

## **THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SUSTAINABLE DEVELOPMENT (SD)**

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### **Abstract**

*The attention toward social and environmental impacts of companies on stakeholders is not new. In the past years, the interest as regard the companies' impact on stakeholders increased due to pressing global problems like climate change and poverty. Companies are regarded as important players given their activities and global influence where they confront a range of issues, stakeholders, in both home and host countries as well. Companies' potential in being not a part of the problem, but rather a solution where other institutions fail, is increasingly acknowledged and has attracted the researchers interest in the field of corporate social responsibility (CSR) activities and sustainable development (SD). The relation between CSR and SD has been studied just a little and their inclusion in the literature as two concepts as part of the same model has been lacking. This paper studies both concepts, respectively CSR and SD, and proposes a theoretical framework for developing countries as further research in this area.*

**Keywords:** *Corporate social responsibility, Developing countries, Community, Sustainable development*

**JEL:** G3, O 57, Q01

### **Introduction**

There are currently lots of problems in the world such as poverty, climate change, human rights violation and many diseases. In order to construct or to develop a sustainable society, we need companies in the world to be socially responsible corporates. Many companies are either willing or called upon in playing a positive role as regard social problems, thus to contribute to sustainable development (SD). Given the business

impacts and the multinational enterprises activities as well as their global influence in their home and host countries on society, community and environment, a relevant question arises: Who is affected and who gain as a consequence of companies business decisions? According to Friedman (1970), companies only responsibility is toward them shareholders to make profits, thus to increase their wealth. Conversely, Freeman (1984) underline that companies purpose should regard the interests of all its stakeholders, to meet their requirements and to serve them. Nowadays, many companies are trying to get involved in the social needs of the communities where they operate as well as environmental protection.

The idea according to companies have responsibility not only to make profit, but also to help in solving some societal problems among which socials and environmental issues, is known under the name of Corporate Social Responsibility, CSR (Idemua, 2007). CSR is “beyond compliance” and approaching a social cause (Rodriguez et al., 2006); is not about “sacrificing profits in the social interest” (Reinhardt et al., 2008). CSR refers to companies’ business decisions makers to base their decisions not only to be “economically profitable, law abiding” but also to be “ethical and socially supportive” (Carroll, 1999: p. 286).

CSR concept is debated for years by practitioners as well as by researchers not only because of the lack of a clear accepted definition but also because of the disagreement as regard the regulations and mechanism of CSR implementation. The absence of international regulations on environmental and social issues has been proven by researches that, if CSR is wrongly implemented by companies, might lead to not viable use of scarce resources in an economy. Though, when CSR is implemented in the right way was found to be not only company leverage (Porter and Kramer, 2006) but also a tool for attaining SD especially in developing countries (Binder et al., 2007). Even if some business activities are regulated, does not generally apply everywhere. Rules and regulations are likely to differ from one country/region to another, as well as monitoring and compliance. Business environment has changed. CSR needs to be considered to be taken into account by the companies, as part of their challenges to globalization and institutions (Buckley and Ghauri, 2004; Dunning, 2006, 2009; Griffith et. al 2008; Peng et. al, 2009).

In order for CSR policies to attain SD, there must be collaboration between companies and civil societies where the firm operates. Thus, corporations’ responsibilities toward society need to be made not only through their contributions (philanthropy, charities, etc) but also to involve them (the society). This will lead to SD for societies and business as well.

Companies adopting CSR enhanced their financial performance, image, brand, reputation (Kolk & Pinkse, 2008; Verbeke, 2009). According

to Utting (2000), through CSR practices companies are “more responsive to the environmental and social concerns” of the society where they operate.

CSR and SD provide fertile areas which have not been discussed enough in the existing literature especially that the impact of corporations on SD is, somehow, unclear and need further investigation (Dunning & Fortanier, 2007; Meyer, 2004). SD and CSR have been studied very little as relevant concepts in the mainstream management journal as well as in business publications.

This paper aims at filling some gaps as regarding the relation between CSR and SD by providing a theoretical framework as a start for further research. Next session will present the literature review on CSR and SD. In section 3 is discussed the theoretical framework and the last section, respectively 4, presents the conclusions of the paper.

## **2. Literature Review**

### **2.1 Sustainable Development (SD)**

Brundtland (1987) defined SD as the “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” Thus, development regards not short but rather long term goals.

The idea of sustainability encompasses the concepts of economic, social and environmental sustainability. Therefore, economic and social development needs to be ensured while respecting the environment where the activities are conducted. The difficulty that arises is how to ensure a balance between economic, social and environment in achieving SD goals (Adams, 2001). The Millennium Development program is based on SD goals such as eradication of poverty and hunger from developing countries promotes equality between genders and establish environmental sustainability (UNDP, 2006; UN, 2007, 2008). Today, SD serve as support for communities as regard the efficient use of resources, create resourceful infrastructure, protect and improve life quality, protect the environment and build new businesses in order to strengthen countries’ economies.

Accordingly, SD pillars lie on the economic, cultural, social, and environmental sustainability. The SD pillars are hard to ensure in developing countries where there is a high percentage of grey/black economy unemployment rate is high, wages are low, and dropping school rate is high from primary. Visser (2008 a, b) underlined that differences from developed countries faced by the developing countries such as development of the infrastructure versus environment, *jobs creation versus high labor standards*, as well as strategic philanthropy versus political governance, make SD difficult to achieve. Thus, developing agencies (Word Bank 2008; UNDP, 2006; UN, 2007, 2008) prioritize, as an important factor

that can help developing countries to achieve SD, CSR practices to be adopted by the company's. Companies adopting CSR need to respect human right and thus, working conditions would be improved as well as the basic services provision, and life condition would improve (Visser, 2008 a, b).

## **2.2 Corporate Social Responsibility (CSR)**

European Commission (2001) defined CSR as *“a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”*. The wider meaning of CSR definition makes it difficult for companies to have a conventional/established policy on what should exactly be included in their CSR activities. For these reason, many companies have chosen as CSR activities what they 'feel' was right to be included under their CSR practices. International Finance Corporation (2008) define CSR as *“the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development”* (IFC, 2008). Another definition is given by Carroll (1999), according to *“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's definition stress the fact that society expects businesses to be responsible all the time regardless of time and conditions changes, society expect companies improve their responsibilities toward them.

According to Broomhill (2007), CSR concept is *“highly contextual in terms of corporate and national environment”*. CSR is adopted by the companies on the voluntary basis.

Companies adopting CSR gain competitive advantage, increase customers locality, investors and employees, increase company brand and reputation, and enhance company performance. Milton Friedman (1970) argued that companies have only one duty and that is toward their shareholders to maximize them wealth. Continuing his point of view, the author underline that companies have only one responsibility, namely to make profit, and to engage in activities that increase profits, also to obey the rules and law. Company responsibility regards its employees and stakeholders which are directly involved in the business and not the environment or the community where it operates. Moreover, CSR diminishes company profits because its practices costs are supported by the company (Idemudia, 2007). These arguments support the view according to which companies should only invest their money in activities that bring profit to the company.

On a contrary, other theorists have different opinion as regard the CSR adoption by the companies. The Neo - Keynesians underlined the fact that sometimes companies operations can have a negative impact on the community where the economic activities are developed, and on the environment (Broomhill, 2007). According to Business for Social Responsibility (BSR) companies that achieve “commercial success in ways that honor ethical values and respect people, communities, and the natural environment” are truly responsible companies. These are CSR companies, where business decision makers do not harm or the negative impacts of their activities are reduced on community and environment. Many believe that CSR concept should not be voluntary but compulsory and that should be included in the national and international codes of conduct or businesses (Moir, 2001; Visser, 2008 a, b). Therefore, CSR is regarded as a set of policies, practices, and programs adopted and included in business strategy and decision-making processes of the company and are taken into account issues related to the business ethics, community investment, workplace, human rights, and environmental concerns.

Consequently, businesses have responsibility to the society where they operate to respond towards them concerns and not just the interest of their shareholders and to obey the law (Utting, 2005a).

There is a growing interest on CSR concept not only from researchers but also from companies to incorporate CSR into their business strategies (Porter and Kramer, 2006). Moreover, there is also a pressure from individuals, NGOs, and from the society at large on companies to become responsible but also the urge to get ‘something’ back from business operation in their communities. If in the past, companies adopted CSR voluntarily, in time many companies, especially multinational companies, considered and integrated CSR as part of their corporate activities and policies. These companies consider CSR as an important part that needs to be included into their business objectives. CSR concept is not new (Hopkins, 2005), is just not fully embraced and understood by everyone.

Currently, in developed countries, the debate on CSR is no longer whether it is important or not for corporations this concept, but the extent to which “CSR principles can influence corporate decisions and practices and how business can best address its social responsibilities” (Idemua, 2007).

### **3. Theoretical Framework**

Using CSR as one of the tools to ensure the achievement of SD is not enough if the policies formulation and their implementation do not involve the society, community and environment.

Governments play an important role, particularly in developing countries when addressing the citizens development needs, “the promotion of social

development issues must also be one of partnership between government and private and non-governmental actors and, in particular, the corporate sector” (Hopkins, 2005). In developing countries governments are frequently puzzling and inefficient. CSR practices in developing countries could be considered as an alternative tool to ensure the achievement of SD.

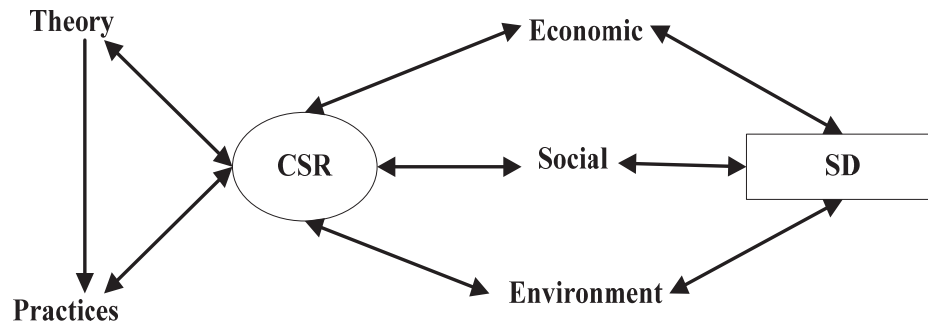
According to St. James Ethic Centre, “Corporate responsibility is achieved when businesses adapts all of its practices to ensure that it operates in ways that meet, or exceed, the ethical, legal, commercial and public expectations that society has of business”. Thus, incorporation of CSR policies into daily business operations is a must and not something that businesses choose to do at their convenient. Differently from what was promoted by the World Commission on Environment and Development, the SD concept does not encompass only the environment, but it also consist activities that care for the society needs and for the people living in it (WCED, 1987).

Dumitrescu and Simionescu (2014) stated that CSR practices are more frequently implemented as well as studied in developed countries, while the CSR practices and theory in developing countries are still debatable and need to be discussed at length. As underlined by Kemp (2001) there are various obstacles in achieving corporate responsibility, mainly in developing countries where the *institutions, standards and law system, are relatively weak*. Jamali and Mirshak, studies (2007) have emphasized that there are numerous CSR plans advanced in countries such as USA and UK as regard the CSR framework to be modified such that could fit developing countries context.

Considering all the above, in recent years the question raised is not if but how CSR should or can be efficiently implemented in developing countries (Ruggie 2008 a, b; 2010, 2011). The literature on CSR and the empirical evidence have revealed that a partnership between corporations and the community where they operate has been quite successful. Whereas, the lack of partnership alongside scarce consultations in regard the CSR policies implementation could have negative and unsustainable effects on the community. Thus, an efficient implementation of CSR is through a partnership between companies and the community as regard the later concerns. A successful company-community partnership has the potential of implementing and the guaranty of the project sustainability. Moreover, this partnership success gives the community a sense of ownership for the products done by the company.

Some of the factors influencing the corporate-community relationship are the link between theory and practice, epistemological, ontological (Bryman, 2004: 21) and the three pillars of the SD (see figure 1).

Figure1. **Diagram of factors considered to influence corporate-community relationship**



Source: made by author

A combination of these factors could have an impact on corporate-community relationship. One or few combinations of these factors may have the ability to determine the outcome of a research.

In Figure 1, practices refer to CSR activities transposed by the companies from theory. Practices regard the company-community relationship. Practices give the outcome of CSR activities which in turn are based on regulations, norms, conducts codes and ethics codes. Before conducting a study, researchers need to consider the theory impact. Between theory and conducted study, there is a strong association that needs to be considered. This theory should be confirmed in practice. Theoretical considerations could be deductive or inductive (Bryman, 2004). A deductive approach to theory refers to developing hypothesis which need to be empirically validated and eventually modify the theory which was subject to the hypothesis (Bryman 2004). Researchers using inductive approach conduct their study based on own observations having no hypothesis but at the end of research study, they formulate a theory based on research observations. Thus, theory is important when conducting a study and depending on what researcher has in mind will adopt an appropriate strategy. Research results will differ upon the approach used (Sein 2007) and on the variables from the study.

Another important factor that needs to be considered is epistemology. Epistemology concerns the knowledge generation or construction from the “*relationship between knower and what can be known*” (Ryen, 2008). It explains theories as regards the knowledge accumulation about the world (Ryen, 2008). The important questions raises by epistemology is whether social problems are possible to be handled using the same rough procedures

as in the natural sciences and if such procedures could fit the study of social phenomenon. In other words epistemology establishes what the valid knowledge is and how this can be usually obtained. Epistemology regards two main distinctive positions to be considered: Positivism (The Researcher as Scientist) and Interpretivism (research as detective). Positivism concerns natural science model, the aim- objective knowledge, test a theory, explains observable facts and as methodology uses questioners and surveys.

Interpretivism raises from a critique of usage the natural sciences as model for social research, the aim- subjective knowledge, build a theory and the methodology used are the interviews and analytical approaches. It is important therefore for the researcher to consider carefully the method intend to be used to generate information's required for the research.

The question raised by ontology is "*what reality is out there, what reality consists of and how is, I perceived and what there is to know about that reality*" (Ryen, 2008). The ontology regards two positions, respectively objectivism and constructionism. Objectivism "implies that social phenomena may confront us as external facts that are beyond our reach or influence" (Bryman, 2004). Constructionism is grounded on realism and points out those social phenomena that can be accomplished and handled by social actors (Bryman, 2004).

Using the combination of the factors discussed above may bring some light as regard the link between CSR and SD toward company-community relationship. The theoretical framework proposed in this paper if empirically validated may contribute to an advanced understanding of the relation between CSR and SD.

### **Conclusions and further research**

This paper aimed to provide a theoretical framework to fill in some gaps as regarding the relation between CSR and SD. This paper is a start for further research. The relation between CSR and SD has been study just a little and their inclusion in the literature as two concepts as part of the same model has been lacking. This paper studies both concepts and proposes a theoretical framework for developing countries as further research in this area.

Companies are regarded as important players because their activities and global influence in both home and host countries as well. For this reason companies' are started to be considered not a problem, but rather a solution where other institutions fail or government regulation are weak. The way companies act or activate in a society needs to be done with great responsibility in such way SD is ensured. The increased recognitions of two fields have attracted the researchers' interest, respectively in corporate social responsibility (CSR) activities and sustainable development (SD).



The combination of factors proposed in the theoretical framework may bring some light as regard the link between CSR and SD toward company-community relationship.

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