

Embedding corporate responsibility through effective organizational structures

Luis R. Perera Aldama, Patricia Awad Amar and Daniela Winicki Trostianki

Luis R. Perera Aldama,
Patricia Awad Amar and
Daniela Winicki Trostianki
are all based at
PricewaterhouseCoopers
Chile, Santiago, Chile.

Abstract

Purpose – The purpose of this paper is to explore the ways in which companies are embedding the corporate responsibility function in different organizational structures, and to identify, when possible, best practices related to organizational structures which have proved effective in managing corporate responsibility that can be applied by any organization, regardless of size or industry sector.

Design/methodology/approach – The authors developed and applied a methodology, in the form of a questionnaire, covering more than 40 aspects to describe what companies are doing to integrate the corporate responsibility function in their organizational structures. The design of the survey was based on available literature as well as their own professional experience answering questions commonly received from clients in Latin America. The questionnaire was then applied to a small sample using companies' public information from reports and company web sites.

Findings – The application of the questionnaire on a sample of Chilean companies using their public information tested the tool as valid and fit for the designed purpose. The main conclusions were that CSR structuring and CSR strategies are both strongly associated with the size of the company in terms of number of employees and revenues.

Originality/value – Many questions arise when the task of implementing CSR is proposed and Latin American companies are trying to apply best practices by learning from the experience of companies with longer histories in CSR matters. However, trends are not uniform and different organizations are taking a variety of pathways in the process of CSR implementation. This paper offers a general vision of how companies are making the effort to implement CSR best practices, in terms of structure, strategy and scorecard; and presents a simple tool to assess the gaps, if any, in the effective embedding of corporate responsibility on organizational structures.

Keywords Organizational structures, Corporate social responsibility, Organizational change, South America

Paper type Research paper

Introduction

Integrating the corporate responsibility function has become a must for companies if they wish to remain competitive in the markets they act – which are growingly globalized and highly aggressive – and become leaders by distinguishing themselves while adding value to the firm. The process involves a great deal of change throughout the organization, with impacts that usually go beyond the organizational chart, and hopefully reach into the organization's culture.

The way in which companies are integrating the corporate responsibility function varies widely, and the old adage “structure follows strategy” does not always seem to be the rule. When applied, we find that structure becomes the perfect driver for organizational change; when it is not, structure is more likely to become a factor of resistance to change. Is there a “one size fits all” structure that ensures the effective embedding of CSR function in an organization? Can we at least identify successful practices that apply to any organization, regardless of size, industry sector or country of origin?

In order to answer those questions, we should begin by understanding what companies are currently doing, and how. The reality of large multinationals with headquarters usually located in developed countries is probably quite different from the problems faced by businesses of other scales in developing countries, or emerging markets. Still, managing corporate responsibility effectively remains a challenge for all. In response, we prepared an assessment tool in questionnaire form, based on the questions that companies frequently present to us in search of best practices. Over 40 aspects considered relevant are covered to understand what companies are doing to integrate the corporate responsibility function into their organizational structure. To prove the tool's relevance, we present the results of a comparative study of a few of the questions included, for a sample of Chilean companies using published information.

Throughout this paper we will use the terms "CR" (corporate responsibility) and "CSR" (corporate social responsibility) as synonyms, as we consider that "CSR" fairly reflects the economic, environmental and social dimensions of business.

The challenge

In the past five to ten years, the importance of the CSR function (function being defined as "the actions and activities assigned to or required or expected of a person or group") has grown in different regions of the world – Latin America being no exception. Throughout the region we have observed, in our role as business consultants, the changes and challenges that our clients face as they develop, grow, and compete in, ever more demanding markets – internationally and locally.

In Chile, the past five years have been key in developing and formalizing the CSR function; we have been approached repeatedly by companies, posing a wide array of questions regarding the CSR function in their organizations:

- Should we move forward with a separate CSR department, or just set responsibilities and targets in the existing structure?
- Is it right for the CSR function to rest in the PR department (or, corporate affairs or human resources department)?
- Should environmental and human resources issues be also an objective and responsibility of the CSR department?
- How is the CSR budget in my company in relation to the industry standard?
- Is it necessary to establish a CSR committee at the board level?
- We operate in seven different countries . . . how do we integrate the CSR function at a global level without losing the local perspective?
- Should the CSR manager be recruited from within or outside the company?

These are just some of the questions our clients keep asking themselves, and us.

In order to answer those questions, it is time to gather information using a systematic research on current company actions, including but not limited to recognized business leaders in the field of sustainable development.

Strategy or structure: what comes first

We have observed that many companies in the developing world faced the challenge of integrating the CSR function by what could normally be considered the end of the process: changing the organization's structure, without going through the needed discussion, agreement and implementation of a defined strategy. These could be the reflection of a natural reaction: realizing that CSR is important to the organization, that something needs to be done about it, and therefore someone needs to take care of it. Having established a CSR position, companies are usually over-confident that they are moving in the right direction, forgetting to integrate the CSR function into the broader perspective of risk management.

Thus, the CSR manager – under various denominations – appears in the new organizational structure of the company. It is not uncommon to place this role within the PR department, or HR, or corporate communications, or environment, always responsible and subordinated to

a C level executive. However, does this new manager connect with the other departments, if at all? How does he/she reach the board? What are the specific responsibilities of the CSR manager?

This is not only an issue in developing countries; on the contrary, it is also an issue in the developed world.

Commonly, CSR corporate practitioners in the UK are in charge of (Acona, Acre and Ethical Performance, 2008):

- environmental management/climate change;
- reporting;
- community involvement;
- marketing (to internal audiences); and
- stakeholder dialogue.

Further, a new position is starting to be visualized: the Chief Sustainability Officer (CSO), comprising and integrating not only traditional CSR activities but also broader risk management responsibilities (Griffiths and Perera, 2007).

Therefore, without addressing the strategy issue, and without first considering what and how the company will integrate CSR issues in its business fundamentals, there is a high risk for the CSR manager to become an odd piece in a puzzle, without real authority, which implies the inability to create value for the firm – and society.

A CSR strategy must include planning, strategic objectives, targets and deadlines. Strategies need to be discussed at the appropriate level, and to be fully operational they need transversal and proper authority.

Making CSR operational

Another dimension of the analysis poses the question of who should be responsible for corporate governance and the company's CSR policies and objectives? It should probably be someone with full knowledge of the company's impacts on society, both positive and negative, and with the appropriate level of understanding of current and future risks faced by the company. There seems to be consensus around the idea that it should be someone who has the capacity to influence the company's strategic planning (Park, 2008) which ultimately means that the involvement of the Board is crucial for effectively embedding the CSR function in organizations. Having the Board supervising the integration and implementation of CSR in an organization immediately places CSR issues at the core of business strategy.

Moreover, legislation in several countries seems to be moving in that direction, holding Directors accountable for the environmental and social consequences of business decisions. The combined code on corporate governance makes it clear that corporate responsibility is important. It states that "directors should set the values and standards of the company and ensure that it meets its obligations to shareholders and others".

The board should be responsible for (Mackenzie and Hodgson, 2005):

- setting values and standards;
- thinking strategically about corporate responsibility;
- being constructive about regulation;
- aligning performance management;
- creating a culture of integrity; and
- using internal control to secure responsibility.

However, the role of boards is to govern, not to manage, so they have to delegate. The struggle is not new. The alternatives found in practice to embed CSR in an effective organizational structure were clearly described years ago by business for social responsibility (Business for Social Responsibility, 2002). And, it appears that the options are still open and remain the same.

There are many ways to place the CSR role in the board: appointing the CSR responsibility to an existing board member, dedicating a committee exclusively to CSR, or even involving the whole board on CSR decisions. The same applies at the executive level, where members of the executive committee can be made responsible for CSR oversight, a new member can be added to the executive committee with CSR responsibilities and expertise, or the entire executive committee can be included in CSR decisions. As we move down through the organization, the same rationale can be applied, centralizing or decentralizing, concentrating the CSR responsibilities in one department, or distributing responsibilities according to different criteria, like geographic locations, business divisions, etc., with or without cross-functional interaction.

Regardless of the structure of choice, we observe that commitment from the Board must be followed by responsibilities down the ladder. To assign responsibilities and get the rest of the organization “on board”, there is nothing better than a set of correct incentives. Culturally, that implies a huge shift from short-term cost cutting views, to long-term sustainable performance (Kelly and White, 2007). The organization should decide on the set of incentives that works best to complement profit maximization with CSR performance. Just as it is when it comes to any other strategic component of a business, the performance is to be measured and assessed, according to an established formal strategy.

Time for answers

The preceding thoughts were the triggers for this paper as a contribution from our business experience to further much needed research.

While there appear to be no “one size fits all” answer and much has been and is being theorized, we felt the need to systematize an approach that could lead to meaningful correlations between the characteristics of a company and its related strategy, structure and practical implementation through systems and scorecards. This need gave rise to a questionnaire that could be used as a research and diagnostic tool to gather experiences and trends in CSR throughout the corporate world.

The application of the tool would allow us to describe how and where in the company structure corporate responsibility has been embedded, and – in turn – to assess whether there are structures that could be more effective than others.

Having identified the need for a study that attempts to cover and provide an answer to the main questions our clients are asking; we have incorporated – the issues considered relevant to understand what companies are doing to integrate the corporate responsibility function in their organizational structure. Therefore, we structured the tool in four sections: company characteristics, strategy, structure, and systems and scorecards.

For its application we chose, for a small sample of Chilean companies, a few questions from each section and applied the questionnaire using publicly available information to test its usefulness.

A practical tool

The questionnaire is a comprehensive detail of what is being frequently asked by companies when searching professional consultancy advice, according to our experience.

The four sections allowed us to understand:

- the main features of the company;
- how deep the strategic discussion and implementation of CSR related issues has been so far;
- how this discussion has been converted into structural and functional practices; and finally
- how this has been incorporated into systems and, most importantly, into evaluation and remuneration practices through scorecards (Figure 1).

The answers give a complete characterization of current practices, which in turn allow for correlations and conclusions as to best (or preferred) practices.

Figure 1 The practical tool

Type	Question	Possible Answers
Company Characterisation	1 Type of company.	State owned
		Private
		Public
		Mixed
	2 Headquarter country.	
	3 Industrial Sector.	
	4 Size of the company, number of employees.	
	5 Size of the company, most recently reported annual revenues.	
	6 Does the company participate in a Sustainability Index? (DJSI, FTSE4GOOD, Ethibel, Bovespa Index, Johannesburg Index, etc)	Yes, more than one (which)
		Yes, one (which)
	7 Has the company published a CSR Report?	No
Yes, integrated to the annual report		
8 How many CSR Reports has the company published?	Yes, separately	
	No	
9 Has the last CSR Report been developed under an international guideline?	0	
	More than 2	
10 Is the last CSR Report externally assured?	More than 4	
	Yes, GRI	
11 Has the company relations (affiliated, member, etc.) with business associations promoting CSR?	Yes, other	
	No	
Strategy	12 Does the company have a formal definition of CSR and/or Sustainability?	Yes
		No
	13 Does the company have a Mission/vision and values statement?	Mission/Vision and Values Statement
		Mission/Vision
		Values Statement
		None
	14 Does the company have Sustainability Policies in place?	Sustainable Development Policy
		Environmental Policy
		Community Relations Policy
		Health and Safety Policy
		Suppliers Policy
Climate Change Policy		
Human Rights Policy		
Human Resources Policy		
None		
15 Does the company have a Code of Conduct implemented?	Yes	
	No	
	Not Applicable	
	Corruption and bribery	
	Discrimination	
	Confidentiality and use of information	
	Competitors relations	
	Conflicts of interest	
	Occupational Health and Safety	
	Violence/harassment	
16 The Code of Conduct deals with:	Workplace	
	Environment	
	Sustainable Development	
	Other	
	Yes	
	No	
	17 Does the company have mechanisms to identify, manage and minimize potential non compliances with the Code of Conduct?	Yes
	18 The company has developed a process to identify its main stakeholder groups.	No
	19 The company has developed a process to prioritize its stakeholders.	Yes
		No
20 Sustainability concerns are an integral part of the annual strategic goal setting process at the following levels of business.	Business Unit	
	Company wide	
	Site level	
	Each individual	
21 CSR and strategy: Which sentence best describes company's approach?	None	
	CR drives strategy setting	
	CR influences strategy setting	
	CR is aligned with strategy after the strategy has been set	
22 Where does the company place itself regarding its CSR experience?	CR partially relates to the strategy	
	CR is not integrated with strategy	
	Leader	
	Best follower	
	Implementation stage	
	Basic compliance	
	None	

(Continued)

Figure 1

Type	Question	Possible Answers
Structure	23 Is there a specific organisational unit responsible for managing and monitoring CSR?	Yes No It will be created It is integrated to the operational units
	24 What is the unit's name?	Corporate Governance Risk Management Ethics Government Affairs Environment Health and Safety Suppliers - Sustainable development focus Products and services - Sustainable development perspective Community Affairs - Donations Community Affairs - Social Projects
	25 Which are the main functions of the CSR unit?	CSR Environment Community affairs Corporate Communication, Corporate/External Affairs Marketing HR Administration Finance Different departments Others
	26 What department or unit is responsible for CSR?	Central team Committee Cross functional Outsourced CEO Board Upper Management Second Row level Other - specify
	27 How is the CSR function organised?	Board Level Executive Level Sub-executive Level Supervisor Level Cross functional level Advisory level
	28 Who is the CSR function responsible to:	
	29 Organisational level of the CSR function.	
Type	Question	Possible Answers
Structure	30 Are CSR issues integrated to the regular risk management procedures at both Board and Executive levels?	Yes, formally Yes, but informally No
	31 Is there a high level Committee in charge of setting policies/guidelines and assessing CSR performance?	Board Management Committee Other (which) No
	32 Who is responsible for monitoring the ethical standards of the company, and promoting CSR culture?	Board CEO Dispersed departments Ombudsman Nobody formally
	33 To which other functions is the CSR function being linked?	Corporate Communication, Corporate/External Affairs Stand-alone CR department HR Marketing Internal Communication Strategy & Planning Community affairs Legal Operations Government Affairs Risk Board
	34 When was the CSR function created?	No CSR Less than 3 years Between 3 and 7 years More than 7
	35 Number of people involved in CSR in the organisation.	0 - 1 2 - 5 6 - 10 More than 10
	36 Breakdown of the CSR team, by position.	Number of vice presidents Number of managers Number of supervisors Number of staff level members

(Continued)

Figure 1

Type	Question	Possible Answers
Systems & Scorecard	37 Is there an annual plan to carry out CSR related activities?	Yes No
	38 Is there a mid/long term plan to carry out CSR related activities?	Yes No
	39 The company has defined a relationship plan with the following stakeholder groups:	Shareholders Employees Clients Suppliers Local communities Institutions/Foundations/NGOs Local/regional/national governments Unions Competitors/Markets Others
	40 Forms of social contribution include:	Economic support to co-finance projects Economic support to finance projects Activities to raise awareness Inclusion of minorities in the workforce Donations of used equipment Donation of materials Donation of products Employees and executives time Corporate volunteering Others - specify
	41 Does the company measure and assess its environmental & social impacts/externalities?	Yes No
	42 Does the company have an integral risk management system?	Yes No Under development
	43 The corporate risk management system include social, environmental and ethical risks?	Yes No
	44 Does the company have an OH&S management system?	Yes No It is under development
	45 Has the company implemented an environmental management system?	Yes, certified Yes, but not certified No Under development
	46 Are the employees needs to carry out and act according to the company's strategies assessed in terms of training?	Yes No Under development
	47 Does the company carry out activities to raise awareness, train and inform the employees about the CSR principles and strategies?	All (raise awareness, train & inform) Some None
	48 Which are the mechanisms for engaging employees in the business?	Performance assessment systems Recommendation mechanisms Company shares Employees participation in strategy & policies development Other
	49 Is there a specific CSR Balance Scorecard in place?	Yes No Under development

Most if not all the questions could be answered by reviewing/researching publicly available information. We have added some questions that could supplement the research through focused interviews. The questionnaire could also be used by companies as a practical self assessment tool to identify opportunities for improvement in the way they are integrating the CSR function. While most of the questions included in the survey come from what we have been asked by business on consultancy practice, many of them have been taken from, or adapted from other sources (GEMI and BSR, 2006; Melcrum Publishing, 2005; Club de Excelencia en Sostenibilidad, 2007) (Figure 2).

An application in practice

As previously stated, we used a condensed version of the tool on a sample of Chilean companies to test its potential for drawing conclusions and correlations. The summarized questionnaire is shown in Figure 3.

The sample chosen and the source of information was a list of 26 companies that published sustainability reports in Chile in 2007, based on publicly available information- mainly corporate web pages and/or printed sustainability reports.

The results of the application are shown in Tables I and II.

Figure 2 Proposed questions for a deeper understanding of the company's systems

Systems & Scorecard	50	How often are CSR issues discussed at the top management meetings?	Never
			Often (more than 50% of the meetings)
			Rarely
			In every meeting
	51	Does the annual operating plan contemplate CSR performance aspects?	Yes
			No
	52	Are executives compensated for achieving CSR goals?	Yes, every executive
			Yes, only those executives that have CSR goals
			Yes, only CSR managers
			No
	53	Is a % of the remuneration subject to Balance Scorecard compliance?	Yes
			No
	54	Has the company a Key Performance Indicator System implemented?	Yes, advanced systems
			Yes, rudimentary systems
			No
	55	Who is responsible for monitoring the KPIs gaps?	CEO
		Committee	
		Each manager for each topic	
		Nobody formally	
56	How do those gaps affect teams performance?	Economic bonuses	
		Development plan	
		Training opportunities	
		Retention/dismissals	
57	CSR budget.	No information	
		Less than 500k	
		Between 500k and 1 million	
		More than 1 million	
58	Changes to the CR budget in the past two years.	More budget	
		Less budget	
		Same budget	
59	Do the company's accounts reflect separately the Triple Bottom Line (financial, social and environmental) results?	Yes	
		No	
60	Main difficulties the company has encountered in integrating the CSR function.	State three	
61	Main challenges the company has encountered in integrating the CSR function.	State three	

After having answered the characterization section, we performed an analysis on the three categories included in the tool in order to determine correlations, gaps, and finally trends on sustainability practices in Chilean companies (Table II).

Based on the above the following relations and conclusions were found:

- Sustainability reporting is still a domestic effort, with no exposure to world-class index assessment systems.
- Sustainability reporters unanimously show adoption of GRI as the reporting guidelines.
- Three out of four companies present at least a two years track record of sustainability reporting.
- Credibility is provided by the reporting effort and the reputation of the companies, rather than by external assurance.
- Leaders in sustainability reporting fall behind in the definition of a full range of sustainability policies; however, all the companies have at least one relevant CSR policy, and most of them have two.
- The variety of names for the CSR position shows no uniform understanding of the CSR function, however, they can be broadly aggregated into three categories: "CSR", "communications", and a blend of "environmental" and "sustainability".
- Companies are moving forward on policy making, but the structuring of CSR areas is lagging behind.

Figure 3 Summarized questionnaire

Type	Question	Possible Answers
Company Characterization	Type of company	State owned, Private, Public, Mixed
	Headquarter country	
	Industrial Sector	
	Size of the company, number of employees	
	Size of the company, most recently reported annual revenues	
	Does the company participate in a Sustainability Index? (DJSI, FTSE4GOOD, Ethibel, Bovespa Index, Johannesburg Index, etc)	Yes, more than one (which)
		Yes, one (which)
	Has the company published a CSR Report?	No
		Yes, integrated to the annual report
	How many CSR Reports has the company published?	Yes, separately
No		
0 – 1		
Has the last CSR Report been developed under an international guideline?	2 – 3	
	4 or more	
Is the last CSR Report externally assured?	Yes, GRI	
	Yes, other	
Does the company have relations (affiliation, membership, etc) with business associations promoting CSR?	No	
	Yes	
Strategy	Does the company have Sustainability Policies in place?	Sustainable Development Policy
		Environmental Policy
		Community Relations Policy
		Health and Safety Policy
		Suppliers Policy
		Climate Change Policy
		Human Rights Policy
		Human Resources Policy
		None
		Structure
No		
It will be created		
It is integrated to the operational units		
Systems & Scorecard	Is there a specific CSR Balance Scorecard in place?	What is the unit's name?
		Organisational level of the CSR function
		Number of people in CSR in the organisation
Systems & Scorecard	Is there a specific CSR Balance Scorecard in place?	Yes
		No
		Under development

- CSR structuring and CSR strategies are both strongly associated with the size of the company in terms of its employees and revenues. The larger the company, the bigger the chance to find a structured area, and the more sustainable development-related policies declared.
- The absence of information in the public domain on the number of people (team size) that work in the CSR function reveals that these data are to be collected through interviews.
- The CSR function appears to be placed mainly in specific departments rather than distributed through the organizational structure.
- Making CSR operational through BSC is still an immature practice.
- Companies are putting strategies into place, are slowly creating structures, but they fail in bringing downstream CSR practices into their organizations and in associating business performance and CSR performance.

With this tentative research we wanted to show the effectiveness of our tool in order to draw conclusions on CSR trends and help organizations improve their CSR path. Our findings show interesting conclusions that make us believe that applying the complete tool extensively, would certainly help to pinpoint trends, describe the state of the art, make correlations and eventually define best practices, to successfully put CSR into action, from strategy to operations through effective structures.

Table I Characterization of the sample

<i>Description of the sample</i>	
Type of company	54 percent were private companies 39 percent were public (quoted) and 7 percent were state-owned companies
Headquarters location	77 percent were based in Chile
Sector	13 different sectors were represented The Mining Sector was the most predominant (31 percent), followed by the Financial sector (12 percent)
Size: annual revenues (in million US\$)	50 percent of the companies exceed 1 billion dollars in revenues Interestingly, 3 companies do not provide this type of information on their reports
Size: number of employees	54 percent of the companies have more than 1,500 employees
Sustainability index participation	Only one company participates in a sustainability index assessment
Sustainability reporting efforts	The sample relates only to companies that have published a Sustainability report 100 percent of the sustainability reports studied are based on GRI guidelines Most of the reports are separate from the annual report (84 percent)
Sustainability reporting story	Only 26 percent of the companies are first time reporters
Sustainability reporting verification	90 percent companies did not submit their report to external assurance

Table II Main results of the research

<i>Perspective</i>	<i>Main results</i>
Strategy	More than half of the sample has the following policies: human resources, health and safety, and environmental policies. The least common policies were human rights and climate change related policies. Besides, sampled companies do not commonly have sustainable development policies (only 31 percent have them)
Structure	A total of 69 percent have a specific organizational unit responsible for managing and monitoring CSR, 27 percent do not provide information on that topic, and 4 percent has no specific area The name of the functional area dedicated to CSR management varies; there are different names for each and all of the companies in the sample (there was only one repeated name) No information on the number of people in CSR teams is publicly available The study shows that most companies (65 percent) do not detail if there is and where it is placed, in the organization's hierarchy, an area or department in charge of sustainability management. Only 35 percent include some information, placing it at the "management" or "direction" level (23 percent), or at a "sub-management" level (12 percent). Naming specific departments in charge of CSR
Systems and scorecard	A total of 85 percent omits reference to a CSR balance scorecard. Only 15 percent declares its existence

Finally, we wish to emphasize that it is time for empirical research to light the road toward meaningful comparisons to draw conclusions as to best practices. Our contribution is a tool to guide research based on real information needs requested by businesses. Good practices identified and correlations detected could impulse adoption. Adoption, in turn, would heighten the bar for progressive improvement of effective organizational structures, leading to proper embedding of CSR in business fundamentals.

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About the authors

Luis R. Perera Aldama is a Public Accountant – Bachelor in Administration, Universidad ed la República, Uruguay. He is Partner at PricewaterhouseCoopers, with 34 years of professional experience in audit. He resides in Chile since 2001 and has specialized in the area of sustainability reporting advisory and assurance and corporate social responsibility, being the partner in charge of the Sustainable Business Solutions department in PwC Chile. He participated in the working group "Reporting as a Process" during the discussion and updating of the GRI Guidelines to the G3 version. He has published several articles in magazines and specialized press, and has authored the book *The Social Economic Dimension of Sustainability Reports: Towards a Fourth Financial Statement*. Luis R. Perera Aldama is the corresponding author and can be contacted at: luis.perera@cl.pwc.com

Patricia Awad Amar is a manager at the Sustainable Business Solutions department at PwC Chile. She has specialized in corporate social responsibility advisory, with focus on sustainability reporting and CSR strategies.

Daniela Winicki Trostianki is a manager at the Sustainable Business Solutions department at PwC Chile. She has specialized in corporate social responsibility advisory with focus on corporate governance. She has published several articles in magazines and specialized press, and has actively participated in conferences and seminars to raise awareness on CSR.

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