

# Aspects of the Correlation between Corporate Social Responsibility and Competitiveness of Organization

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## ABSTRACT

*In the recent years, the involvement and the development of social responsibility activities have become specific activities of organizations wishing to provide an adequate level of economic and social on long and medium term performance. The current global context establishes a correlation between performance and the way in which competitiveness is ensured and maintained on both microeconomic and macroeconomic level.*

*This paper presents a number of issues of involvement in social responsibility activities that can cause a direct influence on the position of competitiveness for organizations in the domestic economic environment.*

**KEYWORDS:** *corporative social responsibility, competitiveness, investments*

**JEL Classification:** M14, M21

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## Introduction

In the context of economic globalization and with the rapid development of technology and science, the concept of corporate social responsibility is often associated with problems related to competitiveness and competition, financial stability and positive relations with the environment and the society as a whole.

Corporate social responsibility is rapidly becoming an inescapable obligation of doing business today. Companies, both large and small, have modified their strategies and operations to take into account a vast array of governmental regulations, stakeholder interests, and evolving societal expectations (Kramer, 2005).

Considerable progress has been made in the study of CSR lately, especially in terms of awareness of its strategic role of supporting the long and medium term interests of the organization. We find the concept of CSR in debates in various shapes, most of the time associated with the importance and benefits brought to the organization in the new economy.

Profit making & social responsibility, an oxymoron is strongly debatable. Profit making is the fundamental dimension for an enterprise to sustain, perform and grow, which means wealth maximization and mobilization; whereas social responsibility is the fundamental accountability of the state that focuses on social enlistment in its totality (Toshi, 2007).

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In this article we intend to identify and analyze the existence of correlations between social responsibility policies and the organizations' competitiveness, based on the level of mutual influence.

### **1. New approaches to corporate social responsibility**

Currently, a growing number of organizations realize that, in a highly competitive environment, short-term profit maximization policy is no longer a guarantee of commercial success.

Such an approach is required to be completed by socially-responsible behavior that should take into account not only the accomplishment of customer and shareholders needs, but also the interests of the other involved or affected parties.

Initially, the concept of social responsibility was introduced in 1953 in order to establish some correlations between the societal expectations of business and the organizations' ethical duties related to CSR.

Howard Bower, called the "father" of corporate social responsibility, defined CSR as "obligations of businessmen to pursue those policies, to take those decisions, or to follow those directions that are approved in terms of values and objectives by our society" (Toshi, 2007).

The definition of corporate social responsibility in the United States of America is based on the traditional philanthropic model through which organizations can achieve higher profit which is expected to donate a considerable percentage to charitable causes.

According to the Organization for Economic Cooperation and Development (OECD), CSR is represented by "the variety of actions undertaken by companies to strengthen their working relations" and the American organization Business for Social Responsibility (BSR) considers CSR as "achieving or excising the ethical, legal and commercial expectations of the society constantly regarding to CSR (Iamandi, 2008).

The European Commission has approved a definition of CSR according to which CSR is "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". (Commission of the European Communities, 2006).

According to the European Commission, CSR shows the way in which companies commit themselves to behave reasonably and responsibly in order to contribute to economic development, improving the quality of life of both its employees and the community.

Moreover, CSR encourages organizations to combine their economic, social and environmental interests, for the benefit of the company, employees, shareholders and society, which is a way of managing the change and reconciling the social development with improved competitiveness.

Throughout the evolution of the concept of CSR, three different approaches have been made, as follows:

1. Addressing CSR as an obligation to the shareholders. This is, in fact, the classical approach and the theory of corporate selfishness, compiled by Milton Friedman in his famous phrase "the only social responsibility of business is to help increase profits" of the shareholders. Friedman associates the concept of CSR with the idea of social contract between managers and shareholders. His main argument is summarised as follows: "there is one and only one social responsibility of business – to use its resources and engage in

activities designed to increase its profits so long as it stays within the rules of the game ...”(Friedman, 1970). Classical approach assumes that maximizing profits for shareholders is the central concern of any organization, while socially responsible activities and initiatives are not the companies’ concerns; they represent the main preoccupation of national governments.

2. Addressing CSR as an obligation to all stakeholders. According to this point of view, the organizations are not only responsible to their shareholders / owners, but they also should take into account the divergent interests of those social groups affected by the company activities, or those who can also influence the fulfillment of corporate goals.

3. Addressing CSR as an obligation to society as a whole. This perspective, considered the most comprehensive on CSR, believes that organizations are responsible to society as a whole, by the fact that they are open systems and constantly interact with the social environment.

The central idea is that organizations operate through public consent, in order to effectively serve the social needs. Consequently, taking into account the transformation process of the organization needs, they fundamentally reconsider their position on the market and act in accordance with increasingly complex social context in which they activate.

The central theme of this paper has in view to identify links between CSR actions and the level of competitiveness from a microeconomic perspective.

Despite the fact that CSR activities involve a range of costs which the organization has to pay, corporate social responsibility provide a long term benefit, not only by figures associated to profit or other financial indicators, but also by intangible benefits that aim to gain consumers’ confidence and to strengthen a favorable image among them.

Searching for some links between CSR and organization competitiveness has as a common connection point, the expression of the ethical values on a governmental level, namely the ethical modality of leading the organization from a strategic and operational point of view.

In the economic science, the competitiveness refers to the way in which economic environment manages its competencies in order to achieve prosperity (Cişmaş & Stan, 2010), proportionally generating more wealth than its competitors.

A competitive system is based on the production systems that generate through their innovation capacity, the quality of products, adaptation to the market, competitive advantages, structures and specific resources capable to generate distinctive competencies.

The reasons why companies are taking social initiatives can be driven by personal interest, altruism, competition, or a combination of them. Despite the organizations belief that their socially responsible actions are dictated by reasons of ethics, in fact, they are engaged in social projects in order achieve a good image and to enhance long-term profits.

In an economic and social context, characteristic to the current state of development in Romania, CSR has been promoted more for commercial than ethical reasons. The concept of CSR is relatively less involved in business management which is applied to local organizations. Most frequent, this concept can be found in multinational organizations’ activities that have transferred it to the local corporate culture.

The application of CSR programs and their proper evaluation in the managerial activity of the organization provides an incentive for innovation and reliability on the competitive level. From this perspective, CSR has started to become a concept incorporated more deeply into issues related to competitiveness and performance.

## **2. CSR's influence on competitiveness**

In its Communication to re-launch the Lisbon Strategy in 2005, the Commission stated that CSR can play a key role in contributing to sustainable development while enhancing Europe's innovative potential and competitiveness.

Along with the transition to a new economy and with the development of multinational corporations, the managers' perception about the role of social responsibility has been changed. Therefore, starting from a simple philanthropy, CSR has become a strategy through which the organization aims to ensure business competitiveness.

For many years, community development goals were philanthropic activities that were seen as separate from business objectives, not fundamental to them; doing well and doing good were seen as separate pursuits. In the last period the situation has been changing. What many of the organizations today are learning is that cutting-edge innovation and competitive advantage can result from weaving social and environmental consideration into business strategy from the beginning. And in that process, it is possible to develop the next generation of ideas, markets and employees.

In Europe, most organizations have initiated philanthropic CSR activities in response to market and society pressure (economic, social and environmental). Thus, a gradually increasing interaction has been imposed between the firm and external environment, which has made the social responsibility to be included in the basic strategy of companies, management tools and in business activities (UPT, 2005).

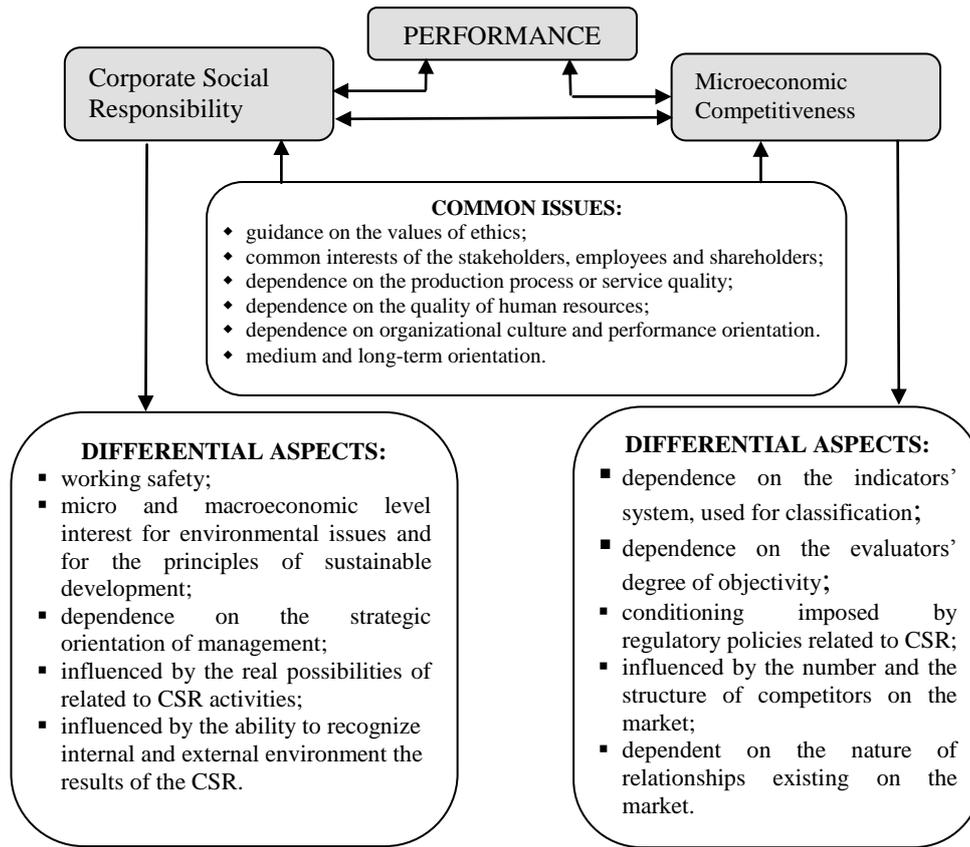
The idea that corporate social responsibility is closely related to the globalization of business is supported by the international debates and forums and it is also considered the preserve of the multinational corporations.

Currently, the number of organizations that realize they can contribute to sustainable development is growing. More and more companies are integrating in their business process, operations to achieve economic and competitiveness growth, while promoting social responsibility.

At the beginning, national organizations appealed to socially responsible practices in an effort to align to consolidated business standards on a European and international level. As the Romanian market becomes more and more competitive, national organizations have started to realize the potential of an economical and social approach in the process of image building and reputation consolidation, as a premise for medium and long term commercial success. (Iamandi & Filip, 2008)

Although the main objective of most organizations is to produce profit, the pressures which companies have to face in the new economy force them to redefine their business horizon. Thus, the current opinion is that development requires sustainable competitive growth, which allows achievement of business success and complying with obligations towards the shareholders, but most of all social welfare and environmental protection.

In this situation, we can say that corporate social responsibility leads to powerful connections between the private environment and the community (Redman, 2003), while ensuring the sustainable development of the company. Therefore, the practices of social responsibility can be a link between social development and the improvement of corporate competitiveness.



**Figure 1 Common and differential aspects of corporate social responsibility and competitiveness**

One major reason CSR is on the rise is that executives believe it can help them attract new customers or boost sales. Whether they use CSR as a strategic marketing tool to capture a niche market or believe their good works will be recognized and rewarded later, CEOs often cite reputation as their most valuable intangible asset.

Theoretical and practical results have concluded that there is a positive correlation between corporate social and financial corporate performance. “The basic idea of this analytical approach is that social responsibility is not just a philosophical issue, lacking consistency and practical applicability, it is an effective way to support the company's medium and long term financial interests.” (Iamandi & Filip, 2008).

Thus, we can state that social responsibility policies and actions have a double positive impact, bringing benefits both to the organization and the community at large.

In addition, CSR can play a key role in marketing and brand strategy of a company but also in achieving a positive image and reputation.

In competitive markets, companies strive for a unique selling proposition that can separate them from their competitors in the minds of customers. Ultimately the value of a company depends largely on how much faith customers have in the business. That faith is fostered by an ineffable and scarce element: reputation. Reputation, or brand equity, is founded on values such as trust, credibility, reliability, quality and consistency that customers perceive the company and its products to have. For many of the brand name companies, their brand is the core and backbone of their business. (TID, 2010)

Developing a brand and good reputation which is seen as socially and environmentally responsible is therefore highly beneficial for businesses, either large or small and medium-sized enterprises (SMEs), in a global and competitive world.

### **Conclusions**

In the new economy, organizations are motivated to integrate socially responsible actions in their work, because of the attitude of customers, employees, investors and even the community, who expect the business environment to understand and provide solutions to the most pressing social problems. Without appropriate actions in response to these demands, stakeholders may react negatively to business. Taking suitable actions, thus, often leads to a positive contribution to business success. (TID 2010)

As we have shown in this article, the responsibility to society can be a powerful differentiator for companies, as consumers are tending to become more receptive to messages seeking corporate sustainable development of the society, compared to those organizations seen as having a single direction – profit.

In the context of the new economy, local organizations are trying to increasingly engage themselves in the communities in which they operate, trying to compete multinational companies which have an organizational culture based on CSR.

Taking into account the current economic situation which has affected the business environment in Romania, most organizations tend to find solutions to maximize profits at the expense of promoting CSR.

There are still many difficulties in adopting a responsible behavior. The fact that the benefits generally occur only on a long term, discourages many firms. Moreover, organizations are facing the lack of know-how problem or insufficient financial and human resources problems.

These effects could be offset by administrative measures on both EU and national level. Those organizations that understand the importance of new requirements will be advantage and will act in time for the development of corporate social responsibility.

In the responsible competitiveness approach corporate responsibility is required to be consistent with and mutually reinforced by national and regional competitiveness strategies. Business can compete effectively across the responsibility spectrum, spanning the investment in environmentally-friendly technology and raising productivity by improving their employees' work-life balance, through to cutting corners on environment and labor standards and engage in corrupt relationship with government. (Zadek et al., 2003).

With such support from the central level, corporate social responsibility programs will be more effective in solving the problems of the community and will also contribute to the increasing of the organizations competitiveness.

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