

CORPORATE SOCIAL RESPONSIBILITY AND COMPETITIVENESS (Responsabilitate socială corporatistă și competitivitate)

Associate Professor Daniel Șerbănică

Academy of Economics Studies
daniel.serbanica@ase.ro

Associate Professor Gheorghe Militaru

Politehnica University of Bucharest
gh.militaru@gmail.com

Abstract

The purpose of this paper is to identify the main opportunities and limitations of corporate social responsibility in the business environment. We propose a new way to look at the relationship between business and society that does not treat corporate success and social welfare as a zero-sum game. Each company can identify the particular set of social problems that it is best equipped with and helps to solve them from which it can gain the greatest competitive benefit. Organizations that make the right choices and build focused, proactive and integrated social initiatives in concert with their core strategies will take the competitive advantage. This paper provides knowledge which may be useful in the programs promoting CSR in Romania.

Keywords: ● corporate social responsibility ● competitive advantage ● social reputation ● value chain social impact ● social standards ● negative publicity ● strategic impact of CSR

Clasificare JEL: M14, M21, L20, O10

Introduction

This paper is an exploratory study focusing on a new way to look at the relationship between business and society. The corporate social responsibility (CSR) can be defined as the duty of organizations to conduct their business in a manner that respects the rights of individuals and promotes human welfare. An excellent definition of the corporate social responsibility was developed in the 1980s by Norwegian Prime Minister and used by the World Business Council for Sustainable Development: "Meeting the needs of the present without compromising the ability of future generations to meet their own needs" [8]. The European Commission defines CSR that a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis.

Developing and implementing CSR policies is a challenge which requires learning and innovation, and companies wishing to take a CSR approach are likely to need to enhance their capacity. Recent research from Denmark suggests that, taking into account the financial costs, two areas of CSR are more likely than others to bring measurable competitive gains in the short-term: environment (reduce costs for energy or waste disposal) and innovation (deriving business from socially beneficial innovations) [12].

Arguments for and against CSR have mainly been driven from three main perspectives: the shareholders, stakeholders and society. The shareholders' perspective of CSR is anchored in the economic and legal responsibilities firms owe to their owners. Korhonen recognized these responsibilities when he argued that the primary responsibilities of firms are to issue the competitive advantage, cost minimization, equilibrium, market efficiency, optimal returns on investments (including labor) and market dominance [2].

Rezumat

Scopul acestei lucrări constă în identificarea principalelor oportunități și limitări ale responsabilității sociale corporatiste în mediul de afaceri. Noi propunem o nouă modalitate de a vedea relația dintre afaceri și societate, astfel încât, succesul companiei și prosperitatea socială nu este un joc cu sumă nulă. Fiecare companie poate identifica un anumit set de probleme pentru care dispune de resursele necesare și se implică în rezolvarea lor obținând în schimb avantaje competitive semnificative. Organizațiile care fac alegeri corecte și elaborează inițiative focalizate, proactive și integrate în conformitate cu strategiile lor esențiale vor putea obține avantaje competitive remarcabile. Această lucrare oferă cunoștințe care pot fi utile pentru promovarea programelor de responsabilitate socială corporatistă în România.

Cuvinte cheie: ● responsabilitate socială corporatistă ● avantaj competitiv ● reputație socială ● impactul social al lanțului valorii ● standarde sociale ● publicitate negativă ● impactul strategic al RSC.

JEL Classification: M14, M21, L20, O10

The contributions of this paper consist of the following three aims. First, it challenges a new thinking about CRS because the prevailing approaches to this concept are so disconnected from business as to obscure many of the greatest opportunities for companies to benefit society. Secondly, it proposes that an affirmative corporate social agenda moves from mitigating harm to reinforcing corporate strategy through social progress. Third, it highlights that typically the more closely tied a social issue is to a company's business, the greater the opportunity to leverage the firm's resources and benefit society.

The literature review begins with a consideration of the importance of CRS for business and focuses on the link between increased competitiveness and CSR and the problems associated with this in terms of the social reputation, competitive advantage, and social standards. The literature review then highlights the crucial role that CSR plays in facilitating this link between business and society. The next section outlines the company's commitment to CSR activities. The paper ends with some conclusions about the CSR practices and initiatives.

1. Link between increased competitiveness and CSR

The business sector plays a decisive role in the fulfillment of the objectives of the growth and jobs strategy. Through their employment diversity policies, for example, enterprises can recruit more people from traditionally marginalized groups and so help to create more integrated labor markets. By investing in cleaner production processes and environmental management systems, enterprises can improve their own efficiency and minimize negative environmental effects.

By providing jobs, investing capital, purchasing goods, and doing business every day, corporations have a profound and positive influence on society. Corporations have the know-how and resources to change this state of affairs. Each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest competitive benefit (Zadek, 2006).

The ways of promoting and implementing of the corporate social responsibility should be adapted to particular conditions of a country. We know that CSR was formulated in the coun-

tries of stable market economy, and consequently focuses on these countries. The promotion this concept in Romania has to be thoroughly researched in terms of a specific strategy of standards from the developed countries may prove to be a serious problem, defined as asymmetry of rationality [7]. The asymmetry of rationality means that the rational procedures and institutions that were developed for markets of different scale and different historical circumstances are imposed on the post-communist countries. The ways of promoting and implementing CSR should be adapted to particular conditions of a country.

The authors have observed that many companies from Romania use their reputation to justify CSR initiatives on the grounds that they will improve a company's image, strengthen its brand, enliven morale, and even raise the value of its stock. They believe that the companies have to convince future managers, entrepreneurs and workers that CSR is an investment in society that pays off in the long term, the social and environmental role and responsibilities of enterprises need to be better integrated into all levels of education.

For example, in the environmental protection sector, Carpatcement Holding invests in alternative fuels and environmentally-friendly technology. The annual budget the firm puts aside for CSR activities amounts to EUR 300,000. Lafarge, in collaboration with the Prais Foundation, is developing the project „Millions of People, Millions of Trees,“ a social responsibility program currently in its second edition during which the company's employees and other partners planted approximately 120,000 small trees during the two years of the program.

MOL invests in environmental protection by ensuring that its filling stations comply with environmental norms. In July (2007), the company also introduced bio fuels. Moreover, it has taken part in the program „Green Spaces“ initiated in 2006 and launched nationally this year. The program applies to non-governmental organizations which, in partnership with schools or public institutions, can apply to receive financing and put into place a green area or a playground for children.

Vodafone Romania has developed projects for collecting waste and educational programs targeting environmental protection such as „The Clean Seaside“ and the national program for recycling mobile phones and accessories launched in March (2007).

Zentiva has a lot of involvement in supporting cultural events but apart from this it also develops a series of projects with the aim of informing doctors and educating patients in its areas of interest. Such an example is the program „Obesity, More than an Image Problem“ which both informs doctors on the latest tendencies in efficiently treating obesity and educating the overweight about the problems it can generate. In 2005, the company granted approximately EUR 80,000 to CSR while last year this sum almost doubled. In addition, the company HelpNet offered medical equipment and personnel and even transformed all the chain’s pharmaceutical units into first aid points.

There are suggests that stronger government and international regulation rather than voluntary measures are necessary to ensure that companies behave in a socially responsible manner. Companies do not pay the full costs of their impact. For example the costs of cleaning pollution often fall on society in general. As a

result profits of corporations are enhanced at the expense of social or ecological welfare. Shell has a much publicized CSR policy and was a pioneer in triple bottom line reporting, but was involved in 2004 in a scandal over the misreporting of its oil reserves which seriously damaged its reputation and led to charges of hypocrisy [12].

CSR can bring advantages to companies.

It is not a short-cut to business success, but an investment that can pay off in the longer term. It can bring advantages, for example in terms of staff retention and recruitment, staff development and motivation, customer loyalty and reduced expenditure on energy (Matten, 2004). In the knowledge economy it can increasingly be a source of innovation and it can facilitate access to and sharing of information. By managing CSR in a more strategic and conscious manner, enterprises can better reap these advantages. Social responsibility covers various areas such as in Figure 1.

Internally	Externally
<ul style="list-style-type: none"> ● Development of personnel skills ● Health and safety at work ● Adaptation to change ● Managing the impact of production on the local environment and on the consumption of natural resources 	<ul style="list-style-type: none"> ● Local communities ● Commercial partners, suppliers, subcontractors and consumers ● Human rights ● Environmental concerns at a global level

Figure no. 1. - The main fields which the social responsibility covers

Internally, CSR practices and initiatives are often isolated from operating units. Externally, the company’s social impact becomes diffused among numerous unrelated efforts, each responding to a different stakeholders group or corporate pressure point.

The consequence of this fragmentation is a tremendous lost opportunity. The power of corporations to create social benefit is dissipated, and so is the potential of companies to take actions that would support both their communities and their business goals. CSR increases the attraction of the products/services with consumers, customers/clients and other stakeholders [5].

For many companies the attention to CSR has not been entirely voluntary. They have reacted only after the public response to issues they had not previously thought were part of their responsibilities. For example, fast-food and packaged food companies are now being held responsible for obesity and poor nutrition, or Nestle’, the world’s largest supplier of bottled water, has become a major target in the global debate about access to fresh water, despite the fact that Nestle’s bottled water sales consume just 0.0008% of the world’s fresh water supply [2].

Many companies have done much to improve the social environmental consequences of their activities, but they don’t think the corporate social responsibility in the way appropriate to the firm’s strategies. A firm that views CSR as a way to reconcile pressure groups often finds that its approach develops into a series of short-term defensive reactions. Be seeking to satisfy stakeholders, however, companies cede primary control of their CSR actions to outsiders [3]. Stockholders’ views are obviously important, but these groups can never fully understand a corporation’s capabilities, and competitive positioning.

Complementing organizational identity, organizational image is “what organizational agents want their external stockholders to understand is most central, enduring, and distinctive about their organi-

zation and organizational reputation is a particular type of feedback, received by organizations from their stakeholders, concerning the credibility of the organization's identity" [4]. An organization's image is a conception of the organization, that is, intentionally projected to outsiders and its reputation is the conception of the organization by outsiders, which is reflected back to organizational members. Image is often linked to corporate strategy, and reputation constitutes an important organizational asset.

Looking through the expected benefits of CSR practices, it is understood that good CSR practices have a small but highly significant correlation with customer loyalty and a moderate and highly significant correlation with the level of organizational commitment.

The social reputation has a moderate and highly significant positive impact on CSR. On the other hand, CSR practices are not closely associated with all aspects of business' performance (profitability, competitiveness, efficiently, and flexibility).

In hospitality industry, for example, in a study done in 2006, almost 60% of tour operator clients expressed no concern or interest in eco-social issues when selecting their products and only 8% expressed a specific interest when selecting their tour operator [10].

In Europe, 95% of Swiss tourists consider respect for local culture to be highly important when choosing a holiday and approximately 87% are also interested in locally produced food, local culture and using local guides when on holiday.

Although consumers may indicate that they expect environmental and social issues to be taken into consideration on their holiday, responsibility for ensuring more sustainable tourism falls in the hands of the operators should have responsibility for preserving the local environment and culture and ensuring that local people benefit from tourism.

The National Geographic ecotourism survey (2005) suggested that 61% of those interested in environmentally and socially sensitive travel would pay 5-10% more to use the companies that mitigate the green house gas effects of their travel [10].

The majority of travel globally is still mass tourism which consists mainly of sun, sea and sand tourism package holidays. Price, accommodation quality and personal security rank as the most important considerations of booking holidays.

Most of the larger hotel chains comply with environmental standards and have environmental policies and standards ranging from in-house benchmarking systems (Accor, Hilton Group, etc.) to environmental standards.

Strategic CSR. Strategy is always about making choices, and success in corporate social responsibility is no different. It is about choosing which social issues to focus on the short-term performance pressures companies face rule out indiscriminate investments in social value creation. The social value creation should be viewed like research and development, as a long-term investment in a company's future competitiveness. Strategic CSR moves beyond good corporate citizenship and mitigating harmful value chain impact to mount a small number of initiatives whose social and business benefits are large and distinctive [6].

Virtually every activity in a company's value chain touches on the communities in which the firm operates, creating either positive or negative social consequences (Windsor, 2004). Value chain social impacts are those that are significantly affected by the company's activities in the ordinary course of business. Social dimensions of competitive context are factors in the external environment that significantly affect the underlying drivers of competitiveness in those places where the company operates. Value chain and competitive-context investments in CSR need to be incorporated into the performance measures of company.

The prevailing approaches to CSR are so fragmented and so disconnected from business and strategy as to obscure many of the greatest opportunities for companies to benefit society. In fact, the most common corporate response has been neither strategic nor operational but cosmetic: public relations and media companies, the centerpieces of which are often glossy CSR reports that showcase companies' social and environmental good deeds.

According to the study [13], ten Polish companies have published a CSR report in 2006. There are thousand companies in Poland (less than 20% of all companies), are independently certified to ISO 14001. Only a few Bulgarian companies are reporting about CSR in regular, structured CSR reports. 105 companies (less than 20% of all Bulgarian companies) are independently certified to ISO 14001. Finally, Hungary has the most companies with in the region CSR reports (15); Poland has (10), in Croatia (3) companies have reported in 2006.

There are strong pressures for integration and coordination between the host-country subsidiary and home-country parent company due to multinational customers and competitors, technological developments, access to raw materials and energy, and the need to leverage investment and achieve economies of scale. On the other hand, pressures for local responsiveness are due to different customer needs and tastes, market structure, and governmental requirements [8].

Pressures for product-market responsiveness include differences in customers and distribution channels, the availability of substitutes, market structure, and host government demands. Similarly, pressures for CSR response to local issues stem from differences in stakeholders as well as market structure and the demands of host governments.

Data from Spain, for example, shows that almost 70% of the enterprise see CSR as a key factor for a beneficial business performance in 2006 – while the respective share amounted to “only” about 50% in 2005 [13].

Corporate crises often result in negative publicity, threatening the image of the company. Negative publicity has the potential to damage corporate image. This is due to its high credibility as well as the negative effect, a tendency for negative information to be weighted more than positive information in the evaluation of people, objects, and ideas. Because the media has a preference for reporting bad news, companies are more likely to receive bad press rather than positive press [11].

2. The company’s commitment to CSR activities

CSR can be understood as the business contribution to sustainable development of the society and involves four key elements that describe the scope of business responsibility [14]: (1) *Economic responsibility* – to make a

profit by producing goods and services that the market wants and selling them at a fair price that the market accepts; (2) *Legal responsibilities* – to act in accordance with the law; (3) *Ethical responsibilities* – to act in accordance with society expectations expressed by social rules and (4) *Discretionary responsibilities* – resulting from the individual choice of managers or company owners (philanthropy).

We know that the strategy requires a company to recognize its main social, ethical and environmental impacts and describe relevant targets and objectives relating to these impacts and that integrate with the core business strategy. Companies realize the necessity of improving the enterprise’s image by showing commitment to social issues and/or the introduction of business ethics rules and, therefore, include CSR activities in the daily business routines.

For example, about 60% of the large companies, more than half of the medium-sized enterprises and about 40% of the small companies in Poland declare that running a business should comply with the needs of local societies and environmental concerns. Also Norwegian data show that 91% of the CEOs of private enterprise with more than 19 employees mentioned in 2000 that social commitment is profitable for the company in the long run, and 53% of the enterprises had issued or were elaborating guidelines for business ethics/values (ethical accountability) [13].

In SME case, the level of SMEs in CSR activities differs among countries. For example, 83% of Finland SMEs are engaged in CSR whereas only 46% of Spanish SMEs conduct such activities. Generally, the northern and central European countries show the highest percentages of SMEs involved in external social activities, contrary to southern countries as well as France and the United Kingdom where social involvement is less common among SMEs [13]. The results are presented in Table 1.

Table no. 1 - Percentage of SMEs involved in CSR activities

	Austria	Finland	Germany	Norway	Spain
0-9 employees	68	82	53	67	45
10-49 employees	72	96	62	87	65
50-249 employees	80	94	74	95	61
	68	83	54	68	46

Source: European Communities

Data for Germany, on average, SMEs with less than 99 employees spend 0.11% to 0.12% of their annual turnover on sponsoring, donations and Corporate Citizenship. Larger enterprises only provide 0.05% to 0.07% of their turnover for such purposes. So, relative to their potential, SMEs are willing to invest comparatively more than large enterprise on their societal relations.

CSR is promoted in Romania mainly by foreign companies with branches in our country. They organize informational and educational actions, and more importantly are able to show how to involve business in actions for society and natural environment through many programs realized in our difficult reality. The foreign standards are also a source of inspiration for the institutions that deal in helping the people and organizations in need to contact the companies that can provide the help [12].

Romania managers and businessmen are increasingly aware of the fact that the law and market forces are not always able to regulate economy sufficiently. There are certain necessary ethical standards, based on the successful solutions developed in the countries with advanced market economy, that fulfil the expectations of both the closest business environment and potential partners from abroad. The world of business more and more frequently makes attempts to create those standards through establishing ethical codes or rules of practices, as well as by promoting those companies that act reliably and responsibly.

One of the crucial background elements that encourage business to act for society and environment is a strong civic society. Appropriate non-governmental institutions can act as representatives of various groups of stakeholders, as partners in the dialogue with the business, as well as coordinators of a company's cooperation with the local community. They can also initiate organized lobbying actions by citizens and consumers. However, the weakness of the non-governmental sector and the civic society in Romania in general makes them unable to fulfill these roles. The weakness of this sector lies in the small number of organizations with specifically civic functions, as well as limited range of actions and their negative financial situation. The civic institutions are disregarded by the political elite and are not welcome as a partner in the dialogue with authorities. As a result, companies do not treat them as serious partners [9].

Another of the results of CSR is the development of the welfare-state mentality (Zadek, 2006). If a company voluntarily helps individuals or groups, after a certain time those groups can go on to regard it as something that is rightfully theirs, or even propose other demands. Systematic help may encourage acquired helplessness, damp entrepreneurship, and even establish a dependency between the business and those who could otherwise act on their own in the market or society.

One of the unintentional results of the CSR policy can be growing expectations from specific stakeholders, as well as indifference of the local and central authorities, which is only too glad to dispose of a part of its duties. It often happens that a company's volunteer work for the environment or specific stakeholders is misunderstood, and causes discontent and disagreements among the stakeholders. When a company helps people in other than purely financial terms, it may be perceived as an example of paternalistic attitude towards the employees.

Many business schools now incorporate teaching on CSR into their curricula for MBA and other students. The integration of CSR competences into relevant professional qualifications, for instance for business advisers, would be a significant advance.

Conclusions

The European Commission sees CSR as part of the business contribution to sustainable development and to the European Growth. It believes that CSR has the potential to contribute to various common goals, such as social cohesion, economic competitiveness and a more rational use of natural resources. Local or regional organization, such as chambers of commerce or other business associations, should be able to make CSR relevant to particular local and regional issues. This will contribute to the positive evolution of European business culture in a way that will enhance Europe's competitiveness and its ability to deliver sustainable development and a better quality life of for its citizens.

We think that the companies should be involved in preventing as well as solving social problems because the socially responsive corporation actively seeks solutions to social problems. We have noted that CSR practices and initiatives are often isolated from operating units – and even separated from corporate philanthropy.

In addition, the company's social impact becomes diffused among numerous unrelated efforts, each responding to a different stakeholder group or corporate pressure point. The consequence of this fragmentation is a tremendous lost opportunity. The power of corporations to create social benefit is dissipated, and so is the potential of companies to take actions that would support both their communities and their business goals.

The positive influence on CSR in Romania is the good economic growth rate of our country and consequent consolidation of contacts of our companies with their foreign partners, especially from the EU countries. The employees want to work for a company

that's socially responsible and is doing what's right. The personal and ethical values of company owners, managers and employees are a strong motivation for an enterprise to pay more attention to social and environmental issues. Improvement of the local education standards by donating funds, time and expertise provides both to select and train people for company and to contribute to the local community.

Perceiving social responsibility as building shared value rather than as damage control or as a PR campaign will require dramatically different thinking in business. The authors are convinced, however, that CSR will become increasingly important to competitive success.

References

- [1] Crane, A. și Matten, D., 2004, *Business Ethics, A European Perspective*. Managing Corporate Citizenship and Sustainability in the Age of Globalization, Oxford University Press, Oxford;
- [2] Donaldson, T. și Preston, L., 1995, 'The stakeholder theory of the corporation: concepts, evidence, and implications'. *Academy of Management Review*, 20, 65–91;
- [3] Freeman, R.E., 1984, *Strategic Management: A Stakeholder Perspective*. Englewood Cliffs, NJ: Prentice Hall;
- [4] Gioia, D., Schultz, M., & Corley, K., 2000, *Organizational identity, image and adaptive instability*, *Academy of Management Review*, Vol. 20, 63-81;
- [5] Hillman, A. și Keim, G., 2001., 'Shareholder value, stakeholder management, and social issues: what's the bottom line?', *Strategic Management Journal*, 22, 125–39;
- [6] Kernisky, D., 1997, *Proactive crisis management and ethical discourse: Doe chemical's issues management bulletins*, *Journal Business Ethics*, 16, 843-854;
- [7] Militaru, Gh., 2005, *Comportament organizațional*, Editura Economică, București,
- [8] Porter, M., and Kramer, M., 2006, *The link between competitive advantage and corporate social responsibility*, *Harvard Business Review*, 78-86;
- [9] Strzalecka., A., 2006, *Opportunities and limitations of CSR in the post-communist countries: Polish case*, *Corporate Governance*, Vol. 6, No.4;
- [10] Swift, T. and Zadek, S., 2006, *Corporate Responsibility and the Competitive Advantage of Nations*, AccountAbility/The Copenhagen Centre, London
- [11] Windsor, D., 2004, *Corporate social responsibility: three key approaches*, *Journal of Management Studies*, 2004, 43, 1, 93-114;
- [12] *** World Bank Report, 2004, *World Bank Report Doing Business in 2004*, Understanding Regulation.
- [13] *** United Nations Development Programme, 2007, *Baseline study on CSR practices in the new EU members states and candidate countries*;
- [14] *** European Commission Report, 2006.