

Strategy

A CSR framework due to multiculturalism: the Swiss Re case

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Abstract

Purpose – Owing to the fact that the concept of “CSR orientation in different cultural settings” is still quite unexplored, both in CSR theory and in empirical research the paper aims to contribute to the question of how corporations can deal with different CSR orientations when they perform their activities in different cultural settings

Design/methodology/approach – Theoretically, the analysis is based on two well-known corporate social responsibility (CSR) approaches: first, reference is made to Carroll who reflects the economic paradigm as the basic layer of a pyramid in all cultural settings as economic responsibility and, on the opposite side, to Kang and Wood who give priority to moral and social responsibilities aligned to the difference of cultural settings. Based on the comparison of these theories in addition to a qualitative case study in the reinsurance industry some practical insights will be provided into and managerial implications developed regarding how to respond to the challenges of corporate responsibility due to multiculturalism.

Findings – It is claimed that corporations which follow a CSR understanding corresponding to the pyramid of Kang and Wood are better prepared to deal with differences regarding CSR orientation in different cultures compared with corporations that are based on the thinking of Carroll's pyramid.

Originality/value – Changing societal concerns and different local expectations across various countries, in the context of instantaneous world-wide communication, have strongly increased the exposure of corporations to external criticism and challenge. These effects are intensified for large multinational firms, where complex interactions among distant and diverse constituencies have become commonplace. Broad societal concerns challenge the core strategies of corporations and require strategic responses. But this important strategic challenge response process cannot be analyzed within the traditional views of the firm. Therefore, a paradigm shift is asked in corporate responsibility.

Keywords Social responsibility, Culture (sociology), Case studies, Reinsurance

Paper type Case study

Frame of thinking

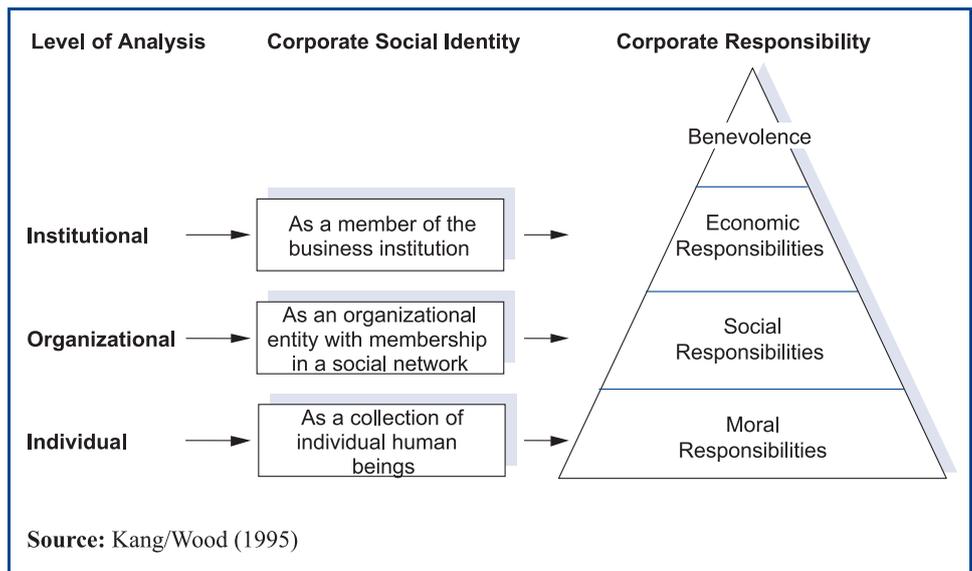
Corporations and their role are challenged by societal expectations due to multiculturalism[1]. In order to contribute to this challenge of how corporations can deal with different CSR orientations when they perform their activities in different cultural settings our analysis is theoretically based on the comparison of two well known corporate social responsibility (CSR) approaches by Carroll (1979, 1996) (see Figure 1) and Kang and Wood (1995) (see Figure 2).

Probably the best known concept of “corporate social responsibility” is the one by Archie B. Carroll (first published in 1979, afterwards especially 1996) who reflects on the economic paradigm as the basic layer of a pyramid in all cultural settings as economic responsibility. Carroll depicts the complexity and the categories of a broadly interpreted corporate responsibility in a pyramid that also shows the development of increasing firm responsibilities over time.

Figure 1 The pyramid of corporate social responsibility



Figure 2 Level of analysis, corporate identity, and corporate responsibilities



On the first level of Carroll's responsibility pyramid – which is in accordance with the classical economic idea of Smith – the pure economic responsibility of the firm dominates as the market's famous “invisible hand” automatically turns individual into common interests. Milton Friedman is often mentioned as an economist who still represents this theory. In his book *Capitalism and Freedom* he wrote (Friedman, 1962, p. 133):

There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.

Friedman concludes (Friedman, 1962, p. 134):

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.

Friedman especially dislikes the term “social“, which to him is politically associated to socialism. When taking a closer look, one can see that his opinion is not merely economically-technically oriented but presupposes moral responsibility in the shape of fairness as the first part of the quotation proves (cf. for example Carroll, 1991; Clarkson, 1995).

The following period and consequently the following level in the responsibility pyramid by Carroll is characterized by legislation. In this period a strong increase in the regulation of corporate activities can be observed, caused by the enormous growth of firms and the increasing complexity of the market. The legally regulated responsibility includes a partial ethical responsibility as legislation reflects the norms that are founded in society. Ethical responsibility as a whole also includes all those norms that are not legally founded but are still sanctioned by society responsible societal groups. The philanthropic responsibility as the final level of the responsibility pyramid and the following development phase in the discussion on corporate responsibility exceed the legal and ethical responsibility as they also include corporate commitment which increases societal wealth and is based on voluntary behavior on the part of the firm.

Wood (1991) criticizes Carroll’s approach of steps and phases of responsibility as she regards the responsibilities defined by Carroll as delimited and therefore also as isolated domains. According to Wood, Carroll succeeds in differentiating the interactions between firm and society but he also neglects their interconnectedness that would be required in reality. For this reason, Wood superimposes the responsibility categories of “corporate social responsibility” with three levels of analysis and allocates principles to them in her interpretation of “corporate social responsibility”.

The principle of legitimacy becomes effective on the “institutional level” which advises the corporation to justify itself *vis-à-vis* society, i.e. it must not use its power without justified reason. On the “organizational level” the principle of “public responsibility” means that the firms are responsible for the consequences of their actions which affect society directly or indirectly. Finally, on the “individual level” it is important that managers are constantly aware that they ought to act according to moral points-of-view.

Wood even turns Carroll’s responsibility pyramid upside-down to achieve the interconnectedness of corporation and society. Simultaneously, she allocates the pyramid three levels (Figure 3):

Figure 3 Corporate social performance



This figure proposes that the moral responsibilities of individual managers to make ethical choices are the most basic of CSR components, followed by the organization's obligation to obey social and legal norms. If these CSR conditions are met, the firm is then free to make a profit (Kang and Wood, 1995, p. 414).

By defining a common basis for corporation and society based on the individuals' moral responsibility, Wood wants to prevent the firm from being severed from society. Wood, on the contrary, wants to express the inescapable interconnectedness of corporations with society. She therefore follows a similar argumentation as Evan and Freeman (1987) or Bowie (1998), who refer to the following statement by Kant made in *Kritik der Praktischen Vernunft*:

That in the order of ends, man (and with him every rational being) is an end in himself, that is, that he can never be used merely as a means by any (not even by God) without being at the same time an end also himself, that therefore humanity in our person must be holy to ourselves, this follows now of itself because he is the subject of the moral law, in other words, of that which is holy in itself, and on account of which and in agreement with which alone can anything be termed holy. For this moral law is founded on the autonomy of his will, as a free will which by its universal laws must necessarily be able to agree with that to which it is to submit itself (Kant, 1995, p. 209).

In this perspective, economic laws cannot be given priority if they infringe the free will of human beings and are therefore regarded as a means and not as a purpose. Bowie (1998) accentuates this correlation in the following quotation:

The standard economic text treated human capital (employees, a major stakeholder group of the firm) not differently from any other kind of capital. It did not recognize that humans possessed characteristics that the other forms of capital did not and as a result the standard economic text did not instruct managers to treat human capital differently. The standard economic text gave instructions to managers that violated the respect for persons formulation (Bowie, 1994, pp. 7-8, cf. also Bowie, 1998).

Comparing Carroll's and Wood's approaches, we claim that corporations which follow a CSR understanding corresponding to the pyramid of Kang and Wood (1995) are better prepared to deal with differences regarding CSR orientation in different cultures compared to corporations that are based on the thinking of Carroll's (1991) pyramid. In the following paragraphs we will evaluate our proposition based on a case study of Swiss Re.

Empirical investigations

The lack of theoretical understanding and empirical results in cross-cultural CSR research might be caused by the fact that cultural settings are a very complex social phenomenon with no clearly evident boundaries to their context. Taking the high degree of complexity of real life situations into account, a qualitative approach seems to be appropriate to answer the proposed research questions. Particularly case studies are such a qualitative approach considered to incorporate a comprehensive perspective[2]. Therefore we adopted the method of single case studies and focused on the reinsurance corporation Swiss Re in order to investigate the possible CSR orientations in different cultural settings. In our investigation, we first analyzed external and internal material on the CSR orientation of Swiss Re setting the basis to conduct semi-structured interviews (Yin, 1994) with Swiss Re's representatives who are involved with CSR related tasks[3].

Case study

Today the Swiss Re Group is one of the world's leading and financially strongest reinsurers with roughly 9,000 employees. Swiss Re is a salient example of a knowledge-based company through its strong endeavor of being market leader in capital and risk management. Against this background sustainable stakeholder relations represent a key strategic factor in a value creation perspective (as risk bearers/providers and resource bearers/providers) and stakeholder interactions are justified by their value creation potential. From our analysis we identified shareholders, employees and clients as traditional stakeholders of Swiss Re and regulators as an upcoming strategic stakeholder in the near future. Several events[4] have heavily influenced Swiss Re's development and its relationship to stakeholders since its foundation in 1863. In its history Swiss Re has repeatedly shown a strong openness and ability to change through its proactive attention to new economic, social and environmental trends

based on its knowledge orientation. During the last decades, the most important event to Swiss Re was globalization, which had strong impacts on the strategy, structure, and culture of Swiss Re and more specifically on its interactions with stakeholders. Swiss Re started a massive globalization effort in 1990, which implied new challenges (and risks) linked to the fast-growing movement of products, services, people and capital across the globe. The most important consequence of the globalization over the past decade has thus been Swiss Re's transition from a diversified Swiss company to a global player with three different cultures (US, Europe, Asia), a divisionalization structure, broken down into three business groups (life and health, property and casualty, financial services), and a switch from diversification to a focused M&A strategy.

Whereas the solid financial structure allowed Swiss Re in the past to follow a before-profit CSR strategy (Kang/Wood), Swiss Re presently considers cost savings as crucial, given the expectations of the investors and the strong market competition and therefore moves towards stronger after-profit and economic based CSR strategy (Carroll). This change in CSR strategy was released by the strong influence of the Anglo-American culture coming up through the globalization activities and challenging Swiss Re in three dimensions: the identity preservation and adaptation, the resource perspective and Swiss Re's positioning in the industry and in its stakeholder network. Swiss Re has to take care of the pressure of this economic globalization and the impacts on its CSR strategy. On the other side globalization also means the confrontation with locally different values and expectations of its strategic stakeholders (shareholders, employees, customers, regulators). CSR in this situation means that Swiss Re, in addition to its basic values, has to take into account these local differences and in addition to this, Swiss Re, as a knowledge-based company, has to consider the local particularities to fully exploit its strategic potential. As a multicultural focus is crucial in this knowledge-based business, Swiss Re has to consider "multiculturalism" as being a core value with which to guide interaction with strategic stakeholders in the different cultural settings. This impacts the understanding of corporate responsibility as managerial implications.

In the following paragraphs we will try to highlight the impacts of this movement on these three dimensions referring to statements of the interviewed persons and show up the advantages of a social sciences-based CSR orientation on Swiss Re's ability to change.

Identity preservation and adaptation

The changes in culture and stakeholder orientation we are referring to in the following paragraphs have been supported to a great extent by Swiss Re's acquisition strategy with its strong focus on an expansion into the North-American market.

The fact that most of the M&A activities were based in the US the American culture had a strong influence on the former culture of Swiss Re which was Swiss dominated. The Zurich culture has weakened as a result of the general trend of European companies towards short-term financial success, while key positions have been assumed by Anglo-Americans (CEO John Coomber, from the UK, and CFO Ann Godbehere, from Canada) setting up a new dimension of moral responsibility and giving the established core values (efficiency, excellence, sustainability and integrity) a new weighting or integrating new core values (e.g. multiculturality). This "Americanization process" is reinforcing economic aspects, like "efficiency", not only in business but also in the relationship with stakeholders as the following citations will proof:

There was also an Americanization process: the emphasis was placed much more firmly on the development of business and on business results. All of a sudden, everything became far more transparent – what our financial goals were, and also where we stood in relation to those goals. Efficiency is an important factor in the relationship with stakeholders. It seems to me that the benefit for both sides has become much more pronounced than it was in the past. I myself know nothing about that past, because I joined the company just as these mergers and acquisitions were happening. So I simply noticed that there had been a minor earthquake as regards the way we deal with our stakeholders.

The transformation of the “efficiency” orientation to the stakeholder relationships implies the potential risk, that if stakeholder relationships are not “efficient” enough they are only relevant in a specific region (market). Swiss Re has adopted a multicultural approach: remarkable cultural differences exist between the European (Zurich), Anglo-American and Asian cultures, challenging the new core value of “multiculturalism”. Swiss Re has developed a three-layer culture covering the corporate, the divisional and the regional levels whereas the Swiss Re culture at corporate level used to predominate as we were able to see in the underlying study. The interview partners often mentioned that the Anglo-American culture gained great influence in this process, especially within the business unit Life and Health that has grown in the last ten years mostly due to the Anglo-American acquisitions:

I think the efficiency and performance mean different things to different business groups. We are very much more Americanized in the Life and Health business group. We have a lot of very positive commercial trades of American position in Life and Health. On the P&C side, we are very much more a Swiss company.

There are some uncertainties about the growing Anglo-American influence, mainly the shift from an employee- and client-oriented culture to a cost- and performance-oriented one that favors shareholder and investor relations.

At divisional level, cultural differences arise from the different nature of business carried out by the three business groups, which in turn influences client, employee and regulator relations. In addition, there is a need for core values to be interpreted at a regional level. This makes for a stimulating sense of diversity but is not always without tensions.

On its way to a global company Swiss Re is also searching for a balance between identity preservation on the one hand and adaptation to the new cultural influences caused by the implementation of new cultures through M&A on the other hand. As we were able to see in the analysis of its history Swiss Re’s openness to change allows it to react to the latest events. This shows that on the one hand the company has a strong sense of adaptation. On the other hand, internal pressures often stabilize and strengthen the persistence of past selection criteria, thus enhancing identity preservation. Swiss Re’s identity preservation is primarily based on upholding and interpreting its core values. The consistency of core values over time among different business units and in different geographic regions is considered as very important. Although Swiss Re’s transition process is still under way and we can observe a struggle in the search for a balance between adaptation and the identity preservation of the old “Schweizer Rückversicherung” and the future “Swiss Re”. Thereby, key persons play an important role. They have an important influence on culture and cultural changes.

This leads to the following insight:

A social science based CSR orientation (Kang and Wood, 1995) impacts also managers’ selection processes and development. In a firm acting in a multicultural setting the management team can no longer be recruited from the home country representing one dominant culture. It has to be purposefully selected from different cultural regions. Top-level managers should also have experiences in different cultural settings to balance the challenges of identity preservation and adaptation.

Following this insight, Swiss Re recruits not only top management with multicultural setting experiences but also enforces this experience by international exchange. Furthermore, in Swiss Re’s top management there are representatives of the Zurich and Anglo-American culture.

CSR in a resource perspective

Swiss Re is a salient example of a resource-based company. Explaining Swiss Re’s strategy, the interview partners overwhelmingly pointed out the importance of financial and knowledge resources. Swiss Re considers the importance of the knowledge of their employees and their customers as well as the integration and the building of knowledge networks as knowledge resources:

As a knowledge-based company, Swiss Re is intimately dependent on its ability to generate value from the collective knowledge held by its people, its systems and its relationships (Swiss Re, 2001).

So, of course, we say that we are a knowledge company. [...] As a general rule, we create networks, extending across all cultures and throughout all the legal entities.

Swiss Re's employees are the company's most valuable asset. It is their commitment, know-how and integrity that sustain the Group's performance (Swiss Re, 2002).

As all the experts of the reinsurance business are well educated and trained over many years at Swiss Re, employee relations are fundamental to gaining, maintaining and sustaining knowledge within the company. The challenge in CSR is therefore to keep the employee as a knowledge provider even in a multicultural strategy. This seems to be easier in a social science based CSR framework than in an economic based CSR framework.

The customers are also seen in a resource-based perspective:

We consult with our clients as partners for the long term. We develop the most effective tailor-made solutions for our clients, leveraging our experience and profound know-how to help them attain their individual goals (Swiss Re, 2004).

This challenges CSR in a multicultural understanding to meet the different core values of regions. From this, we can derive the following insight:

In a resource based perspective, corporations need a knowledge base to understand cultural differences. A social science based CSR framework (Kang and Wood, 1995) enables corporations to understand the different cultural social expectations better than an economic based CSR framework (Carroll, 1979). Based on this understanding, corporations can develop core competencies to deal successfully with different cultural settings.

In an ever more complex and knowledge-oriented society, investments in knowledge development in the context of a stakeholder network are crucial for developing future competitive advantages. But the influence of the American culture and economic orientation led also to a new prioritizing of stakeholder relationships:

The clear values were formerly these: employees are stakeholder number 1, security and treating the clients well are number 2, and liquidity is number 3; he (i.e. CEO) completely reversed the order. Employees have moved right up. He introduced decentralized structures and in this way, he attempted to create firms of our own within the company.

This new weighting might have potential impacts on the core competency "knowledge" of Swiss Re because customers as external and employees as internal knowledge providers are losing importance due to the strong economic orientation.

Supported mainly by the nature of the reinsurance business, which demands stable outstanding services over the long term, Swiss Re has a long tradition of building positive relations with its strategic stakeholders. To a certain extent, a humanistic commitment may reinforce this focus. However, from our analysis it becomes clear that Swiss Re views interactions with its strategic stakeholders in terms of value creation. Stakeholder relations are justified mainly in terms of their value creation potential as risk bearers/providers and benefit bearers/providers. Outstanding relationships with clients and employees, for example, are seen by most interview partners as being the precondition for sustainable economic success. Sometimes even luxurious investments in relationships were made to maintain and develop these resources. With the stronger emphasis on economic aspects these investments can get lost, if the stakeholder relationships will be neglected.

In addition to this, globalization also means the confrontation with locally different values and expectations of strategic stakeholders (shareholders, employees, customers, regulators). CSR in this situation means that Swiss Re has to take into account these local differences and in addition to this Swiss Re, as a knowledge-based company, has to consider the local particularities to fully exploit its strategic potential:

In order to do business, you first have to understand how you do business in such an area. This is not comparable to developed markets such as Europe or the USA. It goes without saying that we cannot behave like missionaries and tell them how to do business. It must be clear, that if we state

our opinion, what we say must fit the context. This includes understanding and learning how business is done in Latin America. This has worked well so far. We managed to build a good reputation during the last 70 or 80 years in which we have been doing business in Latin America.

As a multicultural focus is crucial in this knowledge-based business, Swiss Re has to consider “multiculturalism” as being a core value with which to guide interaction with strategic stakeholders in the different cultural settings. This impacts the understanding of corporate responsibility as managerial implications.

Summing up we can conclude that the insights of the Swiss Re case support a social science based CSR framework which seems to better fit in a multicultural setting than an economic based and seems to understand the different social expectations better. To fully exploit the stakeholder interactions in a strategic management perspective, further investigations based on a comparative case study design are in progress.

Notes

1. The pattern for these challenges was set by worldwide concerns about the racial policies of the former government of South Africa during 1950-1990. Other well-known examples include the challenge to Nestlé’s marketing practices for infant formula, criticism of the chemical industry after the Bhopal tragedy or the disposal of Brent Spar in the north sea by Shell, etc.
2. According to Yin (1994), case studies are especially suitable when the intention is to understand contemporary complex social phenomena.
3. Swiss Re was analyzed in a stakeholder perspective between June and December 2003. The results and findings are based on the analysis of 20 key documents and 21 interviews with the former and current CEOs, with other members of top management, with divisional heads and with staff members in the different SBUs in Europe, the US and Asia.
4. In our research we were able to identify nine events that had a deep impact on the strategy, structure and culture of Swiss Re and therefore also influenced its interactions with stakeholders over the time. The nine events are: (1) the great fires (e.g. Hamburg 1862) leading to the foundation of Swiss Re in 1863; (2) the second industrial revolution, creating new fields of activities for reinsurers and influencing the firm’s basic configuration; (3) catastrophes of unprecedented magnitude after 1900 (e.g. Titanic 1912) led to great losses and setbacks but also to a remarkable internationalization based on participations and subsidiaries; (4) stock market crash in 1929 led again to significant losses but Swiss Re was able not only to survive but to expand at the international level through its key factors knowledge and financial strength; (5) the period after the second world war was characterized by unprecedented growth and technological progress allowing Swiss Re a development in both scale and scope; (6) the period after 1987 signified by changes in regulations for insurance and financial service industries in addition to big natural catastrophes; (7) Globalization movement; (8) stock market crash and corporate scandals after 2000; (9) triggered by the 11 September 2001, new dimensions of risks in terrorism became predominant.

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