

**“Business castle” gates.**

**Corporate Social Responsibility as the main base for effective external business processes.**

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## Abstract

In times of globalization world faces serious social and environmental challenges, ranging from an ageing population to climate change mitigation. In order to address such complex challenges modern society need to contribute. And business is one of the most powerful sectors of it after government and media.

Interestingly, companies effect on consumers and consumers have huge influence on companies, as well. Apart from creating economic welfare, enterprises have to face new challenges and responsibilities as a result of changing expectations of consumers, investors, citizens and government. Today business is asked to voluntarily accept social and environmental responsibilities which go beyond the legally required obligations in order to contribute to sustainable development.

The way that businesses manage the economic, social and environmental impacts of their operations into their values, culture, strategy and operations is well-known as corporate social responsibility (CSR).

Key CSR issues: environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labor standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures. Therefore, corporate social responsibility system of a company could be considered as “Business castle” gates – different channels to external environment of an enterprise.

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## Introduction

We will not be measured by our aspirations.

We will be measured by our actions.

- Lee Scott, Chief Executive Officer, Wal-Mart  
(Gunther 2006, p. 43)

Most people today, whether they are students, managers, or employees, have heard something about the corporate social responsibility (CSR). In the business area, the media, or even within popular culture. For example, a search by Shwartz and Saiia (2012) on Google showed over 12 million hits for the term “corporate social responsibility.” However, despite the omnipresence of the CSR term, what CSR means and whether it has relevance in the business world.

Corporate Social Responsibility is a concept in management: companies integrate social and environmental issues in their business activities and cooperation with their stakeholders. Bode (2007, p.6) states that CSR is understood as a balance of economic, environmental and social needs, while meeting the expectations of shareholders and stakeholders. A CSR concept, implemented properly, can bring along a variety of competitive advantages. Easy access to capital and markets, high sales and profits. Operational cost savings, improved productivity and quality. Efficient human resource base, strong image, customer loyalty.

According to the study made in the beginning of 2014 year by Reputation Institute, a private global consulting firm based in New York, 42% of how people feel about a company is based on their perceptions of the firm’s corporate social responsibility. About 47,000 consumers across 15 markets who were invited to participate in a study named world’s 100 most reputable companies-all multinational businesses with a global presence. Among them first five nowadays leaders of CSR are: Microsoft, Google, The Walt Disney Company, BMW and Apple (Forbes, 2014).

## “Business castle” gates

How does company perform in eyes of consumers, employees, stakeholders? What impression does it make to society? How do actions, made by a company, influence on it's image?

As a castle should have strong structure and well organized work of gates to outside to act on the defensive and effectively interact with external environment, business today can't ignore needs and interests of society to add value and contribute to competitive advantage.

Nowadays problems of responsible business one of the most discussed topics over the last years. of “Corporate Social Responsibility” (CSR), which generally means that companies' voluntarily takeover responsibility for different social , economic, ecological and culture issues. The term and concept is so much popular among management academics and the media that seems to be well-known by anyone nowadays. (Crowther, D., Capaldi, N 2012, p. 53)

Fifka (2011, pp. 17-18) says that even though the idea of companies being involved in such issues reaches back to the 19<sup>th</sup> century. First scientific discussions took place within the 1930s when E.M. Dodd and Chester Barnard asked about the responsibility of leading employees at major companies. In this period Theodore Kreps also found out a concept of measurement of the companies' social contribution to society. For the first time “Social Responsibility” as a term was used in 1953 by Howard Bowen in his work “Social Responsibilities of the Businessman”.

Recent scandals such as sweatshops of producers of different sportswear and electronic devices, incidents happened with “Nestle”, “Shell”, “Enron”, “Parmalat”, have forced companies to consider CSR even more. But also other issues such as climate change and global warming, human rights situation and terrorism affects much on how companies build their strategies today. (T. Demmerling 2013, p.1)

It is notable that almost every large corporation worldwide makes effort to report regarding their activities that are behind the simple profit objectives. Only by looking through the websites of multinational companies is enough to find out that different companies work hard on presenting their corporate responsibility visions and actions – and what is interesting, even in controversial industries such as the tobacco and petroleum business.

## 1.1 Corporate Social Responsibility concept

Last 20 years countless studies and publications about CSR have been issued and developed. However widely accepted definition of CSR does not exist. This view has been supported in the work of Apostolakou and Jackson (2010). The term Corporate Social Responsibility (CSR) means that companies by choice assume responsibility for social, ecological, cultural and ecological problems.

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" - B. Meredith (2014) supports this definition given in in the publication "Making Good Business Sense" by Lord Holme and Richard Watts for the World Business Council for Sustainable Development.

Moreover, the European Commission since October 2011 pushes new definition for CSR, which is "the responsibility of enterprises for their impacts on society". European commission (2011, p.6) require "to fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

- maximizing the creation of shared value for their owners/shareholders and for their other stake holders and society at large;
- Identifying, preventing and mitigating their possible adverse impacts."

On the one hand, explanation of CSR is easy to understand; on the other, plenty of already existing of them make it hard to form clear idea of it. In simple words, corporate responsibility is an undertaking to contribute to the welfare of society as well as to success of organization (Daft, Kendrick and Vershinina 2010, p. 175)

How to measure total corporate responsibility? To evaluate it Archie B. Carroll, professor Emeritus of University of Georgia, expert of Corporate Social Responsibility and Business Ethics, created "the pyramid of corporate social responsibility: toward the moral management of corporate stakeholders". It is presented in exhibit 1. According to Daft, Kendrick and Vershinina (2010, p. 182), the model shows that corporate social responsibility can consist of the following criteria: Economic, legal, ethical and discretionary responsibilities. Together these four are forming company's social responsibility.



Exhibit 1 Criteria of corporate Social Performance (Caroll, 1991)

Nowadays different companies have framed different definitions - although there is considerable common ground between them. I would define CSR as specific kind of business approach, which allows creating positive impact on society.

## 1.2 CSR initiatives – “gates of business castle”

An expert on the topic of CSR, S. Gellerman (1990), said: “Management is responsible for creating and sustaining conditions in which people are likely to behave themselves”. As businesses become more complex through global expansion and technological change, they are facing with an vast number of ethical and social issues. These include all business activities, such as even accounting, marketing and pollution of environment. (Daft, Kendrick and Vershinina 2010, p. 175)

### 1.2.1 Marketing and promotions

As P. Kotler and N. Lee (2005) state, a social initiative regarding marketing and promotion includes cause promotions, cause – related marketing and corporate social marketing.

Cause promotions: a company provides funds or other resources, it has, to raise attention of people to any issue. For instance, today The Body Shop worldwide is stimulating a ban on the use of animals in cosmetics tests.

Cause – related marketing: donating a little part of revenues to a based on product sales specific cause. For example, Ronald McDonald House Charities receives donates of Comcast which gives \$4.95 of installation fees for its Internet service through the end of given month.

Corporate social marketing: business supports or does actions to improve public health, safety, the environment, or community well-being. For illustration Philip Morris encouraging parents to talk with their kids about tobacco use in their advertisement. (P. Kotler and N. Lee 2005, p. 23)

### 1.2.2 Corporate philanthropy

P. Kotler and N. Lee (2005) found that this initiative is one of the most traditional of all. Corporate philanthropy is mostly direct help in form of grants, donations or services. Donating is absolutely company benefit. However, when times get hard, it is one of the easiest expenditures to cut in many cases.

Both internally and externally more and more companies today are facing challenges by trying to adopt philanthropic activities goals and objectives of business.

### 1.2.3 Community volunteering

How companies can stimulate employees and partners to help community? They have huge amount of opportunities. For instance, social work of employees as teachers in middle schools, as many IT-corporations do. Sometimes it can be done in cooperation with non-profit organization (employees of Shell working on the beach cleaning with The Ocean



conservancy). Volunteer activities may be organized by employees as well as by company. They can be active and suggest their own volunteering activities, which will be warmly supported by management through paid time-off, and volunteering database matching programs, which are very popular in business area now. (P. Kotler and N. Lee 2005, p. 23)

As Olga Zhidkova, Larisa Danchenok and Ludmila Ivanova-Shvets state in their work “Social Innovations of Human Resource Management as the Main Component of Corporate Social Responsibility” that CSR is a key to skills development. CSR can ensure the effectiveness of employees' skills and improving performance indicators; improvements in the recruitment and hiring of employees: CSR can help companies find and develop new sources of revenue for the workforce that can meet the current needs of the company's staffing.

#### 1.2.4 Socially responsible business practices

As suggested by P. Kotler and N. Lee (2005), being responsible internally is highly important. Excited by your social activeness satisfied employees and stakeholders will carry business to effectiveness and future success. And the goal is still to help community to overcome problems and achieve well-being. These initiatives can be carried out by organization or through partnership with others.

CSR practices obviously vary between countries and cultures. Different value systems, economic conditions and social priorities mean that no one definition or approach to it exists. (B. Tricker 2012, pp. 226-227)

A new approach to participation in society are stressed in the article “Social Innovations of Human Resource Management as the Main Component of Corporate Social Responsibility” by Olga Zhidkova, Larisa Danchenok and Ludmila Ivanova-Shvets. According to their findings, it includes not only traditional financial aid from the profits of the company, but the employees of the corporation and providing support to the community

and even its part in fund raising which is raising funds to other philanthropists joint social projects.

### How it works? – CSR system of initiatives by McDonald's Corporation

McDonald's corporation is among Fortune's "Most admired companies" for social responsibility (2000-2012) and in 2001 was ranked in the Wall Street Journal as number five in reputation for corporate social responsibility. (McDonald's corporation, 2012)

In April 2002, McDonald's made its first social responsibility report. Their CEO Jim Cantalupo stated: "McDonald's has the honor of serving more customers around the world than anyone else. With this privilege comes responsibility to be good neighbor, employer, and steward of the environment, and a unique opportunity to be a leader for positive change. We recognize the challenges and the obstacles, but believe strongly in the importance of social responsibility." Let us have a look on how McDonald's work with CSR initiatives model. (McDonald's corporation, 2002)

*Marketing and promotions.* First cause promotion initiative which company took in 21th century was sponsoring International youth camp in Sydney, Australia. McDonald's was the first global company to support the National Olympic Committee (NOC) selection of the 2000 Sydney youth camp participants from 200 countries around the world. One of the brightest and worldwide famous cause-related marketing CSR initiative of McDonald's is annual World children's day. From New-York to New Zealand, more than 100 countries involved into raising funds and awareness for Ronald McDonald House Charities and many others children's causes. Social marketing initiative of McDonald's is well known as "Immunize for healthy lives". To help children and families overcome such diseases as measles, chicken pox, polio and hepatitis B, Ronald McDonald House Charities has united with the American academy of Pediatrics (AAP). Together from 1994 till today together they educate parents on the importance of timely immunization. (McDonald's corporation, 2002)

*Corporate philanthropy* initiative of the corporation is Ronald McDonald House Charities. It is volunteering organization which is raising necessary funds and awareness and delivering help to children and their families. Ronald McDonald House Charities creates, finds and supports programs all

over the world that directly improve health and well-being of children, operating in 51 countries. Itself it includes such programs as Ronald McDonald family rooms, Ronald McDonald care mobiles and Ronald McDonald house – 235 home designed hospitals in 25 countries to provide home away from home for families of seriously ill children fighting with the illness at hospitals far from their own homes.

*Community volunteering* of McDonald's always has been a disaster relief. Company helps communities hit by tornadoes, floods, earthquakes, hurricanes and other disasters. McDonald's cooperates with International Red Cross to support endangered people with food, professionals and volunteers with meals. For example, on 9/11 and in following weeks, McDonald's supply 750, 000 free meals.

*Socially responsible business practices* of McDonald's are mostly connected to recycling. Annually, company improves qualities of packaging and reduces packaging volume. Also McDonald's supports local suppliers availability, work with cultural differences and approaches to recycling, control waste management in every restaurant.

Reflecting to key CSR initiatives McDonald's effectively covers such issues: children's health, children's and families with special needs, disaster relief and environmental stewardship.

## CSR today. Main CSR trends

In the last years, business world can see huge development of corporate social responsibility. Active corporate giving and reporting on social responsibility initiatives are main trends of today.

According to KPMG, one of the largest professional services companies and one of the Big Four auditors, research, the number of companies reporting on corporate social responsibility is increasing every year. In 2013, 56 percent of companies from the Global Fortune Top 250 issued environmental, social or sustainability reports. A review of Fortune 500 web sites also indicates that a majority now have special reports on giving, with sections labeled "Corporate social responsibility", "Community development", "Community giving". They provide such details on topics as

annual giving amounts, philanthropic priorities, CSR initiatives and employee volunteerism. (B. Meredith 2014)

The most interesting trend in CSR today is a shift from obligation to strategy. This means that from “must-do” CSR initiatives become to be one of business goals to achieve.

In the work “Social Innovations of Human Resource Management as the Main Component of Corporate Social Responsibility”, it’s authors: Olga Zhidkova, Larisa Danchenok and Ludmila Ivanova-Shvets mention that in contrast to the earlier forms of social innovations, such innovations are realized not through human activities of the organization and do not relate to personnel management policy. They can be administered by services marketing, PR, GR, etc. However, they are part of the organizational human resource policy, if any, and in this case, should be implemented in conjunction with human resources management in the organization.

**Conclusion. “Business castle” life and crucial role of CSR in business**

Doctors always keep telling that if we do regular physical activity we will look and feel better, live much longer. Many management experts say that doing corporate social initiatives has similar potential benefits. Developed CSR make company more attractive for consumers, investors, business partners and society. With strong reputation for CSR corporations can actually last longer, without getting into scandals or losing customers.

Money is important resource to run a business. And in order to be sustainable companies often have to make high profits first, leaving their responsibility for the future. However if organization has much spare money and stable production/sales system, it should start to act responsibly in order to not only get but give - provide society and environment with needed help. “In a truly great company profits and cash flow become like blood and water to a healthy body: they are absolutely essential for life but they are not the very point of life” – stated the author “Good to Great”, Jim Collins (2001).

Summing up the definition of corporate social responsibility of countless studies and publications, I would stress its wide influence both on a business and on external environment. CSR definitions abound. Generally, it is a way companies care regarding interests of owners and other stakeholders, which

might include consumers, employees, suppliers, governments, the environment and social community. (T. Hoskins 2012)

Nowadays it is highly likely that profit and responsibility are beginning to be equal partners in set of world leading companies' goals. At the foreground of CSR over the next five years, such challenges and perspectives can be identified already today, as: global warming and forms of green energy, world poverty and water resourcing problem, sweatshops issue and world integration of ethnic minorities.

“Responsibility is the Price of Greatness” - Winston Churchill, worldwide and historically famous British politician, was saying many times. Corporate social initiatives as marketing and promotions, corporate philanthropy, community volunteering and socially responsible business practices can significantly impact key performance factors, which could then move the business to higher level.

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