

# Corporate Social Responsibilities (CSR) as a Means of Materializing Corporate Vision: A Volvo Group Approach

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Received: November 26, 2013 Accepted: April 1, 2014 Online Published: May 30, 2014

doi:10.5539/ass.v10n11p258

URL: <http://dx.doi.org/10.5539/ass.v10n11p258>

## Abstract

Corporate social responsibility (CSR) is considered neither an optional extra nor a philanthropic exercise; rather it is a mandatory and strategic tool by which a company can strengthen its brand, develop good relationships with stakeholders, increase its attractiveness to present as well as potential employees, and enable access to new markets which ultimately lead to materialize its vision. In this article a thorough study has been done on the exercise of CSR activities and sustainable reporting of a world renowned Swedish business conglomerate named Volvo Group with a view to know the nature as well as ways of CSR exercises. It is found that Volvo Group is not only following 'creating shared value' (CSV) approach but also 'Stakeholders model' of CSR and every CSR activity is exercised deliberately and strategically. As a result, the overall performance of the group is increasing gradually, which ultimately leads the group towards the achievement of its vision. Indeed, CSR of Volvo is related to many aspects of business management like risk management, challenge management, environment management, supply chain management, talent management, economic growth management, efficiency management and corruption management. Consequently, the competitiveness of the Group is uplifting gradually. It is expected that this study will inspire the corporations of all over the world to exercise the CSR activities in strategic way not only for the greater and better benefits of the stakeholders but also for the sustainable competitive advantage of the company with a view to materialize corporate vision.

**Keywords:** CSR, competitive advantage, stakeholders' involvement

## 1. Introduction

Corporate social responsibility (CSR) has been placed in recent times under study by the stakeholders of firm; consequently, CSR is an increasingly central concern in business decision-making and has become a widely-applied concept (Gyomlay & Moser, 2005; Cochran, 2007). It is now considered as the engine of economic growth (Lamy, 2002). It is a form of management that is defined by the ethical relationship and transparency of the company with all the stakeholders with whom it has a relationship as well as with the establishment of corporate goals that are compatible with the sustainable development of society, preserving environmental and cultural resources for future generations, respecting diversity and promoting the reduction of social problems (Ethos Institute, 2007: 78). CSR includes adaptation of manufacturing processes and products to address social values (such as eliminating excess packaging), valuing human resources (such as personal development training and Occupational Health & Safety programs), improving environmental performance through recycling and pollution abatement (such as emission reductions), and supporting community organizations (such as by sponsoring a local sporting club) (WBCSD 2004). According to Bowen (1953) business persons are responsible for the consequences of their actions in a spare wider than that covered by their profit and loss statements.

Though the academic construct of CSR was first developed in the 1950s, but came to prominence in the 1970s and 1980s in conjunction with increased public scrutiny and focus upon the image of the corporation (Clark, 2000; Golob & Bartlett, 2007; World Business Council for Sustainable Development [WBCSD], 2004). Increased scrutiny has also resulted in rapid growth of the number of instruments used to manage measure, communicate, and reward corporate social responsibility (European Commission, 2004)

At the inception most of the business people regard the CSR as involving in financially sustainable activities of business that go beyond legal requirements to protect the well-being of customers, employees, communities and

the environment, but from now on, it is recognized as a source of competitive advantage (Porter & Kramer, 2006) which contributes to the business growth. According to Husted & Allen (2000) social responsibility is to be considered as an important element while formulating strategy. They also mentioned that The Harvard Business School strategy model has always included CSR for formulating strategy. Indeed, in the literature of management, ethics and social responsibility have been frequently connected to corporate objectives and incorporated into business speeches. Social responsibility is now considered as a universal belief in modern business (Pearce & Doh, 2005). Husted and Salazar (2006) studied strategies of CSR in many firms with the objective of maximizing both social performance and profits. The authors identified and categorized three types of social investment (altruistic, selfish and strategic) through a comparison between firms, finally the authors concluded that strategic investment generates superior results for the firms that try to maximize both profit and social performance simultaneously. Strategic investment can provide extra benefits to the company in the form of skilled and dedicated workforce, differentiation of products, enhanced reputation and extraction of a premium price. This study finally point out that through socially responsible activities, a company can add necessary value and thereby develop competitive advantage, but the company must do each and every single activity strategically and CSR activities should be designed in the line with the corporate strategies. The public should see that all actions are not only adding value to products but also improving the local business environment (Porter & Kramer, 2002). Since around the world corporations are facing an increasingly competitive environment, CSR activities should be performed in such a way so that corporations can clearly differentiate their activities to generate a competitive advantage (Hillman & Keim, 2001). According to Barney (1991) positive corporate reputation can be a source of sustainable competitive advantage, since there is a direct relationship between a corporation and its stakeholders.

Corporate social responsibility (CSR) can play vital role in ensuring sustainable competitiveness advantage of business and success by developing better employee performance, cooperation among the business partners, consumers and suppliers (Lamy, 2002). Globally, CSR practices are gradually shifting from traditional (philanthropy) to strategic CSR whereas in many organizations the practices of corporate social responsibility (CSR) is limited within traditional philanthropic activities such as donations to poor people, charitable organizations and religious institutions in many developing and underdeveloped countries (Mondol, 2010). But CSR is highly required for developing competitive advantage by focusing on the employee involvement in organizational activities, customer satisfaction, continuous development in quality of product, work place safety, corporate governance, labor rights, community development, environment management and fair treatment of workers which will not only differentiate the organization from its competitors but also help in the rapid industrialization and thereby ensuring sustainable development .

At present it is seen that corporations are more concerned with social responsibility because of global tendency (Halme, Roome & Dobers, 2009) as well as civil society's awareness regarding CSR (Collier & Esteban, 2007). Companies are exercising the CSR activities for greater competitiveness and better results (Ashley, 2002). Michael Porter and Mark Kramer (2006) suggested that by making social and environmental contributions strategically a company can generate tangible business benefits. So, around the globe there is a competition in practicing CSR among the corporations in strategic way because of its different benefits in the form of better employee loyalty, attracting and retaining customers etc. According to Mamun & Ahmed (2009) the business enterprises should perform CSR activities for their stability, growth, prosperity and also for the development of the country. Corporate sectors must be responsible enough for ensuring investment climate, right of customers, efficiency, practicing fair employment, quality services, improved industrial life and finally protecting community interests (Mamun & Ahmed, 2009). Through literature survey it has been found that most of the corporations of underdeveloped countries are performing CSR activities in a very tradition way not in a strategic way as a result those companies are suffering. But a company can improve both financial and social performance if CSR activities are performed deliberately and strategically.

Thus this case study is an attempt to focus on the nature and ways of CSR exercises of a renowned global Business Group like Volvo so that the corporations of the world can get motivation and idea in exercising CSR activities in their respective organizations in strategic way and thereby ensuring sustainable competitive advantage with a view to materializing corporate vision. This study has been conducted on Volvo Group because it is one of the top performing groups in the world having high reputation. In writing the article, the researchers studied the annual CSR report of Volvo Group, available published literatures, research monographs, journal, and magazines in this field.

## **2. A Brief History of Volvo Group**

The Volvo Group is one of the world's leading manufacturers of trucks, buses and construction equipment, drive

systems for marine and industrial applications and aerospace components. The Group also provides complete solutions for financing and service. In 1927, the first series-produced Volvo car rolled off the production line at the Gothenburg plant and in 1928 the first truck was produced. The Volvo Group employs about 115,000 people, has 65 production facilities in 20 countries and sells its products in more than 190 markets. In 2011 annual sales of the Volvo Group amounted to about SEK 310 billion. The Group's market share of sales are 39% in Europe, 19% in North America, 11% in South America, 24% in Asia, 7% in rest of the World (Accessed online <http://www.businesswire.com/news/home/20120403005688/en>).

The Volvo Group was one of the first companies to become a signatory to the United Nations' Global Compact when it was launched in 2001. The Group is committed to the principles of the initiative, and they are integrated into its Group policy and core governance document: the Volvo Group Code of Conduct.

The Volvo Group's vision is to become the world leader in sustainable transport solutions by creating value for customers in selected segments, pioneering products and services for the transport and infrastructure industries, driving quality, safety and environmental care, and working with energy, passion and respect for the individual.

### 3. Findings and Analysis

From the study it has been found that in Volvo Group, CSR activities are deeply rooted and related to many aspects of management. The findings have been presented under different broad heading such as CSR approach of Volvo Group, CSR model, Stakeholders' engagement process, risk management, environment management, Corruption management, development of employee commitment, management of economic growth, Management of resource efficiency, supply chain management, challenge management, Management of CSR organization, research and development and management of fair competition etc.

#### 3.1 CSR Approach in Volvo Group

The Volvo Group has moved to the concept of creating shared value (CSV) approach of CSR from the traditionally CSR perspectives because, social welfare and corporate success are interrelated and interdependent. In essence, shared value is about creating win-win situations for society, Volvo Group and other stakeholders. A business needs educated and healthy workforce, sustainable resources and adept administration for performing effectively in the competitive business environment. To survive in the competition, profitable and competitive businesses must be developed because to perform responsibilities toward different stakeholders business must generate sufficient revenue. For example; at present majority people of the world resides in towns. Efficient transport of goods and people are specific requirement of many Cities. With the help of skills, experience, and knowledge and cooperating with the authorities of cities it is possible to form the required communication systems and structure of future. This collaboration will help the towns as well as the people residing in the cities and the business of Volvo Group. It is considered that transport is a powerful force for socio-economic development. The Group develops pioneering products and a service based on the expectations and needs of customers and intends to provide its investors a good return. Indeed, profit is very necessary for its enduring business existence and a precondition for supporting its operations, further expansion of the business and investing in new technology. The group also strives to provide service to society by using its expertise, exclusive proficiencies and resources to build up better solutions so as to rightly deal with the challenges of sustainable transport and thereby reducing risk and making profit. This is what the Group means by creating shared value.

In fact, in Volvo Group, the approach of CSR is based on its core business, vision, expectations of stakeholders, operating context as well as its culture and core values. Its CSR approach encompasses value creation dimensions and risk management. CSR activities of Volvo Group enable in making a positive contribution to society as well as in ensuring sustainable development. It is the conviction of the Group that there is no disagreement between doing a profitable business concern and making contribution towards sustainable development. The Group strives to assume financial, social and environmental responsibility for its goods, services and operations. It is the belief of the group that it is vital to being perceived as an attractive business partner and to developing long-term relations with employees, customers, suppliers, creditors and other stakeholders (Annual CSR Report, 2011).

The backbone of CSR approach of Volvo Group is its Code of Conduct. The Code of conduct states the philosophies for running business in a proper, transparent and responsible way. Code of conduct states about minimum height of manners and is compulsory for everyone in the organization.

The CSR of Volvo Group is based on nine philosophies such as; (i) Visible and strong leadership (ii) Responsibility and accountability (iii) sustainability and CSR are essential elements of its processes, business and strategy (iv) Performance is set, measured and followed up (v) Efficiency of resources (vi) Transparency (vii)

Entertaining expectations of all stakeholders (viii) Working proactively and center on probable risks, and (ix) Partnerships and cooperation (Annual CSR report, 2011).

### *3.2 CSR Model in Volvo Group*

In stakeholder management, dialogue is a key element and a major responsibility for top managers (Szwajkowski, 2000; Wheeler & Sillanpaa, 1998; Wiedermann-Goiran et al., 2003). Communication is recognized as a vital ingredient in the CSR development in organizations, but only communication is not enough condition for ensuring meaningful CSR. Rather content of CSR is important (Szwajkowski, 2000). To survive in the competitive business with full name and fame, the opinions and views of the stakeholders are valuable. Considering the importance, systematic dialogue with all stakeholders is conducted and the opinions are honored through the development of its business. The group discloses all pertinent information timely for stakeholders. Furthermore, involving the stakeholders is one the ways of developing trust and gaining licenses to run business in a responsible way. CSR and sustainability report represents an important platform for stakeholder dialogue. The dialogue facilitates the Group to better understand the expectations of internal as well as external stakeholders with a view devise its sustainability strategies in accordance with its business objectives to minimize risk and exploit business opportunities. Since, there is a trends and global as well as internal demand for a sound CSR strategy, the management of Volvo group has been working sincerely from 2011 to develop a new CSR strategy. The goal has been to base the strategy of CSR on its ambitions, operating context and business model. Indeed, the CSR approach of the group goes beyond risk management really adds value to the business and thus contributes to its future business success.

### *3.3 Stakeholders' Engagement in Volvo Group*

Stakeholders' engagement is a very essential element of CSR (Lindgreen & Swaen, 2010) and companies will fail to convince stakeholders unless and until they can reveal their policies constantly attain the expected environmental, social and ethical outcomes (Collier & Esteban, 2007). There are many methods which are used for ensuring the engagement of stakeholders in Volvo Group. The details are as follows;

#### *3.3.1 Customers Engagement*

Different products including goods, services and different solutions are developed as per the expectations of customers, with a view to helping the Group to increase its overall profitability and productivity. Long-term relationships are maintained with most of their customers because customer satisfaction depends not only on the quality and performance of the products, but also on how customers are treated and how service is delivered. Generally, the Group communicates with their customers in many ways such as interaction in daily operations, dialogue via social media, customer surveys, customer satisfaction surveys, and follow up on brand perception and survey on customers for knowing their level of satisfaction. Furthermore, the customer focus group is ensured in the product development phase. The Group follows up on brand image perception and level of customer satisfaction in relevant markets and industries. Brand Image Tracking and Customer Satisfaction is measured and compared with the global established industry surveys.

#### *3.3.2 Employees Engagement*

The Group has shifted from satisfied employee concept to engaged employee concept. Because, engaged employees bring body, soul and mind to work (Collier & Esteban, 2007). Kerstin Renard, the Head of Corporate Human Resources stated, 'We want to enable our employees to walk the extra mile- for themselves and for the company'. This sort of 'company motto' continuously energies the Group to ensure employee engagement with the help of some effective techniques such as:

- 1) Formalized forums are available in Volvo group for employee dialogue and development. Because, open dialogue helps in ensuring committed and dedicated employees through personal development. Many channels like intranet, team meetings, in-house magazines, films and webcasts are used for communication with the employees. Every single employee can ask any question openly to CEO of the Group through the Intranet.
- 2) The group regularly maps its strategic competences, and annually aggregate findings on a Group level to identify the most important competences for future needs. Since enhancing and securing competences is vital not only for being attractive and competitive employer but also for running the business in a profitable way. So, the Group works in different areas like capability development, health and wellbeing, talent planning, leadership training and work environment and dynamically seeks the opinions and feedback of its employees. The Group thus invests in offering an extensive variety of training and development programs to all levels of employees to ensure personal growth and advancement. Both traditional and modern training and development activities conducted that range from individual coaching and mentoring to e- based training. Talent review is conducted

systematically and in a transparent way with a view to ensure required talent all over the organization. The process includes every single key position of all levels and leaders for providing adequate numbers of talent and skills. All managers are highly for evaluating and building necessary competencies and skills in the company.

3) Employee engagement index (EEI) has been introduced in the group along with employee satisfaction index (ESI) in 2011, because the business outcomes of employee engagement is well proven and include increased customer satisfaction, operational excellence and profitable growth. Issues related with business ethics, environment and CSR etc. are incorporated and entertained properly in the survey. The survey outcomes are discussed and analyzed with high priority in working groups, engaging all key employees and managers of the organization. Action plan is prepared for addressing areas of improvement throughout the year. Attitude measurement survey is conducted among all employees at least once in a year for knowing the level of employee commitment and satisfaction. In the year 2011, the overall employee engagement was 76% which was higher than the global norm of 68%.

4) Both in informal and formal forums, close relationships are maintained with a number of labor unions. All employees enjoy benefits according to performance, experience and competence regardless of race, sex, age, faith, sexual orientation, disability, union affiliation, or ethnic origin.

5) For attracting and retaining the best people the Group offers lucrative financial as well as nonfinancial benefits. As a result, at the end of 2010 the Group had 90409 regular and 14851 temporary employees and consultants, whereas; at the end of 2011 the Group had 98162 regular and 19675 temporary employees and consultants. Equal employment opportunity is the guiding principle in Volvo Group. Individual salaries are based on the market, position and the employee's performance, and conform to the salary practice of each country. Besides fixed remuneration and variable salary, other expected benefits are usually offered such as health plans, pension solutions, recreational facilities, company cars or car allowances, insurance and so forth.

6) Different supports are provided not only for making employees healthy and energetic but also for ensuring workplace safety and employee wellbeing. There are health coaches who continuously provide service to adopt health behavior. Stress management trainings are offered among the groups and individuals to prevent and avoid negative stress.

### 3.3.3 Suppliers

Close and long-term relationships with all suppliers is developed and maintained. The Group values the transfer of knowledge because understanding of each other's procedures processes and values are very essential to be competitive in the market place. Different Forums like web-based supplier portal, dedicated supplier days, training sessions and contracts for formal communication are maintained.

### 3.3.4 Shareholders, Other Investors and Financial Analysts

Regular communication is ensured with financial analysts, shareholders and other investors. There is an investor relations department that holds regular meetings with investors and issues many publications like press releases, annual reports, interim reports and a capital market day is held at least once in a year.

### 3.3.5 Decision Makers

On an ongoing basis, the Volvo Group communicates with authorities, politicians and institutions. This interaction includes responses to requests for comments on proposed legislation and activities. They also exchange information on the implications of legislation, incentives, etc., in order to support and enhance their business. Most of the issues related to the regulation of its products are dealt with within industry organizations in which the Volvo Group is a member.

- Non-Governmental Organizations

Companies can increase their capability to deliver socially responsible solutions only when they can manage knowledge and skilled civil society who can give sufficient directions to their CSR activities and initiatives (Cambridge Programme for Industry (CPI) 2005, Demirag 2005, Collier & Esteban, 2007). Thus, the Group has developed very good relations with NGOs. For example, around the world, currently there are about 100 different cooperation projects with NGOs.

- Universities and Research Institutes

For creating synergies at the front position of science and technology, Cooperation with academia and universities is essential because technically sophisticated products and services are being sold by Volvo Group. To go forward the technologies needed for future product development, the Group is involved in a comprehensive series of cooperative ventures with academic institutions and research bodies. Its participation

with universities is vital for developing relationships with potential employees, students and thus for securing access to future competency.

- Educationist

Continual dialogues are held on educational issues with educationists at international, local, and national levels because it is the belief of the group that without the educated generation no society can prosper and progress. Thus, as part of CSR, Volvo Group supports both secondary and upper secondary schools in many locations around the world for educating the future generation.

### *3.4 Risk Management*

In Volvo Group, risk management is a key element of overall strategy of CSR. As part of risk management the Group tries its level best to comprehend the social, economic and political tendencies that may impact the role and reputation of the organization for making the proper strategic decisions. The Group categorized all risks under three group such as (i) financial risks – including share evaluations, currency fluctuations, similar risks, and credit risks and (ii) external-related risks – including competition, economic cycles and regulation (iii) operational risks – related to the suppliers, introduction of new products, third-party complaints etc. The Group conducts annual internal audit. This internal corporate audit consists of about 35 internal auditors worldwide. They perform special assignments and audits as per the demand of management in line with the yearly audit plan. They issue reports periodically to the management and Audit Committee. The objectives of audit are to ensure proper effectiveness of governance processes, control and risk management. Indeed, a corporation that is adjusted with stakeholders' priorities, expectations and concerns can respond quicker to probable risks and opportunities.

### *3.5 Economic Growth Management*

Profitable growth is a precondition for upholding competitiveness as well as for ensuring investments in the research and development of new services and products. Profitable growth is also a precondition for investing in areas and activities that contribute more to ensure long-lasting development. Since all CSR strategies are designed to exploit the market opportunities, the net sales of Volvo Group was increased from SEK 264749 Million to SEK 310367 million for the year 2010 and 2011 respectively. As a result the dividend per share increased from SEK 2.5 to SEK 3 and return on shareholder's equity increased from 16% to 23.1% for the year 2010 and 2011 respectively. Moreover, the interest in and demand for environmentally-enhanced products have increased. The Group is well placed to exploit the opportunities of growth relating to this development. This is done by (i) developing new goods that facilitate its customers to select additional sustainable services and products (ii) expanding the service and product offer connected to the present business (iii) accessing new markets and (iv) creating the future market for sustainable transport solutions.

### *3.6 Management of Resources Efficiently*

Utilization of all resources efficiently is strategically and economically important. The group has all the time endeavored for its products and operations for having smallest harmful impact on environment. It also utilizes its existing resources in effective and efficient way with a view to make the organization competitive. The Group reduces its costs by improving resources management like water, energy and material.

### *3.7 Management of Environment*

Since 1980 the Group has been practicing internal environmental audits system for ensuring environmental performance. Since 1990 environmental data have been collected once a year from different production sites. At the end of 2011, it has been found that the Group has 65 majority-owned production plants in 20 countries, each of which was included in the data reporting. The reporting of data is in the line with global environmental standard for manufacturing plants that was introduced by Group management in 2000. Regardless of location and size, all of its production units have to conform with its minimum requirements for environmental performance and focuses on a number of important areas including energy consumption, use of chemicals, emissions to air and water, water consumption, waste, and noise. As a result, carbon dioxide emission reduced from 279,000 tons in 2010 to 255,000 tons in 2011 and nitrogen oxides decreased from 719 tons to 474 tons. Furthermore, as part of environment management, the group offers training to driver with a view to reduce fuel consumption and improve safety. It is observed that on average, drivers can save 5 to 10% in fuel consumption after participating in a course on fuel-efficient driving. Also, Volvo Group offers fuel watch that not only helps customers to use products in the most efficient way but also reduces impact on environment. It also offers various services like care track, Commute Greener to reduce the environment pollution.

### 3.8 Challenges Management

It is very critical to remain competitive in a volatile business world. Nowadays, it is very essential for a company to comprehend its operating environment than ever before because any environmental change may have impact on future transport needs. So, as part of CSR, the group first identifies and defines some of the more significant challenges and the actions being undertaken by the Volvo Group to combat these challenges. The major challenges and the approaches to cope them are described bellow;

#### 3.8.1 Issues of Urbanization, Population Growth and Megacities

The population of the world is increasing constantly. It is expected that by 2050, the total number of population will exceed nine billion. At present, more than half of the population of the world resides in towns and cities and within fifty years, it is expected that the total number of population who will live in the cities and towns would be two-thirds of world population. The urbanization process is taking place very rapidly in Asia and Africa. Moreover, the number of megaregions and megacities total number of with populations surpassing ten million is rapidly increasing. It is expected that by 2015, near about 20% of the population of the world will live in cities having populations more than two million inhabitants. This increasing tendency of population is leading to an enhanced transportation need. People and big amounts of goods are to be transported daily. Cities, especially most of the cities will have particular requirements for traffic and town planning. Moreover, noise pollution and congestion issues are to be addressed for ensuring the urban environment hygienic and healthy.

#### ***The approach of Volvo Group to adjust with the future change like urbanization***

The Group has been working to improve solutions of transport for the cities of the world for to enabling people and goods to be transported without enhancing emissions and congestion. Since the transport system needs to be further improved like Bus Rapid Transit (BRT) with a view to alleviate congestion, the Group is concerned in introducing telemetric solutions for more flexible transports for public and efficient distribution of goods, which will ultimately ensure more efficient planning for better traffic security, transport routes and superior planning of maintenance work.

#### 3.8.2 Issues of Oil Resources, Climate Change and Alternative Fuels

At present climate change is considered as one of the most difficult and complex issues. For climate change, fossil fuel is highly responsible because it emits greenhouse-gas. But, oil has been considered as a reliable source of energy for long period of time, but today, the use of oil is a very controversial issue. Furthermore, oil is not only an issue for foiling environment but also for its availability. Because the reserves of oil is declining rapidly and also there is an increasing instability in the oil-producing countries. Now is not a question whether a fossil-free society would be ensured or not rather it is a question that how a fossil-free society will be ensured. Around the world many corporation are trying to develop the sources of renewable energy sources. Nevertheless, in many regions the development of renewable fuels varies largely depending on the availability of natural resources that entails a great challenge in the form of producing vehicles adapted for different types of fuel. The move towards the large-scale use of renewable fuel is also dependent on political decisions to create the necessary infrastructure.

#### ***The approach of Volvo Group to adjust with the challenge like alternative fuels***

To combat these challenges the group is improving the efficiency in energy, logistic systems and neutrality in carbon dioxide. To reduce the emission of carbon dioxide as well as to enhance efficiency of energy the electromobility can be one of the solutions. By moving to wheel efficient renewable fuels it is possible reduce the emissions of carbon dioxide, but for shifting to the use of large-scale renewable fuels the policy decisions of governments is required because only the favorable policy as well as intention of government can help in establishing required infrastructure. For developing more efficient transport systems the group is involving in various collaborations.

#### 3.8.3 Issues of Shortage of Raw Material and Natural Resources

Around the world middle class is growing rapidly side by side the purchasing power of middle class is also increasing as a result the demand of land and other resources are also increasing. So, efficient utilization of resources is highly required to entertain the needs and expectations of people.

#### ***The Volvo Group's approach to combat the challenge of resource shortage***

The Group is working to lessen the use of material as well as other resources while producing its products and thus it takes the perspective of life-cycle into consideration in the phases of product development. At the present time about thirty percent (30%) of a truck is manufactured from recycled material. New materials based on

nanostructured compounds or alloys could create light-weight materials without losing the mechanical strength and thus create opportunities to reduce the weight of vehicles.

#### 3.8.4 Security and Safety Issues

Everywhere in the world traffic safety is becoming as one of the very important issue because transportation increases. There is an increase trend among the customers regarding awareness which leads to an increasing trend of demand for safe products. The issue is of high priority for institutions and governments worldwide. In future, the focus on safety and security would be increased highly because of crime, military conflicts, natural disasters and terrorism which will affect the safety of vehicles, drivers, and goods.

##### *The approach of Volvo Group to address the issues of security and safety*

Presently the Group is working jointly with academia and authorities to discover novel security features and develop awareness regarding security issues both on global and local level.

#### 3.8.5 Issue of Skilled Employees

For several years, interest has waned for careers and education in the fields of engineering, natural sciences and mathematics in industrialized countries. But, the need for capable and skilled employees with these special areas will increase as services and products become sophisticated increasingly.

##### *The approach of Volvo Group*

The Group is working to stimulate and promote the interest in the field of science and technology by reaching out to young people and supporting educations in the field of natural sciences, engineering and mathematics.

#### 3.9 Management of CSR Organization

A new CSR organization was developed in 2011 with a view to ensure faster decision making, effective governance and clearer accountability and responsibility. The new CSR organization came into effect on January 2012. On a regular basis the Board of Directors evaluates its CSR performance and considers some very relevant issues like environmental, human rights and corruption in its annual risk analysis. In the Group Executive Team, Executive Vice President (Jan-Eric Sundgre) is mainly liable for issues related to CSR. The Core Value and Public Affairs Council handle CSR issues, which is chaired by Jan-Eric Sundgren (Executive Vice President Environmental and Public Affairs) and member of the Group's Executive Management Team. Throughout the organization, the chairman in the council is responsible for making decisions and following up the implementation of decisions. The objective of this governing body is to establish strategies, provide directions and to follow up on performance. This council also provides supports and advances the business of Volvo Group in the areas relating to its CSR, core values, public affairs and relevant emerging issues.

#### 3.10 Management of CSR in Supply Chain

Supply chain plays important role in ensuring the competitiveness of an organization. Considering the importance, the activities of suppliers are monitored through the quality assurance and self-assessment forms, which are part of its requirements on suppliers. There is a Corporate Audit Department in the group for monitoring the compliances as per the Code of Conduct through audits and assessments. The Volvo Group has a management control system for self-evaluation of how well critical policies such as the Code of Conduct have been implemented and enforced. An annual survey is conducted to measure the level of implementation. Most of the managers in the Volvo Group state that they have taken appropriate measures within their organization to promote values and appropriate business behavior, and have held discussions with their teams on the risk of fraud and infringements of the Code of Conduct.

The Volvo Group has several group-wide processes and management systems covering areas such as quality, internal control, environmental care and occupational health and safety. There are specific key performance indexes (KPIs) to monitor and follow up on the effectiveness of processes which are reported on and followed up regularly in the Core Value and Public Affairs Council. Health and safety controls and environmental care are integrated into the Production System of Volvo Group. Production system is a toolbox containing methods to increase internal efficiency and minimize losses. Development of competence of employees to meet future technical skills requirement is also an important part of Production system. Performance is measured by collecting financial, environmental and human resource data. A third party verifies data collection process.

#### 3.11 Management of Corruption

Corruption reduction and promotion of healthy competition in the world are the aim of the group. Therefore, it is the responsibility of group to circulate its views on how to run a business in a transparent, fair and correct way. It



is essential that its employees in all parts of the world understand the purpose of the policies and how to interpret them in everyday business. For these reasons all the white-collar employees participate in e-learning relating to the Code of Conduct and anti-corruption every three years. On-site training for selected groups is conducted every year. Messages are conveyed to the employees regarding the advantages of doing business in the right way as well as the potential consequences of non-compliance. Personal meetings and discussions are importantly conducted for creating awareness. Thousands of employees have received on-site training through the Chief Compliance Officer or other members of the compliance network. In 2011, 9,023 employees received training on the Code of Conduct and 10,107 employees were trained in anti-corruption. Also, training on the Competition Law Compliance Program has been started from 2012. All the works with anti-corruption are guided by the principles of Code of Conduct, which applies to all employees and the Board of Directors. Regarding legal compliance the Volvo Group abides by the laws and regulations of that country in which it operates. In situations where the law does not give guidance, the Group applies its own corporate values and standards. In cases of conflict between mandatory law and principles contained in this code, the law prevails.

The Volvo Group has an Anti-Corruption Compliance Policy that has been adopted by the Audit Committee. In addition to the policy the Group has steering documents and a hand-book that in combination with the policy constitutes its Anti-Corruption Compliance Program. The Anti-Corruption Compliance Program consists of a number of actions aimed at preventing the Volvo Group or any of its business partners from participating in corrupt activities. The program fundamentally consists of three parts such as (i) preventing corruption (ii) detecting corruption and (iii) responding to corruption. The Audit Committee, a function of the Volvo Group Board of Directors, has issued the Anti-Corruption Compliance Policy and monitors compliance. The Chief Compliance Officer is responsible for overseeing the implementation of the program, leading and participating in training and audits and leading investigations into alleged non-compliance. The Chief Compliance Officer reports to the Audit Committee on current incidents and investigations three times a year. In addition, annual reports are submitted to the Audit Committee on activities in the Anti-Corruption Program. Regular reports are also made to Group management.

Moreover, whistleblowing is highly encouraged for ensuring corporate transparency because it is an important tool in fighting corruption (Mansbach, 2007). Whistleblowing is the public disclosure by a person working within an organization of acts, omissions, practices or policies by that organization that wrong or harm a third party. The aim of the disclosure is to draw the attention of the authorities or of the public to bring the unlawful activity to an end and to check further such misconduct (James, 1980; Hunt, 1998). As per the existing Whistleblower procedure all employees within the Volvo Group are encouraged and expected to report suspected infringements of the internal policies and law to their immediate boss. When employees do not sense easy reporting the matter to his or her boss or a reported incident is not taken seriously the employee can report the matter directly to the Head of Corporate Audit in accordance with the Whistleblower procedure. Reports in accordance with the procedure can be submitted anonymously, to the extent permitted by law. In accordance with its Code of Conduct, the Group does not tolerate retaliation against a person for making good-faith complaints of improper behavior. In total, 30 cases were reported in 2011 under the Whistleblower procedure. 16 of these were dismissed following investigation, as there were no grounds for the allegation. In 12 cases were found with grounds for the allegations and preceded with appropriate actions. Two of these cases are still under investigation. Two cases were dealt with as potential corruption cases in 2011. These were investigated and reported to the Audit Committee. One case is still under investigation (Annual CSR report, 2011).

### *3.12 Ensuring Fair Competition*

Competition Law Compliance Program was introduced by the group in 2011 in order to provide its employees an understanding of what is accepted and what is not and thereby ultimately encouraging fair and healthy competition in the markets where the Group is present. The program includes a number of actions aiming at preventing the Volvo Group from participating in activities that are contrary to competition law. The new policy explains in details regarding the behavior in relation to customers, distributors, competitors and suppliers, both as an employer and as an employee. For developing consciousness in employees regarding the policy of the company, 10,000 white-collar employees from different department like research and development, sales and marketing and product development have participated in an e-learning course on the subject. For all employees the new policy is applicable.

### *3.13 Investments in Research and Development*

A firm can survive in the modern competitive market place only when it can offer goods and services as per the demands of customers, including environmentally-enhanced products. And without having skilled and competent

workforce it is not possible to develop new goods and services. Considering these facts, its investments in R&D have remained high over the last economic cycles. For example, the group invested SEK 13 billion and SEK 13.3 billion respectively in the year 2010 and 2011 for reducing the environmental impact and to develop sustainable transport solutions. Thus, the Group is continuously working for improving product performance.

#### 4. Conclusion

It is the increasing tendency of organizations to devise prosperous and innovative ways to develop their business while simultaneously serving people in need and sustaining the fragile planet (Heslin & Ochoa, 2008). After analyzing the CSR activities of Volvo Group it is found that the CSR activities are not only confined within philanthropy rather CSR activities are performed delicately with a view to satisfy the expectations of both internal as well as external stakeholders. Consequently, the competitiveness is growing rapidly which ultimately leads the Group to the achievement of its vision. Thus, the study argues that successful CSR initiatives are derived from cautious study of each and every single organization's unique and exclusive competencies, culture and strategic opportunities. Unfortunately, most of the organizational leaders of the world do not pay their careful and thoughtful concentration while performing CSR activities. But exercising CSR activities in a strategic way the Volvo Group yields favorable relationships with investors, increased organizational learning, growth in market share, retention of deeply engaged employees, and support from external stakeholders. Nevertheless, imitating best practices of other organizations' strategic CSR would be unwise because benchmarking often leads to unsatisfactory results (Heslin & Ochoa, 2008). Leaders of Organization tend to improperly appreciate the delicate variations in organizational contexts and competencies whereby a given practice facilitates one organization to fly, but leads others to flounder. It is expected that this study will inspire and guide many corporate leaders of the world to devise and implement the CSR strategies in such a way so that the organization can satisfy its both internal as well as external stakeholders and thereby can survive for long period of time.

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