

## Corporate Social Responsibility and its Benefits for the Companies “Corporate Reputation as a model”

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### الملخص:

تهدف الدراسة إلى التعرف على مزايا وفوائد تبني المسؤولية الاجتماعية وعلاقتها بتعزيز سمعة منظمات الأعمال، ففي ظل احتدام المنافسة تحرص هذه الأخيرة أكثر من أي وقت مضى على بناء سمعتها والمحافظة عليها من خلال بناء علاقات إستراتيجية أكثر عمقاً مع الأطراف ذات العلاقة المؤثرة فيها والمتأثرة بها. تم استخدام المنهج الوصفي التحليلي إلى جانب الاستعانة بأهم الدراسات التطبيقية الحديثة الموجودة في هذا المجال للوصول إلى النتائج، التي كانت من أهمها أن منظمات الأعمال إذا ما تبنت إستراتيجية المسؤولية الاجتماعية ستساهم في تحقيق رفاهية المجتمع، وستعزز لا محال من سمعتها وتقوي علامتها التجارية. **الكلمات المفتاحية:** المسؤولية الاجتماعية لمنظمات الأعمال، السمعة، العلامة التجارية.

## INTRODUCTION

Corporate Social Responsibility has been the topic of discussion since the last few decades. There are increasing demands from various stakeholders such as customers, employees, suppliers, communities, governments, and non-governmental organizations. They expect companies not to care only about financial performance, but also to contribute to the well-being of societies.

The debates concerning Corporate Social Responsibility (CSR) start with the question whether companies should involve themselves in social and environmental activities. According to Friedman, in a free society, “there is one and only one social responsibility of business to use its 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. Only the government has the responsibility in solving social problems. The involvement of a company in social activities will reduce its competitiveness, because of the cost that must be allocated.

### 1- The rise of Corporate Social Responsibility

The discussion of Corporate Social Responsibility can be traced to early 50's and 60's, businessmen were the primary objects of CSR and not the organization. This can be referred to the Bowen (1953, as cited by Carroll)<sup>1</sup> definition of CSR, “the obligations of businessmen to pursue those policies, to make those decision, or to follow those lines of actions which are desirable in terms of the objectives and values of our society”. Davis (1960: 70) saw CSR as managerial concept where he defined CSR as “businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest”.

Economic factors were recognized as an important element in CSR<sup>2</sup>. The economic objectives must be treated as primary goal or else the business will not survive. The business needs to make enough profit to cover the costs of the future and if this social responsibility is not met<sup>3</sup>, other social responsibilities cannot be done. However, this statement is contradicted with Friedman<sup>4</sup> who expressed extremely that "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as its stays within the rules of the game, which is to say engages in open and free competition without deception and fraud". From this statement, Friedman only recognized the economic aspects as the primary responsibility of the business and all profit oriented activities is conducted within the legal boundaries. Many scholars disagreed and contended that the companies have the obligations to comply beyond (instead of within) the prescribed law so that it is said to be socially responsible. Davis<sup>5</sup> is strongly opposed with Friedman limited view on CSR and propose that CSR is "firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm". Others such as (Jones 1980) defined it as the "notion that corporations have an obligation to constituents groups in society other than stockholders and beyond that prescribed by law and union contract" and McWilliams and Siegel<sup>6</sup> referred it as the "actions that appear to further some social good, beyond the interests of the firm and that which is required by law". Therefore, based on the given definitions it can be understood that if the company which merely complies with the law is not sufficient to be considered as adopting the CSR.

Meeting the economic and legal requirements are not enough to ensure the companies legitimacy and survival (Sethi, 1975)<sup>7</sup>. Sethi stressed that there has been increasing criticism by the society on the corporations who failed to adopt their behaviours to changing social norms. This implies that the company is responsible to ensure that their actions are in line with the social norms, values and expectations of performance. Zenisek<sup>8</sup> (1979) define CSR by looking at "the degree of fit" between society's expectations of the business community and the ethics of business show that the customs and moral values of the society is very important for the company.

The gap between social expectations and the practices of the business has created an opportunity and leads CSR to become one of the business strategic tools. Fitch<sup>9</sup> (1976) proposed CSR as "the serious attempt to solve social problems caused wholly or in part by the corporation". This provided that the company has achieved the economic strength first and then help to solve social problems by turning the social problems into economic opportunities and economic benefits. CSR also seen as an investment by McWilliam and Siegel (2001) where the authors presented the demand and supply model of CSR based from the theory of the firm and resource-based view of the firm. According to them, the demand side consists of two major sources namely consumer and stakeholder. Due to strong evidence that many consumers and stakeholder value CSR attributes, company can provide this through various mechanisms such as product differentiations and company policies. The supply side of CSR looks from the firms ability to provide the demand features of CSR. The supply side depended on the firm's resources such as assets, capabilities, information and knowledge to process and design so that it ables to give services on what have been demanded. Therefore, what is important is to find the optimum points between the demand and the supply side of CSR. However, finding the optimum points involve a lot of due process.

This might explain the reasons behind the Jones (1980) arguments that CSR should not be seen as a set of outcome, but as process. The company is not judged by the decisions that they make but the process by which these decisions are reached. MacLagan<sup>10</sup> (1999) argued that corporate responsibility "should be understood as a process, through which individuals' moral values and concerns are articulated". Furthermore, the process should involve participation from the stakeholders where their opinions are considered. It is not appropriate to ignore their opinions while at the same time claiming to be ethical and responsible. From the participative process, the expectations and moral claims by the organization's stakeholders are able to be identified and become the responsibility of the companies to attend. The participative process which related to the idea of CSR considered the real people who have their own values, motives and choices in formulating policy and taking decisions.

## **2- Every Company Needs a CSR Strategy**

Given the enormous tug towards CSR, without the accompanying discipline, the question for corporations is not whether to engage in CSR, but what the best way forward is for crafting CSR programs that reflect a company's business values, while addressing social, humanitarian and environmental challenges. Considering the many disparate drivers of CSR within a company, and the many different motivations underlying the various initiatives, we find it naïve to expect a company to somehow weave all this together and incorporate it as part of business strategy. Some CSR programs will lend themselves to such an exercise, but many other elements will not. Instead of attempting that futile exercise, our call is to bring discipline and structure to the many fragmented components. Its components will in some cases support the core strategy and in some others may appear adjacent and discretionary. The fundamental problem with CSR practice is that companies usually don't have a CSR strategy, but rather numerous disparate CSR programs and initiatives.<sup>11</sup>

In this spirit we advance the platform of three theatres of CSR, which is a descriptive framework from which strategic implications will be drawn. Evaluating and classifying CSR practice within these three theatres accommodates the wide range of activities business leaders describe as CSR and provides a framework to devise a comprehensive CSR strategy that integrate all of these efforts. The three compartments are not water-tight; we do not offer a universal address for each CSR activity. Rather it depends on the origins of a particular CSR initiative, and its social or environmental purpose as defined by an individual organization. The distinguishing feature of each theatre is the unique logic of how programs in the respective domains are intended to address a firm's CSR priorities.

In Theatre 1 we group activities that are primarily motivated by charitable instincts, even though they may have potential business benefits. Theatre 2 represents CSR activities that are symbiotic and intended to benefit the company's bottom line, as well as the environmental or social impacts of one or more of their value chain partners, including the supply chain, distribution channels, or production operations. In Theatre 3 we classify programs that are aimed at fundamentally changing the business's ecosystem. This transformation is intended to enhance the company's long term business position, but frequently entails short-terms risks in order to create societal value. Our analysis suggests that most companies rarely coordinate among the three theatres, let alone recognize the contributions of each to societal well-being.<sup>12</sup>

### 3- The Benefits of CSR

For companies, CSR brings various benefits. First, support from communities. Companies perform their social responsibilities consistently will win the public support. Should there be accusations of any wrongdoing, public will show their support. Second, CSR will help companies minimizing the risk of any crises. Tsoutsoura<sup>13</sup> suggests three kinds of risks related to CSR, namely corporate governance, environmental aspects and social aspects. Companies that adopt the CSR principles are more transparent and have less risk of bribery and corruption. They will also implement stricter quality and environmental controls. Therefore, they run less risk of having to recall defective product lines and pay heavy fines for pollution. CSR also help companies reducing social risks.

Third, employee engagement and pride. Employees will be proud of working for a reputable company which consistently helps societies improving their quality of life. Employees will feel more motivated to work harder for the company's success. Socially responsible companies will also be able to attract and retain best talents more easily, reduce turnover rate, and lower cost for recruiting new people. Fourth, CSR will strengthen the relationship between a company and its stakeholder, since it shows the stakeholders that the company cares about those contribute to its ability to operate and success.

### 4- Definition of corporate reputation

Corporate reputation relates to perceptual representation of an organization's present, past and future prospects that define the organization's general appeal to stakeholders, and it relates to the stakeholders' collective knowledge about and regards for a company in its organizational field<sup>14</sup>. Corporate reputation is something intangible that attracts various stakeholders to a firm and is likely to impact people's actions<sup>15</sup>.

Corporate reputation is one of the important aspects that move along with CSR activities. Customers, suppliers and the community in general usually want to associate themselves with firms with a good track record of CSR. Organizational citizenship results from high levels of motivation and commitment to tasks and stakeholder concerns. Hence the aggregate effects could be based on corporate social performance by CSR activities which in turn result in good reputation. In linking CSR activities to corporate reputation, one realizes that firms enhance their brand and corporate image<sup>16</sup>, which are crucial components of corporate reputation.

In addition to a good brand name for the company, supporting social causes together with ethical business practices may impact stakeholders' perception about the company which is one of the foundations of reputation. Corporate reputation depends on the company's success in addressing stakeholder demands as well as meeting their expectations.<sup>17</sup>

Walker<sup>18</sup> summarized the differences found between the terms in a systematic review of corporate reputation literature over a 27-year period using multiple management disciplines, as shown in Exhibit 1.

**Exhibit 1 Differences between organizational identity, organizational image, and corporate reputation**

	Organizational Identity	Organizational Image	Corporate Reputation
Stakeholders: Internal or external	Internal	External	Internal and external
Perceptions: Actual or desired	Actual	Desired	Actual
Emanating from inside or outside the firm	Inside	Inside	Inside and outside
Positive or negative perception of the firm possible	Positive or negative	Positive	Positive or negative
Relevant question	“Who / what do we believe we are?”	“What / who do we want others to think we are?”	“What are we seen to be?”

Source: Walker, 2010.

## 5- Benefits of corporate reputation

Corporate reputation has been studied under several disciplinary perspectives: institutional theory, financial theory, economic theory, organizational behaviour theory, etc. For the purposes of explaining why a positive corporate reputation brings benefits to the organization, we will focus firstly on the three theories most commonly referred in recent years: signalling theory, strategy theory, and the resource-based value theory. According to signalling theory<sup>19</sup> reputation can be thought of as an informative sign about the organization’s likely behaviour and quality performance. This increases the public’s confidence in the organization’s products and services, and the investor’s trust in the organization’s performance. Corporate reputation could be seen as “depict[ing] the firm’s ability to render valued results to stakeholders<sup>20</sup>. Thus, it helps reduce uncertainty, which allows reducing transaction costs. That’s why, from a strategic point of view, corporate reputation has been an asset of great value for organizations when attempting to differentiate from the rest of the industry and creating potential barriers to entry for potential competitors. Also, a positive reputation is a strategic resource for building credibility and support among different stakeholders. Resource-based value theory classifies corporate reputation as a valuable and distinctive intangible resource that can help the organization obtain competitive advantage. One of the reasons corporate reputation is hard to imitate in the short term is the time it takes to develop the construct and the complex stakeholder relationships built in the process<sup>21</sup>.

Also, Barney<sup>22</sup> suggests that reputation fulfils the qualities required by a strategic resource, given that: (i) it is valuable, it has relevance; (ii) it is a scarce resource among real or potential competitors; (iii) it has a specific character (difficult to imitate) for its social complexity; and (iv) it does not have equivalent strategic substitutes. In concrete terms, the main benefits of a strong corporate reputation could be listed as follows:

- Improving the consumer’s perception of the quality of products or services (which allows to charge premium prices): sale increases and positive word-of-mouth
- Improving the capacity of hiring and retaining qualified personnel in corporations.
- Raising the morale of employees and therefore productivity.
- Protecting the value of the enterprise by diminishing the impact of scrutinizing, crisis and/or competitive attacks.
- Preceding and helping international expansion, not only in terms of market penetration but also in preparing the scenery in key communities and facilitating alliances.
- Attracting a greater number of investors (good credibility): rise of market value (EBITDA) and diminishing risks for the organization.

- Differencing the company from its competitors and establishing better market positioning.
- Allowing access to cheaper capital.

## 6- CSR and Corporate Reputation are two sides of the same coin

Dowling<sup>23</sup> argued that corporate reputation is an overall rating that shows that whether people see the business organization as positive or negative. According to Fombrun<sup>24</sup>, business organizations strive to develop positive reputation by projecting and creating a set of skills which is recognized as unique by their stakeholders, through operational excellence, innovation and close relationships with consumers. Corporate reputation contains attributes that distinguish one business from other i.e. good or bad. According to Jones<sup>25</sup> corporate reputation reflects an organization's morality and therefore is a reliable indicator of tendency towards opportunism, such that a reputation for trustworthiness is actually a reputation for not being opportunistic. Dowling argued that good reputation builds confidence and trust whereas bad reputation do not. Most of the business organizations are driven by corporate reputation because this directly or indirectly sells their products to the public. According to Reich<sup>26</sup> any indefinite thing that maculates an organization's image can resultantly drop its sales. Deephouse<sup>27</sup> defines reputation as valuation of an organization by its stakeholders in terms of their knowledge, esteem and effect. Reputation is very important for the success of business organizations and a valuable asset to have particularly in today's competitive marketplace.<sup>28</sup>

According to the resource based theory of the organization, corporate reputation is an important resource which leads to competitive advantage indicating different stakeholders about the attractiveness of the organization. According to Brammer and Millington<sup>29</sup> there is a positive relationship between corporate social responsibility and reputation of an organization. Roberts (2003) argued that good image increases the value to how an organization acts and states. Similarly a bad image depreciates the value of products and services of an organization, which can be used as signals to draw further contempt. In large organizations particularly in consumer sector there is a tendency to depend much upon corporate image and brand name for long term success<sup>30</sup>. According to a survey conducted by Hollender<sup>31</sup> and Fenichell on 132 leading organizations, majority of the respondents responded that corporate reputation has become more important in the recent years, while others described reputation as a vital measure of success. Business organizations with good reputation are also good at sustaining huge profits over the period. According to Whooley<sup>32</sup> there is not anything flossy regarding the significance of reputation. Reputation will enhance profitability and long run survival of the business if it is used appropriately.

## 7. Conclusion and discussion

Today, companies are under increasing pressure to contribute to the well-being of society and the quality of the environment. The Definition of CSR is dynamics and evolved, as people become more critical and media proliferation is pervasive. However, the correlation between CSR and financial performance is not always positive. Whereas a company needs a strong motive to perform its social responsibility, that has a positive impact for the society, not just because of the pressure from the communities.

Although CSR do not have direct impact on a company's financial performance, it can strengthen reputation capital. Therefore, as a profit seeker, a company will have a strong reason to allocate cost for CSR activities. In the long run, CSR will bring many benefits which lead to competitive advantage. CSR can be included as a part of reputation management. It should be integrated to the company's vision, mission, objectives, and strategy.

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