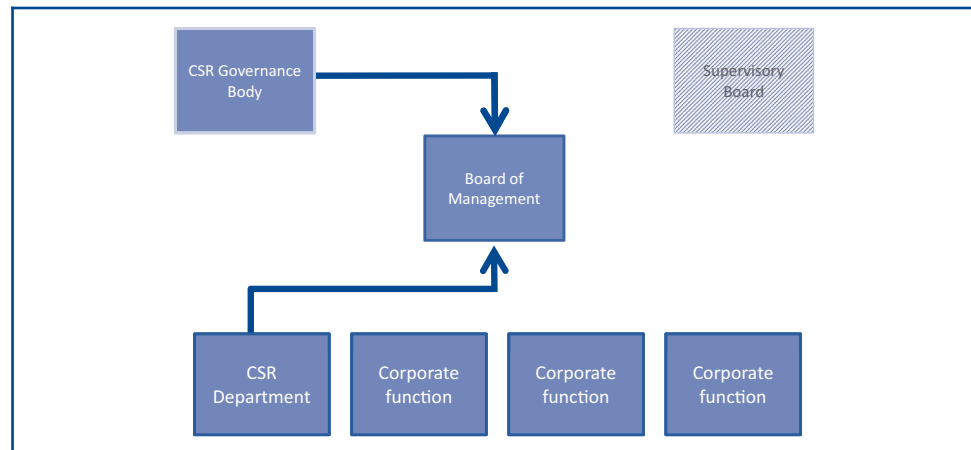
The single-headed type of CSR organization

The first organizational chart emerges from a combination of the *direct governance* structure and the *type 1 functional* CSR department. Given its anchoring at the top management of the firm and its clear picture of responsibility that is centered at the board of management, CSR is likely to attract executive attention; given the one “head” in the form of the CSR governance body, this type of CSR organization is called *single-headed* CSR organization (see Figure 5).

Here, CSR is in the hands of the board of management. The *Type 1 functional* CSR department reports directly to the board of management, as does the CSR governance body. The tasks of strategy and policy formulation are in the hands of the governance body, which also, to a limited extent given no line to the functional department, engages in CSR oversight. The *Type 1 functional* CSR department is primarily concerned with implementing

Table III Matrix depicting the combined types of organizational CSR structure

Operational/ governance	Type 1 functional (reports to board of management)	Type 2 functional (reports to CSR governance body)	Embedded
Direct governance	SINGLE-HEADED		INFUSED
Indirect governance	TWO-HEADED		

Figure 5 The *single-headed* type of CSR structure

and managing CSR. Here, we observe a clear distinction between the tasks of the operational and governance bodies, which results in a logical division of labor between the two levels – strategy and oversight on the governance level and management and implementation on the operational level – and clear-cut reporting lines (Tables I and II).

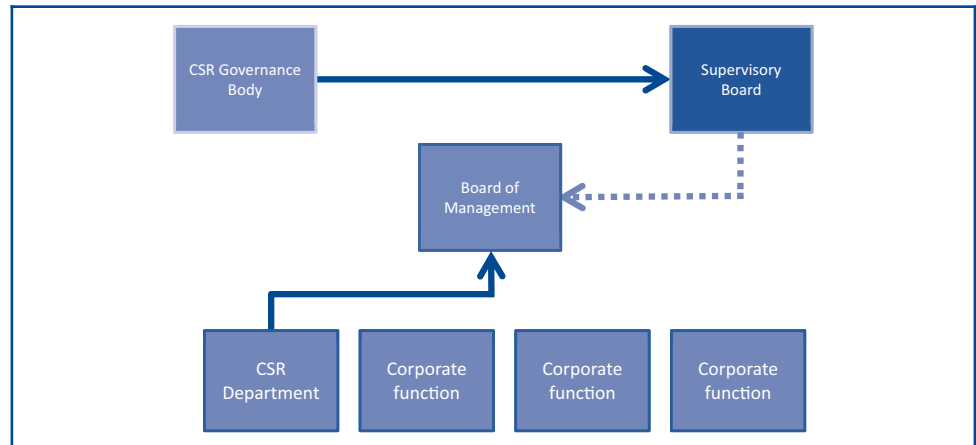
The two-headed type of CSR organization

While in the *two-headed* CSR organization the operational structure is, as in the *single-headed* CSR organization, *Type 1 functional*, here we observe an *indirect governance* structure. There is still a dedicated CSR governance body in place as the “head” of CSR; however, it does not report to the board of management, but instead reports to the supervisory board, which we therefore refer to as the second “head”. The tasks of this body remain the same, but the direct link to the executive board is missing. Hence, the CSR strategy is reported to the top management taking a detour via the supervisory board, whose task is to control the board of management. Alternatively, with such a structure, the supervisory board has a more prominent role in CSR. Regarding the operational level, the CSR strategy is not directly reported to the executing department, namely, the functional CSR department. Thus, we observe a CSR structure that is two-headed (Figure 6).

The *Type 1 functional* CSR department is informed about the CSR strategy via the board of management, which in turn receives the information from the supervisory board, which is informed by the governance body for CSR. Conversely, the CSR department reports key performance indicators for CSR to the board of management, although it is not responsible for developing the strategy (Tables I and II).

The infused type of CSR organization

The third model of CSR organization refers to the same type of governance structure as the *single-headed* type, with a dedicated CSR governance body reporting to the board of

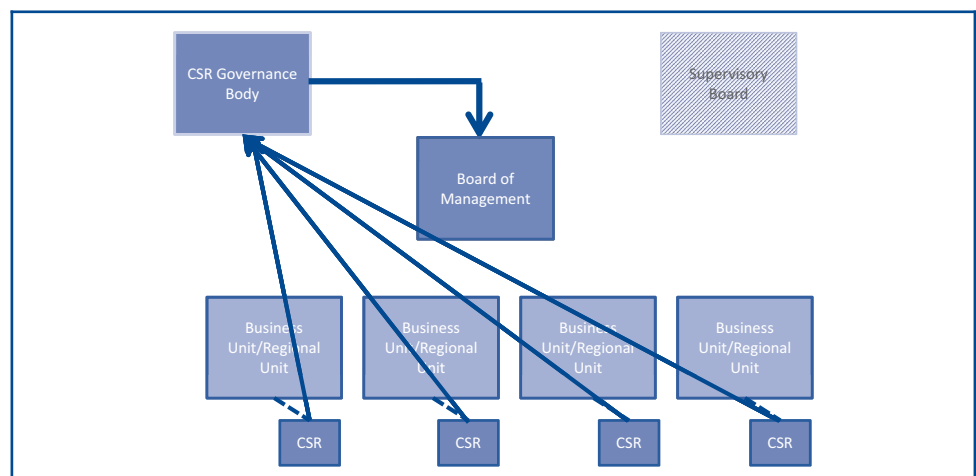
Figure 6 The *two-headed* type of CSR organization

management (*direct governance*). However, the operational level of CSR adheres to the *embedded* type and is, therefore, organized at the business- or regional-unit level with reporting lines to the governance body. Given this type's far-reaching CSR structure that connects the CSR governance body with the companies' business/regional units via its reporting lines, we labeled it the *infused* CSR organization type.

While with the *two-headed* CSR organization type, we argued that implementing CSR into day-to-day business might be difficult, this model has an operational structure at the unit level. This is also well reflected in the tasks of these teams or groups, which are mainly CSR implementation and management (Tables I and II). Here, the division of labor between the operational and governance body is even clearer than above, given that only the CSR governance body is concerned with strategy formulation. Furthermore, the CSR teams report to the governance body directly, which makes it the center of CSR in the company (Figure 7).

Discussion

The study of the vertical and horizontal integration of CSR in the most sustainable companies' organizational structures reflects the state of the art of current CSR organizing by those firms that are ranked as the sustainability leaders in their industries.

Figure 7 The *infused* type of CSR organization

Two types of CSR governance emerged: a *direct governance* scheme, where the CSR governance body reports directly to the board of management, and an *indirect governance* mechanism, where the reporting line first leads to the supervisory board. Direct governance occurs more often, which is reflected in the *single-headed* and *infused* types of CSR organization. Thus, the involvement of the supervisory board is not necessarily the rule for the companies in this study (Perera Aldama *et al.*, 2009), but often a direct link to the board of management is established that offers the possibility to infuse CSR strategy more directly into the overall firm strategy (Asif *et al.*, 2013). These findings are in line with previous research suggesting that sustainable companies are more likely to have the board of directors or a separate board committee responsible for CSR oversight than non-sustainable companies (Eccles *et al.*, 2014).

At the operational level, the findings confirm the past trend that CSR is organized mostly in stand-alone departments (Spitzeck, 2009), showcasing the vertical institutionalization of this firm strategy (Schultz and Wehmeier, 2010). The corporate communication department was responsible for CSR in only one firm in the sample. Even though researchers hold that CSR must be managed in an aligned department of CSR and corporate communication (Pollach *et al.*, 2012; Schöneborn and Trittin, 2013), sustainability leaders' practice is the opposite. Hence, it seems that accusations of CSR being a PR exercise (Jahdi and Acikdili, 2009; Fleming and Jones, 2012) are not reflected in the organizational structure of the most sustainable companies. Communication, however, plays a role in organizing CSR given that the relationships between the departments of governance bodies become visible only when analyzing the reporting lines. In general, the sustainability leaders "walk the talk" when it comes to corporate responsibilities and CSR implementation within the organization.

Top management supports CSR in the most sustainable companies. CSR is anchored in the governance and the operational level within the close reach of top management, as it demands "upper echelon attention" (Eilbirt and Parket, 1973, p. 48). The board of management can have one dedicated CSR officer or another executive responsible for the topic. The advantage of having an executive officer responsible for CSR lies in "coordinating efforts and driving change through communications" (Strand, 2013, p. 730). Often, the CEO is also directly responsible for CSR (Perera Aldama *et al.*, 2009). This shows that CSR has become an "institutionalized symbol" (Strand, 2013, p. 726), important for the entire strategy of the firm.

Three different types of CSR organizational structure prevail in the most sustainable companies. The *single-headed* type uses a clear structure, division of labor and reporting lines between the major bodies of CSR organizational structure. Given that firm size matters when it comes to CSR organization (Baumann-Pauly *et al.*, 2013; Perera Aldama *et al.*, 2009), the single-headed type could serve as a model especially for large-scale corporations. This type of structural organization assumes financial and human resources that smaller entities do not have. However, a point of criticism is that the "top down advocacy" (Morgan *et al.*, 2009, p. 48) practiced in such a model does not necessarily facilitate CSR implementation at the business-unit level. To infuse CSR also at the bottom of the hierarchy, additional teams or a CSR representative at the business- or regional-unit level can be added. This would better connect lower hierarchical levels of the organization with the top management, possibly leading to better internal alignment of CSR and other corporate strategies (Basu and Palazzo, 2008; Yuan *et al.*, 2011).

The *two-headed* type of CSR organization is more complex than the *single-headed* structure because it involves the CSR governance body, the supervisory board and the board of management in CSR decision-making. However, the proximity of both governance structures may also be beneficial for the strategy formulation process because CSR objectives can be discussed with a wider range of stakeholders more easily (Spitzeck and Hansen, 2010). On the other hand, the lack of a direct link among the CSR governance

body, the board of management and the functional department makes it rather complex for day-to-day management and could pose problems for vertical alignment (Kathuria *et al.*, 2007). Thus, this type is also likely more appropriate for larger businesses with already existing governance regimes.

The *infused* type, where CSR is organized in teams or via individuals, considers the criticism of the separate CSR department and places CSR management at the business- or regional-unit level. Thus, it does not have a stand-alone CSR department but organizes CSR at the business-unit level, which ensures proximity to daily business. However, reporting lines to the executive level are rather long, which could result in a lack of top management support. Reporting directly to the governance body might also create tensions between the governance and executive boards. In business practice, “[t]he separation of corporate and division responsibilities is threatened” (Ackermann, 1973, p. 91). On the other hand, the *infused* type of CSR organization reaches from the organization’s top all the way to the bottom. A leading South African bank has implemented this structure to facilitate the implementation of CSR policies coming from the executive board (Arya and Bassi, 2011). Therefore, it appears suitable for larger as well as small- and medium-sized companies.

Conclusions, limitations and suggestions for practice and future research

This study investigated the state of the art of organizational CSR governance and operational structure in a pragmatic approach analyzing the reporting of the most sustainable companies worldwide. As noted in the beginning, practitioners struggle with how to organize CSR. This study provided three different types of best practice: The *single-headed* structure is straightforward, but also carries high personnel costs because it includes a separate CSR department with direct access to the board of management. Hence, we suggest that it is suitable for large corporations. The *two-headed* type is equally resource-consuming and, therefore, just as appropriate for big corporations that may already have experience with governance mechanisms. In contrast, the *infused* model of CSR organization is close to daily business practice and can therefore facilitate CSR implementation. Given its lack of a separate department, it is less costly and thus suited for large- as well as small- and medium-sized companies.

Establishing best practice types of CSR implementation is not an effort that ends with this study. This is to be seen as a first attempt to analyze and systematize the state of the art of organizing CSR in companies. Certain limits, however, must be borne in mind: the sample consisted of 41 companies, which did not provide sufficient data to run advanced statistical tests for the presented types, but resulted in a descriptive analysis. Thus, statistical significance cannot be inferred. Moreover, the rankings of sustainability performance are subject to flaws, which is why we cannot ensure that the sample’s companies are truly the sustainability leaders in their sectors. The disclosure of information on the organizational structure might be regarded by some companies as confidential, which made it impossible to publish the names of the responding and not-responding companies.

Further research in this area is needed to advance the field and put CSR organization on the agenda of CSR scholars and practitioners. This study contributes to the under-researched area of micro-level CSR governance structures and adds to the limited body of literature on the operational level. Future research can tackle the question of whether, on the governance level, direct or indirect governance of CSR leads to more effective control of this management task. Furthermore, it would be interesting to investigate the extent to which top management support leads to a better alignment of CSR and firm strategies. Researchers that are interested in CSR performance can further correlate these findings with economic, environmental and social indicators to see whether certain organizational types lead to better or worse CSR performance. Moreover, it is acknowledged that CSR differs from industry to industry. Thus, it would be interesting to

study a sector-specific sample analyzing whether different types of CSR organization are also more prevalent in certain industries. For a more in-depth analysis, case studies of corporations in single industries would offer a fruitful path to further address the link between industry and organizational structure. Finally, a sample of companies from different cultural areas, for instance, Europe, Asia and North America, would help in understanding cultural differences regarding CSR governance and organization that were beyond the scope of this research.

Notes

1. "Staff functions" or "functional departments" are understood as established administrative functions such as human resources or marketing departments. We follow the meaning of "functional" as described by the [Oxford English Dictionary Online \(2014\)](#): functional – relating to the system which specializes and divides the functions of managers, workers or employees in a business, factory, etc.
2. For reasons of consistency and clarity, in this paper, we use only the term CSR. However, we view CSR as an umbrella term also for other concepts associated with the corporate responsibilities of the company.
3. Some of these data were marked as confidential by the firms. Non-confidential material of the sample can be made available upon request from the corresponding author.
4. See coding sheet in [Appendix A1](#).
5. Inter-coder reliability was tested with 37 cases. According to [Früh \(2007\)](#), there is no fixed threshold that indicates valid inter-coder reliability when using the Holsti formula. However, when coding themes, which is comparable to our coding procedure, a percentage agreement between 75 and 85 per cent is considered valid ([Früh, 2007](#), p. 192f.).

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Appendix 1

Table A1 Coding sheet		
Formal categories	Action/research procedure	Coding rules
V1	Date of coding	Open code
V2	Company name	Open code
V3	Sector	Open code
V4	Country	Open code
V5	Size in no. of employees	Open code
V6	Turnover	Open code
V7	Separate methods section	Open code
V8	Definition of "case study"	Open code
<i>Content variables: web specific</i>		
V9	Organization chart of CSR department	Company Web site, CSR Web site, CSR report, annual report, integrated report, corporate governance Web site, Google pictures, via email, other
V10	Description of CSR department	Company Web site, CSR Web site, CSR report, annual report, integrated report, corporate governance Web site, Google pictures, via email, other
<i>Content variables: governance</i>		
V11	Name of governance body	Open code
V12	Type of governance body	CSR/Sustainability board/Committee, representative in supervisory board, board of Management, other committee
V13	Governance body reports to	Board of management, supervisory board, CEO, other officer, other
V14	Tasks of governance body	Strategy/policy formulation, oversight, other
<i>Content variables: operational</i>		
V15	Name of operational body	Open code
V16	Type of operational body	Corporate function, at business-unit level, at regional-unit level, Representative(s) in the BUs/RUs, public relations/corporate communication department, other
V17	Operational body reports to	Board of management, supervisory board, CEO, other officer, other
V18	Tasks of operational body	Strategy/policy formulation, implementation, management, other
<i>Content variables: CSR contact</i>		
V19	Contact person of CSR by name	Yes/No
V20	Job title of contact person	Open code
V21	CSR email address	Yes/No

Appendix 2

Table All Population: RobecoSAM Sector leaders 2013

<i>Company</i>	<i>Sector</i>	<i>Country</i>
Adidas AG	Clothing, Accessories and Footwear	Germany
Air France-KLM	Airlines	France
Akzo Nobel NV	Chemicals	Netherlands
Alcatel-Lucent SA	Communication technology	France
Alcoa Inc	Aluminum	USA
Amadeus IT Holding SA	Support Services	Spain
AMEC PLC	Oil equipment and Services	UK
Amorepacific Corporation	Personal Products	South Korea
Anglo American PLC	Mining	United Kingdom
ArcelorMittal	Steel	France
AU Optronics Corporation	Computer hardware and electronic office equipment	Taiwan
Australia and New Zealand Banking Group Ltd	Banks	Australia
Baxter International Inc	Medical products	USA
Bayerische Motoren Werke AG	Automobiles	Germany
Benesse Holdings Inc	Specialized consumer services	Japan
Bombardier Inc	Aerospace and defense	Canada
British American Tobacco PLC	Tobacco	UK
Delta Electronics Inc	Electronic equipment	Taiwan
Electrolux AB	Durable household products	Sweden
Enbridge Inc	Pipelines	Canada
Fiat Industrial SpA	Industrial engineering	Italy
Gamesa Corp Tecnologica SA	Renewable energy Equipment	Spain
Gas Natural SDG SA	Gas distribution	Spain
GPT Group	Real estate	Australia
GS Engineering & Construction Corp	Heavy construction	South Korea
Henkel AG & Co KGaA	Nondurable household products	Germany
Herman Miller Inc	Furnishing	USA
Iberdrola SA	Electricity	Spain
Itausa – Investimentos Itau SA	Financial services	Brazil
J Sainsbury PLC	Food and drug retailers	UK
Koninklijke Philips Electronics NV	Leisure goods	Netherlands
KT Corp	Fixed line communications	South Korea
Lite-On Technology Corporation	Electric components and equipment	Taiwan
Lotte Shopping Co Ltd	General retailers	South Korea
Molson Coors Brewing Co	Beverages	USA
Novozymes A/S	Biotechnology	Denmark
Pirelli & C. SpA	Auto parts and tires	Italy
PostNL NV	Industrial transportation	Netherlands
Repsol SA	Oil and gas producers	Spain
Roche Holding AG	Pharmaceuticals	Switzerland
SAP AG	Software	Germany
Siam Cement PCL	Building materials and fixtures	Thailand
Siemens AG	Diversified industrials	Germany
SK Telecom Co Ltd	Mobile telecommunications	South Korea
Sodexo	Hotels, restaurants, bars and recreational services	France
Sonoco Products Co	Containers and packaging	USA
Suez Environnement Co	Water	France
Sumitomo Forestry Co Ltd	Home construction	Japan
Swiss Re AG	Insurance	Switzerland
Tabcorp Holdings Ltd	Gambling	Australia
Taiwan Semiconductor Manufacturing Co Ltd	Semiconductors	Taiwan
Telenet Group Holding NV	Media	Belgium
TUI AG	Travel and tourism	Germany
Unilever NV	Food producers	Netherlands
UnitedHealth Group Inc	Healthcare providers	USA
UPM-Kymmene OYJ	Forestry and paper	Finland
Waste Management Inc	Waste and disposal services	USA
Wipro Ltd	Computer services and Internet	India

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