

## **CORPORATE SOCIAL RESPONSIBILITY AND ITS IMPLICATIONS ON THE OVERALL BUSINESS EFFICIENCY**

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**Abstract:** While in Romania and other Eastern European countries the idea that companies should contribute to the wellbeing of the community beyond their legal obligations is somehow new, Corporate Social Responsibility (CSR) has a long tradition in most of Western European countries. In this paper we intend to raise awareness to the need to look at CSR as an investment that can bring not just financial returns but also a higher overall efficiency. Companies need to understand the urgency to develop CSR strategies.

### **1. INTRODUCTION**

Today, people all over the world have wide access to information about products and company practices, and society places increasing importance on social responsibility. As the world changes, companies show a shift of priorities; they don't seek profit at all costs, but rather show responsibility towards the environment and society. Now, companies seem to be aware of the importance of attaining sustainable growth. "Sustainability", "sustainable development", "corporate social responsibility", "corporate responsibility", and "corporate citizenship" are all expressions used to describe the ability to *meet the needs of the present without compromising the ability of future generations to meet their own needs*. [7]

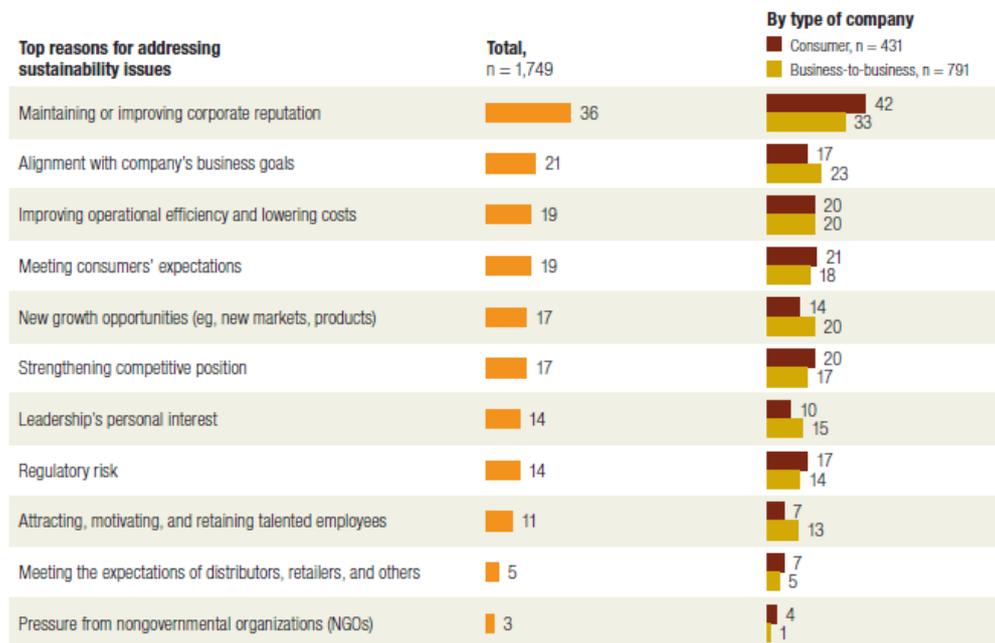
Internet is creating new relationships between companies, employees, partners, and clients, thus increasing the visibility of corporate actions. The behaviour of customers, employees, and society at large is influenced by their perceptions about a company's practices and core values. Companies have started to see CSR as an opportunity to deeply reinforce businesses while contributing to the wellbeing of the society at the same time. Consequently, Corporate Social Responsibility is no longer viewed as just a cost, but an investment that brings financial returns. [5]

Even though they are aware of the importance of managing sustainability, only 30 percent of companies have a proactive approach towards sustainability issues. In February 2010, McKinsey & Company conducted a survey in order to reveal how companies define sustainability, how they manage it, and what are the motivations of engaging in activities related to sustainability and received responses from 1,946 executives representing a wide range of industries and regions. [2]The survey shows companies don't fully understand the definition of sustainability or how to address it, and the reasoning for engaging in this kind of activities refers mainly to building reputation. The most important reasons for addressing sustainability issues are shown in the exhibit below.

Exhibit 1

**Building reputation**

% of respondents<sup>1</sup>



**Exhibit 1. Top reasons for addressing sustainability issues**

Source: Bonini Sheila, Görner Stephan, Jones Alissa, *How companies manage sustainability*, McKinsey&Company, March 2010,

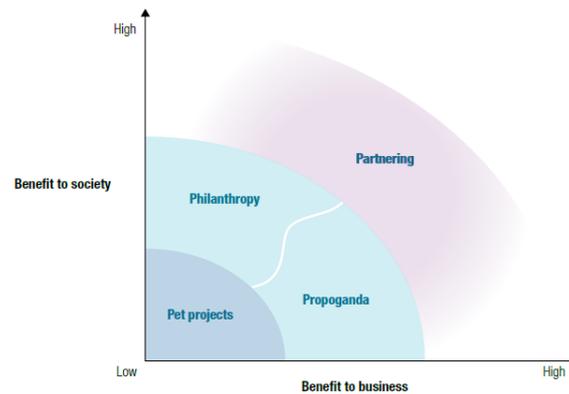
## 2. THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

One of the means of attaining sustainable growth is through Corporate Social Responsibility (CSR). CSR has different definitions depending on the perceptions of societies and organizations worldwide. In its most rudimentary form, CSR can be viewed as compliance with the existing laws and regulations.

IBM Institute for Business Value defines Corporate Social Responsibility as *the way companies manage their businesses to produce an overall positive impact on society through economic, environmental and social actions*. [4]

Richard Holme and Phil Watts, in a World Business Council for Sustainable Development publication, define Corporate Social Responsibility as *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*.

Regardless of the definition used, CSR refers to the way companies manage the business processes in order to produce an overall positive impact on society. In this respect, companies need to consider two aspects: the quality of their management (benefit to business) and the impact on society (benefit to society). A graph showing the relationship between business and society benefits is presented below. (see *Exhibit 2*)



**Exhibit 2. CSR landscape**

Source: Keys Tracey, Malnight Thomas W., Kees van der Graaf, *Making the most of corporate social responsibility*, December 2009, McKinsey&Company.

The *pet project* activities have low benefits equally for business and society, and usually reflect the personal interest of individual senior executives.

*Philanthropy* is the most common CSR activity and it involves donations that generate limited benefits. In some cases, companies use these donations to build their reputation. This activity is called *propaganda* and it is considered a form of advertising because it generates little benefit to society, being used mainly to strengthen the public image of the company.

The most efficient CSR activity is the *partnering* because it focuses on key areas of impact between business and society and develops creative solutions that address major strategic issues or challenges. [5]

In 2008, the IBM Institute for Business Value conducted a survey upon 250 business leaders from different countries of the world to evaluate how deep the CSR issue has penetrated the core of companies. [4] The findings reveal that companies have assimilated a strategic view of CSR. Managers begin to consider social responsibility a sustainable growth strategy; 68 percent of the business leaders interviewed state they are using CSR as an opportunity and a platform for growth. Although a change of thinking is noticeable, the IBM survey shows that 76 percent of the business leaders interviewed don't understand the expectations of their customers in regards to the CSR activities. [4]

### **3. THE IMPLICATIONS OF CSR ON THE OVERALL BUSINESS EFFICIENCY**

When companies have coherent strategies, CSR can generate significant returns to their businesses.

#### **3.1. The implications of CSR on HR**

One of the greatest beneficiaries of CSR activities is, without doubt, the workforce. It is to be noticed an increase of the number of employees who are choosing to work for organizations whose values resonate with their own. A study conducted by PricewaterhouseCoopers (PwC) on 4200 young graduates from 20 countries, including Romania, reveals that 88 percent of those interviewed are looking for companies whose CSR politics reflect their own personal values. [6]

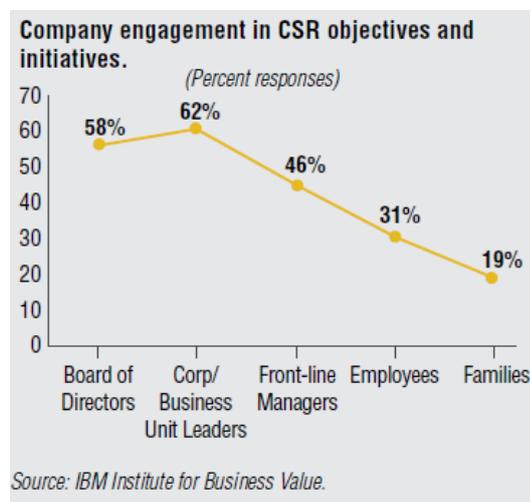
The latest researches reveal that 44 percent of young professionals say they wouldn't take into account an employer with a bad reputation. Furthermore, young graduates who are more socially and environmentally aware want to participate in activities that help create a better world; they don't just want to join a company with a good CSR reputation. [4]

The talent war will be even tougher in the next years. Companies will face the growing challenge of attracting and retaining talent, thus activities that motivate employees are very important.

Companies that engage their employees in CSR activities, report: [5]

- improved motivation;
- increased loyalty;
- ability to retain employees;
- favourable positioning in the talent war. [4]

The process of engaging employees in such initiatives starts at the top. Managers must be willing to lead by example and take action rather than speaking about it. However, companies don't fully involve employees in CSR activities. As the IBM Institute for Business Value survey results show, only 31 percent of companies engage their employees in setting CSR objectives and taking initiatives. (see *Exhibit 3*).



**Exhibit 3.**

Source: IBM Institute for Business Value, *Attaining sustainable growth through corporate social responsibility*, 2008

Some of the techniques companies use to engage employees are: [4]

- launching challenges in which teams work together around a common goal to develop a product or service with benefits on the environment or society.
- motivate individual using incentives to take actions that make a significant difference.

### **3.2. Positive impact on the overall business efficiency**

Companies have already proven that CSR has great implications on business efficiency.

Some of the positive effects of CSR are: [4]

- differentiated brand and reputation;
- differentiated products and services;
- competitive differentiation;
- permission to enter new markets;
- applying innovative solutions;
- getting closer to customers.

When aligned with business objectives, CSR has a positive influence on the overall business efficiency. For the implementation of CSR strategy to be successful, planning must be rigorous; managers must allocate the necessary resources, establish measuring instrument and evaluation and accountability.

#### **4. CSR IN ROMANIA**

While in Romania and other Eastern European countries the idea that companies should contribute to the wellbeing of the community beyond their legal obligations is somehow new, Corporate Social Responsibility (CSR) has a long tradition in most of Western European countries.

Five years ago the concept of Corporate Social Responsibility was little known in Romania. Few companies had such initiatives, and when they did they implied the funding of specific ideas. Today, some companies develop CSR programmes and are involved in helping the community in which they do their business.

There is a shift in the thinking of employees as well. They want to participate in CSR activities and do so voluntarily, without any financial incentives.

The number of companies that develop CSR programmes in Romania is increasing. Companies invest millions every year for the wellbeing of the community. For now, there are mostly large companies which engage in such activities. One example is the Petrom Company. Petrom is the largest oil and gas company from Romania. The company developed and implemented its first CSR strategy in 2007, when just a few dozen employees volunteered for this activity. Even though the employees were willing to participate they were reluctant towards obtaining results. Today, there are 1000 employees who volunteer and the company has integrated the CSR strategy in the overall business strategies. Furthermore, the company has a network of CSR specialists and it engages all employees in trainings in regards to social awareness. [1]

Companies that understand the importance of social responsibility have specialists who develop initiatives and engage employees. And for those companies CSR is a platform of sustainable growth.

#### **5. CONCLUSIONS**

According to the 2009 Edelman Trust Barometer, a survey conducted among 4,475 people from 20 countries on five continents, 62 percent of the population trusts companies less. These findings emphasize the need for companies to make fundamental change in order to reduce the negative effect of distrusting consumer behaviour. Consequences of the loss of trust are presented in *Exhibit 4*.

Companies need to regain the trust of consumers, employees, and society. They can do so by addressing significant issues that face business and society through Corporate Social Responsibility programmes. This is not an easy thing to do; it will require a shift in mind-set and a step-by-step approach, but the benefits are many for companies and society alike.



Informed publics ages 25 to 64 in 20 countries

**Exhibit 4.**  
 Edelman Trust Barometer, 2009

We underpin the usefulness of a national research to reveal the social awareness and the desire of engagement in CSR of Romanian employees. Furthermore, we believe that media has an important role in the widespread education on sustainability issues.

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