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## **Using Soft System Methodology for Understanding CSR**

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### **ABSTRACT:**

*Strategic thinkers claim that every organisation today must thrive on the cutting edge of global competition if it has to survive. Indeed one must run faster even to retain the same competitive spot. Hence excellence is no longer a luxury but a necessity. However, business history vouchsafes that when excellence has been approximated competition is rendered irrelevant. Business Ethics provides the bedrock of strategy. Corporate governance policies and practices help corporations to move towards the threshold of excellence. For this the corporate entity needs a system of corporate governance that is based on ethics and leads to excellence. A systematic approach for the development of Corporate Governance support systems is therefore essential for an effective design and implementation of management strategies, which would induce strategic leverage. Excellence an sich (of itself) and fur sich (for itself) remains a pipe dream unless it is converted into business sustainability. And sustainability requires acceptance by the stakeholders. This paper proposes the use of the Soft Systems Methodology (SSM) as a tool for understanding the process of CSR. In using soft systems methodology this paper lays the basis of a new paradigm.*

### **INTRODUCTION:**

Let us at the outset pose the rhetorical question: why did an otherwise profitable company fail? Perhaps it is somewhat like asking why the seemingly unsinkable Titanic sank. Was it the iceberg, the captain's navigational incompetence, the ship's faulty construction, the lookout crew's negligence, the arrogance of thinking the ship was unsinkable or was it all of them combined? Failure is indeed complicated. Such questions can as well be raised in the case of several management collapses like the Enron fiasco, the Unit Trust of India imbroglio, the number of failed financial institutions or the various corporate frauds that one

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knows of. On a lower level these types of questions can be raised for any managerial problem that can crop up in day to day business and which has ramifications in corporate strategy. The model attempts to explain causal connections leading to a cumulative effect of a pattern of dependence and therefore organisational diagnosis must precede interventions and objective evaluation of outcomes must follow the exercise if we are to follow the *Rules of Sociological Method* propounded by Emile Durkeim (1895) and further examined a century later by Jennifer Platt (1995).

From the works of Sadri and Jayashree (cited in the reference) a very simple logic has emerged. Managerial Ethics without Corporate Governance is puerile and Governance without Ethics is reduced to compliance of a set of rules to be monitored by a set of regulators. Together, however, they help to create a corporate culture and help the organization move towards Excellence. However Excellence is just a rainbow, a horizon one may move towards but seldom reach. Hence Excellence must cascade into Sustainability if the business is to flourish. This is the basic argument and CSR emerges as management intervention that could either be altruistic or strategic in nature. What follows is the explanation of a system to understand the nuances of CSR.

#### **SOFT SYSTEMS METHODOLOGY:**

*During the early seventies, when software developers were faced with ill-defined problems or situations that required information systems development, there were very few established methods of systems engineering available. At that time, the defining assumption in systems engineering was that the concerned system exists, could be named, and could be manipulated in the interests of efficiency a la Checkland (1981). This basic assumption held well if the optimum solution could be found for a particular situation. However this was not always the case with real-world situation.*

Soft System Methodology (SSM) evolved then to meet that need when no optimum solution was available. SSM placed emphases on people's perception of reality and worked with the notion of a problem situation in which various players might perceive various aspects to be problematical. SSM formalised a system of enquiry that was expressed to allow learning and make sense of complex situations to enable management to initiate purposeful actions. There are several tools and techniques that have been found useful within the SSM framework for understanding and discussing the problem situation. Described below are the main SSM

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techniques used in research. It is important to note that the relationships among the different tools are not serial but iterative. Most of the outputs that will be represented here are the final outcome of iterations and improvement of initial models.

**STAGE 1. UNSTRUCTURED PROBLEM SITUATION:**

On the basis of the authors' interaction and use of participant-observation between 1998 and 2007 the following inferences can be drawn. A crestfallen investor vows to vote in favour of every shareholder resolution he can find. An angry employee says she feels betrayed by bosses who have grown rich on stock options while putting the squeeze on health benefits and salaries. We had witnessed had witnessed a dealmaker, who was trying to close a sale, changing his mind when he overheard yet another buyer saying words to the effect "who is to say this guy is not lying about the numbers like everyone else?" Whereas the above findings were not mathematically calculated, the extent of observed data collected by the authors buttresses the position taken above.

**STAGE 2. PROBLEM SITUATION.**

A review of literature shows that the term corporate governance is used in two distinct ways. In Anglo-American countries (US and UK) good corporate governance involves firms pursuing the interests of shareholders. In other countries like Japan, Germany and France, it involves pursuing the interests of all stakeholders including employees and customers as well as shareholders. The former approach concentrates on dividends while the latter on job security. (Sadri 2003). However there is a moot difference between the UK and USA models which is often lost to young scholars. The UK model is patently slanted towards voluntarism while the US model is patently slanted towards regulation. A case in point being the Sarbanes Oxley Act which requires a lot of regulations and conformances to these is irksome driving several investors away from US into the European Community.

The above observation notwithstanding, many fast growing countries like India have made significant governance progress. The observations of Godrej and Maira reported later on were reflected even in the McKinsey-Survey 2002 that had found that investors were then willing to pay a premium of 23 % for well-governed companies in India. What constitutes good governance from the international investor's point of view is the all important question. Complete transparency and convincing independence of the Board are key ingredients for the

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long-term success of listed companies. This should be coupled with a proper balance between able executives and sufficiently independent non-executive (Independent) directors, strong prevention against undue conflicts of interest and an equitable treatment of non-controlling shareholders. (Jayashree, S *et al* 2008).

### **RICH PICTURES:**

The first tool that characterises SSM is the rich picture - a diagrammatic representation of the problem situation. It represents what the human system is “all about”, and can be considered as a mental map (Avison and Fitzgerald 1995). Sociologists have found that figures often capture an argument better than language as demonstrated by Weber (1933), Durkheim (1947) and Gouldner (1971). The anthropological studies of Borislav Malinowski (1982) on magic and religion have showed that folklore binds primitive cultures and symbolism is an essential aspect of any ideology or faith. Hindu metaphysics is replete with instances when a higher thought was reduced to ritual to convey a deep philosophical message so that it is understood by a lay person. The same logic is used in SSM in the context of rich pictures. The rich picture should be self-explanatory and easy to grasp. It is usually used to express the problem situation and to enable discussion about the various points-of-view and world-views that construct it. Political economists have used the rich picture as Wallerstein (1980) did to depict the capitalist world economy and also when Sadri (1991) amended the Wallersteinian model to describe a changed scenario after the fall of the Soviet Bloc. Hence the concept of a rich picture is not something new but its inclusion within SSM all the same remains important. However, what is more important is that there must be absolute definitional clarity in the mind of the scholar so that the ambit of inquiry is crystallised and the three Ms of research are adhered to: *meaning method and measurement*. Recent doctoral degree theses like those of Sharukh N Tara at Bharati Vidyapeeth University (2007) have also taken a similar line of argument.

### **STAGE 3: ROOT DEFINITIONS:**

Meaning method and measurement enable the correct research question to be posed and the desired line of inquiry to be pursued. Once the problem situation is understood, a possible model of the activity system can be developed. The main tool that helps in the development of these models is the *root definition* (RD). A human activity system would usually have

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more than one RD and, during analysis, it is expected to offer a range of RDs. Each root definition, no doubt, uses a certain perspective of the system both as its *locus classicus* as well as its *locus standi*. Unless definition clarity exists the ensuing diagnosis will be inaccurate. This would lead to a faulty design and thence to improper development of a paradigm on which the intervention will be developed according to the Sadri and Jayashree 5 *D methodology* (1997). If this is not methodology is not [properly in place Sadri, Jayashree and Ajgaonkar (2002) as well as Jayashree, Sadri and Nayak (2009) argue that the *modus operandi* of the strategic management intervention will fail. The case of corporate governance initiatives is no different. The Research Design should ideally include the following elements (usually referred to using the mnemonic CATWOE):

- (a) **Clients** - customers (beneficiaries or victims) of the system who are affected by the output of the system. They are usually the *shareholders or investors*.
- (b) **Actors** - those who carry activities within the system. They are (1) the board of directors and the audit committee; (2) the external auditor; (3) the internal auditors; (4) the company secretary; (5) the legal officer; (6) the CEO.
- (c) **Transformation** - changes that happen within or because of the system. If transparency, trust and teamwork are absent then the process of conversion of inputs to outputs will not be the transformation process but the black box as Parsons and Smelser (1956) had indicated.
- (d) **World view** (Weltanschauung) - assumptions made about the system or how the system is perceived from a specific viewpoint. The German word is used to describe the specific point of view that makes the transformation and the system meaningful.
- (e) **Owner** - those who have control over the system. A common test to identify the owner of a system is to evaluate their capacity to shut it down. This is not necessarily the CEO, since his recommendation will need Board Approval, and a nod from the Registrar of Companies and the Chief Factory Inspector.
- (f) **Environment** - the general surroundings within which the system operates and, that in turn, influences the system. However, it has been seen that the system has little control over the environment since there are several contending players in the market at the same time.

Economic theory tells us that a single firm has limited influence over output, cost and price in a dynamically dis-equilibrated oligopolistic market. The environment constitutes regulators,

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legislators, financial analysts, stock exchanges, courts and the legal system, and the stockholders. Even organizational policies and ethical matters can as well be considered environmental constraints as can the prevailing ideology of the state *a la* Mannheim (1936). In short, it is extremely difficult to behave ethically when the environment around the organization is unethical. Bribery and corruption have become an unfortunate part of the civil service as well as legal systems (more so at lower levels) in this country.

If ethics and governance must combine to generate the systems and processes which will take a corporate entity towards excellence and if this excellence must take the organization towards business sustainability then there is need for clarity of how it should be achieved. What are the concepts, criteria, confluences and commentary required to understand the relationship, as Sadri and Guha 2009 describe. This much needed clarity comes from rigorous academic inquiry and research substantiated with logic as well as data (identification, generation, tabulation, analysis and meaningful conclusion).

**CORPORATE GOVERNANCE:** Up until recently the accepted wisdom dictated that corporate governance should be best left in the hands of Company Secretaries and Chartered Accountants who are rule bound and rule driven. Corporate governance is a field in economics that investigates how to secure and motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return, [www.encycogov.com](http://www.encycogov.com), according to Mathiesen (2002). The philosophical foundations of this subject are further laid down Clarke, Thomas (ed.) (2004). In view of the same, this author opines that governance should rather come from within the self and therefore it should be value based and value driven instead of being rule bound and rule driven by a set of regulators acting against a set of regulations as Company Secretaries are wont to.

It can be easily discerned that governance is more than board processes and procedures as bodies like the Institute of Company Secretaries of India (ICSI) are wont to argue. Dignam and Lowry (2006) have taken a similar position from a legalistic angle. Corporate Governance in a dynamic market environment full of uncertainties and an unstable yet dynamic dis-equilibrium involves the full set of relationships between a company's



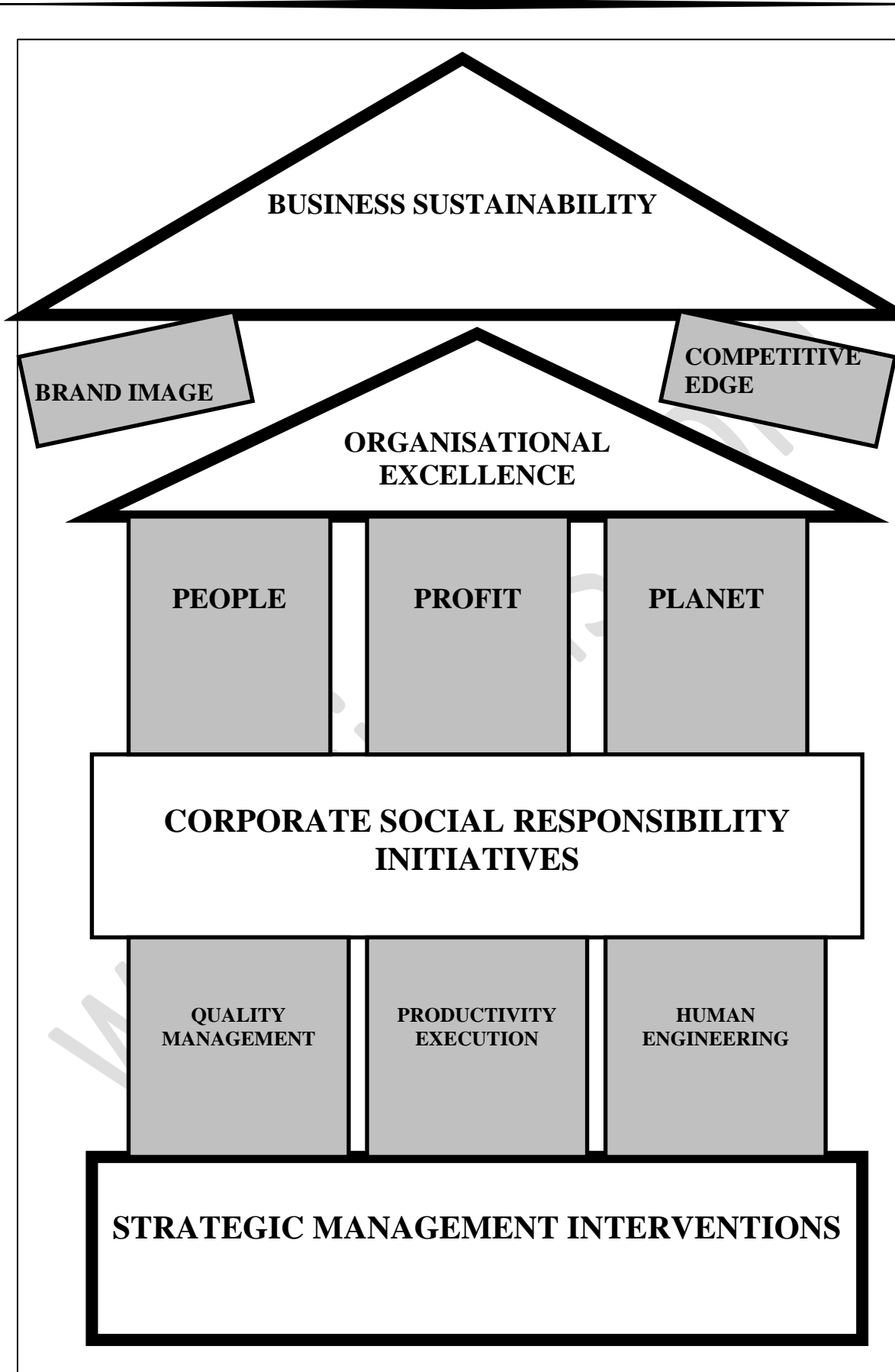
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management, its board, its shareholders, and its other stakeholders, such as employees and the community in which it is located, the excellence of which is non-stop and concurrent to the policy framework. The days of viewing governance in terms of regulations and regulators as was evidenced in the table shown above are fast changing. The time has come to view governance as conformance to systems and processes which promote creativity and innovation on the one hand and is rooted in ethics on the other while meeting corporate goals. Thereby it becomes an instrument for achieving organisational excellence *a la* Sadri and Jayashree (2008). But excellence is like a horizon you move towards and cannot become an ‘end in itself’ so it must lead to business sustainability *a la* Sadri and Guha (2009). Hence for this author corporate governance is a systemic process that no organisation can do without. This makes it automatically a factor for developmental growth of the organisation.

#### **STAGE 4: CONCEPTUAL MODEL:**

The conceptual models (or activity models) are intellectual devices that translate the root definition into a diagrammatic form. Therein the relationships and dependencies of the human-activity-system are presented as a set of interacting elements. Psychoanalysts plot the mind-body genome in this way too. The conceptual models should ideally show the minimum necessary activities that must exist for the described transformations. Therefore, this visualised model is built from the activities (based on the six elements in the RD) and the relations amongst them. The models should be simple and include five to ten activities. Where needed, the analyst should continue and analyse each activity, in what is known as *decomposing*.

The Conceptual Framework Diagram attempts to posit the argument in a double barrelled fashion. (a) A stable context in which changing circumstances (political decrees, community attitudes, etc.) can be consistently and reliably addressed. It does not ignore the reality of change, but has the flexibility for dealing with it. (b) The individual building components are necessary for a good structure, which provides shelter and protection for the stakeholders. This comprises of the foundations, pillars, and the roof. In addition to this, there are certain fixtures within the structure which reinforce it and whose intricate study enables us prove or disapprove the hypothesis.





### **SYSTEMS THINKING:**

The term systems thinking denote some things that are concrete and hence needs to be used with restraint and so the authors argue that: (a) The (edifice) framework should be read from bottom to the top, with the building of all elements of the framework necessary for achieving stakeholder confidence in corporate governance. Although corporate governance follows a positivist framework flowing from the top to the bottom, its efficacy is generated from the bottom upwards. The strength of the foundation stabilises the edifice. (b) This way of approaching the framework suggests that the foundations of good corporate governance are (managerial) leadership, (business) ethics and (corporate) culture; Stakeholder Relationships through equitable treatment (Internal/External); and Effectiveness of Board of Directors are a prerequisite for stability, which supports the pillars of good corporate governance. (c) The three pillars of corporate governance are: Ownership Rights of Shareholder, Transparency & Disclosure, and Performance of the Management. The pillars are definable elements, however they have strong interrelationships. The pillars are, in turn, a prerequisite for the roof of the framework, symbolizing confidence in the social aspects of Managerial Strategy.

And given above is a model that explains the logic of this paper.

### **STAGE 5: COMPARING MODELS WITH REALITY:**

Conceptual models would need to be linked with reality if they are to be considered relevant. So a pilot study was conducted (with the help of junior academic colleagues) in Pune using a specially developed survey instrument, which was derived from a series of interviews conducted using SSM and adapted to surveys taken from available literature. Feelings and attitudes were summarized from the series of interviews. Some questions were also restructured to improve on clarity after receiving comments. The scales to measure attitudes followed a Likert format. Both face-to-face interviews and e-mail data collection were used, in different parts of Delhi and Pune. Although the time period of investigation and the sample size was limited to prevent generalisation and yet was substantial enough to posit a working framework

As every research scholar knows, popular methods of estimating reliability use measures of internal consistency. When an instrument includes a series of questions designed to examine

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the same construct, the questions can be arbitrarily split into two groups, and the correlation between the two such subsets of questions is called the *split-half reliability*. The problem is that this measure of reliability changes depending on how the questions are split. A better statistic, known as *Cronbach's Alpha*, is based on the mean (absolute value) inter-item correlation for all possible variable pairs that provides a conservative estimate of reliability, and generally represents the lower bound to the reliability of a scale of items. However, for dichotomous nominal data, the KR-20 (Kuder-Richardson) is used instead of Cronbach's alpha.

Since the data thrown up by this study was essentially of dichotomous nature the *Kuder-Richardson Formula 20* (KR20) was used by this author. It is essentially an estimate of the test's reliability. It varies between 0.00 and 1.00. Negative values occur in very rare circumstances and indicate severe violation of the assumptions on which the statistic is based. High KR20 values indicate that the items in the test sheet a relatively homogeneous set, i.e., that the individual items measure something in common. A low KR20 is a warning that the test contains items that are only loosely related and that the test is impure because it appears to be measuring several different attributes. In this event the meaning of the test score is unclear. What constitutes an acceptable level of consistency varies with the tested situation. However, KR20 coefficients below 0.64 are often an indication that the test scores should be interpreted with caution, which may involve standard error.

Purely on the basis of convenience sampling 300 questionnaires were mailed and a 50% response was obtained since the persons who received the questionnaire were Company Secretaries personally known to the authors. Calculations were based on the 150 responses received. However, the authors wanted to empirically determine the level of awareness of experts on trends in corporate governance in India. A standard response through focused interviews conducted by this authors was obtained in the autumn of 2009 from 20 selected persons known for their commitment to and knowledgeable about ethics and governance. These were persons who did not fill the questionnaire and so their response only strengthened the authors' prognosis. This response further supported the findings from the questionnaire. Italicised statements were used to imply 'yes' and normal statements to imply 'no'. Accordingly, the KR20 values were calculated and the set of statements was found to be highly reliable and this would hopefully assist research scholars in creating a methodological

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instrument that would measure the degree of governance in a firm. Such measurements in the hands of a neutral agency would become increasingly necessary when every “listed” company has begun to toot its trumpet on governance in its annual report to shareholders.

#### **STAGE 6. IMPLEMENTING CHANGES:**

It is imperative for managers to think outside the box. Those corporate houses that think and act differently will be those that make the positive difference. This study has identified three important desirable and feasible changes in corporate governance thinking that could enable that difference.

- **Predicating sound governance practices on values and ethics.**
- **Maintaining and updating a reservoir of 'know-how' on Corporate Governance**
- **Developing relevant objectives for Corporate Governance**

#### **CONCLUSIONS:**

As Peter Checkland (1981) had argued that the complexity of the universe is beyond expression in any possible notation. Soft Systems Methodology can be viewed as an attempt to apply science to human activity systems. By the very nature of these systems, Checkland candidly admitted that any methodology can be shown to be inadequate, but that does not mean that it is useless. By examining the people entered systems in this manner, we can draw some vital knowledge about interaction and perception. This knowledge will help us in understanding and improving these systems. After all, SSM is an iterative approach forcing the developer to look for a solution that is more than just technical. Herein, the author has made an attempt towards postulating a new paradigm using SSM to generate *hard questions* which can then be dealt with by the, more traditional, *hard methodologies*. To that extent this paper lays a scientific foundation for future and meaningful research that can be conducted on the subject and which, in turn could assist in the strategic management of organisations so as to realise their mission statements. The homily: *the society which scorns excellence in plumbing as a humble activity and tolerates shoddiness in philosophy because it is an exalted activity will have neither good plumbing nor good philosophy: neither its pipes nor its theories will hold water*, is as relevant to corporate governance as it is to any other activity.

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Building a model as the one attempted herein is a contribution in that direction since this model is but a stepping stone to developing and perfecting a paradigm

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