

SUSTAINABILITY AND BUSINESS BEHAVIOUR: THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY

János SZLÁVIK, Noémi CSIGÉNYÉ NAGYPÁL and Tamás PÁLVÖLGYI

Department of Environmental Economics
Budapest University of Technology and Economics
H-1521 Budapest, Hungary
Tel: (36 1) 463 1941 Fax: (36 1) 463 1149
e-mail: szlavikj@eik.bme.hu, nagypal.noemi@wigner.bme.hu, tpalvolgyi@mail.datanet.hu

Received: Sept. 19, 2005

Abstract

Corporate social responsibility (CSR) means commitment and actions beyond compliance by the integration of social and environmental concerns into companies' business operation. The actors of economy, especially the companies have a basic role in fulfilling the goal of sustainability. In the threefold system of sustainability those companies would only be successful which are responsible to build social and environmental concerns into their strategy. In the present article we overview the development of CSR, the CSR policy of the European Union and investigate its relation to sustainable development and describe why it can be interpreted as a measure to get closer to sustainability.

Keywords: sustainability, corporate social responsibility, EU, motivation.

1. Introduction

Sustainable development is a strategic '*modus operandi*' that ensures the satisfaction of the needs of present generations in the complex system of economy, society and natural environment without reducing the opportunities of future societies.

The actors of economy have a basic role in fulfilling this goal. Environmental sustainability is the most consequent interpretation of sustainable development. It means that natural goods can be substituted by economic capital only to a very limited extent, and the goods, services provided by natural resources have to be sustained as well (and not only the capital).

In the threefold system of sustainability companies can be successful on the long run only if, as responsible corporations they build the social and environmental concerns into their strategy.

Even in longer term, the market competition, the consumers' preferences, as well as the emerging needs for products' global reputation should also imply the integration of the idea of sustainability into the company level business plan.

2. The Content of CSR

Corporate Social Responsibility (CSR) according to the definition accepted by the European Commission 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. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing ‘more’ into human capital, the environment and the relations with stakeholders” (Promoting a European framework for corporate social responsibility. Green Paper. p. 8) That is, the two important characteristics of CSR are that it is voluntary and includes undertaking engagement beyond the regulation, standards.

As the regulations, in general, are getting stricter, the voluntary (beyond compliance) engagement is partly becoming continuously part of the regulation. We have to consider CSR therefore as a continuously renewing, ‘one step before the regulation’, dynamic and proactive strategy (as it is also more and more an expectation for environmental management).

CSR as a concept is still strange for several economic actors and analysts even at the beginning of the 21st century, although it was used in its present meaning as early as in the 1960s.

Lord Keynes wrote the following at the end of the 1930s about ethical principles that are dominant components of the principles of sustainable corporations: ‘For at least another hundred years we must pretend to ourselves and to every one that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still.’ (KEYNES, 1937)

In the 1970s several interpretations, definitions of CSR emerged. Milton Friedman’s answer to the first attempts of making CSR popular was that companies are only responsible for increasing profit. In his opinion, additional spending – e.g. on environmental protection or employee social welfare – is irresponsible, as it means ‘wasting of the owners’ property’. Friedman queries the existence of corporate responsibility, he states that only individuals can be responsible. He does not only say that CSR is ‘irresponsible’ from the company’s point of view, but he sees this trend as a danger for the operation of markets (FRIEDMAN, [8]). (Actually from the 1970s with the increasing influence of multinational enterprises the contrary seems to be realized.)

The other reason why Friedman’s reasoning has lapsed is that nowadays CSR is necessary for the long-term profitability of companies. Industrial accidents, company scandals, consumer boycotts have endangered the financial performance of several companies. Going beyond the defensive approach, several companies see an opportunity in communicating environmental and social responsibility in order to win over a new group of consumers.

By the 1980s we can see some convergence in the discussion of CSR and some new notions – e.g. corporate citizenship – emerge.

Carroll distinguishes four levels of CSR (see *Fig. 1*). The first level is financial responsibility – in harmony with Friedman’s view, the basis of the company’s

operation is profit. The next level is legal responsibility that is compliance with law. Both levels are basic for the following ones but the first can be reached without the second (see the ‘typical’ problem, that for some companies it is more profitable to pay fine than to invest in fulfilling environmental standards).

The third level is ethical responsibility expected by the society that is beyond legal compliance. This is followed by the highest level, philanthropic responsibility, which is not a basic expectation rather a wish of the society or some groups of society. This is not related to the core operation of the company.

Nowadays CSR means the third and fourth level that is beyond compliance responsibility.

Although the concept was first spread in North-America, CSR today is discussed in Europe in the corporate, governmental and academic sector (MATTEN-MOON, [10]) and plays an important role in the EU policy as well. The first sign of this tendency was the establishment of an organization, ‘Business in the Community’ in the 1980s in Great Britain. Great Britain is still a prominent country in the promotion and practice of CSR, in 2000 even a CSR ministry was founded.

In 1996 CSR Europe was established with the aim of making CSR well-known and popular among European companies. This organization has members in several European countries.

Although the issue has been discussed for such a long time, there are still several interpretations of the concept. The reason is that this is a very complex issue that is not very regulated as it has ethical aspects as well (MATTEN-MOON, [10]). According to the European approach, the core elements of corporate social responsibility are to be voluntarily and beyond compliance engaged and to consider the relationship with the stakeholders.

3. The Motivating Factors of CSR

Why are companies willing to go beyond compliance and adopt CSR and what kind of factors influence successful implementation?

To answer these questions first we will identify the main factors that have led to the emergence of CSR. These factors can be divided into two basic groups: ‘push’ and ‘pull factors’. ‘Push factors’ are pressures or threats, e.g. the need for transparency, or changing regulation while ‘pull factors’ are opportunities, like competitive advantage, better company reputation etc. As the legislation and business environment is continuously changing, some of the ‘pull factors’ later can be considered as ‘push’ ones (*Fig. 2*).

The most important driver at the emergence of CSR was the need for transparency as trust in corporations has been severely declined since the 1970s. Industrial accidents and company scandals have led to poor company reputation and even decreased economic performance in several cases.

Knowledge and innovation are essential to improve competitiveness. Some of this can be purchased on the global market (licence, know-how) independently

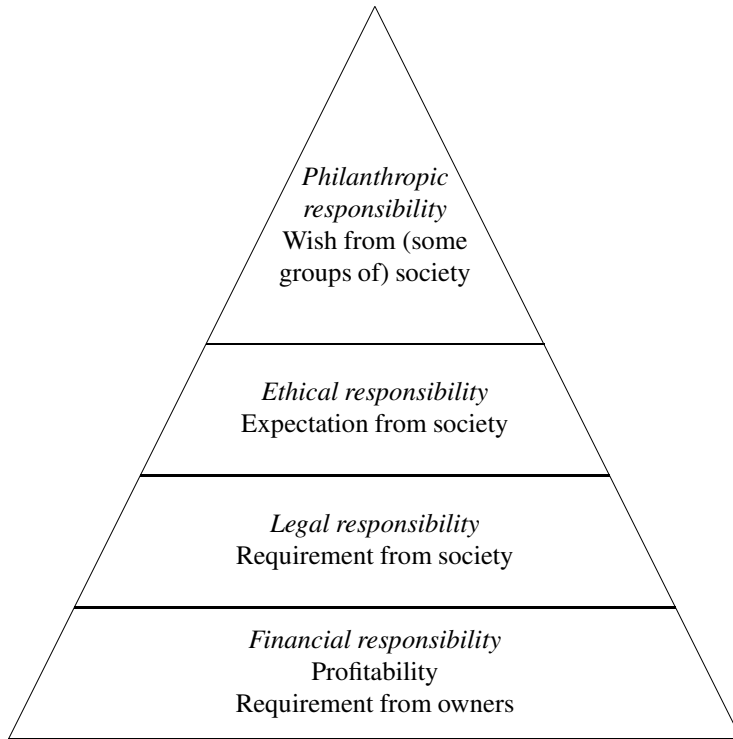


Fig. 1. The CSR pyramid. Source: based on CARROLL [1]

from the region or country.

However, there is a level and form of knowledge and system of relations that is characteristic of the region. These resources that are essential for innovation and competitiveness are available only for the companies that are integrated deeply into the local community (relation with local chambers of commerce and industry, municipalities, educational institutions).

In Europe, according to the Green Paper: Promoting a European framework for Corporate Social Responsibility, the main factors fostering corporate social responsibility are ‘expectations from citizens, consumers, public authorities and investors in the context of globalization and large scale industrial change’, ‘investment decisions considering social interest’, ‘the increased concern about the damage caused by economic activity to the environment’ and ‘transparency of business activities brought about by the media and modern information and communication technologies’.

In summary, both the demand for and opportunities of monitoring companies’ behaviour have increased.

After discussing the reasons of the spread of CSR in general we focus on

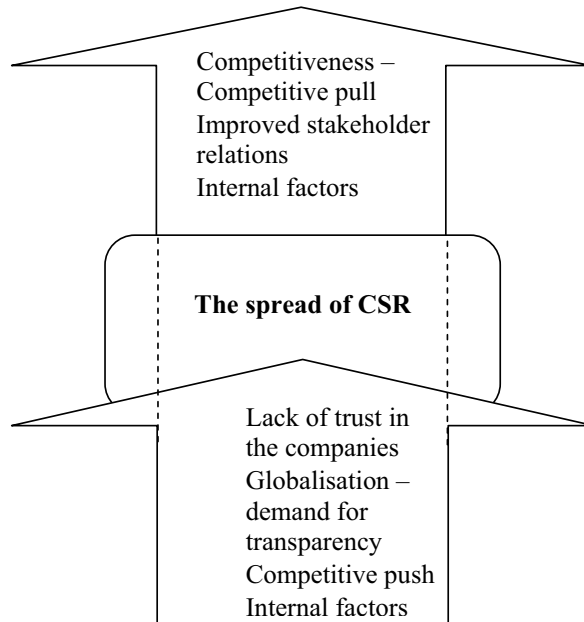


Fig. 2. The main factors influencing the spread of CSR

individual corporations. The motives or drivers on the company level can be investigated at two steps of the CSR process: why companies decide to implement CSR and what are the main success factors of the implementation. Research so far has mostly focused on the first step.

The latest KPMG survey about CSR reporting (KPMG, 2005) shows that in the case of big corporations the most important driver to implement CSR is 'economic considerations' (mentioned by 74% of respondents) followed by ethical reasons and innovation and learning possibilities (53%). Employee motivation and risk management are also mentioned by almost half of the respondents (47%).

The CSR practice of small- and medium sized enterprises differs from that of multinational and transnational corporations. Different external factors, such as regulation, balance of forces among stakeholders as well as internal factors such as organizational and management practices lead to different motivation structure, too. The main disadvantages SMEs face are the lack of resources and instruments. At the same time there are some advantages, too: personal relationships and close individual contacts are more frequent in smaller businesses, these companies are more flexible and they can better integrate into the local community. Motivating factors for SMEs reflect these differences: European SMEs mainly state ethical reasons as the main motive of CSR activity (Observatory of European SMEs, 2002). This is generally true for all sizes but we can state that the smaller the company, the more important this ethical consideration. More than half (55 %) of the SMEs

mentioned this reason, well above other frequently mentioned reasons such as ‘improve public relations with the community/public authorities’ (33%) and ‘improve customer loyalty’ (26%).

We can conclude that multinational corporations are more conscious about CSR, their most frequent motivating factor to decide to adopt CSR is business interest, economic considerations, while in the case of smaller companies ethical considerations are more important. More research is needed about the motivating factors of the successful implementation of CSR that is how internal stakeholders can be motivated.

What is the mission of CSR?

It should be clarified that CSR is not a ‘magic box’ to solve all the problems of the world. However, it may light the road up towards a new operational ‘era’ in a changing world. Easily speaking: ‘less government – more governance.’ There is an emerging scientific and business consensus that civil society and business entities are at least as important as governments to:

- promote the behavioural changes for a responsible ‘future’,
- make it acknowledged that ecological conditions and the availability of resources form ‘hard barriers’ of growth,
- assure the equitableness and equal rights in the interrelations of the state-business-society triangle.

CSR should provide a good toolset to develop operational framework of this kind of shift of power from the governments to the business and society.

4. CSR in the European Union

The European Union sees the promotion of CSR as an important measure to reach the aims of the sustainability strategy (Göteborg, 2001) and the Lisbon goal (to become ‘the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion’).

The Commission released a Green Paper about CSR in July 2001 entitled ‘Promoting a European Framework for Corporate Social Responsibility’. The aims of this document were to launch a debate about the concept of CSR and to find out how to build a partnership for the development of a common European framework for the promotion of CSR. The Green Paper was welcome by the decision-making bodies of the EU and the Member States but various actors stressed different opinions.

Companies stressed the voluntary character of CSR and its integration into the sustainable development strategy. They did not find the EU-level regulation of CSR right as it is contrary to the voluntary characteristic and can be a barrier for successful global co-ordination.

Investors highlighted the improvement of openness and transparency of company operation, especially in case of socially responsible investment funds, pension funds.

Unions and NGOs urged framework regulation with the involvement of interested parties. They found it important that companies should be called to account because of negative environmental or social impacts of their operation.

Consumer organizations emphasized the importance of reliable, comprehensive information.

The Council, in its Resolution of 3 December 2001, stressed that 'a European approach to CSR could complement existing measures at local and national level, imparting to them an added value, in order to contribute to the development of CSR. The Council mentioned that CSR can contribute not only to encouraging a high level of social cohesion, environmental protection and respect for fundamental rights, but also to improving competitiveness in all types of businesses, from SMEs to multinationals, and in all sectors of activity' (Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development, p. 4).

The European Parliament proposed to mainstream CSR in all areas of EU competence, in particular regional and social funding.

The concept of CSR was basically developed by multinational enterprises, however it is important to adopt it for small and medium sized enterprises as well. According to this EU document as small- and medium sized enterprises are less complex than multinational enterprises and owners play a more important role, these companies are often more intuitive and can treat social effects more informally than big corporations.

About half of the recently surveyed SMEs stated that they operate in a socially and environmentally responsible way with considering the interests of stakeholders. Their community and social commitment is local and occasional and it is not connected to the business strategy. The main motivating factor is usually the ethical commitment of the owner/management. Several SMEs have realized business benefits, for instance better relation with business partners or local communities.

As a further step, the Communication set up a European Multistakeholder Forum on CSR, to serve as a platform to promote transparency and convergence of CSR practices and instruments. The Forum was launched in 2002 and run until mid-2004, when a report was presented to the Commission, with the results of the Forum and recommendations.

On the EU level besides the promotion, legislation has also started. According to Directive 78/660/EEC (2003), medium sized and large companies, operating in member states will have to report about their social responsibility – with focusing on the management of environmental impacts and risk – from financial year 2005.

The Commission Communication, 'Corporate Social Responsibility: a business contribution to Sustainable Development' that was launched one year after the Green Paper (July 2002) is the basis for the European CSR Strategy. Beside the 'unification' of CSR the EU makes efforts to involve SMEs in the process. As we have mentioned earlier CSR is mostly the policy of big, multinational companies

and so far SMEs are less active – because of their limited resources.

The other aim is to integrate CSR into relevant policy fields (as in the case of environmental protection in the framework of the so-called Cardiff-process).

It is important to mention that the EU finds it important to involve new Member States and accession countries in the discussion about CSR. As it is a relatively new field, Member States that joined the EU in 2004, may play a relatively important role in the formation of the EU policy.

5. Areas of CSR and its Development

What are the areas of CSR? As it is a complex idea used to describe several areas we can say that the meaning of CSR is twofold: primarily it is a general concept, an approach that companies are responsible for the society and natural environment, and secondly, it is a company behaviour, concrete commitment followed by action. We will introduce the latter in more detail.

From the aspect of companies CSR means the recognition of problems, the recognition and admission of their responsibility as the common result of the recognition of problems, the spread of the concept of CSR and communication from stakeholders. The first step from the companies' side toward CSR is this recognition. The second step is a commitment to 'act responsibly' even by going beyond compliance if necessary.

As a result of this commitment companies integrate CSR into the strategy and corporate culture and different areas of operation (internal areas and stakeholder relations). There are various instruments that companies can choose from in order to ensure successful implementation. They select a set of instruments according to various external and internal factors. Some of these instruments are used in a single area of operation while others influence several areas. It is possible that some areas are not addressed by any of the instruments while some areas can be addressed by more than one instrument. Continuous communication is a very important part of this dynamic process. (Actually, it is often a critic, that CSR is rather only communication, 'PR activity' than real commitment and action. In the field of environmental protection this phenomenon is called 'green painting'.)

Fig. 3 represents the areas and the process of CSR.

According to the Green Paper among the problem fields of CSR we can distinguish areas that are directly related to the internal operation of the company and areas that are related to stakeholder relations. Internal areas are as follows:

Human resource management: Ensuring equal opportunities for employees during the selection and employment, supporting the investment into human capital and life-long learning belong to this area. This is a good measure to reach the Lisbon goal as well, that is, reducing unemployment and fostering competitiveness.

Workplace health and safety: Although this is an area that has been regulated for a relatively long time, voluntary initiatives are still important. (This issue

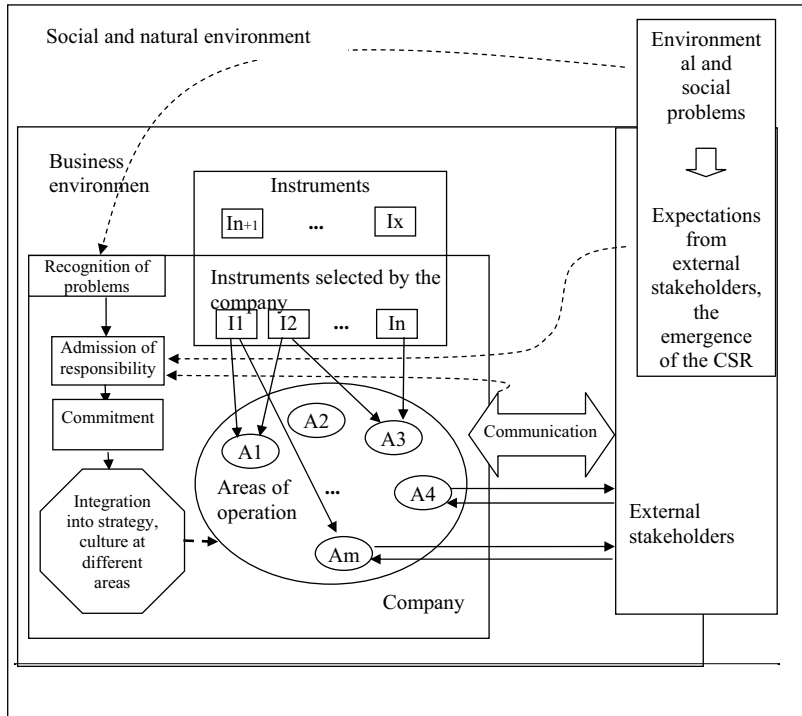


Fig. 3. The areas and the process of CSR

can be an integral part of the communication as well, as special labelling systems exist.) We can expect to take into account the interest of external stakeholders (in the broadest sense) only from companies that are responsible for their own employees. In this sense this can be interpreted as an important starting point or basis of CSR.

Adaptation to changes: Because of quick changes, companies often change, re-structure their organizations, that usually means reduction of the number of employees and therefore has social effects as well. At the same time, these processes usually do not have the expected result – according to surveys – namely the reduction of operational costs. The idea of sustainable development is closely related to development itself, that is changes as well. Therefore CSR is related to sustainability also from this aspect.

Environmental impacts and management of natural resources: The reduction of resource use and waste (and thereby the reduction of the cost of waste treatment and possibly income from recycling) is a classical example of win-win situations. Closing open chains of the economy also contributes to sustainability in the strong sense.

External Areas are:

Relationship with local communities: The long-term success of the company is dependent on its integration into the local community. Beside the natural environment (which also influences the health of available workforce) companies have an effect on their social environment as well (employment and educational policy). (Here we would like to draw the attention to the connection with the local level of sustainability. During the realization of a Local Agenda programme companies that state that they are responsible play an important role. It can be a good indication of the difference between ‘communicated’ and real CSR, whether the company are open for taking part in this kind of initiatives.)

Business partners, suppliers and customers: The image of the company does not only depend on its own operation but also on the operation, image of its business partners, suppliers. On the long term, close relation with suppliers reduces the risk at the same time. (That is why multinational companies support local SMEs and their social and environmental performance.) In the field of environmental protection for instance suppliers often improve their environmental performance, introduce management system and have it verified because MNEs expect it. It can be an important competitive advantage for them, even on the long run.

Human rights: The last two areas are not directly related to the micro environment of the company, therefore the effects are more difficult to be identified. The issue of human rights is often discussed in case of companies with broad supplier network and operating in developing countries as well. In this case voluntary initiatives are even more important, because of the legal environment (the second level of the CSR pyramid is not so ‘stable’.) The role of NGOs is very important in this field. (We can mention the ‘intragenerational equity’ principle of sustainable development here as it is closely related to the issue of human rights.)

Global environmental challenges: It is difficult to measure and communicate but it is one of the main motivating factors of the spread of CSR.

Environmental protection is present among both internal (Environmental impacts and management of natural resources) and external areas (Global environmental challenges). At the same time it is in connection with some other areas as well (*i.e.* *Human resource management – environmental education, Business partners, suppliers and customers – ‘greening the supply chain’*).

In order to support the common interpretation of CSR it is useful to overview the possible instruments. The instruments can be grouped according to whether they address the management, operation of the company, consumers or investors.

The main instruments of CSR that are expected to be developed further and where some convergence is required are as follows (according to the ABC of the main instruments of Corporate Social Responsibility):

Instruments of Socially Responsible Management:

Codes of conduct: Codes of conduct are formal statements of the principles of the company. Several issues can be included in these codes like human rights, bribery, health and safety or environmental protection. These issues are closely related to the social and environmental pillars of sustainable development.

Management standards: The CSR concept in this field is relatively well defined. The system standards are widely used in the environmental and quality management schemes, as well. For example, the EMAS (Eco- Management and Audit Scheme) makes it possible to develop and maintain environmental management systems for the EU companies, on a voluntary basis. The ISO 14000 standard series is widespread 'global' system, therefore its local adaptation involves less problem for multinational companies.

Reporting: The recent increase in corporate sustainability reporting – covering the economic, environmental and social performance of an organization – is the result of the demand for greater accountability and transparency of companies we have mentioned among 'push factors' of motivation. Key stakeholders not only expect businesses to take account of their social and environmental impact, but also want to be informed about their performance in these areas. Sustainability-related reporting has undergone a rapid development. Reporting on environmental and health and safety performance has been developing since the late 1970s, as a complement to the traditional financial annual report. Recently, with the growing recognition of the need to address the 'triple bottom line' (expanding the traditional company reporting framework to take into account not just financial outcomes but also environmental and social performance) of sustainable development, social and ethical considerations have been added to environmental issues. Sustainability report is the 'end-product' of a process. There are different phases in this process: the accounting or measurement process (collection and evaluation of data to measure the company's social and environmental performance), the auditing or assurance process (the verification and assessment of the information given in the report). Environmental accounting - that is better collection and analysis of data about environment-related costs and benefits – supports the harmonization of the first level of the CSR pyramid with the others. In order to enable comparability some convergence and common framework of reporting is needed. Global Reporting Initiative is one of the most well-known processes in this direction.

Instruments of Socially Responsible Consumption:

Labels: Labelling supports sustainable consumption as it is an important tool to inform consumers about environmental and other sustainability characters of purchased products. Besides environmental and sustainability characters they

provide information about quality as well. Reliability is extremely important, the proper verification system can be a guarantee for this. Eco-labels are the most well-known but other types of labelling also exist (for example Social Label in Belgium).

Instruments of Socially Responsible Investment:

Socially Responsible Investment (SRI): There is a growing demand for forms of investment that can be objectively evaluated not only financially but also from ethical, environmental aspects. (Some Member States have accepted a regulation that pension funds have to make public whether they consider environmental and ethical issues when making investment decisions.)

Although the two important characteristics: voluntary and beyond compliance engagement should be kept, in our opinion, – in order to keep the reliability of CSR, in harmony with the view of the European Union – some legislation is needed. As in its present form it is a relatively new element of the policy of the EU it will be a question of the following years whether the balance will be found.

6. Conclusions

Several causes of the spread of CSR can be identified. Firstly, legal regulation is very often not effective or sufficient to treat sustainability-related, environmental problems. Therefore it is necessary to involve companies – that are more and more important actors of the global economy – more intensively by voluntary, beyond compliance roletaking as well.

The other reason might be that with the emergence of sustainability environmental problems are not typically treated as ‘necessary bad’ any more. However, treating the three dimensions (economy, society, natural environmental) as equally important is still not consistent with the way of thinking of the present economic system.

Nevertheless, a third motivation may also be identified. The ‘players’ in the productive sectors of the EU, i.e. chemical industry or construction material industry, are in general, under dual pressures.

From the one side the company’s owners (in most cases they are multinational owners) continuously demand for:

- increasing share values
- decreasing operational and maintenance costs
- search for new markets.

On the other hand, the relevant social groups (i.e. workers, local citizens, NGOs) have even stronger needs for:

- more, better and well-paying workplaces,
- clean environment, untouched nature,
- transparent, ethical and scandal-less operation.

CSR may provide proper answer to satisfy this double pressure.

Beside the priority of economic performance corporate social responsibility – that includes responsibility for the natural environment that provides a space for the society as well – means a new possibility to improve the environmental performance of companies, too. In the context of corporate social responsibility companies may realize more opportunity in environmental protection, as CSR can be integrated into corporate communication and image more effectively, serves the establishment and maintenance of good relationship with local communities directly and contributes to the economic performance, among others, through the motivation of employees.

References

- [1] CARROL, A. B., The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders, *Business Horizons*, **34** (1981), pp. 39–48.
- [2] *Commission of the European Communities, Green Paper: Promoting a European Framework for Corporate Social Responsibility*, Brussels: EU Commission, 2001.
- [3] *Commission of the European Communities, Communication from the Commission Concerning Corporate Social Responsibility: A Business Contribution to Sustainable Development*, Brussels: EU Commission, 2002.
- [4] Corporate Social Responsibility in Europe – Rhetoric and Realities. *EU's Sixth Framework Programme*, (No. CIT2-CT-2004-506043).
- [5] CSIGÉNÉ NAGYPÁL, N., *A vállalatok társadalmi felelősségvállalásának szerepe a környezetvédelemben*, (The role of Corporate Social Responsibility in Environmental Protection), Theory and Practice of Environmental Sciences Conference Szeged, 2005.
- [6] *European Commission: ABC of the Main Instruments of Corporate Social Responsibility*.
- [7] *European Commission, Observatory of European SMEs, European SMEs and Social and Environmental Responsibility*, 2002.
- [8] FRIEDMAN, M., The Social Responsibility of Business is to Increase its Profits. *The New York Times Magazine*, 13 September, 1970.
- [9] KOLK, A. – van der VEEN, M. – PINSKE, J., KPMG International Survey of Corporate Responsibility Reporting Fortéiner University of Amsterdam and KPMG Global Sustainability Services, 2005.
- [10] MATTEN, D. – MOON, J., 'Implicit' and 'Explicit' CSR: A Conceptual Framework for Understanding CSR in Europe.
- [11] Natural Resources Canada: Corporate Social Responsibility: Lessons Learned.
- [12] SZLÁVIK, J., *Fenntartható környezet- és erőforrásgazdálkodás*, (Sustainable Environmental and Natural Resource Management) Budapest. KJK-Kerszöv, 2005.
- [13] SZLÁVIK, J. – CSIGÉNÉ NAGYPÁL, N., *A vállalatok társadalmi felelősségvállalása és a fenntarthatóság*, (Corporate Social Responsibility and Sustainability) V. International Conference, University of Miskolc, Hungary, 2005.