

CORPORATE SOCIAL RESPONSIBILITY - A NEW WAY OF BUSINESS STRATEGY

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ABSTRACT

The much fiercer competition in globalised markets demands that economic entities adapt quickly and appropriately as new conditions arise. One way to meet the new conditions, challenges and opportunities is through corporate social responsibility, with emphasis on a shift away from the short-term to long-term goals and from maximising to optimising profits, the latter having three dimensions (economic, environmental and social). Socially responsible companies take into consideration the needs of their internal as well as external settings and contribute to sustainable development. Transparent and responsible behaviour reflects the pressure of the society and is becoming a competitive advantage. The article deals with the role of corporate social responsibility in global conditions. It informs about the current situation of CSR in the Czech Republic. It is only focused on selected issues of CSR and its specific features and its prospects in the Czech Republic. It is also apparent that socially responsible behaviour is gradually making headway and becoming part of corporate strategy, instead of being merely a marketing tool. For small and medium-sized companies, which operate regionally and are easily monitored, socially responsible conduct presents a natural course of action to ensure survival.

JEL CLASSIFICATION & KEYWORDS

■ M14 ■ L1 ■ L2 ■ SOCIAL ■ RESPONSIBILITY ■ STRATEGY ■ BUSINESS

INTRODUCTION

Becoming capable of competing on the global scale calls for flexibility, ability to respond adequately to changes within and outside the enterprise, and consistence in seeking and making use of new opportunities. Recognising which factors are crucial for the future and gaining advantage over one's competitors are of utmost importance. The choice of the company's strategy is a key factor in this process. From the long-term perspective, behaving in accordance with the principles of social responsibility appears to be the best strategy for more and more companies.

What encourages companies engage in CSR and what benefits does it bring?

The notion of CSR started to develop in the second half of the 20th century, in relation to global processes, when the roles of the church and the state as the traditional guarantors of social responsibility began to weaken. Social changes and long-term solutions to problems faced by civil society demand active participation by the corporate sector (Kunz & Srpova, 2007). The modern history of CSR started in the U.S. and it's related to such names as H.R. Bowen, R.E. Freeman, P. Drucker, A. Carrol. CSR derives from the stakeholder theory and the principles of sustainable development. The concept of CSR is based on voluntary conduct, it is open to discussion and leaves room for a wide range of interpretations and understanding. There is not one

generally accepted definition. For example, the World Business Council for Sustainable Development defined social responsibility in 1997 as follows: "CSR is a company's continual commitment to act ethically and contribute to economic growth, while striving to improve the quality of life of its employees and their families, as well as of the local community and society as a whole." According to the EU Green Book, "CSR is the voluntary integration of social and ecological aspects within a company's every-day operations and its interaction with stakeholders" (Duskova & Dzbankova, 2005; Trnkova, 2004). In essence, CSR is about enterprises behaving responsibly towards their employees, consumers, suppliers, local communities, the environment etc, and doing so beyond the scope of what is required of them by law. Numerous studies prove that the public expect organisations to act in a responsible manner. CSR and the implementation of ethical principles have an impact on the company's position within the market, its ability to compete and its profits (Pavlík & Bělčík, 2010).

CSR is supported by international and supranational organisations, such as the EU and the UN, which endeavour to make it a business standard. From the initiative of Jacques Delors, expert headquarters of CSR Europe were established in 1996. CSR has received a lot of support within the European Union since the EU Lisbon summit in 2000, which identified CSR as a significant means to obtaining an EU's strategic goal. The concept of CSR spread to the Czech Republic by the second half of the 1990s (Pavlík & Bělčík, 2010).

As the concept of CSR was developing, its supporters were joined by its opponents, especially in connection with the attempts to grasp it theoretically. Milton Friedman made his stand against the idea that companies should be obliged to conduct themselves in accordance with the society's expectations, arguing that "a company's only responsibility is to create profits for its owner". He considered social responsibility to be a "clever cloak", which protects the enterprise in a hostile environment with a negative attitude towards capitalism and the company's for-profit motivation. It is a way for a company to create goodwill as a by-product of expenses which are fully justifiable by its own interests. At the same time, he warns against the harmful effects which would arise if CSR should be purely altruistic and selfless, and disregard the need to generate goodwill (Friedman, 1970; Džbáňková, 2003; Doležalová 2008).

When a management of a company considers introducing CSR, it must ask itself why the company should be responsible, what activities it should opt for, how the concept should be implemented, evaluated and what the current status of CSR is. CSR activities are associated with additional costs. Why be a socially responsible company then? What are the benefits of social responsibility and who benefits from it? Responsible behavior has a positive effect on the image and goodwill. Companies can increase demand of their production, profit and its market value.

Firstly, it is a way for a company to create goodwill as a by-product of expenses which are fully justifiable by its own interests. Secondly, the socially responsible behavior may be influenced by various entities inside and outside the company. And that relationship to their surroundings can lead to socially responsible behavior. Socially responsible behavior as a response to environmental demands. Furthermore, the socially responsible behavior can be the result of company efforts to achieve the objectives of the participating entities in the company (Soukupová & Dušková, 2005). What may be the benefits of CSR?

Benefits of CSR

Once put in practice, CSR begins to bring benefits to the company's clients (improved product quality, innovation), its employees (improved quality of work place, better care), its suppliers (higher effectiveness and transparency of supplier-client relationships), the public sector (better quality and availability of public services, financial savings) and the citizens (improved living and social environment) in the region where CSR is applied.

It is essential to determine the advantages CSR brings to the organisations that practise it as CSR activities come hand in hand with additional expenses. The advantages include: increased value of intangible assets and the organisation as a whole (reputation, brand value, human capital, trust relationships and partnership), expenditure savings (innovation, which leads to increased effectiveness and brings down real explicit costs, decrease in implicit costs, i.e. expenses to do with future removal of contaminated surfaces or potential disputes etc.). In the long-term, CSR contributes to greater profits and content, loyal and skilled workforce (company's stronger image, creative environment), increased competitive advantage and greater client loyalty (differentiation from competition, ethics-based decision-making by clients), new business opportunities (communication with various stakeholders being a source of ideas), it attracts investors (adding CSR to the firm's strategy is a sign of good management and lower risk), enables the enterprise to achieve the status of "preferred supplier", to increase effectiveness of supplier-client relationships (mutual trust, increased product quality, greater profits) and leads to better risk management (changes and potential risk is foreseen thanks to respecting the environment) (Pavlík & Bělčík, 2010).

The actors, areas and activities of CSR

In the context of CSR, companies complement their traditional economic goals with goals that aim to benefit society (i.e. environmental, social, ethical and community-related aspects are incorporated in their strategies). Simultaneously, there is a shift away from short-term goals in favour of long-term ones, from maximum profits to optimum profits. Socially responsible behaviour of an enterprise has essentially to do with a long-term investment in its overall development. Firms thus act in ways which contribute to sustainable development, allows them to be transparent and generally enables them to encourage the betterment of society, all within and beyond their scope of commercial influence. The concept rests on the principles of philanthropy, volunteering and partnership. Companies and representatives from various social areas cooperate to improve the existing imperfections within the society. Their cooperation reaches beyond individual sectors and benefits all participating parties (Dušková, Džbánková, 2005, Trnková, 2004).

Who can we find among these participants, influencing the concept of social responsibility? *Private firms* (corporations)

constitute the key actors within CSR since they both provide it and implement it. Although some companies use CSR as a marketing and promotion tool to improve their reputation and as such pretend to be socially responsible, there is a trend to promote CSR whose effects are long-term and have a particular aim. Long-term *investors* (e.g. monetary funds) represent a second group of actors, who are aware of the advantages to be gained from respecting social and environmental aspects (risk reduction, creation/increase the value of the company). In the long-run, socially responsible conduct by corporations can be influenced dramatically by individual states – the public sector – by setting up a legal system which regulates business environment and by guaranteeing law enforcement. The next group is formed by various *civil sector organisations*, such as watchdog organisations, whose main function is to monitor (protect the environment, human rights etc.). Business-oriented international NGOs (BINGOs) belong to this group as well, e.g. the Business Leaders Forum (BLF), which focuses on business ethics and is a guarantor of responsible conduct. Unions represent one of the key stakeholders, together with foundations and foundation funds. They aid in the process of resource allocation in the context of corporate philanthropy and thus help non-governmental organisations expand their activities. Other participants are rating agencies, whose evaluations can offer an indication of what the consequences of CSR activities may be on a given target group, or they can be used by individual firms in PR. In our setting, the EU is the last actor in the field of CSR, who began to engage in CSR in the second half of the 1990s (Kunz, Srpová, 2007).

The notion that an enterprise is not an isolated unit and that its prosperity depends on the health of the rest of the society and on how it is perceived from the outside, gives rise to the commonly used term "triple bottom line". It characterises a way of running a business, focused on economic, social but also environmental aspects of its activity. What are areas of CSR can we find in practice?

The economic area of CSR stems from the purpose of a firm. If our basic presumption is that the main goal is a long-term growth of share prices through effective usage of production factors, then economic responsibility might take on the form of increasing the employees' qualifications or of mutually beneficial business partner contracts. Other presentations are: the application of principles of good corporate governance, transparency, protection of emotional ownership, quality and safety of the products, relations with the investors and clients, the manner in which the suppliers are treated, dialogue with the shareholders, rejection of corruption, codes of corporate conduct of the firm and/or the ethical codex.

The social area of CSR has mainly to do with care for the employees and their families but also with any form of support of social issues within public life: corporate philanthropy and corporate volunteering, employment politics, health and safety, education, retraining, employment of minorities or disadvantaged groups of the population, gender equality, adherence to work standards, ban on child labour, work-life balance for the employees.

The environmental area of CSR creates environmentally friendly work conditions but is also reflected in considerate attitudes towards natural resources, ecologically friendly products and in applying this principle in the process of selecting suppliers and sub-suppliers. In broad terms, this category includes: ecological production, products and services (EMAS and ISO 14001 standards), protection of

natural resources, investment into ecological technologies and ecological corporate culture¹.

Another aspect which needs to be mentioned is responsibility towards the local community and government. This manifests itself, for instance, in the development of good relations between a company and the government at the national or regional level (Trnková, 2004).

In the process selecting CSR activities from the above-mentioned areas, companies increasingly opt for sponsoring (marketing purposes) and donations (receiving nothing in return). However, it is clear that social responsibility cannot be mistaken for philanthropy since responsible conduct is about an attitude and a manner in which an organisation is managed. Also, companies can entrust a proportion of their resources earmarked for philanthropy to foundations or foundation funds (a better way or targeting support of publically beneficial projects). Social marketing is another CSR activity (cause-related marketing being a method through which private sector organisations support society). Helping not-for-profit organisations and publically beneficial projects can in turn bring companies higher turnovers, greater profits and new customers. A good example of this is a marketing campaign in which a private enterprise commits to donate a given amount of money for every product sold to a chosen charity/charitable event. Admittedly, these (usually one-off) activities may not be about fulfilling social responsibility. CSR represents responsible conduct in the context of the company's everyday activities. Reporting is part of communication with the public and a crucial component of CSR activities. It provides information about what type of social responsibility is being undertaken. Other examples of supporting society and local communities are: giving non-money gifts, offering various workshops or specialist help, matching funds (a combination of corporate support and employees' direct participation) and corporate volunteering (e.g. employees' voluntary work in the field of social services or education) (Pavlík, Bělčík, 2010, Trnková, 2004).

Attitudes to CSR, implementation and evaluation of CSR

The attitude to social responsibility within individual organisations varies in relation to their size, form of ownership and the degree of dependence on good reputation with the clients. For instance, large enterprises tend to engage in financially demanding philanthropy and firms, which are directly dependent on good reputation with the clients will display tendency to focus on the public at large and are highly likely to have a concrete policy of social responsibility.

Creating and implementing the attitude of CSR within the organisation is a long-term and complex process. It is the choice of operation areas and individual CSR activities, their integration into the company's vision and values. It also concerns corporate culture and decision-making at all levels of management. The process involves: forming of a vision (selecting CSR activities), evaluating attitudes to CSR within the organisation, determining what steps need to be taken to implement CSR (commitments, goals, involvement of target groups etc) and creating a CSR concept which is the most suitable concept for the company's line of business, mission, size and corporate culture. The formation of the concept itself entails determining the main motivating factors for implementing CSR, identifying the key CSR visions, evaluating the current standing of CSR within the

¹ A company's true expression, a system of symbols, social norms and standards of conduct within the field of ecology.

organisation, establishing who the main stakeholders are and how best to involve them in the CSR activities of the company, deciding on the main themes and goals and forming an action plan of CSR activities necessary to achieve the selected goals. Personnel roles and responsibilities, the budget and the time plan must be clarified. At the same time, a way of monitoring and reporting results of CSR activities which have taken place needs to be put forward. Communicating correctly with the target groups (stakeholders) constitutes an important part of the implementation of the principles of CSR.

Most organisations perceive the concept of CSR as a long-term investment. Given that CSR is voluntary and the term very broad, there is the issue of how to measure and evaluate CSR activities. At present socially responsible activities can be measured by means of exact methods, such as the OECD Guidelines for Multinational Enterprises, Social Accountability International's SA 8000, the Corporate Responsibility Index, the London Benchmarking Group and the Responsible Business Standard ("Standard odpovědná firma" in the Czech Republic). Various index and benchmark comparisons can also be employed (e.g. measurements based on analysis of annual reports, on the outcomes of questionnaires, pollution indexes etc.) (Pavlík, Bělčík, 2010, Trnková, 2004).

The current status of CSR in the Czech Republic

A number of recent studies and analyses (STEM, BLF, the Pontis Foundation, Ipsos etc.) have indicated how much real awareness there is about CSR in the Czech Republic and to what extent CSR activities take place there. The Business Leaders Forum (BLF) – an association of Czech and international companies – contributes greatly in this field in the Czech Republic by being an active promoter of socially responsible conduct and a supporter of collaboration between the enterprise, not-for-profit and public sectors.

In general, awareness about the extent of CSR can be regarded as low. CSR is often associated only with philanthropy and/or companies acting ethically. There is lack of systematic and complex approach, lack of strategy and lack of interconnectedness among all the different CSR activities. Delegation of responsibility and CSR goals tend to be imprecise. Ways of assessing whether CSR activities have been successful are not defined sufficiently and accidental and occasional occurrences are seen as socially responsible. CSR is thus often mistaken for marketing (presentation of a company and its products). Enterprises concentrate on donorship, activities in the field of environmental protection and ethical codices. CSR politics focuses inwards, on the employees (education, social benefits). On the public-sector end of the spectrum, the support of CSR is poor or missing altogether. The fact that the public are not kept sufficiently informed is a major characteristic (low support and education through media with respect to CSR benefits) (Pavlík & Bělčík, 2010). Despite this situation, as the following surveys show, Czech citizens and local companies are taking the growing pressure of demanding transparency and ethical conduct into consideration.

Latest CSR Survey

The survey "Corporate Social Responsibility – a new factor of competitive advantage" by BLF, carried out in stages between 2006 and 2008, revealed some important facts. A total of 225 companies from all over the Czech Republic participated in it – small, medium-sized as well as large firms (65%, 23% and 12% respectively), operating internationally

as well as only within the Czech Republic (49% and 51% respectively). 47% of the firms were familiar with the term CSR, whereby the larger the firm, the greater the familiarity. Almost 80% of the companies agreed that an enterprise must behave responsibly and ethically towards its employees, the environment and the community in which it operates, if it is interested in long-term prosperity. A majority of the firms (close to 90%) undertake at least one employee-oriented activity (mainly education – 66%) and 93% of the firms engage in at least one outward activity (collaborating with NGOs, supporting training and education, integrating disadvantaged groups of citizens). Donations constitute the most commonly executed form of assistance (63% of the firms), then come sponsoring (47%), collaboration with other institutions on socially beneficial projects (33%) and cooperation with one's own employees (24%). Prague-based companies tend to focus on their staff more (67%), non-Prague firms more commonly opt for donations (65%) and sponsoring (48%). The factors that most frequently motivate companies to behave in a socially responsible manner are: ethical/moral reasons (74%), greater satisfaction of the staff (64%), improved relations with business partners and investors (40%) and traditions (32%). Greater satisfaction of the employees, better relationships with business partners and investors and improved reputation of the company were perceived to be the main benefits which result from CSR. Conversely, the principal reasons listed among those that hinder socially responsible conduct were: excessive bureaucracy, lack of time and high costs (almost 30% of the firms state no reasons). 28% of the companies had appointed someone to coordinate CSR, while only 15% publish news about CSR (BLF Survey, 2008). For the benefit of comparison, let us examine some of the results of project „CSR Research 2010“ by Ipsos Tambor (in cooperation with Ceska Sportelna, MPMG Czech Republic, CEZ and Vodafone). It was carried out in autumn 2010 on a representative sample of the adult population and professionals (CSR managers of large corporations, representatives of prominent NGOs, members of various associations, institutions and media). Its aim was to perform a detailed analysis of the different areas of CSR, the ways which CSR activities are perceived and their influence on the reputation of the companies. The total of 17 enterprises was evaluated. Whether a company is socially responsible or not influences 2/3 of shoppers. 80% of the employees find it important whether their employer acts responsibly. Based on their conduct and personal attitude to CSR, 53% of the population can be seen as engaged in CSR – they actively participate and demonstrate interest in the topic. Responsible behaviour is more important to women, which is consistent with studies in other developed countries of Europe. One of the conclusions of the study was that (especially larger) enterprises ought to concentrate primarily on honest communication with the clients and on environmental issues. What citizens expect from companies is dependent on the sector, within which the company operates. Thus, energy firms should focus on the environment, services on activities within the social area, banks and financial institutions on humanitarian aid and crisis situations. The study investigated the extent to which social responsibility helps build a company's reputation. The way in which social responsibility is perceived clearly acts as a contributory factor in the formation of a positive view and trust, both necessary for goodwill to be created and spread. Almost 75% of the respondents stated that they would be willing to pay a higher price if a product was environmentally friendly or if a proportion of that payment was donated to a socially beneficial cause (Ipsos Tambor Survey, 2010).

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One of the recent surveys, "The interest of Czechs about CSR" by TNS AISA², was carried out on May 2011. The results showed that in the world the CSR is perceived as a competitive advantage. In the Czech Republic around 3 million people aged 18-60 years are interested in the CSR. Declared interest (45%), respectively lack of interest (44%) in the topic of corporate social responsibility are alike. The remaining respondents are unable to evaluate this area. Decisive interest in CSR, however, declares only one in eight citizens (13% - that is about 850 thousand people). This interest in CSR is declared more by men (48%, definitely interested 14%) than women (42%, 12% definitely interested). The highest interest in CSR was declared by the group of 30-39 year olds (57%, 15% definitely interested).

An remarkable paradox is that about a third of people can name a socially responsible company. Among those mentioned were Skoda Auto, CEZ, Ceska Sportelna and Vodafone. Equally, however, a whole third of respondents listed companies which are not considered socially responsible. The most frequently reported were CEZ, Sazka and Skanska (TNS AISA Survey, 2011).

Conclusion

Social responsibility in practice can be seen as a challenge how to keep track of implicit and explicit social needs of its integration into corporate strategy and how to improve social relations with the business environment. It strives to seek a balance between the company (people), environment (planet) and the maximization of profit (Soukupová & Dušková, 2006, p. 21).

The CSR is seen as viable concept at the Czech Republic too, but there is lack of systematic and complex approach, lack of strategy and lack of interconnectedness among all the different CSR activities. The public are not kept sufficiently informed and the institutional framework is still not sufficient. Although the CSR is often associated with philanthropy or mistaken for marketing (presentation of a company and its products), it is evidently penetrating into awareness of the public and companies. In global terms, the responsible behavior is considered a competitive advantage. It appears to be the best alternative strategy for a growing number of companies.

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² The leading companies on marketing research and market information in the Czech Republic.

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