International Journal of Advanced Education and Research
ISSN: 2455-5746, Impact Factor: RJIF 5.34
www.alleducationjournal.com
Volume 1; Issue 11; November 2016; Page No. 04-06

# The impact of corporate social responsibility on the performance of business

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**Abstract**

The term corporate social responsibility (CSR) has continued to grow in importance and significance. It has been the subject which is drawing the corporate magnates into its circumference. CSR has evolved and developed in both academic and practitioner communities from all over the world. CSR continues to allure social activists, reformists, educationists and entrepreneurs worldwide to delve deeper into it. Globalization, ethical consumerism, changing market scenario, financial market breakdowns, severe economic declines, climate change all are adding fuel to the concept of CSR. With the growing recognition of critical consequences, more and more entities are showing their commitments towards CSR either to be in the competition or for the enhancement of their corporate image. Competitive advantage and core competence arguments contend that, by adopting the activities of CSR, organizations succeed in partnering relationships with all of its stakeholders and gather their support in the form of customer loyalty and customer satisfaction, lower levels of employee turnover, and access to a higher pool of talent. The pursuit of these opportunities is only possible through CSR activities which derive greater value for organizations in competitive settings. The present paper examines the question of measurability of the impact of CSR on the performance of the business.

**Keywords:** Business performance, corporate social responsibility, customer satisfaction, Globalization, sustainable development

## 1. Introduction

Over the decades, the concept of corporate social responsibility is evolving in its meaning and practice. It has been the subject of considerable debate, research, commentary for academicians, entrepreneurs and practitioners in terms of both practice and theory building.

Corporate social responsibility has become an international concern due to the globalized nature of business. Due to globalization, the concept of CSR has gained high degree of scope and relevance among the business entities. CSR activities create and present opportunities for business entities to fulfill the needs of its stakeholders and simultaneously pursue its profit goals. CSR also creates a positive economic impact on the financial performance of the business.

Corporate Social Responsibility (CSR) is a concept whereby companies integrate social, environmental and health concerns in their business strategy (policy) and operations and in their interactions with stakeholders on a voluntary basis. The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Carroll, 1979).

An important theme of CSR is to ensure the accountability and transparency of business practices that are based on ethical values, and respect for the environment, employees and all other communities. CSR must ensure that an organization delivers sustainable value to the society at large, as well as to stakeholders which includes shareholders, management and the board of directors. Other stakeholders include employees, customers, creditors, suppliers, regulators and the community at large. To be more specific corporate social responsibility means operating the business in such a manner that will consistently meet the legal, ethical, commercial and social expectations of the business.

Corporate social responsibility is an important issue which needs to be addressed by the organizations because CSR is not only undertaken as an initiative of profit or tax saving opportunity but because of the underlying fact that it is associated with customer satisfaction in general and societal benefits in particular. Thus CSR leads to objective, fair and altruistic decisions and actions and ensures the welfare of all concerned.

## 2. Review of literature

As CSR has become an increasingly salient feature of business and its environment, to which managers are expected to respond, it has acquired status within management education and research (Pfeffer and Fong, 2004; Starkey *et al.*, 2004) [11]. Studies by Lewis (2003) [5], Lichtentein *et al.* (2004), and Nielsen *et al.* (2009) [10] suggested that society values, new business opportunities, reduced regulatory interventions, customer satisfaction, firms' reputation, and better stakeholder relationship are acting as different driving forces that are motivating business firms for the implementation of CSR initiatives.

Corporate Social Responsibility is an uncertain and complex term of assorted meaning (Matten and Moon, 2005). Much of the literature on CSR to date has engaged in mitigating in economic/ philanthropic terms the various activities connected with CSR (Basu and Palazzo, 2008; Margolis and Walsh, 2003) [1, 7].

Keith Davis argued that social responsibility referred to 'businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest' (Davis 1960) [3]. At the same time, William C. Frederick argued that businesses' resources should also be used for broad social goals (Frederick 1960) [4], and Joseph McGuire posited that social responsibility urges corporations to assume certain responsibilities to society which extend beyond their economic and legal obligations (McGuire 1963). From the extensive literature review, it can be concluded that need of the hour is to develop CSR framework. CSR means that organizations should integrate legal, ethical, commercial, economic, social and environmental concerns into their business strategies, management tools and other activities so that organizations can channelize effectively the available resources for the practices of social responsibility.

**3. Objectives of the study**

The objectives of the present paper have been to evaluate and measure the progress through the various initiatives of CSR which are undertaken by the organizations.

**4. CSR Scenario - A Theoretical Discussion**

Due to globalization, there is an immense pressure build up on organizations as well as on managers to act socially and ethically responsible. Most of the customers are aware about the issues of child labour, exploitation of workers, and destruction of the environment. As a result, pressure is mounted on the organizations from different stakeholders along with media coverage to take action in order to protect their corporate image.

Corporate social responsibility is one of the most important factor in an organizations reputation which is next to the quality of products. An organization which is not involved in CSR will not look attractive to its stakeholders, because there is a lack of trust and the organization is seen as a profit-maximizing entity with little or no regard to the needs of its stakeholders and hence unattractive to do business with. According to some scientific research, customers do not evaluate organizations on the basis of quality of their products and services, but also on business practices in which they are engaged in, how their products and services are produced, and what impact on society and environment the organization has.

Organizations are paying a good deal of attention to CSR, because it provides vital information about the state of affairs of an organization, its success, development and future outlook. All business processes eventually revolve around the concept of CSR in order to contribute to the success of the organization in one way or another.

A market which is marked by stiff competition and globalization demands for better competivity, managers needs to pay close attention to the performance of business in terms of the various initiatives of CSR because the global concerns provides organizations an additional edge over competitors and exceeds the expectations of the society and corporate citizens.

Excellent businesses have a leadership that supports sustainable development and makes optimal utilization of the resources and focuses on all stakeholders and the society. Customers not only evaluate and assess classical key results like market share and growth, turnover, profitability, but they also evaluate and assess soft factors like the impact of the business processes on the society, environment and the customers. Corporate social responsibility is a long-term-focused activity which is considered as important as shareholders value. Organizations should maintain its commitment towards CSR in a time of rapid technological innovation cycles, rising global competition, frequent changes in the political, economic, social, technological, legal and customer environment and in a time of global economic crisis.

**5. Why Organizations are engaged in CSR?**

Corporate social responsibility means the ethical behaviour of business towards its stakeholders and all of its constituencies. Ethical behaviour of business means treating the stakeholders of an organization in such a manner which is deemed acceptable by the corporate citizens and the society. The main responsibility of the organizations has been to make profits for its shareholders. Nowadays, organizations emphasizes on the inclusion of many other aspects apart from profit maximization. These aspects are the wider economy, stakeholders other than shareholders, the environment, making corporate officers more accountable, a more independent and stronger audit system.

CSR is a concept whereby organizations integrate their social and environmental concerns in their business operation. Awareness of CSR is not a recent development. Awareness and concern for the society and environment can be traced back to the beginning of time. Organizations that are socially responsible in making profits also contribute to the aspects of social development. However, every other organization should not be expected to be involved in the development of society. Organizations which are involved in the aspects of social development both within and outside will make the portfolio of its products and services more attractive to consumers, therefore making the organization more profitable. However, there will be increased costs to implement the framework of CSR, but the benefit outweighs the costs because of the accelerating profits and growth.

**6. Role of Corporate Social Responsibility**

The common roles of CSR are discussed as follows:

1. CSR helps to share the negative consequences which arise as a result of industrialization. This is related to ethical business processes in the market place. CSR helps to re-channel the money for more productive uses in the society.
2. CSR helps to build closer ties between communities and the corporations. The closer ties between the communities and the corporations helps both to stay in peace and harmony.
3. Organizations with a reputation for CSR can reap the advantage of their status and thereby strengthening their appeal as an attractive employer. When the employees view their organizations attitude and commitment to socially and ethically responsible business, they tend to have more positive attitudes in all areas that correlate with better performance. There is a positive correlation between an organizations success in the marketplace and CSR because CSR influences the perception of the employees and also helps in attracting and retaining the talents.
4. CSR plays a key role in the transfer of technology between MNCs that gives concerns on CSR and communities in the host countries. Through transfer of technology coupled with CSR processes, the targeted communities will reap the benefits in the form of product

development and marketing, such as better price and quality, as well as concern for the well-being of the society.

5. CSR helps to protect the environment. CSR initiatives are aimed at reducing environmental footprint. Good environmental performance can drive organizations growth and social reputation.
6. CSR initiatives build a close link between a corporation and community, thereby creating sustainable development.
7. CSR initiatives can be seen as an aid to alleviate property. CSR aims at building collaborations and through these collaborations nations can alleviate the poverty.

## 7. Conclusion

CSR initiatives help to build win-win situation for the organizations. CSR policies and practices are aimed at satisfying the stakeholders demand while at the same time allowing the organizations to pursue its operations. By encouraging and satisfying the demands of stakeholders, organizations finds opportunities and solutions which enable them to pursue its profitability interests with the support and mutual consent of its stakeholder environment. CSR is perceived as a vehicle that allows the organizations to pursue its interest and satisfy the demand of stakeholders. CSR also helps to turn a social problem into an economic opportunity, and economic benefit into productive capacity and wealth.

CSR helps to build and maintain a highly interactive and constructive relationship with stakeholders and can also help to build up a highly rated environmental and social report. Therefore, organizations must shift their focus from philanthropic and economic responsibilities to environment, society, education and health responsibility. This will help the organizations to build and develop a healthy staff and a better social and corporate image in the eyes of the customers and shareholders. This healthy social and corporate image will help to gain the confidence of this group in times of difficulties.

CSR provides vital information about the state of affairs of the company, its success, development and future outlook. All business processes eventually revolve around the target of contributing to the success and development of the organization in one way or another. Success and development are of key interest for the top management of an organization. If the rate of success is weak, manager's needs to intervene in order to return to the path of growth and in this situation, CSR come to the rescue.

Henceforth, it can be concluded that CSR initiatives and activities are a mandatory component of the business activities because it plays a pivotal role in the societal development and in the growth and development of the organizations.

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