

Social Responsibility and Community Involvement of Companies

Corporate social responsibility (CSR) is a concept of management which has recently been gaining importance, wider acceptance and application in everyday practice of more and more companies. There are several definitions of this issue depending on various perspectives, points of view and authors. In short it could be described as doing business with broader than just profit-oriented focus or purpose. It is about making social and environmental aspects part of a company's business operations while taking into account several stakeholders ("individuals, communities or organisations that affect, or are affected by the operation of a company" in the Green Paper) and their interests.

I. The Business in Society

In other words, corporate social responsibility is about understanding a company and its activity as an integral part of society and its life. As such, a business enterprise is not only a means for earning money for its owners or shareholders, or a job giver for its employees. This concept tries to imply that companies should not only be concerned with their profitability and economic efficiency, but rather broaden their concerns and respect environmental impacts and social involvement too. These three priorities are interconnected in the so-called triple bottom line ("the idea that the overall performance of a company should be measured based on its combined contribution to economic prosperity, environmental quality and social capital" in the Green Paper).

The elements, which corporate social responsibility consists of, can be illustrated as follows (opposite):



As can be seen in the picture above, corporate social responsibility has several areas of concern¹. They range from the purely market-oriented ones through social to environmental concerns. All in all they should cover the overall quality of how a company is managed and what positive impact on society it creates.

There are different players or stakeholders with their own interests in each of the fields. If we look at the marketplace, a company should operate efficiently and ethically not only in relation to its customers, suppliers or financial analysts, but also to its owners (shareholders), competitors or to any potential players in a marketplace. The internal stakeholders as employees and unions should be treated with respect to their rights in order to provide them with sufficient satisfaction and motivation. These two dimensions have a lot in common

¹ BAKER M, *Corporate Social Responsibility – What does it mean?*
<http://www.mallenbaker.net/csr/CSRfiles/definition.html>.

with the overall corporate performance on the market and efficient corporate governance (“a set of relationships between a company’s management, its board, its shareholders and other stakeholders” in the Green Paper).

The other external fields of concern cover environmental and community involvement by means of co-operation with local authorities, government, non-governmental organisations and the general public. A company’s behaviour towards community and environment can be described as an expression of responsible corporate citizenship (“the management of the totality of relationships between a company and its host communities, locally, nationally and globally” in the Green Paper).

II. Why Adopt a Socially Responsible Approach?

Corporate social responsibility has two dimensions: *internal* (towards internal stakeholders such as employees, unions, managers) and *external* (towards customers, suppliers, partners, shareholders, financiers, competitors and local communities).

1. Internal Dimension

In order to be “strong” on the inside, an enterprise must have a skilled and motivated work force and correct relationships with unions. People are one of the major business success factors. A responsible approach towards them values their work, creates proper conditions for health protection and safety at work, promotes their continuous education, respects their need for leisure and family activities. It also allows them to take part in running and co-owning the company together with a right to share in the profits earned. Satisfied employees can then devote their abilities, power and motivation to the company’s success story.

2. External Dimension

Relationships to people and entities outside the company are essential for the company’s functioning. Enterprises nowadays face several challenges in the marketplace and in society. A tightening compe-

tition forces them to search for new ways of quality improvement, cost cutting, market differentiation, attraction of new customers, increasing profitability and overall efficiency. In many ways the creation of long-term and fair relationships within supply chains and with customers helps to enhance the company's competitiveness. Ethics in this respect means focussing on efficient, ethical and environmentally friendly treatment of partners, customers and even competitors in all situations. And even though adopting these principles might seem costly in its initial phases, in the mid- and long-term perspective it helps to create trust, enhances the positive image and reputation of the company, lowers the costs and attracts new customers. And thus adds value to the company's identity and positively influences its economic performance.

3. The Ethical Stance

A very important issue in adopting social responsibility within a business is adopting certain ethical values. Ethical behaviour, respect for legal framework and transparency, protection of human rights – these are all topics which are of high interest for the general public, media and politicians, taking into account not



only specific recent occurrences (accounting scandals of Enron, WorldCom or Ahold), but the Central European reality in general.

The level of corruption in Central European countries is still high and companies and societies face the challenge of making their existence and operations transparent. The example of some of them, who have adopted a *code of conduct* (“a formal statement of the values and business practices of a company and sometimes its suppliers; a code is a statement of minimum standards together with a pledge by the company to observe them and to require its contractors, subcontractors, suppliers and licensees to observe them” in the Green Paper), proves that a structured approach to this problem is possible, and moreover pays off.

4. Taking Responsibility for the Environment

A socially aware company also reflects its environmental responsibility in practice. An environmentally friendly strategy leads to the lowering of natural resource consumption, prevention of environmental (air, water, and soil) pollution and the protection of the nature. Moreover, clean technologies and know-hows usually help companies to save on the input side of production, or even prevent them from paying fees or compensations for potential environmental damage. By adopting this approach a company can also communicate this aspect of its operation and thus create a message of a green or healthy producer. In the eyes of customers and partners this can then become a positive means of further differentiation from other competitors.

5. Community Involvement

Every company operates in a community, a place where it interacts with other stakeholders: local people, authorities, the government and non-profit organisations. Their positive attitude towards the company and the creation of positive relationships can be of great business importance, not only because it contributes to the company’s overall business and promotes its brand name or image. In a situation where crisis management and communication need to be adopted (like unexpected accidents, suspicions or rumours), a previous positive

perception and experience of the public helps to tackle the situation more effectively and with less negative impact on the company. The community involvement can concern several fields and levels. They can range from a support of local sport, culture, health care and social services, public facilities, schools through the support of local non-profit non-governmental organisations and their projects to strategic cooperation with local governments and authorities on solving local issues. Companies are thus becoming valuable and valued citizens of their communities and create positive public perception.

6. Getting the Message Through

In order to communicate a message that a customer is “dealing with“ a socially responsible company, several ways to make it public are being used. Businesses can publish - besides the annual and account reports - their own social, environmental and sustainability audits, or e.g. triple bottom line, citizenship and corporate responsibility reports. These materials are interesting not only for the public and journalists, but also for analysts, competitors and investors. Furthermore, companies sub-brand their products and services with labels like “environmentally friendly product”, “part of the earnings are donated to disadvantaged children”, “not tested on animals”, or “chlorine free paper”.

These eco- and social labels (“words and symbols on products which seek to influence the purchasing decisions of consumers by providing an assurance about the social and ethical impact of a business process on other stakeholders” in the Green Paper) are becoming means of positive influencing of customers. Communication of responsible treatment of resources and production is becoming a way of stronger differentiation through positive impacts on society. The maxim could be summed up in the following way - “By doing our business, we are doing good to the place where we operate.” And there is also a new trend in investing and indexing investors. Socially responsible investors are establishing new funds which invest in a responsible way: promoting socially and environmentally respectful business. Indexes are being created in order to rank these investors and investments; a broader way of doing business and investing is getting popular.

7. Pros and Cons

Naturally, adopting a CSR way of managing a company has its disadvantages too. First of all, CSR is a voluntary decision of a company, though there are more and more recommendations of authorities being released to summon businesses to do so. Presumably some of the CSR aspects might soon become even required or obligatory, e.g. in contracts with public authorities. Being not obligatory it still encompasses a strong internal motivation and dedication of stakeholders. Social responsibility needs to be managed and handled as any other way of managing a company. But this perspective has not entered into all managerial layers of businesses so far.

Many critics say that it is not the task of companies to adopt this kind of 'do-gooding' or control themselves in the mentioned ways; their business should be concerned with making money, following the law and paying taxes. In order to react to these objections one could say that there are issues which governments or NGOs – for whatever reasons – objectively fail to solve. Moreover, the economic and even political power of certain multinational companies in the globalised environment is many times stronger than regulatory abilities of any government. Self-control and the adoption of ethical and responsible principles is then *a must*, as there are customers and public who require that, endangered environment which needs protection and deprived communities calling for help and involvement.

Another argument, which is used against corporate social responsibility, is that companies simply cannot afford to pay the costs. In situations when they are struggling for their mere survival and elementary profitability, the higher costs of CSR simply seem like sheer madness. But as we tried to imply above and as several empirical studies² have even proved, CSR has a direct effect on lowering environmental and production costs, on attracting and retaining a skilled workforce, and on disclosing new niches or even new markets. Through communication and publicity a business can promote its

² BURSON-MARSTELLER, *The Responsible Century?* London, 2000.; CSR Europe, *The European Survey on Socially Responsible Investment and the Financial Community*. 2001; Environics International, *Corporate Social Responsibility Monitor*. 2002.

³ BAKER M., *Arguments Against Corporate Social Responsibility*, <http://www.mallenbak-er.net/csr/CSRfiles/against.html>.

positive image and perception, discover new customer groups and attract them and enhance the loyalty of the already existing ones. These aspects, though they may seem costly, support the company's overall success³.

III. Community Involvement of Companies and Social Entrepreneurship of Nonprofits

We shall now elaborate more on the aspect of community involvement, which might be of the greatest interest to non-profit organisations and local authorities. Not-for-profits, especially in a Central European context from where generous Western funds are slowly shifting eastwards, see companies as potential sources of income. The matter then concerns not only dedication of the corporate sector to the support of communities, but also the non-profits' professional approach when addressing for-profit businesses for support.

Only when there is a conviction on the side of a business and a clear vision and presentation of counter-values, though sometimes limited, on the side of a non-profit organisation, the co-operation between partners can start. Having already touched upon the possible areas of co-operation (sports, health care, education, social services or supporting disadvantaged people), we can now examine its various forms. Community involvement of companies can appear on three different levels: voluntary philanthropy, more commercial cause-related marketing and strategic multisectoral partnerships for local and regional development.

1. Philanthropic Traditions

Philanthropic donations and charity giving are based on the goodwill of a donor to support a cause with an expectation of a small or no return at all. On the corporate side it may be a simple ad hoc approach to requests they get from non-profits. Alternatively, companies may adopt a more sophisticated approach. They can either design structured giving principles and schemes, programme priorities they fund, or can even co-operate with their own non-profit partners in strategic and long term ways. Though there has been some tradition of com-

panies' giving to the communities in which they operate even in the past, the overall philanthropic giving, either individual or corporate, has not been much developed in our Central European societies so far. Contrary to this experience stands the example of mainly multi-national companies paving the way and bringing their community involvement programmes into Central European markets⁴.

2. Cause Related Marketing

A more structured and even strategic form of cooperation with non-profit organisations is the cause-related marketing. It is a more commercial and marketing partnership, in which a non-profit organisation provides or leases its logo to a commercial product, or expresses its direct recommendation of a company. Business on the contrary heavily promotes this "social" support in its marketing activities and adds thus a social dimension or value to its products. This makes a difference from competitors and appeals more to customers. In return, the company promises to provide a certain percentage of earnings from product sales to the cause. Non-profit organisations can thus benefit from a more diversified and stable income to solve a problematic issue (e.g. help to flood victims, the computerization of schools or support of blood giving).

3. Multi-sectoral forms of co-operation

The third and most strategic level of co-operation are multi-sectoral partnerships between business, non-profit and even public partners. They are used mainly in local and regional development planning and strategizing. Partners are urged (also by the European Union since the partnership principle is a key criteria in EU funding) to get together, co-operate and use the advantages of all sectors when planning, implementing and evaluating projects. The aim is higher quality and more sustainable development of European regions and communities. However, the Central European truth is that partners (especially corporate ones) often do not see the benefits and the necessity to co-operate in and enter such partnerships⁵. But there is at least hope

⁴ Citicorp (CITIBANK), ING, Danone, Unilever, US Steel, Provident Financial and others.

⁵ MARČEK Eduard – DLUHÁ M., *Podniky a neziskové organizácie. Analýza vzájomnej spolupráce na Slovensku*. Bratislava, 2002.

(and the first successful examples prove this) that EU funding requirements for partnerships will make them consider and develop effective co-operation. And though often implemented from above, the partnership principle will be a new way how to involve business more in the life of the community where it operates.

4. Self-financing and Social Entrepreneurship

If we look more closely at non-profit organisations and their financing, co-operation with the business sector forms only part of their stability. And besides traditional sources of income, such as grants, donations or public support, more and more attention is paid to their self-financing strategies. Through own income generating techniques, self-financing aims at supporting the non-profits' independence, its strategic management and above all, its mission. Profits or money earnings are nothing impure or bad in this respect, though these are often understood in that way by many nonprofits. Taking into account the current difficult situation, in which many funds are withdrawing their support from Central Europe, self-financing seems a necessity if a non-profit organisation wants to survive even tougher financial conditions.

Self-financing methods range from membership dues, fees for provided services, product sales, to income from hard assets (machinery or inventory), soft assets (patents or methodologies) and dividends on investments made. These income generating strategies can be used more or less as supplementary to other ways of financing. But a situation can arise when a non-profit organisation decides to develop a fully entrepreneurial activity. If successful, this social entrepreneurship leads to the organisation's greater financial stability and support of its mission. However, the running of an own business needs lots of professional management and dedication, sufficient capacities and skills, an innovative approach to the market and possible competition. If a non-profit organisation fails to run the business successfully, it risks losing not only invested capital or even its own property, but also its image, reputation and as a consequence its whole non-profit mission and existence could be threatened.

In conclusion, we can mention the following example regarding social entrepreneurship of non-profit organisations. In order to promote social entrepreneurship within Central European non-profit organisations (so far in the Czech Republic, Slovakia, Hungary and Slovenia), and thus support their stability and independence, the *Non-profit Enterprise and Self-sustainability Team* has started its activities. An international US–Chilean organisation operating both in Latin America (Santiago de Chile) and Central Europe (Budapest) is providing complete training, professional consulting, coaching and even financial venture investments into prospective activities of social entrepreneurship across the region and thus guides them into the world of money for social purposes. With its wide network of business advisors and skilled staff, rich theoretical background, resource materials and pioneering activities, NESsT (<http://www.nesst.org>) is a great contribution to Central European non-profits' sustainability and a leading example for nonprofits on how to face future challenges.

Resource Materials

Corporate social responsibility is not only the concern of managers or owners, but because of its wider impact it attracts the attention of politicians, governments and even intergovernmental organisations. In one of the pioneering countries in this field – the United Kingdom – there has even been a minister for consumer and corporate affairs (including CSR) appointed in the government. There are recommendations and guidelines of international institutions such as the Organisation for Economic Cooperation and Development (<http://www.oecd.org>), the International Labour Organisation (<http://www.ilo.org/public/english/comp/business>) or the European Union (http://europa.eu.int/comm/employment_social/soc-dial/csr/csr_index.htm). Non-governmental organisations take initiatives in this sphere as well as organise events, collect materials and disseminate information, promote the concept among companies, and get the business, academic and political officials together. There are some organisations operating on an international scale such as the Prince of Wales International Business Forum (<http://www.pwblf.org>), the Business in the Community (<http://www.bitc.org.uk>), the CSR Europe (<http://www.csreurope.org>), the Business Impact (<http://www.business-impact.org>), the Copenhagen Centre (<http://www.copenhagencentre.com>), the Boston College Center for Corporate Citizenship (<http://www.bc.edu/cccr>), the Business for Social Responsibility (<http://www.bsr.org>) and others.

Suggested Reading

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Suggested Websites

- Business Ethics <http://www.business-ethics.com>
- Canadian Business for Social Responsibility <http://www.cbsr.bc.ca>
- Cause Related Marketing <http://www.crm.org.uk>
- Corporate Citizenship Company <http://www.corporate-citizenship.co.uk>
- Corporate Responsibility Group <http://www.corporateresponsibilitygroup.com>
- Corporate Social Responsibility Forum <http://www.csrforum.com>
- Corporate Social Responsibility News <http://www.csrnews.com>
- Corporate Social Responsibility Newswire <http://www.csrwire.com>
- Ethical Corporation <http://www.ethicalcorp.com>
- Ethics In Action <http://www.ethicsinaction.com>
- EurActiv <http://www.euractiv.com>
- Forum for the Future <http://www.forumforthefuture.org.uk>
- Good Corporation <http://www.goodcorporation.com/en>
- Mallen Baker <http://www.mallenbaker.net/csr>
- SME Key <http://www.smekey.org>
- UK Department of Trade and Industry <http://www.societyandbusiness.gov.uk>
- World of Corporate Social Responsibility <http://www.worldcsr.com>

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