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## CORPORATE SOCIAL RESPONSIBILITY IMPLEMENTATION IN INTERNATIONAL MANAGEMENT: A WAY TO INCREASE COMPETITIVENESS OF A COMPANY

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**Summary:** The main attention of submitted paper is to explain the Corporate Social Responsibility (CSR) from the viewpoint of a theoretical approach as well as an example of the water as a strategic commodity for future. To demonstrate such socially responsible behaviour we used case of Coca-Cola Company that is one of the world's users of water supplies and therefore water plays strategic role in its future existence. We use the methods of analysis, synthesis and comparison. Company that is one of the world's users of water supplies and therefore water plays strategic role in its future existence. Coca-Cola is currently running several projects in cooperation with international organizations such UNESCO and many other NGOs to support the sustainable development of water use and protect endangered water areas. The case study of Coca-Cola Company shows how is necessary to take into account the relation between the CSR and strategic goals of company.

**Keywords:** Corporate Social Responsibility, international management, business, company, strategy

### 1. INTRODUCTION

First decade of the 21 century can be characterized by rapid development of global society as well as by remarkable growth of global issues, both on environmental and social level. These issues have strengthened the necessity to develop and apply more systematic and sustainable approach towards business activities realized on international and local level. Therefore, Corporate Social Responsibility has become an important tool, many companies have decided to apply considering their business activities on local as well as global markets.

The internationalization of firms has generated both adaptive and reactive behaviour. The most evident impact has been upon the intensity of competition faced by firms. However, all elements of the value chain have been affected by these broad environmental changes. For firms, this means they have to reconsider the form and nature of their strategic position as well as the sources of competitive advantage and to attain a new fit with the shifting environment within they operate. This involves both an assessment of the external environment and of those internal drivers that form and shape competitive advantage. There is an increasing sense that in a more complex environment made up of a multitude of political institutions, there is a need to consider the non - market determinants of corporate strategy. This implies that that non-market actions need to be integrated into market - based activities to create an integrated international strategy. Johnson - Turner (2010). Business world has undergone several changes over last decades, considering the role of multinational companies (MNCs) as well as small-and-medium sized enterprises (SMEs). Therefore, Corporate Social Responsibility has become an important tool used to achieve sustainable business approach. The World Business Council for Sustainable Development has define the CSR as a business commitment that contributes to a sustainable economic development via team work with employees and its representatives, families, local and public communities in order to improve

the quality life by beneficial ways both for the business itself and the development (Jamali, 2006).

The Corporate Social Responsibility is not new, but nowadays it seems everyone is talking about it and organizations and businesses are being urged to protect the environment, save energy, and use ethical trading methods. The current concern that all businesses and the public have for ethical behaviour and social responsibility is not restricted to the domestic situation. In this era of global economy, companies must be concerned with how they carry out their business and their social role (Hodgetts - Luthans, 2000). As it was mentioned above, there is very different level for understanding and implementing CSR issues in business practice in different countries and different business. On the other hand, it has to devote the issues, which should have a positive impact on business sustainability, growth and competitiveness. According to Bielik-Hupková (2008) and Quineti et al. (2009), the European market represents very hard competitive environment. The economic integration in Europe has been a challenge for the already existing companies. They need to learn how to compete on the enlarged integrated market and what is equally important all companies need to take globalization and integration processes into consideration (Ubrežiová, 2008).

## **2. MATERIAL AND METHODOLOGY**

The main attention of submitted paper is to explain the CSR from the viewpoint of a theoretical approach as well as an example of the water as a strategic commodity for future. For the purpose of the world trade in water analysis, the authors used the World Trade Organisation's foreign trade database and the United Nations' foreign trade database (UN COMTRADE) as the main information sources for this paper. The world trade with water is not concentrated only at non-sparkling fresh water but also include other beverages under commodity group HS22 (Beverages, spirits and vinegar), which can be divided into three commodity subgroups structure. These are the following: HS 220110 (Mineral and aerated waters not sweetened or flavoured), HS 220190 (Ice, snow and potable water not sweetened or flavoured) and HS 220210 (Beverage waters, sweetened or flavoured, which sub-aggregation covers the following: waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavour). In this paper, we use the methods of analysis, synthesis and comparison.

In order to demonstrate the role of CSR as an important tool used by international companies while dealing with solutions of global problems such as water scarcity we chose currently the world's greatest user of water supplies Coca-Cola Company that is running several international projects supporting the sustainable water management and protection of water resources all around the world.

## **3. RESULTS AND DISCUSSION**

Water resources are sources of water that are useful to humans. Uses of water include agricultural, industrial, household, recreational and environmental activities. Fresh water plays unsubstitutable role in human population development. The quantity of water is limited, especially fresh water becomes scarce factors. Approximately 97% of water on the Earth is salt water and only 3% of total water capacity is represented by fresh water of which slightly over two thirds is frozen in glaciers and polar ice caps. Fresh water is a renewable resource, yet the world's supply of clean, fresh water is steadily decreasing. Water demand already exceeds supply in many parts of the world and as the world population continues to rise, so too does the water demand.

The current water consumption is mainly divided into these 3 sectors:

- *Agriculture* – it is estimated that 69% of worldwide water use is for irrigation, with 15-35% of irrigation withdrawals being unsustainable.<sup>12</sup> As global populations grow, and as demand for food increases in a world with a fixed water supply, there are efforts underway to learn how to produce more food with less water, through improvements in irrigation methods and technologies, agricultural water management, crop types, and water monitoring.
- *Industry* – it is estimated that 15% of worldwide water use is industrial. Water is used in many industrial processes and machines. Major industrial users include power plants, which use water for cooling or as a power source (i.e. hydroelectric plants), ore and oil refineries, which use water in chemical processes, and manufacturing plants, which use water as a solvent.
- *Households* – it is estimated that 15% of worldwide water use is for household purposes. These include drinking water, bathing, cooking, sanitation, and gardening. It has been estimated by Peter Gleick (1996) at around 50 litres per person per day, excluding water for gardens.

If we consider water consumption by regions a tremendous differences emerge between developed and developing regions. While the average volume of domestic consumption in developed countries is about 500-800 litres per capita a day, in developing countries it is about 60-150 litres. The huge problem of current fresh water consumption development is the fact that while the volume of fresh water sources is diminishing (during the last two decades, the volume of available fresh water in the world decreased by 30%), demand for fresh water is constantly increasing. If we compare water consumption and withdrawal in 1900 with water consumption and withdrawal in 2000, we can see huge differences. During the last century, water withdrawal increased its volume more than six times.

Water pollution is one of the main issues of the world today. The governments of many countries have striven to find solutions to reduce this problem. One of the most important presumptions of prosperity and progress towards the sustainable development is the improvement of care of the world ecosystems (including water sources). Human activity leads to degradation of many ecosystems, while the requirements for “ecosystem services” (for example food, drinking water, environment and so on) grow significantly. World population has been steadily growing; its consumption patterns are becoming more and more sophisticated. Demand for fresh water has been growing and price of is also increasing. The result of last 20 years development is the reduction of available fresh water sources for human consumption by about more than 30%. Water becomes not only one of the production factors; water becomes also strategic factor for future human society development. While in 1995 the number of people facing to fresh water scarcity and stress was about 500 million, currently there is almost 1, 2 billion people suffering from water scarcity that means they do not have proper access to 20-50 litres of daily freshwater, which is minimum set by UN organization. Another 1 billion of people do not have access to the fresh water at reasonable prices (Bielik et al., 2010). In 2025, the estimated number of people is about 7 billion. The result of above-mentioned development is the fact, that fresh water becomes the important part of world economy. Nowadays fresh water represents the target of huge international investments.

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<sup>12</sup> “WBCSD Water Facts & Trends”. <http://www.wbcd.org/includes/getTarget.asp?type=d&id=MTYyNTA>. Retrieved 2009-03-12.

**Table 1: World trade volume of analysed commodity sub-groups (in Kg)**

| Year | Total trade in HS 220210, 220110, 220190 | Mineral and aerated waters not sweetened or flavoured | Ice, snow and potable water not sweetened or flavoured | Beverage waters, sweetened or flavoured |
|------|--|---|--|---|
| 1996 | 779 914 694 786                          | 2 968 983 028   | 774 124 371 000  | 2 821 340 758                           |
| 1998 | 769 089 476 720                          | 3 683 710 027   | 762 538 214 759  | 2 867 551 934                           |
| 2000 | 735 180 545 695                          | 4 670 263 875   | 726 535 150 565  | 3 975 131 255                           |
| 2002 | 833 878 246 554                          | 6 010 311 378   | 822 955 610 561  | 4 912 324 615                           |
| 2004 | 828 111 904 118                          | 6 481 441 634   | 815 307 235 846  | 6 323 226 638                           |
| 2006 | 737 356 108 833                          | 7 221 526 251   | 721 988 180 941  | 8 146 401 641                           |
| 2008 | 791 432 730 814                          | 6 112 761 473   | 777 094 115 858  | 8 225 853 483                           |

Source: Comtrade, (Bielik et al., 2010)

Table 1 shows the proportion of all three commodity subgroups in the whole HS22 commodity business. We see that the main pillar of the world fresh water trade – HS 220190 is stable and during the analysed time period almost no significant changes were recorded, in the case of the other two analysed commodity groups significant changes were recorded in the traded volume during the analysed time period (1996-2008). Later on in the Case study we will enquire about Coca-Cola company producing beverage waters in the third commodity subgroup HS220210 (beverages, sweetened or flavoured) that has recorded in the monitored time period, a growth of traded volume of over 190% (the average value of inter annual growth rate reached almost 9.3%). On the other hand, it must be emphasized that while the share of “Beverage waters, sweetened or flavoured” is very high, its share in total trade volume is minor – only 1% (in 2008). The characteristic, which distinguishes this commodity group from the other analyzed commodity groups, is unit value development. During the monitored period, the average unit value of one kilogram of “Beverage waters, sweetened or flavoured” varied between 0.44 USD.kg<sup>-1</sup> and 0.8 USD.kg<sup>-1</sup>. In 2008, the average value of one kilogram of traded “Beverage waters, sweetened or flavoured” (world market) was 0.8 USD.kg<sup>-1</sup>. The main drivers of world import of “Beverage waters, sweetened or flavoured” are the developed countries. In the analyzed period, the share of OECD members in total world imports was over 77% (European Union 57%, North America 16%). The shares of developing countries and regions were only minor. On the other hand, the main drivers of world trade are the OECD members. Their share in world exports is over 80% (European Union 62%, North America 11%). On the basis of this data we can see that world trade (export and import) in “Beverage waters, sweetened or flavoured” is controlled by the developed countries. It must be stressed, however, that the majority of trade operations take place among the developed countries

### 3.1. CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is the idea that management has broader responsibilities than just to make a profit. Those who embrace the classical economic model content that business’s social responsibility is to maximize profits for stockholders. Proponents of the social and economic model disagree saying that business has a responsibility to improve the general quality of life and beyond making profit (Crane and Matten, 2007). Probably the most established and accepted model of CSR is the four-part model of Corporate Social Responsibility as initially proposed by Archie Carroll. Carroll regards CSR as a multi-layered concept, which can be differentiated into four inter-related aspects – economic, legal, ethical, philanthropic responsibilities. He presents these different responsibilities as a consecutive

layer within a pyramid, such that true social requires the meeting of all four levels consecutively:

- *economic responsibilities*: Shareholders demand reasonable return from their investments, employees who want safe and good-paid jobs, customers who demand good quality products at fair price. This first layer is the basis for all the subsequent responsibilities.
- *legal responsibilities*: businesses should abide the law, abiding these standards is a necessary condition for any further reasoning about social responsibility.
- *ethical responsibilities*: These responsibilities oblige corporations to do what is right just, and fair even when they are not compelled to do so by the legal framework
- *philanthropic responsibilities*: At last, as the tip of the pyramid the fourth level of CSR looks at the philanthropic responsibilities of corporations. By using this idea in a business context, the model incorporates activities that are within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society in general.

As was mentioned earlier, all four layers of the pyramid have to be fulfilled if the corporation wants to act and be Socially Responsible. In the recent year, we could observe the increasing number of national and international companies contributing to the effort of governmental and non - governmental organizations to reduce the water shortage and help to obtain the water for most suffering communities in the world. All activities are provided via numerous international projects. Water scarcity and other global issues belong to the sphere that is managed with assistance of special tool: CSR. It is focusing company's interest and activities in searching of possible solutions of global problems for the future. At the same time, it is a respond towards public interest in company decision-making processes.

### **3.2. CASE STUDY: COCA-COLA COMPANY**

The problem of water scarcity has become a serious issue that requires unifying the effort of all the international, national and local policies that need to coordinate the common steps in order to find effective solutions. The main step was done by UN organization that set the target MDG (Millennium Development Goals) – to reduce the shortage of access to water by 2025 by half. What is more responsible approach towards solving the problem of water shortage is dependant also on the approach of local, national and international companies, mainly in agricultural and food industry that are using great deal of world water supplies in order to satisfy the increasing demand of growing population.

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Well-known international giant Coca-Cola Company is one of the greatest users of water supplies in the world. Established in 1886, it operates in 200 countries, produces 3000 beverage products and has portfolio of 500 brands. These products include sparkling and still beverages, such as waters, juices and juice drinks, teas, coffees, sports drinks and energy drinks. Coca-Cola products are consumed by 1,6 billion people per day and it placed 10 million machines at all strategic places to meet consumer's requirements around the world.

Unit case volume of Coca-Cola Company in 2008 represented 23, 7 billions sold products. Table below provide an overview of the financial results in years 2004 -2008 in million \$ as we can see on Table 2.

**Table 2: Review of Coca-Cola financial results in years 2004 – 2008 in mil. \$**

|                     | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Gross profit</b> | 14068       | 14909       | 15942       | 18451       | 20570       |
| <b>Net income</b>   | 4847        | 4872        | 5080        | 5981        | 5807        |

Source: www.thecoca-colacompany.com, 2008

What is more, Coca-Cola is focusing its water stewardship on three main areas, included in targets. The first area is aimed at increasing the efficiency (reducing water ratio) while growing their unit case of volume. Secondly, Coca-Cola is dealing with recycling of used water and thirdly is oriented on replenishing water access and watershed restoration and protection. Over the years between 2004 and 2008, Coca-Cola reduced its water ratio by more than 9%, from 2, 68 l per product to 2, 43 l per product (from 2, 43 litres of water to produce one litre beverage one litre goes into the beverage itself, 1, 43 litres are used for manufacturing processes such as rinsing, cleaning, and cooling.) The final goal is to reach 2, 17 litres per product by 2012 representing the set target to improve efficiency by 20%.

In 2007, the Coca-Cola Company has become one of the six companies committed to the CEO Water Mandate through which Coca-Cola is managing their direct operations and supply chains. Moreover, Coca-Cola Company is establishing wide range of worldwide projects based on partnership with many NGOs, committees as well as governments, for instance WWF, UNDP, CARE, or U.S. Agency for International Development. Following chart provides us with the number of partnerships established by Coca-Cola and local communities devoted to the water management around the world.

For instance, in Brazil and Mexico, it cooperates with local governments and NGOs to reforest more than 30,000 hectares of ecosystems to nurture and protect local watersheds. In Thailand, project “RAKNAM“ was launched to drive public awareness and action for sustainable water resource management. RAKNAM also provides an estimated 49 million litres of clean water annually to water-stressed communities in northeast Thailand.

As we can see, especially multinational companies are increasing their responsiveness towards the increasing global problem considering their local responsibilities. At the same time international community calls for actions of companies at all levels to align their steps, production decisions with more sustainable and reasonable approaches. Coca-Cola Company realizes that acting sustainable is not just the requirement of international community but it will influence the whole future of company from the perspective of consumers too.

Especially nowadays, consumers are making their decisions based on the character of the company that makes the products. People want to interact with brands and companies that share their values and are doing their part to protect and enhance people’s lives, communities, environment and the world. By engaging in sustainable business practices and helping to improve the lives of people, Coca-Cola can earn the social license to operate and the opportunity to thrive (Sustainability Review, 2009).

## 4. CONCLUSION

According to the paper results demand for water use and consumption is increasing simultaneously with the increase of world's population. Beside households, great proportion of all water resources is used by industrial (15%) and agricultural (69%) sectors. On one hand demand for water is increasing, on the other hand water supplies all around the world are decreasing. Due to the unsustainable use of water, many parts of the world already suffer from water scarcity and many inhabitants already do not have access to daily fresh drinking water. Over the last two decades, availability of fresh daily water for consumption was decreased by more than 30%.

Water is one of the key economic factors for future development of all the countries around the world. Especially in recent years, it has become a strategic commodity in the world trade. As a consequence, value of water is growing. It is important to notify, that majority of world trade operations considering water are realized by developed countries. Developing countries play only small role as they suffer from water scarcity.

In order to solve the problem of increasing water scarcity, many multinational companies, governmental and non-governmental organizations are undertaking various steps in order to provide sustainable water management towards the future reduce the water shortage and provide fresh water for the most suffering communities in the world. To reach these set targets, different companies use one of the most powerful tools: CSR approach, which at the same time is a respond to a public interest and companies are using it to demonstrate their share on solving the global problems. To demonstrate such behaviour, we used case of Coca-Cola Company that is one of the world's users of water supplies and therefore water plays strategic role in its future existence. Coca-Cola is currently running several projects in cooperation with international organizations such UNESCO and many other NGOs to support the sustainable development of water use and protect endangered water areas. Moreover, it focuses its own company activities on increase of water efficiency, recycling and replenishing the watershed.

On the whole, CSR can be perceived as a tool which through public interest is urging companies to provide sustainable business operations considering use of natural resources as water, to protect the environment and to create positive impact on the communities where they operates.

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