

## THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY IN BUILDING THE CORPORATE STRATEGY

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<https://doi.org/10.31410/itema.2018.728>

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**Abstract:** *Business organizations are the economic driver of society, and the realization of profit is their primary responsibility. However, in the current business climate, social issues become so important that corporate social responsibility is becoming a new field for competitive success. The biggest challenge for modern organizations is to develop CSR policies and practices to help develop the organization. The pursuit of the interests of all stakeholders has an impact in building all the dimensions of the organizational strategy.*

**Keywords:** *corporate social responsibility, corporate strategy, strategic social responsibility.*

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### Introduction

The conception of corporate social responsibility (CSR) draws the interest of the contemporary organizations while introducing the globalization and liberalization. While the conception of corporate social responsibility becomes more popular on a global and on a local scale the importance of finding the most efficient way of implementing it into the organization's strategy increases. The changes in the global market during the last decades switch the entrepreneurs' perception from the business to the society and the development of the organization. The strategic purpose of the contemporary business shifts from just ensuring the profits for a certain organization to sharing this profit with its employees and the society.

Realizing the importance the corporate social responsibility has for the business development, the biggest challenge facing the modern organizations is to develop politics and practices in the CSR area and to successfully implement them into the organization's corporate development strategy.

**The purpose** of this article is to study the level of influence the corporate social responsibility has on developing the organization's strategy.

**Subject** of study are the corporate social responsibility and the corporate strategy.

The problems the author will solve in this article are:

- To review the essence of the corporate social responsibility.
- To review the concept of strategic social responsibility.
- To show and analyze the influence the corporate social responsibility has on the corporate strategy development.

### 1. Nature of the corporate social responsibility

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The roots of the corporate social responsibility conception can be traced back to 1952 when H. Bowen (1953) gave the first modern contribution to the matter of CSR in his book “Social Responsibilities of the Businessman”. There, the author draws the following definition of social responsibility of the organization: ‘It refers to the obligations the business has on following those politics, to take those decisions, or to make those actions which are necessary regarding the purposes and values of the society.’

The corporate social responsibility merged in the USA and spread throughout other social movements, like for example, the ones for the citizens’ rights, the women’s rights, the consumer rights, and the environment protection. Since the very beginning of this movement, in the modern business arose the fear that CSR can shift the core focus of the business from maximizing the profits. In reference to that M. Friedman (1970) raised an objection against the rising role and importance of social responsibility underlining that under conditions of free economics the business has the same responsibility, namely to use its resources and to perform those activities through which it increases its profit, and to participate in an open and free competition.

A. Carroll (1979) proposes one of the first and still the most adopted conception of CSR according to which, the organization’s responsibilities can be brought to the following four:

- The economical responsibility to generate profit;
- The legal responsibility to comply with the local, state and international laws;
- The ethical responsibility - recognizing the moral rights, fair work conditions, avoiding damages, etc.;
- The discretionary/philanthropic responsibility to perform actions and keep a behavior which the society finds proper - charity and support of various cultural and social causes.

These four categories form the following definition of CSR: The corporate social responsibility covers the economical, the legal, ethical and discretionary expectations of the society towards the organizations in a given time (Carroll and Shabana, 2010). Similar definition was given by A. McWilliams et al (2006) according to whom the social responsibility covers the situations where the organizations perform actions contributing to some social welfare, beyond the company interests and what is required by the law.

Corporate social responsibility is also often view through the prism of the interested parties theory, according to which organizations have responsibilities to various internal and external Interested parties (Freeman, 1984). Thus the corporate social responsibility resembles a part of the organization’s activity in response and performance of the expectations enforced by the interested parties. In the group of the organization’s interested parties fall the owners, the shareholders, the investors, the employees, the clients, the suppliers, the government and the society as a whole.

Not with standing how they define the corporate social responsibility, the authors of scholar literature unite themselves over the fact, that if used properly, it creates benefits for the organization. Firstly, the corporate social responsibility has the potential to reduce the risks and expenses of business. On one hand performing CSR activities in the form of equal employment opportunities and environmentally responsible engagement politics and practices increases the long-term shareholding value (Carroll and Shabana, 2010). On the other hand, the corporate activities regarding the environment can reduce the expenses and the risks, because the business meets the current and the possible future environmental regulations and creates a more

environmental friendly profile of the organization within the society. And least, but not last, the positive interrelations in the community could lead to tax advantages and reduction of the scope of regulations imposed on the organization, since it is perceived as a responsible member of the society (Carroll and Shabana, 2010).

Another advantage of applying corporate social responsibility can be connected with increasing the competitiveness of the organization. In this aspect, the corporate social responsibility is being reviewed as a differentiation strategy, where the opportunities, in the form of requirements by the interested parties, are being strategically managed. CSR activities have the potential to improve the interrelations between the organization and its clients, the loyalty to the brand and the ease of ensuring future investments, which in its term makes the organization competitive.

As another advantage from implementing the corporate social responsibility in the organization's strategy one can consider reputation and legitimacy improvement of the organization. Implementing the corporate social responsibility is a clear sign that the organizations care about society, keep the social norms and satisfy the expectations of the various interested groups, which in its term improves their image in the society. The organizations who apply CSR and who are good corporate citizens can receive increased loyalty from the consumers' part, greater interest by the professionals when searching for employment and more opportunities for future investments.

The corporate social responsibility is constantly developing and more attention is paid to the advantages and the results that can be achieved by the social initiatives. According to D. Wood (1991) the corporate social responsibility is building social principles in the business organizations, processes of a social response and related to the organization's public relations politics and programs that generate visible results for the development of the organization. Namely binding CSR with the results of the organization lay the basis for studying the potential correlation between the social responsibility and the organizational development strategy. The influence of the social responsibility in fulfilling the organization's business strategy synthesizes in the conception for strategic social responsibility reviewed in the following paragraph.

## **2. Strategic corporate social responsibility**

The conception of strategic corporate social responsibility emerged in response to the growing criticism that CSR is being used by organizations only to create value for their shareholders. J. Logsdon et al (1990) define this conception as a process through which the CSR contributions are being used to serve the direct business interests while serving all the other interested parties in the meantime. In their research on the competitive advantage of the strategic corporate social responsibility M. Porter and M. Kramer (2006) discuss a situation where the social and the economic benefits can be merged. This merger can be achieved if the organizations focus their investments in corporate social responsibility on key factors for the success of the organization. An example for such activities on binding the social and economic benefits are the marketing initiatives related to presenting the social and ecological advantages of the organization's product and services to the society.

The strategic corporate social responsibility gives the organizations the opportunity to take the so called operational approach to corporate social responsibility. Nowadays, it is not enough for the organizations to show themselves as a good corporate citizen, but they need to choose a

unique position, to show the society that they do things in a different way in contrast to their competition, in order to better serve the needs of their clients. In the modern organizations the strategic corporate social responsibility characterizes with a small in number initiatives that bring distinctive business and social benefits.

The new trend for CSR is to integrate the CSR activities into the core business operations and planning processes. The strategic CSR has an increasing influence on forming the connection between the business and the society, and it is being defined by W. Werther and D. Chandler (2011) as: 'Implementing the whole CSR perspective within the frames of the strategic planning and core operations of the organization in a way that it can be managed for the interest of a wider scope of interested parties in order to gain a maximum social value in mid- and long-term period'. By adapting a strategic approach, the organizations define what activities they have in the value chain, the necessary resources to use social responsibility, as well as to choose the activities that will increase their competitive advantage. Business and society are interdependent and every decision should be made in favor of both parties, thus the CSR practice should be looking for a balance between the economic and social benefits.

The advantages of CSR are achievable by integrating CSR into the organization's strategy. The tighter a given social matter is connected to the business of the organization, the greater the opportunity for the organization to use CSR in order to bring benefit to the society (Porter and Kramer, 2006). According to this new approach the interests of all interested parties in the organization do not contradict each other, and creating value for them creates value for the business, too. Thus the corporate social responsibility is being perceived as a new way of achieving economic growth. By planning the corporate social responsibility as a part of the entire business strategy plan, the organizations can guarantee that the profits and the increase in shareholders' value do not undermine the need of ethical behavior towards the society and the other interested parties.

Two basic directions of research emerge from the conception of strategic corporate social responsibility. First, it is being investigated the integration of the corporate social responsibility into the business strategy with the purpose of gaining important advantages from the social activities. As a second, the question of what influence CSR has on the financial results of the organization is put in a discussion, with the purpose to understand the strategic importance of CSR as an innovations and competitiveness drive. Focus of this article is the review on the integration of CSR into the business strategy of the organization.

### **3. Influence and integration of the corporate social responsibility into the corporate strategy development**

The need to integrate the corporate social responsibility into the business strategy is widely covered by The European Commission during the latest decades. The commission defines the corporate social responsibility as a conception where the companies integrate the social and environmental care into their business operations and their interrelations with the interested parties. Modern organizations should follow processes for integration of the social, environmental and ethical human rights into their business development operations and strategies in order to maximize the shared value for the interested parties, to identify, prevent and reduce the possible negative impacts of their activities (European Commission, 2011).

Mother organizations face the challenge of how to achieve a synergy between CSR and the strategy of the organization. The necessity of satisfying the needs of the interested parties and

achieving key factors for the success of the organization laid the basis of the corporate social responsibility in the Organization's strategy development (Anguelov, 2018).

The strategy serves as a basis for creating the organization, defining its place in the market, its competitiveness, and its constant development. In order to achieve this it is necessary to plan, develop, formulate and constant updates of the business strategy towards the internal as well as the external conditions in which the organization functions. The CSR impact in the strategy development can be found in the context of all strategic dimensions. In this article is reviewed the process of influence of CSR in the strategy development, not the company strategy development process itself. Figure 1 shows all dimensions in the context of the organizational strategy.

Figure 1. Dimensions of the organizational strategy



*The Mission* is the fundamental purpose of the organization that reveals why it exists, how it views itself, what it wishes to do, its beliefs and long-term goals. In other words, the mission signals the organization's purpose before its interested parties. More precisely, CSR should be put in the context of what the company is trying to achieve, that it accounts as precise expectations from it. This is of vital importance for the development of the CSR strategy in a way that reflects its actual business meaning for the mission of the organization. However, it is consider inappropriate if the organization points out CSR as its core mission.

*The strategic issues* the organization has to cope with are internal and external. In order to define an issue as strategic for the organization, it has to be related to the organization's future development and to have a significant influence on the capability to achieve its goals. Often the strategic issues are viewed as problems against which the organization stands. In respect of CSR we can talk about the strategic issues or problems of social nature. They are the ones related to unfulfilled social needs or social necessities that have developed in the society. CSR helps the organizations to define and avoid activities on reducing the influence of the strategic social issues on the organization.

The market consists of the sum of all current and potential buyers and the product or the service offered by the organization. Developing its strategy the organization targets certain target markets towards which to distribute the general part of the marketing time, resources and



attention. This has its consequences on the relations between the CSR and the strategy. Evaluating the markets is a strategic evaluation formed by different variables like market potential, market share, tangible evaluation of expenses and resources. However, the strategic evaluation of the market segments, one should also consider the variable 'social dynamics' related to the basic expectations and needs of a certain market segment. If the organizations succeed in implementing CSR into the organizational strategy, the social dynamics variable becomes an important point of understanding the current and the newly emerged features of the target markets and the target clients' specific needs.

Some scholars consider that the sole purpose of every organization is to create *value for its clients*. Creating value for the clients and satisfying their needs certainly is a strategic business function. Value for the consumer can be created through market orientation or innovation. The orientation towards the client can be defined as strategic actions meant to understand the current and latent clients' needs in the targeted markets with the purpose of satisfying them. Innovations are the driving force of economic growth and achieving competitive advantage. The organizations can use the social issues or needs as a drive for innovations and development. In this context, the organization can perform its activities on corporate social responsibility by creating benefits for its consumers as well as economical profit for its shareholders.

Main aspect of the organizational strategy is the proper distribution of the internal *resources* in relation to the changes of the external environment in such a way that improves the organization's results. Usually the resources consist of material and non-material assets necessary for the creation, operation and maintenance of the organization. An important exit point for the resources in the context of the CSR strategy is the specifics of the resources. Specifics relate to the degree to which the resources are being used for managing or integrating at least some specific for the organization CSR advantages, not just creating collective goods that could be shared by the society. In this sense the organizations not only take responsibility of their own social responsibilities, but also gain exclusive benefits that could have strategic development value.

The last dimension of strategy, competitive advantage, to a greater degree relates to how the organization is going to perform in contrast to the others on the market. The two common strategies the organizations follow in order to gain and keep their competitive advantage, are the strategies of expenses and differentiation. In its nature, the competitive advantage relates to either the production of goods of lower unit price in comparison with the competition, as thus generating a higher return, or by a product differentiated from the competition, for which the clients tend to pay a higher price. Developing social interrelations with the interested parties can also lead to competitive advantages and be a source of better results for the organization. The organizations that develop interrelations with the interested parties on the basis of honesty, mutual trust and cooperation are in a better position to achieve advantage before the organizations that do not do so. Thus CSR influences the strategy development in respect of the competitive advantage.

The influence of the corporate social responsibility in the company strategy development relates to the degree of proximity between the social initiatives and the core business of the organization. Corporate social responsibility initiatives can be divided into three categories according to the proximity to the core business of the organization: They can be entirely connected with the core business of the company by concerning only the common social issues; they can be directed towards reducing the negative impact of the business along the value chain;

or, at a maximum level of integration, they can act and improve the key factors of success within the competitive strategic context.

## **Conclusion**

Many organizations today adopt the corporate social responsibility as part of their corporate strategy. CSR assists in forming a corporate image of a social, environmental, ethical and responsible organization. The corporate social responsibility helps for a smoother management of the organizational changes and gaining a competitive advantage in the modern business conditions, due to which it has its influence on the process of developing all the dimensions of the company strategy - mission, strategic issues, market, clients, resources, and competitive advantage. The companies that better understand their social responsibilities and know the influence CSR has on the company strategy development, will probably extract greater economic benefit for themselves, and social benefits for the society as a whole.

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