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Content:

1. Corporate social responsibility (CSR) and its impact on stakeholders and corporate financial performance- Katarzyna Gierusz
Article discusses the growth of corporate social responsibility in a broad philosophical and historical context, highlighting the potentially strong impact of CSR on a wide range of stakeholders and corporate financial results.



Corporate social responsibility (CSR) and its impact on stakeholders and corporate financial performance

The World Business Council for Sustainable Development defines corporate social responsibility (CSR) as *'the continuing commitment by business to behave ethically and 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'*. This altruist approach is closely related to stakeholder theory; however, in contrast to this theoretical framework is not a product of our times. It is believed that CSR's roots go back till the ancient times. This means that the idea of corporate social responsibility has been developed, improved and put into effect for centuries. However, for all these years the power of organizations and impact on society has also grown in strength. Is CSR able to mitigate all harms caused by this influence?

The etymology of the term 'company' seems to be crucial to understand the idea of CSR. It means 'braking bread together', which suggests the communal and social connotation. Therefore, *'CSR involves a business identifying its stakeholder groups and incorporating their needs and values within the strategic and day-to-day decision making process'*. This means

that *'the real importance of CSR is in the 'shared value' that businesses have with society'* (both from J. J. Asongu, 2007). The idea of CSR is as old as history of business and trade itself (however it has not been defined till 1950s (J. Solomon, 2007)). For example in around 1700 BC the Hammurabi code provided the death penalty for those builders and farmers (the then business owners) whose negligence caused deaths of others local citizens.

Industrialization began a new chapter in CSR history. The writers were the first who noticed the negative impact of industrialization. The poverty, suffering of the working class and inhuman living and working conditions, which violate human dignity became the main subject of their novels. This literature has drawn the society attention, including the companies' owner, on the problem of good relationships between employers, physical workers and local communities. In 19th century philosophical and religious movements such as Christian Socialist movement contributed to the establishment of CSR. They set the philanthropists and Christian principles against irresponsible industrial activities. Moreover, the religious group such as Quakers and Methodists invested their funds in



companies which for example, disapprove gambling, tobacco and alcohol (see C. A. Mallin, 2007).

There were also individuals who tried to decrease the importance of CSR. Milton Friedman was the one who saw the relevance of this framework, but thought it is not a good idea for business. According to him, a company has a responsibility only to shareholders. This point of view is supported by those who do not treat companies as moral entity. However, the views such as those did not harm CSR.

There is no doubt whatsoever that society (stakeholders) benefited from the growth of corporate social responsibility. Their social awareness was increased. They learned that corporate behaviour has strong impact not only on them but also on animals and future generations. That is why companies can not be careless in polluting air and water. Moreover, stakeholders noticed that companies create their way of life, family structure and local environment, decide how to act, what to eat and think, which is especially dangerous for children. Society realised that *'the larger that companies have become, the greater their potential impact (good or bad) on society and, therefore, the greater the need for them to act in a socially responsible way'* (J. Solomon, 2007).

The idea of corporate social responsibility is not new. Each age adjusted it for their need. In ancient times it was mandatory, while now is voluntary. Moreover, the present form of this framework accepts human rights, protects environment, respects customers needs, reckons with stakeholders interests. However, the harm which had been caused by the irresponsible actions will never be redressed. The growth of CSR has changed the stakeholders' way of thinking. They can accept the firms' power over them as long as the impact of corporate behaviour is positive.

To discuss the impact of corporate social responsibility on corporate financial results, one question must be answer: what was first: an egg or a hen? Does CSR improve the corporate financial performance or may be good economic results enable companies to behave in a social responsible way? The surveys do not confirm any of these statements definitively. This may be because the nature of the link between CRS and financial performance, positive or negative, depends on the company.

The view that CSR has a positive influence on corporate financial performance is quite popular among corporate and stakeholder communities. It is believed that those managers who act in a social responsible manner have probably other



useful skills which help to run business well. In other words, *'the social and environmental management can be an important indicator of management quality'* (J. Solomon, 2007). The Enron's case supports this view. The Enron's lack of CSR was a sign of management problems, which eventually caused the company failure. Moreover, in the long-term it is cheaper to behave in social responsible way than pay penalties established by government and European Union (unfortunately, in Poland some companies have still a different point of view). Such cost reduction has a positive influence on the corporate economic results. However, from this perspective it is really hard to talk about pure ethical reasons of socially responsible behaviour.

The opponents of the above approach claim that companies can act in an environmentally and socially responsible way only when their financial performance is satisfactory. Otherwise, it is hard to take stakeholders interests into consideration. Moreover, according to Alexander and Buchholz (*'Corporate social responsibility and stock market performance'*,

1978) there is no significant link between CSR and stock market performance. But on the other hand, Moskowitz (*'Choosing socially responsible stock'*, 1972) has found some evidence that share return of companies acting in socially responsible way is higher. There is also a view that *'socially responsible companies may be at a competitive disadvantage due to the added expense incurred by socially responsible behaviour'* (J. Solomon, 2007). The social and environmental expenditures force companies to resign from some investments. However, this kind of expenses encourages institutional investors to buy shares. So in this field social responsible companies have an advantage.

The economists are not unanimous whether there is a positive relation between corporate social responsibility and corporate financial performance. However, each company can establish such a positive link, which is important for company's futures. In most cases, in long-term CSR is costless, improves some market indicators, encourages potential shareholders to invest and improves public relations as a sign of good quality management.



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