

CORPORATE SOCIAL RESPONSIBILITY – CORE OF THE SUSTAINABLE DEVELOPMENT

1. Corporate Social Responsibility and Sustainable Development

The corporate social responsibility is a component of the European sustainable development strategy. In the economic literature very often the sustainable development and social responsibility of the firms are considered synonymous. The reason is that the sustainable development as well as the social responsibility supposes the business not only to follow economic criteria but also to satisfy the social and ecological interests of the society. Besides, the theory of agents is a theoretical-methodological fundament of both concepts. Most often the effects of the socially and ecologically responsible business have a positive impact on the reputation of the managers, while the costs for social and ecological initiatives are in reverse proportional dependency with the dividends of the shareholders. However, the contemporary scientific studies show that companies, which follow the criteria of sustainable development and are socially responsible, in practice manage to realize also more significant financial effects. The results of the empirical study of a panel of US companies, listed by the social index Domini, show that the social costs reflect in changes of the companies' goals in direction from maximization of the shareholders' prosperity towards satisfaction of the interests of wide circle of stakeholders.¹ The included in the Domini index companies demonstrate higher sustainability to the sharp changes of the market. It turns out that the increased costs of the companies for labor force have positive impact on the motivation of the personnel, which leads to increase of the labor productivity.

The sustainable development, as well as the social responsibility as its core, suggest considering the interests of wide circle of stakeholders. Such interests have extremely wide range – from use of ecological materials to satisfying the interests of non-trade organizations and civil associations. In practice the synonymous satisfying of all possible interests is completely impossible. According to Paul², economically rational companies allow social and ecological costs when they are completely sure that the future profits will exceed the invested

¹ Becchetti, L., St. Giacomo. Corporate Social Responsibility and Corporate Performance: Evidence from a Panel of US Listed Companies, Research Paper Series, Vol. 26, No 78, 2005.

² Paul, C. Corporate Social Responsibility and Economic Performance, Working Paper, 2006.

costs in close perspective. According to Freeman³, the perception of the process of creating a value as a mutual action should be imposed as a main approach to the interaction of the stakeholders. This requirement increases its currency during financial crisis. The companies should really guarantee high possible profitability for their shareholders, but at the same time they should meet their obligations to the creditors, because otherwise the functioning of the bank system is burdened. Another issue is that the expectations of the stakeholders are a dynamic value and considerably fast changing in the conditions of a dynamic market environment. Having in mind this, economists like Gruning and Hunt⁴ suggest relevant models of interrelations to the stakeholders – a strategy of informing, a strategy of reacting and strategy of including.

It turns out that the theoretical approaches, as well as the practical problems concerning the sustainable development and social responsibility are mutually determined.

The review of the economic literature concerning CSR through the years reveals that yet in his book „The American Economic Republic” Berle states that the increasing power of the labor inevitably imposes newer requirements to the health care, education and social insurance of the workers.⁵

The concept of socially engaged business endures further development in the post-war period. According to the American economist H. Bowen the business should be socially adequate and the businessmen are obliged to make decisions, which should „respond to the values of the society”.⁶

A new step for recognizing the theoretical concept of corporate social responsibility is the formulations of Prof. R. Davis, according to which the social responsibility is not only a behavior, respectively of the law, but a new higher stage of recognizing the social obligations by the firm „outside the frames of the requirements of the law, together with the obligations determined in the law”.⁷ Continuing this logic of study, Prof. Sethi of the California University examines the behavior of the corporations in three aspects: social obligation, social responsibility and social responsiveness, which makes a step to the future „coding of a law of social expectations”.⁸

The concept of social responsibility of the corporations is arguable and provokes wide discussions in the economic circles even today. According to one of its sworn enemies – the founder of the monetarism Prof. M. Friedman from the Chicago school – the social responsibility of the business can be only one – „to use its resources and to conduct activity only towards increase of the

³ Freeman, E., R. Velamuri, B. Moriarty. *Company Stakeholder Responsibility: A New Approach to CSR*, Business Roundtable Institute for Corporate Ethics, 2006.

⁴ Gruning, J., Hunt. T. *Managing Public Relations*, 1984.

⁵ Berle, A. A. *The American Economic Republic*, N. York, 1963, p. 180.

⁶ Bowen, H. *The Social Responsibility of Business*, N.Y., 1964, p. 74.

⁷ Davis, R. *The Meaning and Scope of Social Responsibility, Issues and Viewpoints*, Englewood Cliffs, 1974, p. 629.

⁸ Sethi, S. P. *Japanese Business and Social Conflict*, Cambridge, 1975, p. 19-20.

profits in following the rules of the game in the process of open free competition without lies and fraudulences”.⁹

The thesis of the acknowledged representative of the London school Friedrich Hayek is similar. Recognizing the paradigm of „spontaneous order”, the economist opposes the principle of social justice and responsibility. The author considers that each interaction between two powerful groups – the organized labor and the organized capital – hides huge dangers.¹⁰ Based on it he thinks that the „spontaneous order” should be „ethically neutral”.

The economists of the institutional school also place the focus of their studies on the corporate social responsibility as a whole, as well as in the area of the corporate education. Not denying the role of the firm in the education, Williamson, O. and North, D. directly raise the question of the sources and optimal size of these costs. They consider them as transaction costs and raise sharply the question for the effectiveness of these costs and their direct impact on the labor productivity.

Nowadays the discussions about social responsibility are directed to whether it is a subject of management study, respectively corporate and strategic management or a type of marketing, respectively PR connections with the public. According to the US economist J. Smith, the intrafirm costs for health care, education and improving the quality of life should be set in the business strategy of the firm.¹¹ He states as an example the positive experience of the large US corporations, which have long-term traditions in this direction.

2. *European Parameters of the Social Standard*

The problems concerning the parameters of the social costs of the firms are extremely current in the developed market economies, as well as in the economies of the accessed to EU countries. The reasons for this are few.

The managers of the leading European companies completely acknowledge that the sustainable development of the business in strategic plan depends on the extent, to which are met the expectations of the stakeholders – state, local authority, workers, consumers, shareholders, corporate clients, investors, banks. The interconnection between the sustainable development, as „development, which responds to the needs of the contemporary generation but at the same time does not undermine the opportunities of the future generations to satisfy their own needs”, and the social responsibility, is undoubted. The sustainable development concept with its main components – protection of environment, guaranteeing economic growth and social equality – has much wider range than the social responsibility, initiated on firm level. The sustainable development concept is a base for unfolding of the corporate social responsibility.

The opening of the economies of the former socialist countries to the European market after the accession to EU requires the business to be adequate to

⁹ Friedman, M. *Capitalism and Freedom*, Chicago, 1961, p. 133.

¹⁰ Hayek, F. *The Road to Serfdom*, 2004, p. 65.

¹¹ Smith, J. *Business Strategy*, Cambridge, 1990, p. 204.

the current European standards. The socially responsible business is a guarantee for the stability of the company, and this is hugely significant for the potential investors. EU stimulates the creation of networks of companies, which are engaged in solving the economic, social and ecological problems. Such network of firm Responsible Care functions effectively in the chemical industry.

CSR is an approach, with which the foreign companies adapt their management in untraditional situation, particularly in investing on new markets. In this context there is also overlaying of the goals of the sustainable development with the social responsibility. That is why for a long time it was considered that only and with priority MNC show social engagement. There are no confirmed world rules and norms managing the behavior of the international investors abroad. All initiatives of TNC are voluntary. To a great extent they depend on the branch in which the firm functions, the regional specifics and many other factors.

When it comes to financing social initiatives by the business, the preliminary attitude is that such initiatives can be realized only by the large, acknowledged, financially stable firms. It turns out that according to their opportunities the small and medium-sized firms can have certain motivation for responsible behavior, which is a proof that they develop sustainably.

The situation analysis shows that CSR is a proactive firm policy. CSR should not be considered only an additional financial burden but on the contrary – an additional option for future added value and competitive advantages.

The large international research teams are engaged with the problems of the corporate social responsibility. Authoritative institutions, like World Bank, World Economic Forum, Organization for Economic Cooperation and Development (OECD), UN, conduct active campaigns in this direction.

According to the World Bank CSR can be defined as „engagement of the business to contribute to the sustainable economic development and to guarantee a connection with the workers, their families, local authority and public as a whole in order to improve the quality of life, which is acceptable for the business, as well as for the development”.¹² According to the definition of the World Economic Forum, the corporate citizenship is determined by the „contribution of the company to the society through its business activity, social investments and charity campaigns, including engagements in the public space”.¹³ The Organization for Economic Cooperation and Development focuses on the „optimal interaction between the business and society, in which it operates”.¹⁴ UN does not formulate a new definition of CSR. The authoritative institution focuses on the idea of „global corporate citizenship as a fundament of the individual corporate practices of the multi-national companies”.¹⁵

¹² Disclosure of the Impact of Corporations on Society. 2003, N.J. – Jeneva, p. 23.

¹³ <http://www.pwblf.org>

¹⁴ White Book for Corporate Governance in South Eastern Europe. 2003, Sofia, p. 52-54.

¹⁵ The Social Responsibility of Transnational Corporations. United Nations, N.Y. Jeneva, p. 9-11.

The European Commission defines the social responsibility as a „concept where the firms integrate voluntarily a social engagement and measures for protecting the environment in their business operations and in their interconnections with the other actors”.¹⁶ The social responsibility is an element of the corporate culture, which requires discharging the voluntary firms’ engagements, where the personal interest and private corporate interests fall behind, and a new vision of corporate values is confirmed. The business practice gives clear examples that socially responsible companies develop more successful business. In this sense CSR is a significant economic factor, which leads to creation of added value with certain time lag.

The accession of Bulgaria to the European Union means that the Bulgarian business should voluntarily adopt and follow a behavior, which integrates a social and ecological engagement in their interrelations with the partners. The European integration will make the Bulgarian companies face unknown for most of them norms and requirements, which are an obligatory component of the corporate citizenship. If the firms cannot respond them, they lose their chances to enter the Common European Market.

The main characteristics of CSR are:

- CSR means inclusion of social and ecological measures and responsibilities in the firm strategies and activities.
- CSR is voluntary and does not reflect into a conflict between the interests of the stakeholders.
- CSR is sustainable, permanent process and not a single act.
- CSR does not replace the legal orders and does not go beyond the legal frames.
- CSR has internal and external dimension. The internal dimension includes the interrelations between the employers and employees and is revealed in investing in human capital, insuring healthy and safe work conditions, etc. The external dimension covers suppliers, public and non-governmental organizations, municipalities and all other external parameters of the business environment, in which they function.

Since 2006 active discussions run concerning the future CSR standard ISO/WD 26000, developed under the aegis of the Technical Council ISO, as a system of CSR management. The developed standard is widely covering and provides recommendations not only to the business but also to the state organs, non-commercial, educational, public organizations, as well as to the small and medium-sized enterprises. Its goal is to support the organizations in realizing and reporting their social initiatives. The idea is to neutralize the conflicts between the stakeholders and to increase the trust in the social initiatives. The standard is only advisable and its use is foreseen despite the differences in the

¹⁶ Corporate Social Responsibility on the European Social Policy Agenda. Green paper – 2001, in <http://europa.eu.int>

social, cultural, legislative frames and environment.

The European Union encourages the creation of business networks of firms, which formulate strategies for protecting the environment, observing the human rights, responsibilities to consumers, personnel and public institutions.

Providing information for the social engagements of the business gets close to the reporting concerning the sustainable development on the line of the Global UN Contract. The reporting on the line of the sustainable development is much more widely ranging than the CSR reporting.

CSR requires an active dialogue between the stakeholders, which often have different interests. The three centers – business, public, state – should function as a common mechanism aiming at overcoming the occurred contradictions.

Undoubtedly, the CSR concept is extremely current. In the context of the European Contract the Bulgarian business cannot differ from the European norms. This imposes continuing and deepening of the scientific studies in this area of the economic science.