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Effect of Dimensions of Corporate Social Responsibility on Organization Performance

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Abstract- Most of organizations including business enterprise or non-commercial (public-sector or private-sector) in competitive environment trend to take place the corporate social responsibility as a strategy for achieving their goals. But there are several definitions of CSR (Dahlsrud, 2006) that every definition cover some dimensions of corporate social responsibility. Thus, organizations should determine their purpose and dimensions of CSR that effect on performance of organization.

Keywords: corporate social responsibility, future generations as stakeholders, sustainable development

1. INTRODUCTION

According the definition of corporate social responsibility that firms choose, they should respond to questions such as:

a. Who are the legitimate stakeholders of an enterprise, and what can they reasonably expect?

b. Who speaks for the environment and future generations as stakeholders?

c. What is the role of business in sustainable development?

In this paper is tried to evaluate the effect of dimensions of corporate social responsibility on performance of enterprise by reviewing the literature. Thus, at first is discussed the dimensions of CSR and definitions and then influence of them on organization performance.

Dahlsrud (2006) identified five dimensions for corporate social responsibility that they are shown with related issues in following table.

Table1. Dimensions of CSR and related issues (Dahlsrud, 2006)

Dimension	Related issue
The environmental dimension	The natural environment
The social dimension	The relationship between business and society
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation
The stakeholder dimension	Stakeholders or stakeholder groups
The voluntariness dimension	Actions not prescribed by law

Here, is cited some definitions from different texts that every one mentions to some dimensions.Corporate social responsibility is the overall relationship of the organization with all of its stakeholders that include customers, employees, communities, owners/investors, government, suppliers and competitors. (Khoury, Rostami, Turnbull, 1999) This definition covers stakeholder, social, environment, and economic.

Corporate social responsibility is concerned about dealing with the stakeholders of the firm ethically or in a socially responsible way. Stakeholders exist in a firm and outside of it. (Hopkins, 1998) This definition covers the voluntariness, stakeholder, and social.

CSR is about how companies manage the business processes to produce an overall positive impact on society.

(Baker, 2010) This definition covers stakeholder, social, environment, and economic.

Illustration1. Relationship between company and society (Baker, 2010)

Corporate social responsibility is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms. Consequently, business would embrace responsibility for the impact of its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.(Wikipedia, 2010) This definition covers Stakeholder, Social, Environmental, and Economic.

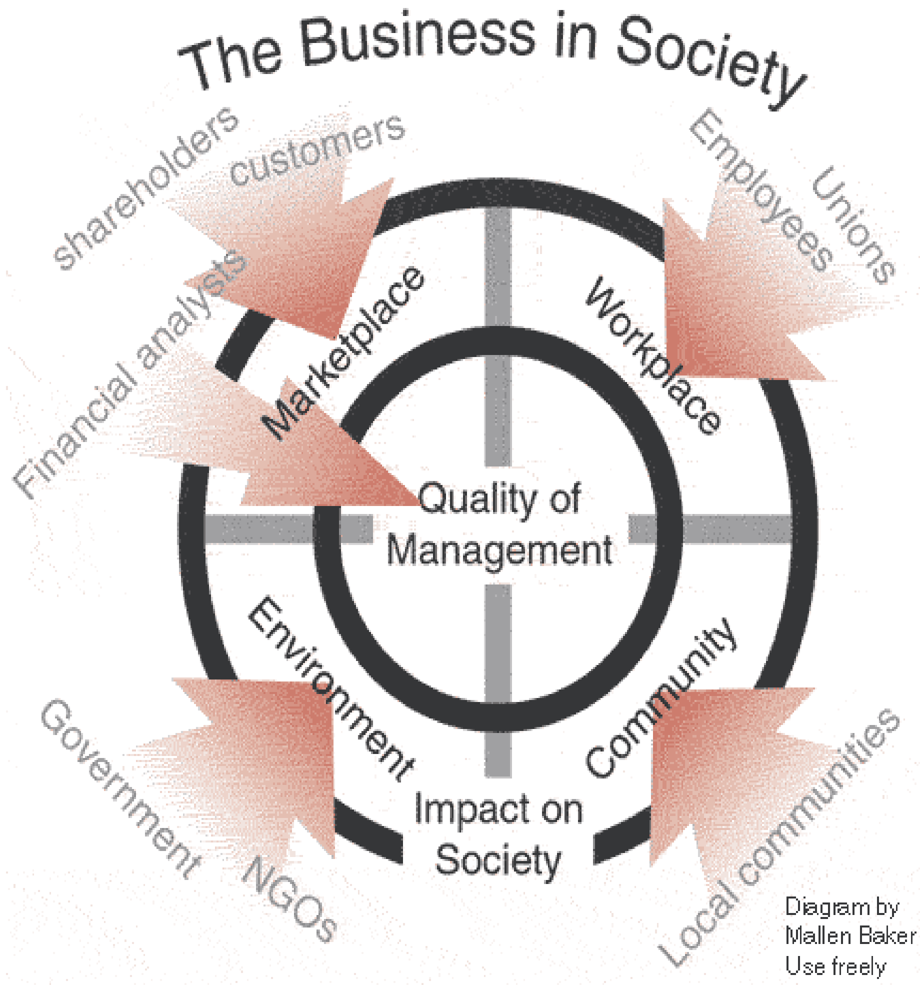

Fig. 1. The business in society

Castka et al. (2004) have designed a useful framework as a process-based management system. Processes needed for the CSR management system include processes for management and board responsibilities, identification of stakeholders' expectations, strategic planning, managing resources, processes and systems, measurement and analysis, managing change and continual improvement. This framework's key is the transformation of stakeholders' expectations into the operations of the organisations with continual monitoring of the impact. Thus, assessment will determine whether the organisation has satisfied its stakeholders or not. The only way to successfully address the complete spectrum of the CSR requirements is to look at the whole organisation and the way it carries out its activities.

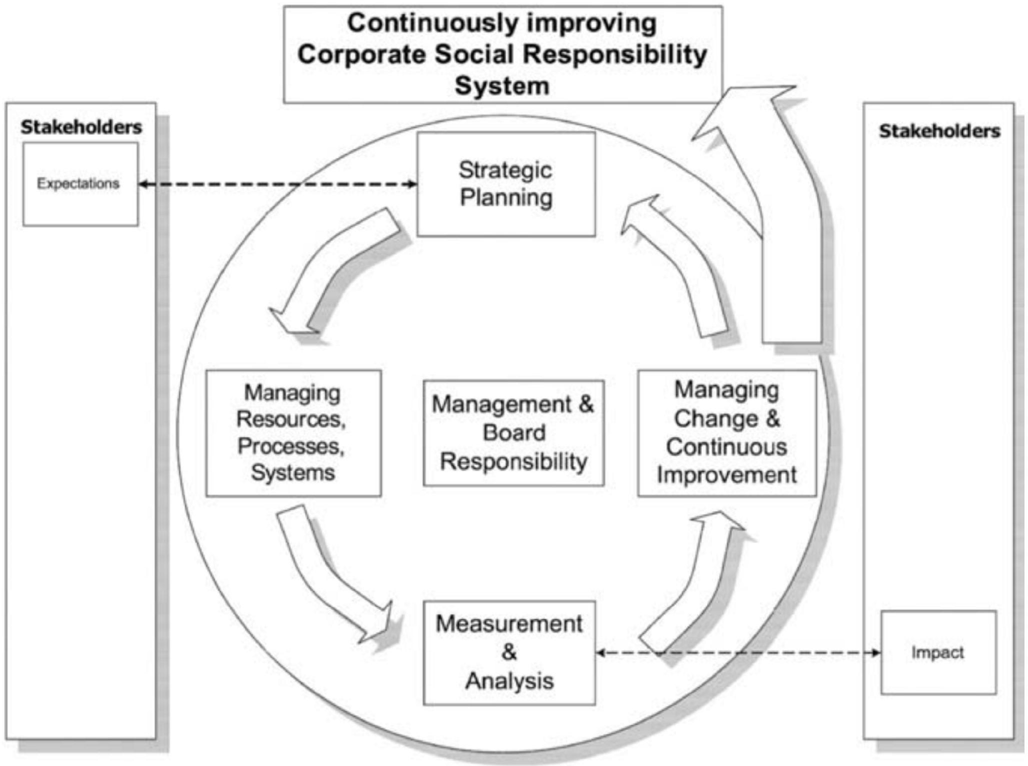

Fig. 2. The CSR framework (Castka et al., 2004)

Also firms should define the organizational performance. In general, organizational performance is defined as the external measures of ultimate performance including three specific areas: (Devinney et al, 2005)

(1) Financial performance (profits, return on assets, return on investment, etc.);
(2) Market performance (sales, market share, etc.); and
(3) Shareholder return (total shareholder return, economic value added, etc.).about the same or similar problems to support your claims, i.e., introducing the PS. PS should then be further elaborated in the following section usually known as the Literature Review.

Related issues: in this paper, issues that are discussed include dimension of CSR, organization performance, and relationship between them.

2. LITERATURE REVIEW

While organizations' social awareness is becoming one of the most important business intangible assets in competitive environment, CSR is being considered a more essential factor for organizations' performance, maintenance and survival. Galbreath, (2009) said that companies can build CSR into strategy effectively and achieve their goals successfully. Following illustration shows how firms can build CSR into strategy and impact the performance of them. Illustration 3. CSR in the context of strategy Source: Galbreath (2009).

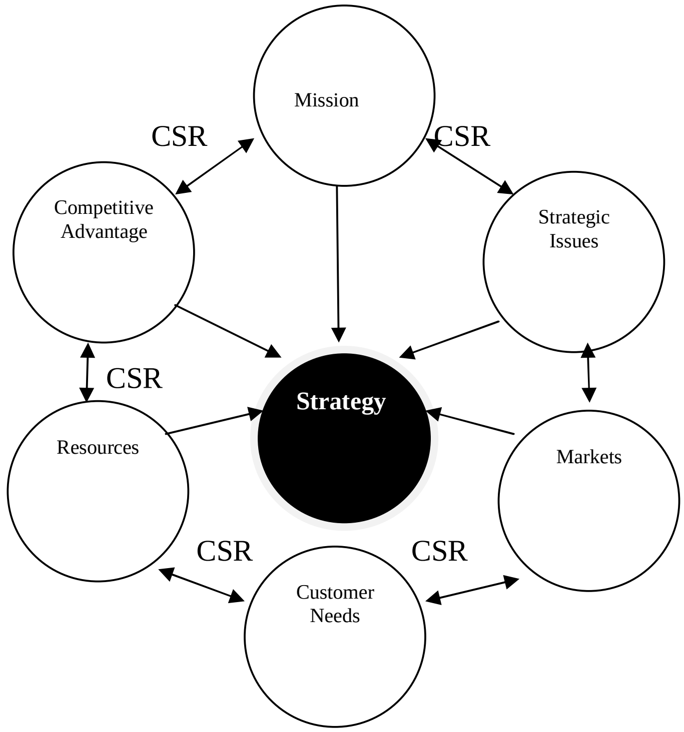

Fig. 3. Strategy

The organizations can achieve high success by improved profitability, employee morale, customer satisfaction, legal compliance and societal approval for its existence (Sharma et al, 2009) but doing these improvements depend on applying corporate social responsibility.

The roles of business in society are different and reasons for SCR are presented in following illustrations. Some firms think of CSR as a tool to improve the relationship with the stakeholders (customers, regulatory authorities, local communities, NGOs etc.), other companies think of CSR as a way to increase operational efficiency and reduce costs, and still others are motivated by the market potentials from having a reputation as a good corporate citizen. In addition, some organizations may simply believe that commitment to CSR is morally right. (Pedersen, Neergaard, 2009).

More than three decades, the pressure on firms to apply CSR has increased. Many managers have responded to these pressures, but many have resisted. The managers that resist typically have concerned about relationship between socially responsible behaviour and profitability. Management researchers have responded to this by attempting to demonstrate the effect of CSR on profitability. The results of empirical studies of the relationship between CSR and profitability have been indecisive, reporting positive, negative, and neutral results (McWilliams and Siegel, 2000).

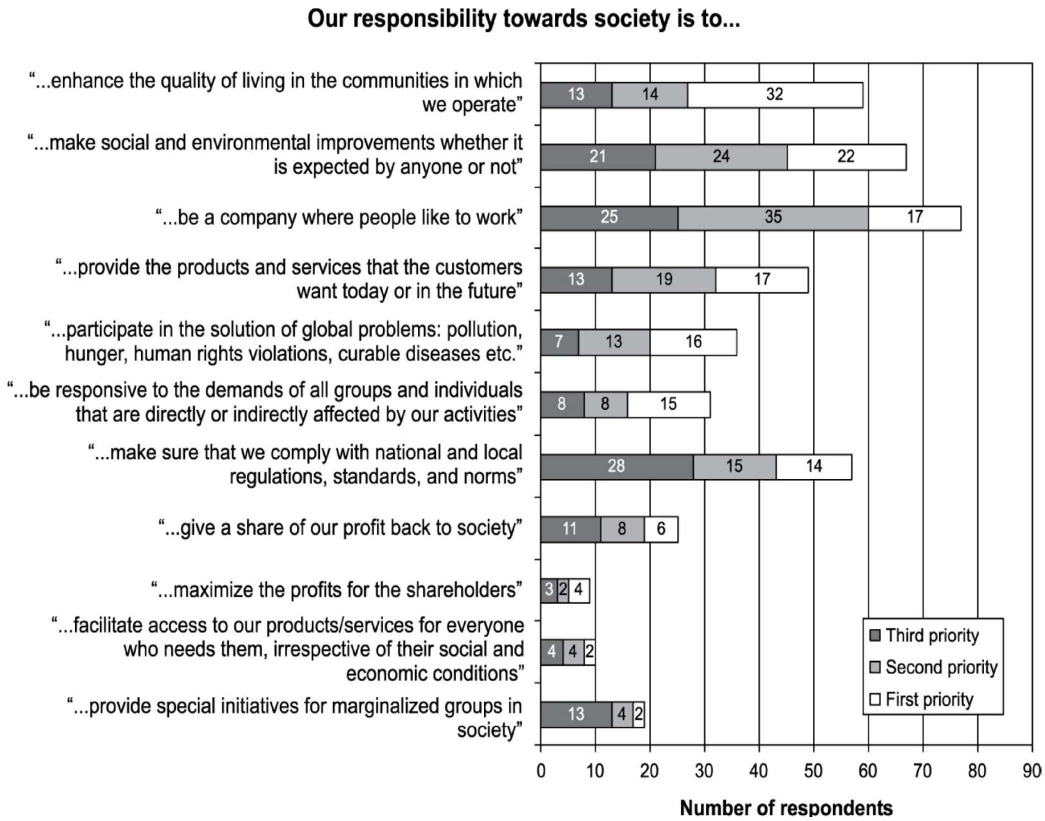

Fig. 4. The role of business in society (Pedersen, Neergaard, 2009)

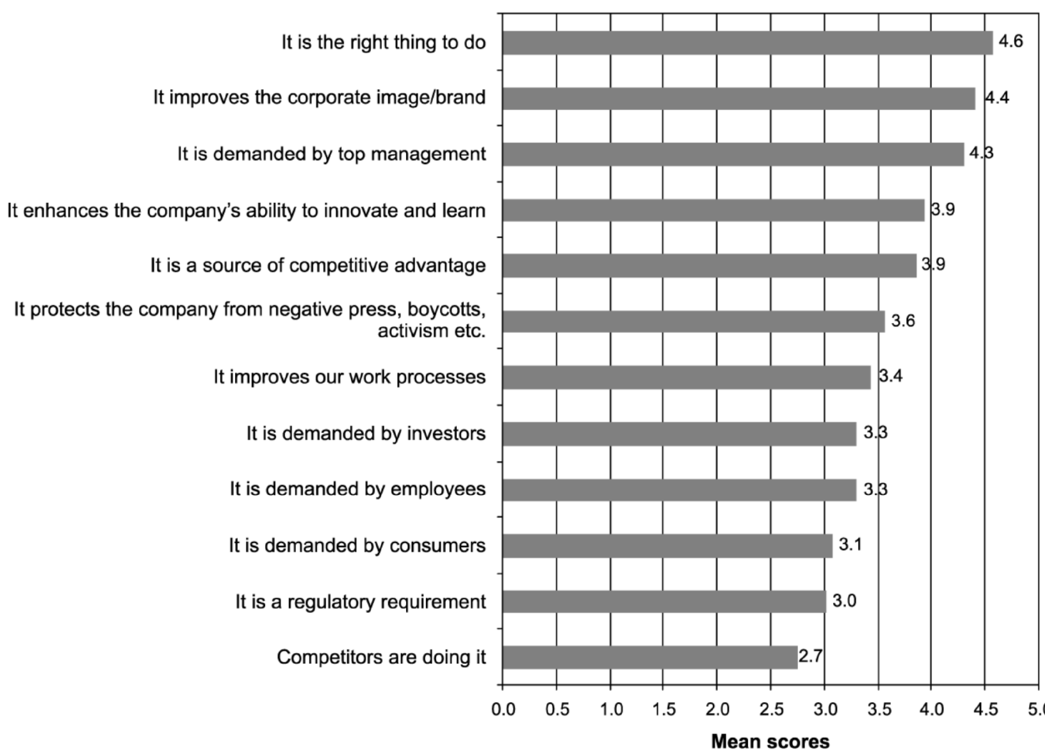

Fig. 5. The reasons for CSR (Pedersen, Neergaard, 2009)

Russo and Fouts (1997) in their empirical research have indicated that there is a positive relation between environmental performance and financial performance.

Gyves, O'Higgins, (2008) have said that the relationship between CSR and financial performance really depends on how CSR is managed. According to the results of their paper, internally initiated CSR by the firm can simultaneously provide the most sustainable benefits for the firm itself, its particular stakeholders and society at large, to increase the chances of creating a win-win situation.

Doran (1994) in his study has found several important conclusions for managers trying to balance the conflicting demands of stakeholder groups. First, there appear to be multiple dimensions to corporate social responsibility, further beating out the conclusion that multiple stakeholder groups do exist and must be managed effectively for the well-being of the firm. The assessment of the social performance of a firm is likely to vary depending on the party assessing the performance. Given the multidimensionality of social performance, it may be impossible to adequately address the interests of all relevant stakeholders groups. Ultimately, management may be required to weigh the interests of the stakeholder groups against each other and against the economic welfare of the firm.

Second, performance relative to the dimensions of social performance implies different outcomes for economic performance. While social performance does not appear to positively affect the market's anticipation of future performance, it does appear to tangibly affect economic performance. This is a very important finding and points to a misconception the market may have regarding the benefits of social responsible behaviour.

Bhattacharyya et al (2008) have indicated if firms design strategic CSR, corporate social responsibility effects on performance of companies. Illustration 6 shows the benefits of strategic CSR. For instance strategic CSR activities impact on new market opportunities that are related with firm's performance. Also these activities effect on reputation of organization and enhanced reputation is related with financial performance and etc.

The general notion among many businesses is that social responsibility may be detrimental to company goals and performance. Gabriel et al (2009) in their study contradict this. They have shown that CSR companies are better performing in 'QPS (Quality of products and services), BG (Effectiveness in doing business globally), IN (Innovativeness), CC (Corporate culture) and EO (Ethical obligations)' than the non-CSR companies. Findings indicate that firms allow the professionals to focus on QPS, BG, IN, CC and EO rather than just to think about FS (Financial soundness). In terms of FS, it must be noted that the implementation of CSR efforts strongly depends on short-term investments.

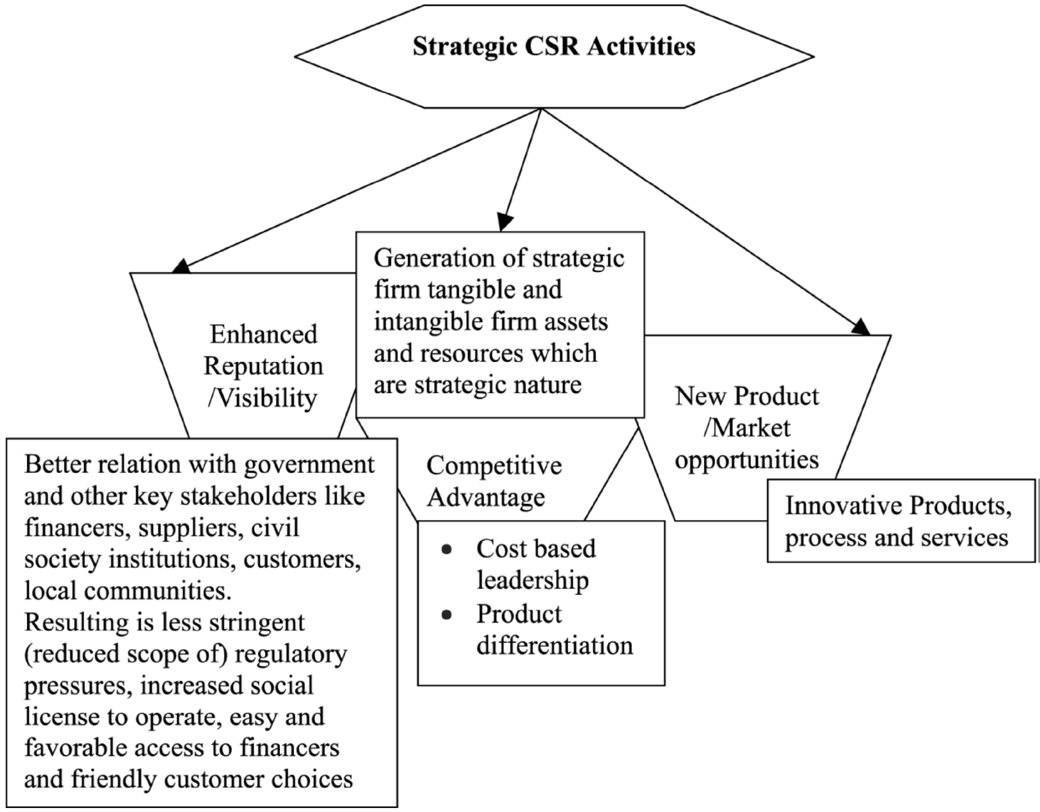

Fig. 6. Benefits of strategic CSR (Bhattacharyya et al, 2008)

Mattila (2009) says that corporations are investing more and more too different CSR actions. Shareholders and investors are nowadays increasingly considering the social and environmental performance of companies alongside financial returns. Good ‘‘corporation citizenship’’ makes image better, and good image makes better profit. The socially responsible corporation is the good corporation: and the good corporation keeps its personnel updated about important things. CSR goes beyond philanthropy and charity. It is about ethics, religion moral, caring, culture, philosophy and values which will ultimately translate into good business sense, good practice, good governance, transparency and better profit.

As long as it is aimed at both inside and outside the corporation, the common goods will continue growing in socially responsible business. In short, CSR should be aimed at both the insiders and the outsiders. Everybody needs it, and every organization has to be aware of it. CSR is about making profit, but by good, responsible ways. This way CSR will conclude with good results, both in the eyes of the outsiders and the insiders, in all four ethical levels.

Finally there is now a consensus, based on both practical experience and formal studies, that developing an effective CSR policy can deliver significant benefits which include:

- Improve financial performance
- Reduce exposure to non-financial risk

- Help in identifying new products and new markets
- Enhance brand image and reputation
- Increase sales and customer loyalty
- Improve recruitment and retention performance
- Create of new business networks
- Increase staff motivation, contribution and skills
- Improve trust in the company and its managers
- Improve government relations
- Reduce regulatory intervention
- Reduce costs through lower staff turnover
- Reduce costs through environmental best practice (OWW Consulting , 2010)

3. GAP IN LITERATURE

The gaps identified in the literature include:

1. Positioning in the external environment: The literature suggests that a procedural context for managing the social environment has been largely ignored. (Murray, Vogel, 1997)
2. CSR practices: The literature shows that while there is much talk of what companies should do, information on, and analysis of what companies are actually doing in practice (and process) is lacking. (Blum-Kusterer, Hussain 2001)
3. Communication methods in stakeholder relationship: The literature (Clark, 2000) shows that effective communication methods are predominant but largely absent from social responsibility literature.

4. NEW MODEL

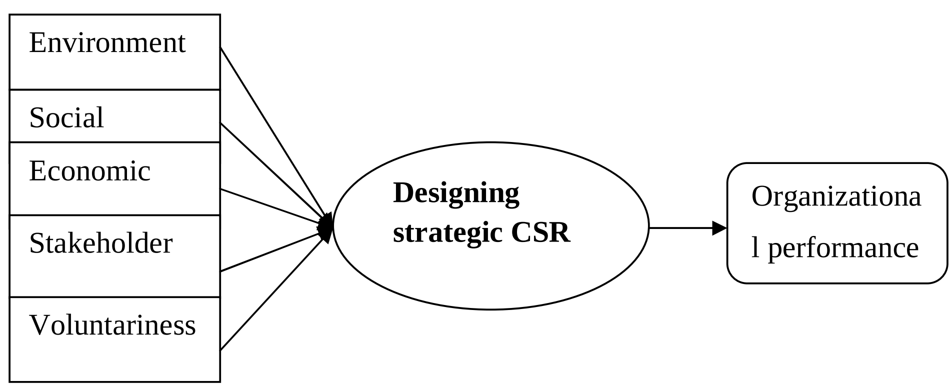

Fig. 7. Relationship between dimensions of CSR and organizational performance

5. CONCLUSION

Corporate social responsibility is a form of corporate self-regulation integrated into a business model. Dimensions of corporate social responsibility (environment, social, economic, stakeholder, and voluntariness) impact on designing strategic CSR for achieving goals. Thus, strategic CSR effects on organizational performance (financial of firm, market, and shareholder's return).

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