ECONOMIC ASPECTS OF CORPORATE SOCIAL RESPONSIBILITY: SOLUTIONS, RELATIONSHIPS, PROBLEMS

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Abstract

The paper deals with the basic issues of possible empirical relationship between the concept of corporate social responsibility and sustainable development with aspects of corporate finance, financial performance, profit and economic policy of the state. The starting point is to determine the future impact of CSR activities on companies, their decisions, in connection with some policy measures. Based on the content analysis of data obtained from leading, major magazines and authors, the main starting points and relationships of the CSR concept for implementation into the corporate strategy were determined. These are: *Journal of Corporate Finance, Journal of Business Research, Journal of Financial Economics, Journal of Business Ethics, International Review of Financial Analysis, North American Journal of Economics and Finance, Finance Research Letters, Journal of Banking & Finance, International Review of Economics and Finance*, *Pacific-Basin Finance Journal*. The main links between company performance or business value with CSR activities motivated by specific public policy instruments were identified, including the direction of further research.

Keywords

Corporate Social Responsibility, Corporate Governance, Financing Policy, Sustainable Development

I. Introduction

Corporate Social Responsibility (CSR) is a concept of voluntary integration of social and environmental considerations into everyday business operations, processes and interactions with all stakeholders. The principle of incorporating social and environmental aspects into the company's strategy (in addition to its primary focus on generating profit) is also called triple responsibility.

The concept of corporate social responsibility is becoming increasingly important as it appears that a well-grasped CSR concept represents a relatively unique strategic competitive advantage that organizations can gain through the voluntary, active and above all effective implementation of the concept. And this is very important in today's rapidly changing, even hyperturbulent business environment. Practice also shows that activities related to corporate social responsibility are effective only if personal ethical and moral beliefs of management and common employees are in place (Bowie, 2013).

The CSR concept addresses the relationship between the economic profit of an organization, the social dimension and sustainable development. Within this issue, the concept of optimal benefits emerges, which now includes space for the long-term development of an organization respecting public interests (social and environmental). Drucker (1993) in this context adds that profitability and accountability are not mutually exclusive, rather the contrary. These are complementary terms.

The concept of sustainable development (sustainable development) represents an alternative model of the development of society compared to the dominant industrial economy. It reflects the natural environmental limits of economic growth; policies based on this concept promote

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the reconciliation of economic and social development with ecosystem capacities, while preserving natural values and biodiversity for present and future generations.

CSR concerns the whole organization. It is not possible to exercise social responsibility only at one particular level of organizational structure. Corporate social responsibility should be based on corporate values and be integrated in corporate culture. In this respect, the most important link in the organizational structure is top management, which creates corporate culture, company vision, strategy and in this way integrates CSR into the activities of the organization. It is important that the concept is perceived and fulfilled throughout the organization. This is because the organization must be present to the public as a whole and thus act in unity. It must fulfill the concept of social responsibility – CSR as a whole, at all levels of the organizational structure.

Kotler and Lee (2005) in the context of the CSR concept use the term "*Corporate Social Initiatives*" as the main activities taken over by organizations promoting social affairs (*health, safety, education, employment, environment, economic development and other basic human needs*). Opponents of public opinion are opposed to business entities, which are becoming less tolerant of business entities due to the rapid media coverage of various types of misconduct and the growing pressure from diverse groups of activists.

The EU considers CSR to be a prerequisite for market development and innovation, combining the social, economic and environmental dimensions of entrepreneurship in an integrated approach based on dialogue between key stakeholders. CSR is a concept that aims not only to pursue the interests of its business, but also involves social, voluntary and environmental aspects in addition to its economic interests.

While other research studies deal with the empirical relationship between CSR and financial performance, the company's profits (Waddock and Graves, 1997; Peloza, 2006; Cavaco, Crifo, 2014) are very diverse. Corporate social responsibility has a positive, negative and neutral impact on financial performance. We assume that these discrepancies may be due to erroneous empirical analysis. Research research variables that influence the use of econometric methods are likely to be erroneously identified. However, it should be noted that CSR studies often use a relatively limited sample of companies for their analysis and not always an appropriate measurement methodology.

CSR is increasingly at the forefront of financial modeling, government economic policy and taxation, including strategic corporate governance (Carter and Cohen, 2010; Ferrell, 2012; Bowie, 2013). Research is growing in all areas of business ethics and corporate social responsibility that drive the business and value systems that underpin their business. CSR with a perspective that CSR should make sense of in the context of the overall paradigm of business ethics (Zhao et al., 2012; Mridula et al., 2014; Crifo and Forget, 2015).

It can be said that studies or analyzes that deal in detail with the above relationships are not currently published. Therefore, we will try to explain the nature of socially responsible behavior of enterprises based on the economic policy of the state and other variables.

II. Current state of CSR rules and policies

The development of the Corporate Social Responsibility (CSR) philosophy and societal demands for the practicality of this concept has forced many international organizations and institutions to develop standards and methodologies for measuring and evaluating its level (Holme and Watts, 2000; Kotler and Lee, 2005; Blowfield and Murray, 2008). Even though the concept of corporate social responsibility (CSR) has emerged since the second half of the 20th century, this issue has not been systematically addressed at the level of the impact of states' economic policies or their tax system (Trevino and Nelson, 2011). This is confirmed by studies that examine CSR in the context of social and environmental accounting (Sanford, 2011) or responsible investment (Sparkes and Cowton, 2004).

From a theoretical point of view, conflict resolution theory emphasizes the positive effects of CSR activities by improving corporate reputation, increasing corporate profitability and increasing corporate value. On the contrary, the theory of over-investment points to waste of resources and the generation of over-investment, especially during economic downturns (Jo and Harjoto, 2011; Servaes and Tamayo, 2013). In addition, there is a broad consensus in the empirical literature on the prevailing positive or negative effects of CSR. Growing empirical literature shows the positive and negative effects of CSR on a fixed value (eg Hillman and Keim, 2001; Brammer et al., 2006; Bird et al., 2007; Nelling and Webb, 2009; Crisostomo et al., 2011; Jo a Harjoto, 2011 and 2012); Harjoto and Jo, 2015). Or it reduces the significant correlation of social orientation with business performance (Aupperle, Carroll and Hatfield, 2017).

It is important to identify the link between business performance or business value with CSR activities motivated by specific public policy instruments. The main emphasis is on solid heterogeneity and lack of political leadership. We assume that the financial justification of CSR passivity in selected firms caused by negative external shocks (especially in economic downturns) disappears in countries where policy makers actively use public policy instruments of CSR.

When businesses seek to be socially responsible beyond what is required by law, this effort is often described as strategic - focusing primarily on the benefit of shareholders or managers. This belief is confirmed by a great deal of literature. However, incentives for corporate social responsibility could be based on an altruistic tendency supported by the social capital of the region where the company is based. We examine whether this phenomenon exists by examining the link between social capital in the region and the CSR of the firm. It was found that a company in the area of high social capital shows higher CSR. This result suggests that shareholders 'or managers' own interests do not explain all CSR firms, but altruistic tendencies in the region may also play a role (Jha, Cox, 2015).

Companies that have adopted the concept of CSR and therefore carry out specific activities in the social, economic or environmental field of CSR are interested in informing their stakeholders about their responsibility activities and projects. Communication in the field of business ethics and corporate social responsibility consists in passing on information about its own CSR policy and ethical business to stakeholders. The core and also the most used communication channel for the presentation of CSR activities of the organization are annual reports or special comprehensive CSR reports, social, environmental reports and comprehensive reports on sustainable development. These annual reports are published by companies on their websites in order to make this information available to the widest possible range of stakeholders, including the public. After the company started working with key stakeholders and started to carry out CSR activities embedded in the strategic framework, it was time to let the business know about responsible business – both internal and external.

At the beginning, it is very important to get employees and co-workers, so to explain carefully why, what and how is happening in the company in connection with CSR. Also, external stakeholders must be informed about CSR activities – this is the only way to distinguish the company from its competitors. Regular communication of socially responsible behavior brings many advantages to the company:

- **Transparency**. Increases awareness of CSR activities to ensure business transparency.
- **Supervision of CSR activities**. It allows to confront publicly proclaimed CSR commitments with reality and highlights weaknesses in the CSR strategy of the company.

- **Stakeholder involvement**. It strengthens the position of stakeholders and their involvement in company decision-making.
- **Cross-sector cooperation**. It supports cross-sectoral partnerships between businesses, government institutions and non-profit organizations.

In addition, there is no agreement on policy measures to encourage social responsibility and sustainability commitments. Governments are significantly more active in promoting CSR than governments in Central and Eastern Europe. As these differences reflect differences in the popularity of CSR as an approach to governance in Europe, it concludes that public CSR policies strengthen rather than offset the European "corporate social responsibility gap" (Steurer et al., 2012). There are also studies that examine the impact of competition in the product market on CSR activities in emerging economies. Overall results suggest that existing theories of CSR activities in developed countries may apply differently to emerging economies with less developed capital markets and poor investor protection (Lee et al. 2018; Ferrell et al., 2016). Sheikh (2018) examines whether and how competition in the product market affects the relationship between corporate social responsibility (CSR) and business value using a 2003-2015 panel data set.

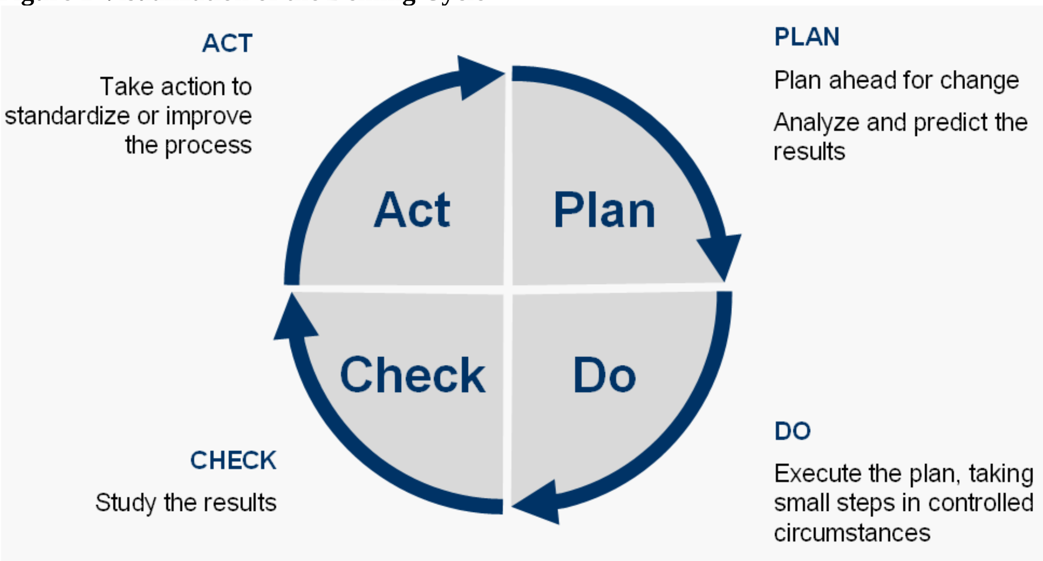
III. Implementation of the concept of CSR

The implementation of the concept of corporate social responsibility in business practice should also be a matter of some compromise between what is priority for the business and what is priority for the stakeholders. All stakeholder groups should therefore be involved in discussions on CSR implementation steps. External stakeholder groups are also important, as these groups can alert the business to potential opportunities or threats that may be present in a turbulent business environment. Therefore, they should not be neglected in the implementation of CSR (Kašparová and Kunz, 2013).

Although introducing and adhering to the CSR concept by an enterprise is more or less a voluntary matter, some legislative steps must still be followed. The company management must be aware of this legislation. The well-known Planing-Do-Check-Act (PDCA) **Deming cycle** provides some guidance on the implementation and actual implementation of the CSR concept:

- **Plan** – examines current performance and potential problems. It also consists in gathering information about problems, their causes and possible solutions to problems.
- **Do** – tests the effectiveness of a possible solution.
- **Check** – this section examines the test results and assesses the suitability and effectiveness of the solution. Determines whether the suggested solutions have resolved the problems.
- **Act** – is to ensure the development of possible solutions that led to the elimination of the problem and thus implement them permanently into the system.

Figure 1 Visualization of the Deming Cycle



Source: Kotler & Lee (2010, p. 68)

According to the above Deming Cycle, the steps to implement the CSR concept can be described as follows:

Step 1: Management commitment

Without top-level leadership, CSR has little chance of success - management, convinced of the need for a responsible approach, will extend its value to employees and ideally involve them in making decisions about responsible activities. Management should publicly declare its support for responsible entrepreneurship and commit to measures that will improve the corporate impact on the market, the working environment, the local community and the environment. The personal implementation of top management based on ethical attitudes and opinions contributes to the effective implementation of the CSR concept. Management should feel the need to make the company an integral part of the company and the environment in which it operates. He will be rewarded with all the significant benefits that CSR brings to the company in the medium and long term. In this step, management also decides on the allocation of resources and a CSR working team is created under the leadership of the top or CSR manager. Team members should be representatives of human resources, PR, marketing or sales.

Step 2: Identify key stakeholders

The company should first identify its key stakeholders and involve them in almost all phases of CSR implementation. In the preparatory phase, the stakeholder dialogue provides a detailed understanding of their needs, provides a rich source of impetus and helps the company identify the topics it should focus on in CSR.

Step 3: Determining values and principles

CSR should be based on values that are important to the company in relation to each key stakeholder. The basic common values include: transparency, personal approach, quality, education and development, active support, environmental protection, etc. Corporate values are an expression of the company's general preferences. The key ones are included in the formulation of the company's mission, which is communicated to all employees of the company and publicly. Many companies also have a code of ethics to ensure that the day-to-day business activities and conduct of all employees adhere to established policies. It is a set of specific rules that are based on the values and principles of the organization and define the standard of professional conduct. Clearly defined principles support managerial management and facilitate employee decisions, especially in non-standard situations.

Step 4: Analysis of the current situation

a) **Internal analysis** – the company evaluates the position in which it is currently within the concept of corporate social responsibility. A thorough self-assessment brings an understanding of the current state of CSR in the company, inspires further activities and motivates to achieve a systematic approach to CSR. In your internal analysis, focus on the following issues: environmental regulatory requirements, employee care, customer service, current CSR business activities and how to measure their performance, means to communicate CSR, spent financial resources and internal capacities, an overview of current corporate policies and documents, specifics associated with the business and the resulting key CSR topics that have or could have an impact on the business, the expected benefits of responsible behavior for the business.

b) **Analysis of the environment** – after the analysis of the internal environment comes the analysis of the external environment of the company, namely: identifying possible external incentives (eg. *globalization, EU accession, new laws, technological development*), CSR research activities and instruments of competition, performance comparison with best practice in the field (so-called benchmarking).

Step 5: Goal setting

Determining the direction the company wants to take in connection with CSR. Within each CSR, the company will set goals that should correspond to the company's values and principles. Companies usually set targets for a period of one year, after which they evaluate the success of their fulfillment.

Step 6: Action Plan

The next step is the creation of an action plan, ie identifying CSR activities that will lead to the fulfillment of the set objectives. Practical information such as resource allocation, powers and responsibilities, and timetable should also be specified.

Step 7: Implementation

In the implementation phase, the company follows a pre-defined action plan, thus introducing CSR into the daily life of the company.

Step 8: Monitoring

The company performs performance assessment through a set of quantitative and qualitative indicators, providing management with the data needed to make further decisions. Company stakeholders are actively involved in the selection of indicators and their evaluation.

Step 9: Reporting

The company provides a complete picture of CSR performance through a CSR report or website presentation. The report should not include information on the fulfillment of objectives set in the previous year and the identification of new objectives for the next period.

Step 10: Measures for improvement

To make it easier to implement CSR in business activities, management should summarize the CSR activities it already performs. If the company does this initially, it can reveal existing and potential CSR activities. These activities can be written by the company management and discussed with other colleagues in the company who can express their own opinions on these activities and thus reveal possible reserves. This is also related to defining existing problems in the company. Leaders and stakeholders should look for possible solutions to these problems and thus move again towards the implementation of CSR. It is also essential to know the stakeholders' expectations of the business.

IV. Czech Companies Approach to CSR

The expansion of the CSR concept in Czech companies and the deepening of existing socially responsible activities can be hypothetically influenced and supported by the following trends in the development of the global and national environment:

- Increasing exports of Czech companies will increase the pressure of foreign customers on CSR audits and certifications.
- The emerging young generation of employees consider a friendly working environment and a broad portfolio of benefits to be a common standard. Young applicants, especially those with a lower level of education, tend to focus only on salaries, while on the other hand, more experienced people with a higher level of education are in favor of the non-financial benefits that a potential new employer can offer.
- A knowledge-based economy and a greater specialization in the profession are forcing Czech recruiters to take measures that ensure the company quality and loyal employees.
- Competitive struggle takes on a new dimension. Even in the Czech Republic, CSR is slowly becoming one of the aspects of company differentiation and competitive advantage.
- Adapting to a new trend of responsible entrepreneurship that is economically successful while taking into account the social and environmental aspects of its operations. • Increasing pressure from stakeholder - customers to responsible business behavior in line with 3P is based on changing their needs and requirements (*respect for human rights, occupational safety, child labor ban, environmentally friendly production, packaging and product recyclability, CO2 minimization*, etc.) .
- Self-interest in the ethical business environment that carries fair business relationships, long-term ties and cooperation with suppliers and customers, and a prerequisite for reducing transaction costs.
- The impact of multinational organizations, advanced economies, commercial leaders themselves, NGOs and academia on the cultivation of the business environment and ethical entrepreneurship in line with sustainable development.
- Greater social recognition of ethical firms, as a result of wider media coverage of good examples. Referring to ethical and unethical companies, publicizing positive examples, broader support and promotion not only by non-profit organizations.
- Increased awareness of entrepreneurs about the benefits that CSR activities can bring to them. Promoting CSR and sharing information and experience of specific companies with socially responsible activities and projects at conferences and seminars and at round tables with stakeholders.
- Publication, media coverage and communication of examples of good practice from the Czech and foreign backgrounds. Supporting and clarifying the conditions of media coverage, clarifying the distinction between CSR and PR, marketing, and establishing the conditions under which there will be no conflict with the law (*ban on covert advertising*).

- Own presentation of CSR strategies of Czech companies that have assumed responsibility and ethical commitment to their own business and have experience in implementing, measuring and communicating CSR.
- Creating and promoting databases of validated ways of specific application of the CSR concept as a tool of inspiration for other entrepreneurs.
- Clarification of the importance of CSR tools and methods and their application in specific Czech conditions. Importance and method of reporting.
- Making the non-profit sector more attractive and promoting long-term cooperation between the commercial and non-profit sectors based on the specific needs of non-profit organizations.
- Active support of the state (creation of a motivating legislative environment, eg higher tax depreciation of corporate donation, tax advantage for ethical companies, higher or new sanctions for unethical and irresponsible behavior of organizations and their equal and consistent application) and greater recognition of ethical and responsible companies government and public administration.
- More transparent legislation and increased law enforcement.
- Stable support for transnational (EU) CSR.

V. CSR Concept Issues

It has to be acknowledged that for many companies and companies, the CSR concept has now become “only” a sort of item to be checked off in the annual reports, reports, web materials or annual reports as fulfilled, accepted or addressed. The concept of CSR is approached as a necessary, "fashionable" matter. This certainly loses its content and meaning. Friedman (1993) thus questioned the importance of corporate social responsibility in several ways:

- A company as a legal entity is an artificially created economic unit and therefore only a real person can be held liable.
- Company management represents owners and its main responsibility is responsibility to them, not to wider stakeholder groups.
- Consideration or protection of reactionary stakeholders would be practically at the expense of shareholders, and thus the management would effectively tax them.
- The stockholders theory supports individual responsibility, which speaks in favor of this theory.
- The concept of corporate social responsibility essentially harms freedom, democracy and also reduces economic freedom by assuming obligations that distort a pluralistic conflict of interest.

One of the other current critics of the CSR concept is Robert B. Reich (2012). They argue that the concept of CSR is a dangerous dispersion of the free market that undermines democracy. He believes that business sector representatives should not be so involved in CSR. It distracts from the main, real and fundamental task of maximizing profits, and moreover, private businesses should not and cannot address or substitute social policy for the government and the state. On the contrary, the government must firmly establish conditions and rules that preserve the free market and satisfy the primary objective and purpose of doing business. Obviously at the expense of the public interest. Reich sees the concept of CSR as a public relations tool in the hands of managers and PR experts who use the “language” of CSR to manipulate stakeholders and the general public. Moreover, Reich's position is supported by the negative business phenomenon of *pinkwashing* or *greenwashing* – that is, creating the impression of a socially responsible company.

It must be said that the main arguments against the concept of CSR, respectively. The "weaknesses" that appear here may be: *CSR is a PR tool, not an effective concept for stakeholders, reducing profit maximization, higher initial costs, Lack of skills and expertise conceals responsibility, diluting the very purpose of business, lack of clarity, too much power in the hands of entrepreneurs, there is a risk of inexperienced management of the CSR concept*.

Bussard et al. (2005) lists the most common reasons for the low involvement of companies and entrepreneurs in the CSR concept: *concerns about increased costs, lack of time and human resources, lack of internal motivation, concerns about bureaucracy, not knowing how to participate in CSR, SMEs cannot experiment long-term*.

Further questions can be derived from the above approaches; Eg: *Should CSR activities be regulated or left to a voluntary approach? What does a corporation really mean? Is CSR just a necessary PR activity or can it be turned into a competitive advantage? Is CSR primarily for business or non-business entities (schools, public administration, etc.?)*. Other doubts about the societal and economic goals of companies are perceived as competing with each other buy consent to carry out their business model (*licence to operate*).

VI. Conclusion

Companies in various markets, such as health care, financial services, software, consumer goods, etc., spend a significant amount of money on CSR activities. The literature states that consumers are taking into account the company's CSR activities when making purchasing decisions, either to increase their purchasing intent or to force them to pay higher prices for their products and services (Bhardwaj, Chatterjee, Demir, Turut, 2018).

The Czech Initiative Donors Forum (2014) presents the results of a CSR survey among employees. The most important results include:

- for **20 %** of employees, a socially responsible company is a more attractive employer.
- **65 %** of customers would prefer to buy a good-quality product or service,
- **24 %** although this product was more expensive,
- **35 %** of customers would perceive advertising in which the company would draw attention to a public benefit project,
- **25 %** of customers admit that they would be affected by this ad when they buy.

Hartl & Jeřábková (2003) have previously reported results on consumer attitudes in the Czech Republic: *“I would like to pay ten percent more for an environmentally friendly product”*:

- I definitely agree **23 %**
- rather agree **51 %**
- I rather disagree with **20 %**
- I certainly disagree **6 %**.

When businesses seek to be socially responsible beyond what is required by law, this effort is often described as strategic - focusing primarily on the benefit of shareholders or managers. This belief is confirmed by a great deal of literature. However, CSR incentives could be based on an altruistic tendency supported by the social capital of the region in which the company is based. We examine whether there is a link between the social capital in the region and the CSR of the company. It was found that a company in the area of high social capital shows higher CSR. This result suggests that shareholders 'or managers' own interests do not explain all CSR firms, but altruistic tendencies in the region may also play a role. This is also evident from the selected survey results:

- 75 % of European Executive Directors are convinced that CSR is able to increase the profitability and competitiveness of their businesses.
- 70 % of consumers choose goods according to their reputation,
- 44 % of customers are more willing to pay more for an environmentally friendly product,
- 83 % of G20 employees agree that CSR increases their motivation and loyalty.

Social responsibility is becoming a matter of political decisions. The interest of the public/voters in sustainable development has gradually made this topic a part of the political agenda at global (UN, OECD, WCSD), regional (ECR Europe, EC) and local level (BLF, CCSB, Business for Society.). At the same time, social responsibility reporting / reporting has begun to develop and has also been introduced in some countries. The aim is to support desirable corporate governance, in particular how companies are to report on: business results, company plans and objectives, ownership relationships and voting rights, including publishing a list of board members and executives and their financial evaluation, predictable risk factors, employee relationship issues and others stakeholders, including the supply chain.

As part of our next research, we want to check why companies and organizations implement the concept of corporate social responsibility and sustainability and whether they are sensitive to specific policy instruments. We also want to find information about company membership in selected CSR associations.

We also want to use data from selected databases (*Bloomberg, World Bank, Frazer Institute of Economic Freedom, Heritage Foundation, European Values Study*). Particular attention will be paid to the impact of different policy instruments on corporate social responsibility activities. Follow Steurer et al. (2012) and manually collect information on legal, economic, information and partner public policy tools in countries where we will have most of the business data.

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