

## Corporate Social Responsibility and Business Performance

Dr. Anuradha Tyagi

Assistant Professor (Ad-hoc), Department of Commerce, BR Ambedkar College, Delhi University, Delhi, INDIA

### I. INTRODUCTION

CSR is about the basic idea that the businesses have to meet society's expectations in the businesses practices. Nowadays, businesses are operating in an environment in which societal concern have raised to a considerable level. CSR can be seen as an obligation of business world, One of the core belief of the European Baha' business forum is that "Business have a social responsibility as well as economic mission". During 1960's 1970's, CSR emerged as a top management concern in all organizations. Today it is the agenda of many CEO's, Governments, NGO's, consumer groups, investor and other actor in the civil society. CSR has been attracting high attention throughout the world, stakeholder's expectation of the businesses have increase ranged from maximum profit to strong level of CSR. Though CSR play an important role for the business firm and society but there is no legally binding global code of conduct for multinational corporations. This means that practice of CSR is voluntary act and subject to self regulation.

### II. STATEMENT OF THE PROBLEM

A socially responsible company should supersede its main objective of maximizing its shareholders' wealth. It extends its mandate by undertaking social and environmental activities in society within which it carries out its operations through initiatives such as environment conservation, improving the quality of life of its employees and society in general and also being transparent in its business operations. More and more stakeholders are being drawn towards socially responsible companies because of these initiatives. This in turn has led to improved business performance for some and not for others. Companies practicing CSR, such as Uganda's Vision Group continue to post impressive financial results and noticeably enjoy huge and increasing market share while others like Uganda Clays Limited are loss making and losing market share. In FY 2009/10 for example, Vision Group's overall business value grew by 8.3% from 55.1billion to 59.7billion

whereas UCL's value declined by 30.3% from 57.5billion to 40.1billion, all with noticeable increases in CSR expenditure (Annual Report, 2009/10). Whereas this performance can be attributed to a host of factors, including CSR activities that have been reported overtime, the effect of CSR on this performance is not clear. Moreover, there is no Ugandan study linking CSR's effect on a business' operations and performance leaving this area plausible for research.

The question is, has CSR an effect on business operations and performance? This study sought to answer the above question.

### III. GENERAL OBJECTIVE OF THE STUDY

The main aim of the study was to determine the effect of Corporate Social Responsibility on Business Performance.

### IV. RESEARCH METHODOLOGY

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports.

### V. SIGNIFICANCE OF THE STUDY

Given the infancy of Corporate Social Responsibility in business, the study will avail the following benefits to the various stakeholders:

#### *Shareholders*

The investors will know how senior management takes into consideration the interests of consumers, regulators, employees and other important groups that are affected by the company's activities.

#### *Company's management*

The study will help management learn how to forge stronger relationships with key suppliers, customers and the community.

#### *General public*

The general public will be informed of the various approaches in which an entity can undertake social and environmental activities aimed at improving on the quality of life in the community, workplace, market place and generally giving back to society. This will lead to increased human benefit and satisfaction through quality services and goods.

## VI. PROFITABILITY AND CSR

The question whether it is profitable to a company to conduct a moral business. The debate about the business ethics and CSR is dominated by one statement written by Milton Friedman in 1970, entitled “The social responsibilities of business is to increase its profits (and nothing else). So managers should take decision that increase the profit of shareholders while obeying the law. The relation between corporate social responsibility (CSR) and firm performance has evoked much interest among researchers. While some studies reveal a positive relation between the two constructs others indicate a negative relation and still others establish no relation between the two constructs. Though a positive relation between CSR and firm performance has prevailed in many studies (Margolis and Walsh, 2003; Orlitzky et al., 2003), High level of CSR is associated with high profitability. As CSR is not a variable so it could not be measured. In contrast CSP (corporate social performance) can be seen as a way of making CSR applicable. And put into a measurable variable different approaches to measure organizational behavior across a wide range of dimensions such as investment in pollution control equipment, internal behavior such as treatment of women and minorities, relationship with customers and output. CFP (corporate financial performance) is instrument which include stock performance, market return, price per share, profitability measure, asset utilization, return on asset and asset turnover. Most studies (67%) found a positive relation between CSP and CFP. 29% say no significant relationship only 4% show a negative relation. Though there are so many factor which influence the relation of CSP and CFP but no matter the business should run accordance with the rightful expectation of a society. CSR towards employees, Proactive policies and practices towards employees reflect a company’s intention to address the interests of its employees and satisfy their needs. Policies and practices towards union relations, employees’ participation in decision making, remuneration policy, working conditions, and elimination of child labor, portray a firm’s CSR towards employees. By adhering to such standards, firms can satisfy employees, enhance their job performance, and improve profit because satisfied employees have higher morale and job motivation, they will work more effectively and efficiently and contribute to higher levels CSR and Firm Performance, Hence, “ **The favorable CSR towards employees will positively impact the firms’ FP (financial performance) and NFP (non financial performance)**”.

Social responsibility of a company is a reputation factor and is an attractive force for potential and current employees.

## VII. BENEFITS OF CORPORATE SOCIAL RESPONSIBILITY

The Unilever success story is well publicized, but it can be hard to identify with a business of such size. However, the great news is that even the smallest of organizations benefit when putting Corporate Social Responsibility (CSR) at the heart of their business. Whilst profit may be the end goal for any business, responsible businesses have managed to attract more investors, reduced their risks and addressed stakeholder concerns. With there barely being a day in the news where a business hasn’t made an embarrassing error of judgment, more interest is being shown in business demonstrating Corporate Social Responsibility (CSR). The benefits from adopting CSR can be less obvious than say, helping the environment. For example, a survey from Net Impact found that 53% of workers said that “a job where I can make an impact” was important to their happiness. Interestingly, 35% would take a pay cut to work for a company committed to CSR.

Corporate social responsibility is about the integration of social, environmental, and economic considerations into the decision-making structures and processes of business. It is about using innovation to find creative and value-added solutions to societal and environmental challenges. It is about engaging shareholders and other stakeholders and collaborating with them to more effectively manage potential risks and build credibility and trust in society. It is about not only complying with the law in a due diligent way but also about taking account of society’s needs and finding more effective ways to satisfy existing and anticipated demands in order to build more sustainable businesses. Ultimately, it is about delivering improved shareholder and debtholder value, providing enhanced goods and services for customers, building trust and credibility in the society in which the business operates, and becoming more sustainable over the longer term. Is there a business case for CSR, and if so, what is it?

While there are different ways to frame the benefits because they are interrelated, they generally include the following:

- stronger financial performance and profitability through operational efficiency gains
- improved relations with the investment community and better access to capital
- enhanced employee relations that yield better results respecting recruitment, motivation, retention, learning and innovation, and productivity

- stronger relationships with communities and enhanced license to operate improved reputation and branding

## **VIII. STRONGER FINANCIAL PERFORMANCE AND PROFITABILITY**

Businesses can use CSR and corporate sustainability to produce direct benefits for the bottom line. For example, operational efficiencies can be achieved through reducing energy and materials as input factors for production. Wastes can also be reduced and materials can be recycled. These sorts of actions from eco-efficiency can produce concurrent environmental and economic benefits for the company and thereby contribute to stronger financial performance and more positive profitability. Operational efficiencies can be achieved in other facets of CSR such as streamlining the way that information is provided to the investment community as well as to other stakeholders that demand increased transparency. Managing potential risks and liabilities more effectively through CSR tools and perspectives can also reduce costs. Using corporate responsibility and sustainability approaches within business decision-making can result not only in reduced costs but can also lead to recognizing new market opportunities such as when new manufacturing processes are developed that can be expanded to other plants, regions or markets. There are various studies that have examined the relationship between CSR and corporate financial performance and most of the evidence suggests that the links are positive.

## **IX. IMPROVED RELATIONS WITH THE INVESTMENT COMMUNITY AND BETTER ACCESS TO CAPITAL**

The investment community has been exploring the links between corporate social responsibility and financial performance of businesses. There is growing evidence that companies that embrace the essential qualities of CSR generally out perform their counterparts that do not use features of CSR. This information is being translated into action within the investment community. An increasing number of mutual funds are now integrating CSR criteria into their selection processes to screen in sounder companies and/or screen out businesses that do not meet certain environmental or social standards. Thus, a CSR approach by a company can improve the stature of the company in the perspective of the investment community, a company's stock market valuation, and its capacity to access capital from that community.

## **X. ENHANCED EMPLOYEE RELATIONS, PRODUCTIVITY AND INNOVATION**

A key potential benefit from CSR initiatives involves establishing the conditions that can contribute to increasing the commitment and motivation of employees to become more innovative and productive. Companies that employ CSR related perspectives and tools tend to be businesses that provide the pre-conditions for increased loyalty and commitment from employees. These conditions can serve to help to recruit employees, retain employees, motivate employees to develop skills, and encourage employees to pursue learning to find innovative ways to not only reduce costs but to also spot and take advantage of new opportunities for maximizing benefits, reduce absenteeism, and may also translate into marginally less demands for higher wages.

## **XI. STRONGER RELATIONS WITHIN COMMUNITIES THROUGH STAKEHOLDER ENGAGEMENT**

A key feature of CSR involves the way that a company engages, involves, and collaborates with its stakeholders including shareholders, employees, debtholders, suppliers, customers, communities, non-governmental organizations, and governments. To the extent that stakeholder engagement and collaboration involve maintaining an open dialogue, being prepared to form effective partnerships, and demonstrating transparency (through measuring, accounting, and reporting practices), the relationship between the business and the community in which it operates is likely to be more credible and trustworthy. This is a potentially important benefit for companies because it increases their "licence to operate", enhances their prospects to be supported over the longer term by the community, and improves their capacity to be more sustainable. Companies can use stakeholder engagement to internalize society's needs, hopes, circumstances into their corporate views and decision-making. While there are many questions about how far a company's responsibilities extend into communities relative to the roles of governments and individual citizens, there is a strong argument that CSR can effectively improve a company's relations with communities and thereby produce some key features that will improve business prospects for its future

## **XII. IMPROVED REPUTATION AND BRANDING**

A potential benefit of CSR is that it can improve a company's reputation and branding and this in turn improves the prospects for the company to be more

effective in the way that it manages communications and marketing in efforts to attract new customers and increase market share. CSR as a concept with various tools can help a company to position itself in the marketplace as a company that is more responsible and more sustainable than its competitors.

### **XIII. A WORD ON CSR AS AN INVESTMENT**

CSR can be viewed by businesses as a form of investment that helps to differentiate a company and its goods and services. What then is the right way to look at CSR as an investment - particularly given that it frequently involves intangible and less quantifiable domains. The bottom line is that a prudent business may tend to regard CSR in the same way it treats most investment decisions. It would be inclined to use the same systematic approach to assess the anticipated benefits and related revenues relative to the costs that it employs for investment proposals. A rigorous and systematic approach to CSR investment is likely to yield the most positive results for both the business and society as it is likely to demonstrate the most efficient allocation of resources from the perspective of both the firm and society.

There are many different areas where a firm can invest to develop CSR attributes (e.g. human resource management, environmental protection, health and safety, community involvement, etc.). Investment decisions on CSR need to take account of various factors and parameters as well as the anticipated cost and benefit stream to be produced by the investment.

### **XIV. CONCLUSION**

For bringing back and maintaining the general balance in the economic and social arena it is evident to think deeply and act wisely about CSR. Every business house owe some responsibility towards the society, nation and world in general which provide it with all human , material and natural resources. Considering the long run growth and sustainable development following the norms of CSR , devising new policies and effective implementation is inevitable to bring and sustain a balance between corporate world and society, present generation and upcoming generation, man and nature .We do not claim to be more unselfish, more generous and more philanthropic than other people. But we think we started on sound and straightforward business principles, considering the interests of the shareholder, our own, and

the health and welfare of the employees, the sure foundation of our prosperity!.

### **XV. FINDINGS**

- As business is an integral part of the social system it has to care for varied needs of the society
- Business which is resourceful has a special responsibility to the society.
- Social involvement of business would enhance a harmonious and healthy relationship between the society and business seeking mutual benefit for the both.
- Social involvement may create a better public image and goodwill for the company which further becomes instrumental in attracting customers, efficient personnel and investors.

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