CSR BENEFITS AND COSTS IN A STRATEGIC APPROACH

Lect. Diana Corina Gligor – Cimpoieru Ph. D
West University of Timişoara
Faculty of Economics and Business Administration
Timişoara, Romania
Assoc. Prof. Valentin Partenie Munteanu Ph. D
University of Craiova
West University of Timişoara
Faculty of Economics and Business Administration
Timişoara, Romania

Abstract: In recent decades corporate social responsibility (CSR) has captured the interest of both practitioners and academics, being a concept extensively analyzed and discussed in terms of its many facets. But maybe due its complexity, still lacking a unified approach and a widely accepted definition, CSR is still often seen as having a peripheral role, auxiliary for a business organization, without even understanding its essence and having overlooked its extraordinary potential to determine multiple bivalent benefits for companies and local communities. Even if CSR benefits are identified, the analysis is often limited to an optimistic view, lacking a realistic approach that recognizes and takes into account also the costs and risks associated. With this paper we aim at identifying the most significant CSR benefits and costs in an attempt to offer a realistic pledging for the importance of CSR implementation in a strategic approach.

JEL classification: M14, M21

Key words: Corporate Social Responsibility (CSR); CSR traditional approach; CSR strategic approach; CSR benefits; CSR costs

1. THE IMPORTANCE OF A STRATEGIC APPROACH WHEN ADDRESSING CSR BENEFITS AND COSTS

Over the past decades corporate social responsibility (CSR) has captured the interest of both practitioners and academics, being a concept extensively analyzed and discussed in terms of its many facets. But maybe due its complexity, ranging from an organizational form of philanthropy for giving something back to the society, for gaining legitimacy or for accessing the use of some natural resources to a new marketing strategy or even more than, a new managerial paradigm this concept is yet controversial and sometimes not completely understood. Although corporate social responsibility already has a history of more than six decades, usually it is considered that Bowen in 1953 mentioned it for the first time, the concept is paradoxically, in spite of hundreds maybe thousands written of the subject, still lacks a commonly accepted definition.

CSR is still often seen as having a peripheral role, auxiliary for a business organization without even understand its essence and having overlooked its extraordinary potential determine multiple bivalent benefits for companies and local communities. On the other hand, even if CSR benefits are identified, the analysis is often limited to an optimistic view, lacking a realistic approach that recognizes and takes into account also the costs and risks associated.

When analyzing the evolution of the CSR concept we can notice that in spite of different ways of approach, constantly the need for a strategic approach is mentioned. Thus starting from the 60s Keith Davis argued that social responsibility has the potential to bring long-term benefits and in the 70s Harold Johnson believes that the managers of a business organization must weigh a multitude of interests when making a decision. George Steiner argued that although "a business organization is and must remain a fundamental economic institution" (Steiner, 1971) there are certain responsibilities to society that business organizations have, related to the dimensions of the business organizations. In 1975, Preston and Post argued that at that time social responsibility was represented by a large number of various practices and not always consistent and by a diversity of ad hoc managerial practices and policies (Preston and Post, 1975).

The need for the involvement of stakeholders in the implementation of social initiatives was reported by Murray and Montanary who held that although management specialists recognize that social responsibility has certain strategic implications for companies, few have focused on interdependent and dynamic relationships between the firm and the relevant actors the social environment (Murray and Montanary, 1986). The authors also emphasized the need to develop a theoretical framework for planning, implementing and controlling the activities of social responsibility.

More recently, Michael Porter and Mark Kramer (2002) consider that it represents a "false dichotomy" that for such a long time both economic and social goals were perceived as distinct and opposed, moreover, in a long term approach, social and economic objectives are not conflicting, but interconnected.

From a strategic perspective on CSR is more that obvious that a business organization must take in consideration its long-term goals, but creating long-term value is not exclusively linked to the economic value but also to the impact on people and the environment, meaning that a triple profitability is important, the so called triple bottom line, which includes the 3 P Model: P - Profit (the economic dimension), P - People (the social dimension) and P – Planet (the environmental dimension) (Graafland et al, 2004).

In 2005 Philip Kotler and Nancy Lee launched a reference work in our view for the theme of social responsibility, one of the most important contribution consisted in presenting the most important 6 types of social responsibility programs implemented in practice (Cause promotion, Cause related marketing, Social marketing, Corporate Philanthropy, Volunteering and Socially responsible business practices) and emphasizes the importance of a strategic approach to it.

In 2006 Porter and Kramer examine the link between competitive advantage and corporate social responsibility of business organizations, emphasizing the idea that treating social initiatives like choices that are at the very foundations of a business organization can bring significant competitive advantages, and in 2011 the same authors promoted the concept of "shared value" that creates value for both the business organization and society, the concept having their vision the “potential to generate the next wave of global growth "and a new form of capitalism.

It is important that organizational stakeholders can identify true social responsibility initiatives as opposed to those focused exclusively with the image benefit (classified as "greenwashing" in the literature). This way we can make the difference between "symbolic" and “substantive” corporate social responsibility initiatives (Perez-Batres et al., 2012).

In a recent approach Tehemar (2014) believes that social responsibility is a "management philosophy" that many companies are currently trying to incorporate it into their core business, but also notes that social responsibility as with any managerial concept should be well planned and communicated to achieve optimum results, from our perspective emphasizing thus once again the need for a strategic approach to CSR.

One of the most widely accepted and used definition of CSR is the one formulated by the European Commission in 2006 according to which "Corporate social responsibility (CSR) is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

From our perspective corporate social responsibility represents an ongoing voluntary commitment to organizational stakeholders for obtaining the profit in an ethical manner with respect for people, community and the natural environment (Gligor, 2011).

We appreciate that in spite numerous approaches and definitions of CSR, a need for what we call a strategic approach is noticed, as a way of enhancing CSR benefits and opportunities and limiting CSR costs and risks. We can reach to several conclusions related to the CSR benefits and costs in a strategic approach:

- The benefits of a CSR program must be bivalent: for both the business organization and the supported social cause;
- The CSR benefits generated and CSR costs assumed in the case of the business organization must be integrated within the general strategy of the company;
- The benefits generated by a CSR initiative must be tangible (real and significant), and thus implied CSR costs must be assumed from the beginning;
- The image benefit is an important motivational aspect for implementing a CSR initiative, but not the only one;
- Organizational benefits are generated by the relationships created or enhanced to the implementation of a CSR initiative (like the benefits related to employees engagement, partnerships with various NGOs or other stakeholders like local media and local authorities), but at the same time, associated costs and risks must be assessed;
- To have a correct image of the generated benefits and costs, the evaluation of CSR programs is vital.

2. CSR BENEFITS IN A STRATEGIC APPROACH

In justifying the importance of CSR programs, especially from a strategic perspective, potential benefits generated are an important argument. Porter and Kramer (2002) are underling the fact that in order for the social involvement of a business organization to be sustainable in time it needs to be in a win-win approach for both parties involved. At the same time they out that not every social involvement of business organizations will bring social benefits, as not every social benefit will improve the competitiveness of business organizations.

In our opinion is very important to move beyond the state in which CSR is perceived only as something "good" or "nice" and to understand the importance of this concept for organizational management from the perspective of a economic reasoning of the type of costs – benefits analysis, where we set some goals and target associated costs and risks.

One of the most important benefits that business organizations are targeting from our experience is the image benefit. Business organizations need a good image among customers, the media, the authorities, in dealing with business partners and in relationship to the general public. As a rule business organizations want good relations with all categories of stakeholders as it may prove that a good image is a prerequisite for increased profitability. While this is perhaps the first benefit that business organizations that implement social responsibility programs aim at, in our opinion improving organizational image should not be a primary objective of a CSR program, but a secondary one, a consequence of an strategic approach to determine a real improvement in the way the organization works. Without a real commitment to changing the optics of the operation and management, CSR remains just another tool of public relations department to deferral solving a problem or the outbreak of a scandal. Reputation reflects the relative success of business organizations in asking to the expectations of several stakeholders (Freeman, 1984), and CSR can prove a useful tool in the business organization-stakeholders relationship.

CSR can become part of the identity of a business organization, and declared organizational values can become visible in organizational practice. Assuming CSR principles has a vital importance when exploring natural resources and aiming at obtaining a “social licence” and when searching for financial resources, especially at an exchange market, CSR can prove an indicator for future performance and an indicator of reduced risk. A triple bottom line evaluation become a trend, because it is estimated that such a performance assessment (financial, social and environmental) highlights the potential future profitability of the business organization as it indicates the sustainability of its competitive advantages, the quality of the strategic management of the organization and also the adaptability to new internal and external expectations.

In some cases implementation of CSR programs, especially the kind of socially responsible business practices, can result in a reduction in operating costs. A very good example to illustrate this situation is the cost savings made from recycled materials by providing an integrated circuit for a product of the type sale - recycle – reuse, a type of approach that shoud become custom for every business activity.

A special kind of CSR benefits are those associated to human resources management, to the employees of a business organization. Convincing empirical arguments show that companies with a strong reputation for social responsibility and business sustainability often have success when recruiting and retaining outstanding employees in markets with intense competition (Ionescu, Bibu, Munteanu and Gligor, 2010). CSR programs have a unique potential to motivate employees in a very special manner. Business organizations can benefit from a comprehensive range of financial or non-financial ways to motivate employees, but by involvement in social responsibility projects for successful employees can generate enthusiasm and gratitude for what they can boost their attachment to organizations employer, which may translate into increased productivity and efficiency of their work. Gilder, Schuyt and Breedijk (2005) have shown that volunteering has a positive influence employee attitudes and behaviour towards employing organization, especially in terms of self-perceived performance at work, reduce absenteeism and increase commitment to the organization. In addition, employee involvement in organizational social responsibility programs can be an innovative alternative for teambuilding programs, with the added benefits of business organization, for employees and social causes supported.

Naghi and Para (2014), are underling the importance of focusing on the relationship with its employees as they are the internal clients of a business organizations, and the implementation of CSR programs like corporate volunteering can be part of the initiatives addressed to this type of “clients”.

Table no. 2 The main opportunities and benefits associated to CSR implementation

CRT	THE IDENTIFIED OPPORTUNITY OR BENEFIT	OBSERVATIONS
1.	The image benefit	A good image can be a prerequisite for increased profitability
2.	Paradigm shift in business organization management	After many incidents in business with ethical implications is a need for change in this direction for the management of business organizations
3.	Expression of organizational values	Through social responsibility programs, business organization can prove that the declared values are put in practice
4.	Obtaining a "social license"	A benefit particularly important in the case of controversial projects in local communities
5.	Increased competition in access to natural resources	Important due to an increasing difficult access to natural resources
6.	Increased competition in access to financial resources	A preference is manifested in the case of investors on the stock market for companies reporting social responsibility activities
7.	A lower cost of access to sources of financing	For instance by obtaining a better score for the granting of a bank loan
8.	Reducing risks	Reduce business risks associated with long-term implications analysis in decision making
9.	Reducing costs	Many business organizations have found a simultaneous reduction in costs with the implementation of procedures to reduce environmental impact
10.	A better response to the changing needs of organizational stakeholders	The number of stakeholders consider the increased intensity of interaction with them and their needs are constantly changing, this means that the increased pressure on business organizations
11.	Access to certain market segments	Amid the development of what is called "conscious consumption"
12.	Customer loyalty	Customers are offered an additional guarantee for the correctness of their choice
13.	Driving innovation	By creating an organizational climate that contribute to innovative solutions
14.	Better relations with regulatory agencies and obtaining tax benefits to certain categories	Companies may behave the prevention of the development of a legislative framework overly strict or bulky
15.	Attracting and maintaining valuable employees	Studies among young future employees shows that they attach increasing importance of social responsibility policy

Starting from Schaltegger and Synnestvedt classification (2006) a new systemized approach can be proposed for the positives effects generated by addressing social and environment issues by business organizations. Thus we can identify five main categories: financial effects (like reduction of the fiscal obligations, avoiding penalties, capital access, etc.) economic or market effects (like gaining new clients and existing clients loyalty, improvements in the supply chain or reducing brand risks), operational or process effects (reduction of production costs, increased productivity), effects on organizational development (like employee motivation, maintaining employee performance, increase capacity for innovation through the transfer of best practices) and public perception effects (improved image in local communities).

From the perspective of quantifying these effects, there are proposed mainly classifications like monetary / nonmonetary effects (Naderer, 2005; Weber 2008). The category of monetary effects includes direct financial and economic effects (increased profits, reduced costs, access to finance, and improving productivity) and indirect (reduced operational risks, increasing brand value, increased market share). In the second category, that of the non - monetary effects, but with a direct influence on competitiveness, include aspects like increasing the area for the recruitment of employees and stimulating innovation (quantitative effects) or good relations with stakeholders other than business partners related to reputation (quantitative effects).

Another approach to the measurement of CSR positive effects starts from evaluating the impact upon organizational stakeholders. Thus, uni-dimensional models can be used, like those based of the Shareholder Value concept (Rappaport, 1998) or the Customer Value concept (Weber, 2008), but also multi-dimensional models, like Stakeholder Value Added Model (the integrated effects upon an assembly of stakeholders; Weber, 2008). A synthesis of these classifications can be presented in a cause – effects model showed in Figure 1 (adapted after Weber, 2008):

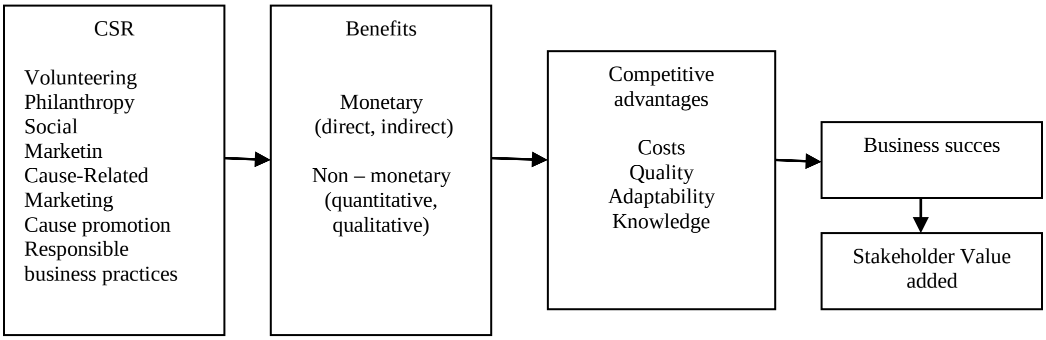

Figure no. 1 CSR Potential Positive Impact Model

3. CSR COSTS IN A STRATEGIC APPROACH

While the numerous benefits associated to CSR implementation are more often brought into discussion as an argument for the importance of CSR programs inside a business organizations, in a traditional approach costs are most often neglected ore minimized, because it lacks the benefits-costs perspective specific to a strategic approach to CSR.

Maybe the most famous arguments against CSR is the one formulated by Milton Friedman at the end of his New York Times Magazine article published on 13 September 1970 according to which the one and only one social responsibility of business is to increase profit. The original quote was "there is one and only one social responsibility of business – to use it resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" and in fact it was part of his 1962 book Capitalism and Freedom. Although very famous in his synthesized version, the complete quote of Milton Friedman deserves from our perspective a closer look, because we think that usually it is taken out of context: when we analyze the complete argument of Friedman we notice that in fact he is not supporting profit maximization of profit by any means possible, in fact he is militating for profit maximization in the context of respecting “the rules of the game”, with an ethical behaviour in terms of ensuring a free competition, without deception or fraud, ensuring this way a solid base for profitability. In fact, the author explicitly refers to ethical principals in another paragraph stating that the responsibility of a businessman is “to make as much money as possible while con¬forming to the basic rules of the society, both those embodied in law and those embodied in ethical custom”.

Not only Milton Friedman expressed its direct opposition to corporate social responsibility, for instance Deborah Doane its article called “The Myth of CSR. The problem with assuming that companies can do well while also doing good is that markets don’t really work that way” published in 2005 in Stanford Social Innovation Review considers CSR to be an attempt to show “the friendly face of capitalism” to a “generation that felt that big business had taken over the world, to the detriment of people and the environment” (Doane, 2005). Doane is referring to Joel Bakan work presented in a book and the documentary film “The Corporation” that is stating that corporations are “psychopaths” and by embracing CSR activities “we are allowing the psychopath to be charming”. Doane concludes that CSR ”is a placebo”, ”lulling us into a false sense of security ” and that legislative measures are needed in order to regulate business behaviour.

Starting from the argumentation related to the costs and risks associated to CSR presented in the literature (i.e. Friedman, 1970; Doane, 2005; Ionescu et al., 2010)

CRT	THE IDENTIFIED RISK OR COST	OBSERVATIONS
1.	Not to obtain a profit maximization	While complying with legal and ethical demands
2.	To use stockholders money in a way that they didn’t approved	This could lead to a personal risk for the manager of being fired by its employers (the stockholders)
3.	The effective financial cost (direct cost)	Implementation of any CSR program involves inevitably some financial costs and the management of a business organization should conduct a detailed analysis of the sources of these costs will be covered and the financial resources must to be allocated optimally so that overall profitability of the organization is not affected
4.	Profitability and efficiency of the business organization can be affected	By implementing social responsibility part of financial and non-financial business organization are diverted from direct and immediate contribution to the organization's economic objectives of the business.
5.	The financial cost could be transferred to clients as a majored price	This cost could be accepted by the clients or it could be a “hidden” cost (in which case it becomes an indirect cost related to the reputation of the company)
6.	Companies can use unsuited or even illegal programs	This is also a “reputation” risk or even a legal risk
7.	The lack of interest from the targeted public	This is a significant risk for the success of a CSR program, but a strategic approach in its implementation can reduce it

In terms of different kinds of costs associated to CSR we can determine a costs classification in terms of periodicity / frequency / continuity of the costs, thus we can identify one - time CSR costs that include for instance one - time donations (for special cases), or major investment costs (like costs for construction, equipment and new technologies, land acquisition, etc.) and continuous CSR costs (along the entire CSR program) that include continuous support for a cause, permanent contributions (like of scholarships, personnel costs, material costs, utility costs and other operating costs of program implementation).

The identifiable risks associated to CSR programs (or the potential costs) are mainly driven from the stakeholders behaviour toward CSR initiatives that could lead to negative consequences for the company. CSR risks related to the CSR costs can include cost increases over the estimated budgets as a consequence of the need for additional activities for gaining the interest of the targeted public (like communication campaigns) (Weber, 2008).

A global approach of a CSR program can be seen in the terms of a classic costs-benefits analysis, thus we can determine the calculated CSR Value Added (CSR VA) using a discounted cash flow method as in traditional investment appraisal using the following formula (Drews, 2010):

$$CSR\,VA = \sum_{i=1}^{N} (BCSR_i - CCSR_i)^i \, x \, \frac{1}{(1+r)^i}$$

where N – the program length (expressed in years), BCSRi – the generated benefit (monetary), CCSRi - the generated benefit (monetary), r - discount rate.

This method can be useful for CSR programs with a longer period of time for implementation, with identifiable costs and for determining the real impact of a CSR program.

5. Conclusions

After analysing both the benefits and costs associated to CSR implementation (acting like favourable and unfavourable arguments for CSR) we have reach to the conclusion that most of the impediments related to CSR could be allocated to the lack of a strategic approach in implementing CSR. We think that when CSR initiatives are perceived with reservation is not because there is a problem with the legitimacy of the CSR concept, but rather to its implementation through the lack of the strategic approach and to the lack of the potential benefits to be generated for a business organization, benefits that in a strategic approach definitely outcome the inherent costs.

We also appreciate that in establishing the social involvement strategy of a business organization is important that CSR opportunities, benefits, risks and costs are known, to be assessed in an adequate manner so that business organizations can choose the right type of social responsibility program based on targeted objectives and available resources, taking into consideration the most important benefits to be covered and the most significant risks and costs which need to be faced, but also as a mean to a better understanding of the reasons why engaging in social responsibility is justified.

Another issue related to the analysed topic that we have identified is that if a business organization when implementing socially responsible initiatives is focusing only on reaping the image benefit from a simple public relations perspective, then it is more that obvious that all the potential business benefits it could gain from a strategic approach are just "myths", like in Doane's (2005) presented argumentation.

The main objective of this paper was to identify as many benefits and costs associated to CSR implementation as a starting base for future research for evaluation of the perception in the local business environment regarding this aspect. Although the contributions where mainly theoretical, we consider the paper valuable as a base for future development of research methodology for further empiric research.

ACKNOWLEDGMENT

This work was supported from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007 – 2013, project number POSDRU/159/1.5/S/134197, project title "Performance and Excellence in Postdoctoral Research in Romanian Economics Science Domain".

REFERENCES

1. Bhattacharya, CB, Sen S., Korschun D., Leveraging corporate responsibility: the stakeholder route to maximizing business and social value, New York: Cambridge University Press, 2011
2. Bowen, H.R. Social Responsibilities of the Businessman, New York: Harper & Row, 1953
3. Davis, K. Can business afford to ignore social responsibilities? California Management Review, 2, 70-76, 1960
4. Doane, D. The Myth of CSR. The problem with assuming that companies can do well while also doing good is that markets don't really work that way. Stanford Social Innovation Review, Fall 2005
5. Drews, M. Measuring the business and societal benefits of corporate responsibility, Corporate Governance: The international journal of business in society, 10 (4), 421 – 431, 2010
6. Drucker, P. F. The practice of management, New York: Harper & Row, 1954
7. Friedman, M. The Social Responsibility of Business is to Increase its Profits. The New York Times Magazine, 1970
8. Ghalib, A. K., Agupusi, P. How socially responsible are multinational corporations? Perspectives from the developing world, Working Paper 32, DEV Working Paper Series, The School of International Development, University of East Anglia, UK, 2011
9. Gligor-Cimpoieru, D. Proposing a Model for Implementing a Corporate Social Responsibility Program in a Strategic Approach, Timișoara Journal of Economics, Volume 5, Issue 18, pg. 272-284, 2012
10. Gligor-Cimpoieru, D. C., Munteanu, V. P. The Strategic Approach of CSR for The Banking System in Romania, unpublished paper, presented at the International Conference "Beyond Business as Usual. CSR Trends" Faculty of Management, University of Łódź, Poland, 2013
11. Graafland, J.J., Eijffinger, S.C.W. SmidJohan, H. Benchmarking of Corporate Social Responsibility: Methodological Problems and Robustness, Journal of Business Ethics, 53 (1-2), 51-71, 2004
12. Iamandi, I. E. Empirical Analysis on CSR Communication in Romania:

Transparency and Participation. The Romanian Economic Journal, no. 46, 25-50, 2012

13. Johnson, H. L. Business in contemporary society: Framework and issues, Belmont: Wadsworth, 1971
14. Kotler, P., Lee, N. Corporate Social Responsibility – Doing the Most Good for Your Company and Your Cause, New Jersey: John Wiley & Sons, 2005
15. Murray, K.B., Montanary, J.R. Strategic Management of the Socially Responsible Firm: Integrating Management and Marketing Theory, Academy of Management Review, 11(4), 815-827, 1986
16. Naghi, R.I., Para, I. Orientarea spre piața internă în cadrul companiilor din regiunea banat, România, Revista Română de Marketing 4/2014 (octombrie-decembrie), 2014
17. Oancea, D., Diaconu, B., Transparenţă şi credibilitate în practicile de responsabilitate socială corporatistă, http://www.csr-romania.ro/cercetari/transparenta-si-credibilitate-in-csr.pdf, 2010
18. Øyvind, I., Bartlett, J., May, S., The Handbook of Communication and Corporate Social Responsibility, Wiley, 2011
19. Perez-Batres, L. A., Doh, J., Miller, V., Pisani M. J. Stakeholder Pressures as Determinants of CSR Strategic Choice: Why do Firms Choose Symbolic Versus Substantive Self-Regulatory Codes of Conduct?, Journal of Business Ethics, 110 (2), 157-172, 2012
20. Porter, M. E., Kramer, M.R. The Competitive Advantage of Corporate Philanthropy, Harvard Business Review, 80 (12), 56-69, 2002
21. Porter, M. E., Kramer, M.R. Strategy & society: The link between competitive advantage and corporate social responsibility, Harvard Business Review, 84(12), 78–92, 2006
22. Porter, M. E., Kramer, M.R. Creating Shared Value, Harvard Business Review, 84, 2006
23. Preston, L., and Post J. Private Management and Public Policy: The Principle of Public Responsibility. New Jersey: Prentice Hall, 1975
24. Rappaport, A. Creating shareholder value: A guide for manager and investors. (2nd ed.). New York: Free Press, 1988
25. Schaltegger, S., Synnestvedt, T. The link between "green" and economic succes: Environmental management as the crucial trigger between environmental and performance. Journal of Environmental Management, 65 (4), 339 – 346, 2002
26. Steiner, G. A. Business and society. New York: Random House., 1971
27. Tehemar, S. Communication Model in the Healthcare Service Sector, http://www.dsfh.med.sa/eng/images/stories/csr_communication_model_in_dsfh.pdf, 2011
28. Tehemar, S. Communication in the CSR Context, http://bookboon.com/en/communication-in-the-csr-context-ebook, 2014
29. Weber, M. The business case for corporate social responsibility: A company - level measurement approach for CSR, European management Journal, 26 (4), 247 – 261, 2008
30. *** European Commission In 2006 Implementing The Partnership For Growth And Jobs: Making Europe A Pole Of Excellence On Corporate Social Responsibility, Communication From The Commission To The European Parliament, The Council And The European Economic And Social Committee