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Why Corporate Social Responsibility is Necessary to the Ecosystem of the Organization?

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Abstract: Globalization has opened up a broad range of challenges and opportunities for businesses. Today, most corporations are emphasizing on sustainable growth, especially in the era of global recession. Thus, there is an urgent need for corporation to rapidly respond to resources that are desirable to contribute towards the accomplishment of higher efficiency. This study discusses benefits driven from integrating Corporate Social Responsibility (CSR) into its ecosystem of the organizational. This study relies on literature review based on previous researches on the necessity of CSR in business organizations. It is hoped that this study is able to provide some insight to any organization (profit or non-profit) on the basis of CSR practices for the development of the entire nation. Besides, it would also assists the academic and the government on the basis of an effective CSR and for the development of the entire nation economy in general.

Key words: Corporate social responsibility, business operation, firm performance, economy, organization

INTRODUCTION

Corporate Social Responsibility (CSR) is known to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and therefore establish better practices within the firm, create wealth and improve society (Jamali, 2006). Generally, CSR emerged as a pragmatic response to balance the negative and positive effects of modern capitalism and to counter attack of the wrong business behavior in an environment. CSR is very essential in every business entities because vast number of studies revealed that incorporating effective CSR activities in business plan strategies created rapport between corporation and its environment. This would lead to a higher company financial performance thus, anticipate each and every company to incorporate good CSR policy, so as to achieve organization goals and objectives.

In recent year, a growing number of companies are adopting various CSR initiatives particular to consider the wellbeing of all stakeholders. For instance more often companies carry out operations that lead to devastating effect on the community or probably increase pollution or perhaps drive away green space within a community. Such decisions may increase corporate wealth or more precisely shareholder profits but stakeholders could be adversely affected (Savitz, 2006).

Today, many companies around the have agreed that in order to stay productive, competitive and relevant in a rapidly changing business environment, they have to turn out to be socially responsible. Thus, companies need to enhance their capabilitiesy to manage their profits and risks and to protect the reputation of their brands (Porter and Kramer, 2002). This study tends to bring out some potentials benefits of CSR in promoting business operations. In other words, the benefits that firm derived as a result of integrating, CSR activities in their daily business operations.

MATERIALS AND METHODS

What is Corporate Social Responsibility (CSR)?: CSR has an elusive concept and being defined in various ways which are related clearly too regarding the role of business in society (Donaldson and Preston, 1995). CSR generally, refers to transparent business practices that are based on ethical values, compliance with legal requirements and respect for people, communities and the environment (Dahlsrud, 2008). A widely quoted definition of CSR given by the world business council for

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sustainable development which stated that corporate social responsibility is the continuing commitment by business to behave ethically thus contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (Richard and Okoye, 2013).

CSR is also defined as a strategic plan of a company that changes business operations to develop, sustain or alleviate bad company's impact on society and the environment (Mahon, 2008). It involved a set of actions of a company that changes business operations to improve, maintain or mitigate a company's impact on society and the environment (Porter and Kramer, 2006). However, there are always considerable potential problems when stakeholders perceive that a firm is just engaging in a public relations exercise and is unable to demonstrate concrete actions that lead to real social and environmental benefits (Nolan, 2010). Adeleke described CSR as an elusive concept; having a wide range of spectrum while there is no compromise on what the terms actually means CSR appears from the need to address bad business conduct concerning social matters or issues that do not have direct impact on business bottom line such issues like environmental, labor and human right violations both internal and external mostly violation occurring in emerging economies. In this aspect, CSR was seen as a charitable business action that goes beyond law and regulation taken to tackle these issues.

Hence, beyond making profits, companies are responsible for their impacts on people and the planet. People constitute the company's stakeholders: its employees, customers, business partners, investors, suppliers and vendors, the government and the community. Increasingly, stakeholders expect that companies should be more environmentally and socially responsible in conducting their businesses. As a whole CSR can be summarized as the way through which companies achieveds balance of economic, environmental and social imperatives, i.e., triple-bottom-line approach, simultaneously addressing the prospects of both shareholders and stakeholders of the organization. It can also be described as a program of actions to reduce externalized costs or to avoid distributional conflicts. It has evolved in response to market failures a coercion solution to problems associated with social costs. It is a clear business practices that is built on ethical values and with regard for the community, employees, environment, shareholders and other stakeholders. It's all about how companies effectively manage business processes to produce an overall positive impact on society that respects cultural differences and finds business opportunities in building skills of employees and the community.

Why CSR is very important for ecosystem of the organization?: CSR concepts have been applied for many year through quality and have been proven on their practicality and profitability while emphasizing sustainable performance through valuing people and society. More importantly, findings from scientific research are becoming increasingly clear with regard to how CSR is essential for the long-term sustainability of a firm. For example, the strategic management of human resources is related to customer's satisfaction and it is essential for firms to attempt to understand and deal with this connection. Firms that blindly and narrowly pursue the profit motive without concern for the broad spectrum of stakeholders that are relevant to the long run are increasingly drawn to lack sustainability. The importance of CSR can be seen from 2 perspectives; theoretical and empirical.

From theoretical perspective

Stakeholder theory: The importance of CSR from stakeholder's theory can be seen as the relationship between groups and individuals who can affect or be affected by the achievement of the organization's objectives (Edward, 1984). He argued that the non-human natural environment can be integrated into the stakeholder management concept, since the natural environment is one of the most important components of the business environment. The stakeholder's theory explained that the role of CSR basically relates to organizational management and business ethics and addresses the morals and values involved in the stakeholders (Trevino and Weaver, 2003). The theory is also concerned with the involvement of stakeholders in business operations and provides ideas on how businesses really work and in order to be successful, it has to create values for customers, suppliers, employees, community and financiers as well. Hence, apart from achieving business bottom line there is also a need for corporation to balance the interest of diverse stakeholders so as to ensure each concerned party receives some certain degree of satisfaction (Carroll and Shabana, 2010). This can only be done through CSR strategy which requires engagement in open dialogue and constructive partnerships with governments at various levels, inter governmental and non-governmental organizations and other elements of civil society and in particular, local communities (Albareda *et al*., 2008). In a long term, CSR strategy that is developed based on integrity, sound values and a long-term approach, offers clear business benefits to companies and helps a firm makes a positive contribution to society.

The legitimacy theory: Legitimacy theory has come to stress out how corporate management will react to community expectations (Guthrie and Parker, 1989; Tilt, 1994; Milne and Patten, 2002). That is to say legitimacy theory implies, given a growth in community awareness and concern, that firms will take measures to ensure their activities and performances are acceptable to the community. From the perspective of CSR, legitimacy theory focuses on how businesses respond to various expectations and pressures in order to survive. According to Aguilera *et al.* (2007), legitimacy is seen as a relational motive as it refers to a concern for how the firm's actions are perceived by others. Firms within a given industry are confined by the specific norms, values and beliefs of that industry some of which are enacted into law. Thus, organizations are likely to engage in CSR practices in order to preserve their social legitimacy by preventing negative perceptions and to ensure their long-term survival. For example, business organizations may involve with charity and community activities. Although, such activities might not benefit their shareholders directly, they may engender positive perceptions of the organizations which in turn may create customers loyalty and increase sales.

According to the legitimacy theory in order to survive, organizations have to perform well and meet the expectations of the various parties from whom they derive power. Observer groups, audiences or relevant sections of the public, evaluate the organizations based on their perceptions and assumptions regarding similarity between their values and organizational values (Mobus, 2005). In fact legitimacy theory has been extensively used by scholars to explain corporate social disclosure in financial reporting. Suchman (1995) pointed out that legitimacy management rests heavily on communication and therefore in any attempt to involve legitimacy theory; there is a need to examine some forms of corporate communication. The theory also indicates that business organizations need to look for a balance between their business activities and society's perceptions.

Social contract theory: Social contract implies that society allows businesses to operate on the assumption that they will behave fairly and show accountability for their actions beyond legal requirements. The social contract states society's expectations of businesses as well as businesse's expectations of society (Kakabadse *et al*., 2005). Social contract theory views firm as an institution endowed with a formal constitution. The social contract establishes constitution's of the firm and provides a hypothetical model of ideal agreement that constitutes the criterion for assessing the actual economic institution. That is to say, the social contract is the constitution of the firm and the code of ethics or 'constitutional chart' makes the implicit social contract explicit (Chua and Rahman, 2011).

From empirical perspective: CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from a broader society. Parisi and Maraghini (2010) stated that traditional views about competitiveness, survival and profitability are being swept away. The importance and relevance of CSR activities in today's business organization can be found in many studies around the world. Garriga and Mele (2004) debated that globalization assumes the most essential motivator for CSR in developing countries. Companies that venture into global market have felt the compression to advance their CSR standards to measure up their expectations of their global stakeholders to remain competitive (Mamic, 2004). A study conducted by Vogel (2005), Allouche and Laroche (2005) investigated the relationship between corporate social performance and corporate financial performance showed that CSR has a positive impact on firm performance. While, Van de Velde (2005) investigated the profitability of Socially Responsible Investment (SRI) strategies, they found a positive, non-significant relationship between corporate social performance and corporate financial performance. Luo and Bhattacharya (2006) showed that CSR has positive influence on firm's market value. These circumstances are quality and ability to innovate, i.e., with corporative skills firms which are more likely to generate favorable attributions and customer's identification with company. Both aspects will favor loyalty and other positive behaviors.

Mohamed Zain and Janggu studied the degree of social and environmental disclosure of 37 construction companies listed on the Malaysian Stock Exchange from 1998-2002 with specific company's characteristics size, profitability, leverage and audit firm. The result provided strong evidence that CSR is positively related to companie's size and profitability. Ngwakwe (2009) investigated the possible relationship between firm performances and three selected indicators of sustainable business practice: Employee's Health and Safety (EHS), Waste Management (WM) and Community Development (CD) which is common within the 30 'responsible' firms. The results revealed that the sustainable practices of the 'responsible' firms are significantly related with Firm Performance (FP). Ehsan and Kaleem (2012) conducted a study with the aim to explore the nature of relationship between CSR and FP in the context of Pakistan using panel data of one hundred non-financial firms of manufacturing sector for the period of 2006-2009. Results revealed that the relationship between CSR and firm performance is positive. They also concluded that positive behavior improves the living standard of firms, promotes better education and health facilities and also gives motivation to the employees who in turn build confidence and trust of employees and companies which would achieve long term financial benefits. Furthermore in a study carried out by Mullerat (2013) examined the approach of CSR practices among SMEs in Malaysia in the areas of marketplace, workplace, community and environment, revealed that SMEs are actively exercising CSR practices in the area of marketplace, followed by workplace, environment and community and also company size is the most important variable in explaining the CSR practices of SMEs, followed by founder characters and stakeholder's expectations. The above reviews show that companies that are committed in to CSR activities have gained some benefits from a number of possible positive outcomes including: enhanced brand value and corporate image, improved customer's loyalty, reduction of risk as a result of clearer grasp of positions taken by stakeholders, gaining an informal social license, facilitating business in sensitive environments and development of a better work culture within the organization and increased employees satisfaction. Conclusively company that performs well with regard to CSR can build good reputation while those that perform poorly can damage brand and company values when exposed. Reputation or brand equity is founded on values such as trust, credibility, reliability, quality and consistency.

RESULTS AND DISCUSSION

It is clear that CSR has taken permanent residence in today's business speak lexicon (business models) which evolve ethical routines to guide production, growth and profit. It considers environmental, social and economic issues, balancing policies that combines green initiatives with operational procedures geared to cut costs, raise efficiency and shrink overhead, it demonstrates strategic commerce that sharpens competitive edge. More than ever before, companies must conform to regulatory mandates while dealing with skyrocketing production costs in a depressed economy. Ethical practices offer attractive branding and please our eco-conscious public who instantly reward green accomplishments and condemn corporate recklessness at blinding speeds through social media. Good behavior out-performs traditional models for profit.

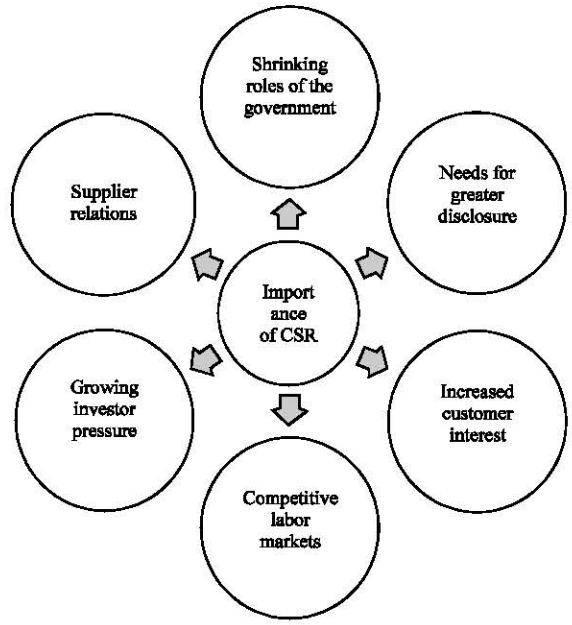

Fig. 1: Importance of CSR

Consequently, firms that develop strong corporative skills which support CSR may win social contracts, institutional loyalty, moral legitimacy and consumer's support, it is right to say firms with a better perception on CSR initiatives usually have higher customer satisfaction levels which would lead to a higher market value through loyalty as several researchrs have shown. In fact, corporate reputation and customer's satisfaction provide feedback for each other. As noted, corporate reputation participates in the generation of a customer's expectations before purchasing a product or service. These expectations will be compared with the result of product or services, it will be used also to measure customer's overall satisfaction. Whether or not, the customer is satisfied, this purchase experience will have an impact on corporate reputation because it will also affect the way how firm is being perceived. Based on that statement it can be concluded the importance of CSR can be seen from five perspectives as shown in Fig. 1.

Shrinking role of government: Governments depend on legislation and regulation to deliver social and environmental objectives to business sector. The lack of government resources, coupled with distrust of regulations led to the exploration of voluntary and non regulatory initiatives in a competitive environment.

Needs for greater disclosure: There is a growing demand for corporate disclosure from stakeholders including customers, suppliers, employees, communities, investors and activist organizations.

Increased customer interest: Evidence of ethical conduct on companies exerts a growing influence on the purchasing decisions of customers. Study shows more than one in five consumers reported having either rewarded or punished companies based on their perceived social performance.

Competitive labor markets: Employees are increasingly looking beyond paychecks and benefits and seeking out employers whose philosophies and operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions.

Growing investor pressure: Now a days investors are changing the way they assess companie's performance; they make decisions based on criteria that include ethical concerns.

Supplier relations: Stakeholders are becoming increasingly interested in business affairs; many companies are taking steps to ensure that their partners conduct themselves in a socially responsible manner. Some are introducing codes of conduct for their suppliers, to ensure that other companie's policies or practices do not tarnish their reputation.

CONCLUSION

Companies are engaging in CSR activities to better disclose the worthiness of their corporation and making it as an essential component of universal corporate practices. Through CSR practice, corporations can actively interconnect both financial and extra-financial values as well as achieve their goals. Due to the advancement of competitive environment, companies need to adequately comprehend and change into more ethical behavior in their daily business operation. Generally, CSR is considered to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and therefore establish better practices within the firm, create wealth and improve society. Citizens as well as government in many countries are making it clear that corporations should meet standards of social and environmental care no matter where they operate. There is an increasing awareness of the limits of government legislative and regulatory initiatives to effectively capture all the issues that corporate social responsibility addresses. Now a days businesses are acknowledging that adopting an effective approach to CSR can reduce risk of business disruptions, open up new opportunities and enhance brand and company's reputation.

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