

# THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON BUSINESS COMPETITIVENESS

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**Abstract:** *One of the most widespread debates is the issue whether it is advantageous for companies to pay attention to corporate social responsibility initiatives. The answer to the questions has apparently not been found yet. The purpose of the paper is to investigate the potential impacts of corporate social responsibility on business competitiveness on the basis of key research studies comparison.*

**Keywords:** *Corporate Social Responsibility, Competitiveness, Financial Performance, Reputation, Innovation*

## 1. Introduction

Corporate social responsibility (hereafter CSR) is an umbrella term for a variety of activities ranging from environmental protection, social work through employment law, business ethics, anti-discrimination to socially responsible investment policy. The common feature of these activities is general social usefulness as well as the fact that their main initiator and executor is enterprise. As one of the most widely known definition of CSR can be regarded the definition of European Commission (2001) that 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”. Business Leaders Forum (cit. 2010), which deals with the CSR issue already long time in the Czech Republic defined the concept as: „a voluntary commitment of businesses to behave in its functioning responsibly to the environment and the society in which they operate”. Carol (1979) described the social responsibility of company as going beyond economic and legal concerns, and identified this additional responsibility as an aspect of corporate social performance. We can find a wide range of similar definitions. With regard to their not very unified terminology, most of them discover a similar summary of responsible entrepreneurship principles.

In recent years, an increasing number of companies worldwide established and integrated the CSR policy. Together with this growth has raised a question: how CSR shape or influence the corporate competitiveness? Lot of researchers have already stated that CSR can contribute to a number of social, environmental and economic policy objectives. However, what are the actual proven findings of CSR benefits on individual determinants of business competitiveness? And are confirmed the arguments suggesting that CSR is cost with no evident benefits on competitiveness? The comparison of already carried out research studies can help us at least partially answer these questions.

The main aim of the paper is to throw light on the nature of relationship between CSR and competitiveness of business. The fundamental structure of the paper results from European Competitiveness Report (2008), whose key findings are confronted with other relevant research studies.

## **2. CSR effects on competitiveness: the comparison of key studies**

Currently an enormous number of research studies have emerged regarding the relationship between CSR and organisational performance. (Rettab et al., 2008) In this paper, we focus specifically on examination of CSR impacts on selected determinants of company-level competitiveness.

### **2.1 CSR and Cost Structure**

Here we can find two currents of opinion in the debate on cost savings resulting from CSR. Critics state that CSR is expensive and that the positive effects can occur often only in the distant future, if they come at all. These statements resulted from Friedman (1970) that argues that there is only one social responsibility in the firm, and it is the most efficient use of available resources and involvement in activities to increase profit as much as possible. According to this view CSR has no substantive role in the organization. Contrary to this, Freeman (1994) argued that social performance is needed to attain business legitimacy. On the basis of this fact much of the present research on the question regarding whether social responsibility has any benefit refers to the views of Friedman or Freeman.

Supporters of CSR argue that expenditures on environmentally and socially responsible behaviour will return to the company over time. (Porter, Krammer, 2006) Especially the positive relation can be found in the context of environmental performance and economic performance. (Russo, Fouts, 1997) Porter and van der Linde (1995) reported that properly designed environmental standards may induce innovations that lower the total cost of the product or improve its value. From this perspective the cost reduction can be seen in improving opportunities for lower energy consumption, lower insurance or expenditures for possible conflicts. (Miles, Covin, 2000) On the other hand, some other studies also show evidence of negative relationship between environmental dimension of CSR and cost structure. (European Competitiveness Report, 2008) Apparently, it could be stated that there is a little consensus and the general findings related to cost structure are mixed. CSR could contribute to the reduction of costs only in certain conditions.

### **2.2 CSR and Human Resources**

According to conclusions of European Competitiveness Report (2008) on the basis of empirical studies the positive impacts of CSR on human resource management can be found. Companies with well-developed strategy of human resources management based on CSR initiatives can reduce the total number of fluctuating staff and have employees with higher motivation and work performance. Another important aspect is employee diversity policy.

These statements confirm also a number of other studies that have explored the link between CSR and employee or organizational commitment. (Albinger, Freeman, 2000, Peterson, 2004) Branco and Rodrigues (2006) presented that companies with strong social responsibility image often have a better ability to attract preferable job applicants, retain them once hired, and keep employee morale. Therefore according to Aguiliera et al. (2007) it is reasonable to state that firms that implement CSR initiatives will tend to a positive relationship with their employees, and follow they are more probably to acquire employees' commitment than companies that do not take care about CSR activities.

### **2.3 CSR and Corporate Reputation**

Lot of companies see their commitment to CSR primarily as a means of enhancing their reputation in the eyes of stakeholders. The relationship between CSR and reducing the potential business risks was introduced by Bowman (1980). Afterwards a number of literature offers the evidence that corporate reputation is crucial issue of competitiveness. According to Rettab et al. (2008) is corporate reputation enhanced or destroyed by firms' decisions to engage or disengage in CSR activities. Heal (2005) argues that the presence of CSR minimizes conflicts between different organizations, companies, surroundings of the company, and sees this in fact as the greatest advantage of CSR. Hond et al (2007) found out by their survey that eco-labelling to a large or some extent has made a positive contribution to the corporate image.

Branco and Rodrigues (2006) reported that when firms are able effectively demonstrate to the wide range of stakeholders that they manage their activities in compliance with CSR policies, they can create a positive reputation, whereas failing to do so can be a source of risk. This is strengthened by the fact that enterprises are more exposed to public control and criticism thanks to power of communication technology. Rettab et al. (2008) identify two pre-conditions for CSR to have an impact on reputation. Firstly, it is ability to communicate the strategy to key stakeholders and media. Secondly, the media have to give enterprises engaged in CSR initiatives the required space to help them generate public goodwill. However, we can conclude that success of the company is highly dependent on the relationship with its key stakeholders and its reputation (Fan, 2005). The problem here is that sometimes the companies understand the CSR concept only as a profitable public relation tools.

### **2.4 CSR and Innovations**

Wide number of studies has disputed whether CSR can be a way for many innovations through the use of social and environmental approaches. The European competitiveness report (2008) identify three principal ways in which CSR can contribute to innovation capacity and performance: innovation resulting from stakeholders engagement, defining business opportunities through addressing societal challenges; and creating work places that support the innovation.

In the long term, it is technological innovation capability that forms a major source of competitive advantage. (Freeman, 1994) Innovation capability is a special asset of an organisation, which comprises different key areas, such as technology, production,

process, strategy, organization, knowledge and experiences. As confirm Guan et al. (2006) innovation capability is closely correlated with internal experiences and experimental acquisition. Thanks to this fact, CSR could become a rich source of ideas and innovation. Vilanova and Lozano (2009) argued that CSR and competitiveness concern through a learning and innovation cycle, where corporate values, policies and practices are permanently defined and re-defined.

## **2.5 CSR and Financial Performance**

The relationship between corporate social performance and financial performance is one of the most studied topics. (Chand, Fraser, 2006, McWilliams, Siegel, 2001) Beurden and Gossling (2008) present research focuses on the relationship between corporate social performance and corporate financial performance based on the meta-analysis of the data consists of literature. From the included studies 68% found a significant positive relationship, 26% of studies reported no significant relationship and 6% found significant negative relationship. The results reveal that there is indeed clear empirical evidence for a positive correlation between corporate social and financial performance.

Margolis and Walsh (2001) come to the similar results when by the help of meta-analysis examined 160 empirical studies and found that 55% of them identified a positive relation between CSR and financial performance, 22% detected no relationship, 18% revealed mixed relationship and 4% found a negative relationship. Their conclusion is supported by Rettab et al. (2009) that found the positive association between CSR and financial performance in emerging economy.

A number of studies also try to examine why CSR has a positive effects on financial performance. One of the frequent arguments is that if the company has a positive influence on their stakeholders then can have a positive impact on its financial page. (Allouche, Laroche, 2006)

Contrary Brammer et al. (2006) investigated the negative relationship between corporate social performance and financial performance using stock returns. Mellahi and Wood (2002) maintain that the stakeholders are often not interested in CSR activities, therefore their effect is irrelevant and overall impact on the financial side then will be negative.

## **3. Conclusion**

One of the key problems of current research is the absence of understanding about the impact CSR has on competitiveness. (Porter, Kramer, 2006). The scholars have not yet reached a consensus on how CSR affects business competitiveness. This lack could be partly due to problems associated with measuring the costs and benefits of CSR.

The review of selected key studies on the links between CSR and corporate performance investigates positive, negative, mixed as well as non-significant results. In the field of cost perspective and CSR a consensus among scholars has not been achieved so far. Positive impacts of CSR on the costs structure can be determined only if certain conditions are met. Companies which have successfully implemented CSR

initiatives in the HR management show provable improvement in relationships between employees and general atmosphere. CSR can also positively influence corporate image in society and therefore raise competitiveness of a company. A problem which still remains is the conception of CSR as a tool used purely for public relation profit. In the field of innovation perspective, certain contribution of CSR is more likely positive, but in general hard to measure. Many of complex studies present clear empirical evidence about positive relationships between performance in financial and social sphere.

The key benefit of the paper is a literature review which creates a research framework that could be used for subsequent analysis of links between CSR and competitiveness in the conditions of Czech Republic. CSR is still relatively new direction of long-term management of the organization. Most probably, we will be able to appreciate the impacts of CSR in a longer time period, therefore further research is needed.

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