

Understanding the Relationship between CSR and Business Performance

Snigdharani Mishra¹ and Rachna Nigam^{2*}

¹HOD-HR, Institute for Technology & Management, India; snigdharani@itm.edu

²Assistant Professor- HR, Institute for Technology & Management, India; rachnan@itm.edu

Abstract

Society and business are two sides of the same coin which balance and complement each other. It has been observed that the organizations who understand the above and include social dimensions in their business strategy are generally winners in the long run. These organizations do not focus upon profitability alone as a tool for survival and sustainability but also include the interest of the society in their strategic plans and Business goals. Ignoring social responsibility can have long term and far reaching impact on the business affecting it negatively. The need is to bring about the change in the attitude towards CSR activities an organization undertakes to fulfil the above requirement. CSR is often misunderstood as philanthropic activities while it is closely associated with the overall wellbeing of the organization. Therefore, many organizations have accepted the same and brought about strategic approach to CSR, which creates a synergy between community and business initiatives. With this thought in background the business stakeholder's concept cannot be defined by ignoring the social angle attached to it and therefore CSR must be central to business and strategic plans.

Keywords: Business, CSR, Stakeholders, Sustainability

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1. Introduction

Caroll & Buchhottz (2006) define CSR as “seriously considering the impact of business on society”. It is important to understand that business and society are not surviving in isolation to each other, rather they are parts of the same eco- system. CSR is not philanthropic or ideological in nature any more, it is really crucial to organizational success. If an organization fails to integrate CSR into its business strategies and practices, ultimately lacks the value and potential for achieving its own competitive advantage. Lack of strategic focus towards CSR directly amounts to organizational inadequacies in maintaining the internal and external stockholders engagement and synergy. Further, according to Kash Rangan, Lisa Sohel Karim (2012) the topic of corporate responsibility has been captioned under many names, including strategic philanthropy, corporate citizenship, social responsibility and other monikers. They also mentioned that all the above nomenclatures point at certain perspective on the role of business in society. Regardless of the term used, CSR is centered on the idea of creating “Shared Value”. The above said

concept ponders upon the idea of creating value not only for the shareholders of the business but also for the society.

Business and society were always complementing each other but as the time passed, values, and ethical practices are replaced by political interests. Thus CSR became more cosmetic in nature which most of the organization used to gain some mileage and publicity in the media, while the focus remained the profitability only, at the cost of environment and the society at large. But with increasing channels of communication and globalization the corporations are under great pressure to stretch the capabilities and willingness to maximise the stockholders value proposition including the social dimensions. By doing so the relationship between the business and society needs can be strengthened over a period of time.

The future of CSR seems great if it is integrated with business strategies of an enterprise, but the above said integration should become a standard practice. To make it feasible the education system must focus on positive attitude building towards CSR & social initiatives, and also there should be a change in the way company performance and the corporate governance duties and responsibilities are measured and evaluated. These changes

will ensure that CSR function is as important as the mainstream business activities like production, finance, marketing, human resource, R&D, making it central to major organisational activities and results.

2. Objective of Study

- To study the importance of CSR for commercial organisation
- To analyze and bring forth the benefits of the of CSR initiatives to all the stakeholder of the business
- To understand the relationship between CSR initiative and organizational performance

3. Research Design & Methodology

The research study is descriptive in nature. The main source of information is secondary data collected through literature review. This gives the researcher a scope to find out importance of CSR initiatives for commercial organisations. The research also aims to understand the benefits CSR initiatives bring for the organisation and its stakeholders and also the relationship between CSR initiatives and organisational performance.

4. Literature Review

According to Porter et al¹, Organisations are majorly thought to be growing at the cost of their community and therefore in recent years business has been criticized as a major cause of social, environmental, and economic problems. The trust factor in business promoters and corporate houses have been falling low day by day, leading to government policies that undermine competitive advantage and hamper economic growth. This is neither in favour of the business nor in the benefit of society. The business is said to be caught in a vicious circle and the need is to understand that a big part of the problem lies with companies themselves, which has come in to existence due to an outdated and narrow approach to value creation. The organisations are generally focused on optimizing and maximising the short-term financial performance and in the process they overlook the unfulfilled societal needs which have broader influences on their long-term success. Needless to say those companies ignore the well-being of their customers by depleting the natural resources vital to their businesses and thus causing the economic distress of the communities in which they produce and sell. The above said problem can be worked out if business and society work together and they redefine

their purpose and create “shared value”. The concept of “Shared Value” is based on the idea of generating economic value in such a way that produces value for society by addressing its needs and challenges. This will help to reconnect company success with social progress and the same can be achieved by preconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters to understand and work upon the needs of the society and community at large.

Friedman⁵ had argued that business is not concerned about profits only but also promotes desirable social ends. The organizations should have a “social conscience” and take their responsibility towards society seriously, by providing employment, eliminating discrimination, avoiding pollution and so on. Profits do matter, but today organizations know more about how business contributes to society. The goal of the business should be to provide goods and services that generate economic growth and employment, which, in turn, greatly improves people’s lives. He further suggested that organizations must pursue economic growth but must not forget to deliver important benefits to society.

Katavić et al.² further added that as we are entering into the second decade of the 21st century, corporate social responsibility (CSR) policies and practices have caught attention of the corporate houses and continued to add value to a growing number of companies. The organisations have understood and accepted that CSR has a great impact on organisations economic performances and strengthens the relationship among stakeholders of the business. The above said fact apparently says that organisations have vital reasons for including CSR into its business strategy for sustainability and growth. The inability or failure on the organisations’ side to integrate CSR into business strategies and practices may lead to decline in value creation and the potential for achieving the competitive advantages. The above argument stresses that, lack of strategic focus on CSR, inability in managing internal and external stakeholder engagement, and failure to align CSR with business strategy is a recipe of decline for organizations. It has also been observed that the organisations who can integrate CSR into business strategies and practices have a better understanding of competitive advantage and ability to address stakeholder interests. This results in enhanced reputation and goodwill and also leads to sustainable growth and better balance between the society and the business.

Gupta et al.³ further elaborated that CSR is not a cost centre but an effective management tool with multi-dimensional benefits. CSR offers a new way to look at the relationship between

business and society that does not treat corporate growth and social welfare as a zero-sum game. They also mentioned that grounding CSR in the values, purpose and strategy of the business is the only way forward to sustainability and growth.

After having established the relationship between CSR and business activities many researchers explored and worked in this area extensively. A concept like this couldn't have been studied without a structural framework. In this line lot of information was given by various researchers and their take on a framework which could explain the CSR and its allied dimensions from a holistic point of view.

It is interesting to know that CSR is just not philanthropy and same has been acknowledged by the various authors namely, Carroll⁸, Aras & Aybars⁹, Gholami¹⁰ & Valackiene & Miceviciene (2011). They say that the CSR consists of four kinds of responsibilities economic, legal, ethical, and philanthropy. It was also deliberated that full disclosure, equal opportunities for employees, philanthropic activities, environmental protection, and quality of products and services can be used as parameters to measure four types of CSR. Gholami¹⁰ argued that all four CSR's dimensions including economic, legal, ethical, and philanthropic activities are equally important in his framework of value creation cycle. He further said that economic dimension is central to this framework and provides for the various activities to be undertaken under CSR. The legal responsibilities dimension emphasize that business processes must pursue the economic viability according to legal guideline applicable to the business. Ethical responsibilities focus ensures that businesses abide to do what is right, just and fair as per the moral rules. The last but not the least philanthropic responsibilities emphasize on corporate citizenship. He also mentioned that such focus will ensure quality resources for community and improve quality of life and overall societal well being.

The various CSR literatures reveal that the organizations regardless of their size, reputation and geographical location are increasingly adopting CSR practices. It is difficult to find out commonly agreed upon theoretical perspective or framework for explaining corporate behaviour with respect to CSR practices¹². It was further deliberated by Thomson, (2007) that there are 33 groups of theories used in understanding CSR and its framework. Some of the commonly practiced and frequently employed theories are legitimacy, Stakeholder, Information Usefulness, Market, Political Economy, Accountability, Institutional, Critical, contingency and Ethics. The above argument throws a light on the fact that CSR is very vast and complex and is not under purview or capability of a single

concept or a theory for its complete explanation. The theoretical framework of CSR as discussed by Susith Fernando¹¹, Stewart Lawrence (2014) revolves around three important theories namely Legitimacy theory, Stakeholder theory and Institutional theory. A closer look at above said frame work and its allied theories explain different shades of CSR activities and it can be inferred upon that CSR plays an important role in managing corporate sustainability. The need is to develop an ideal frame work depending upon organizational requirements and situational needs. While creating the above framework values and business strategies must be combined sensibly so that the CSR framework created here helps an organization and society to grow hand in hand.

5. Conclusion

CSR refers to organizations obligations towards the society beyond the requirement of Law and Economics. The relationship between corporation and the society is just like that of Ship and sea. The socially responsible behaviour of an organization brings benefit to the organization and society on a reciprocal manner. It is important to understand that even though the business of business is to make profits, the same cannot be done at the cost of society. The society is the place where the business gets its market and also its goods and services can be sold to the customers who come from the same come society. Therefore, business must provide goods and services that are safe to life and environment and contribute to the sustainability of the society throughout their life cycle.

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