
18th edition of the Conference "Risk in Contemporary Economy",
RCE2017, June 9-10, 2017, Galati, Romania

Risk in Contemporary Economy

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<https://doi.org/10.18662/lumproc.rce2017.1.7>

How to cite: Cristache, N., Susanu, I. O., Ghinea, A. C., Stan, A. M., & Munteanu, M. G. (2017). The Impact of Corporate Social Responsibility on the Performance of Organizations. In S. Hugues, & N. Cristache (eds.), *Risk in Contemporary Economy* (pp. 83-94). Iasi, Romania: LUMEN Proceedings.
<https://doi.org/10.18662/lumproc.rce2017.1.7>

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Selection and peer-review under responsibility of the Organizing Committee of the conference



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The Impact of Corporate Social Responsibility on the Performance of Organizations

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Abstract

The present study addresses some relevant aspects concerning the impact of CSR upon the performance of organizations. The MCDA-C model was used due to its capacity to encapsulate the perceptions of the company's managers on the situation under scrutiny and also due to the possibility to provide conditions for assessing the specific elements of CSR management as well as suggestions for improving performance. Moreover, a set of performance indicators can be identified thanks to this model, which characterize the company's sustainability and assess its commitment both at the individual and global level. The model also enables establishing the company's strategy that should take into account the economic, social and environmental criteria, showing that stakeholders will advocate the company's CSR profile under to circumstances of optimum communication.

Keywords: *Corporate Social Responsibility (CSR), MCDA-C model, performance of organization.*

1. Introduction

The meaning of the terms *corporate sustainability* and CSR of organizations overlapped over time. According to Votaw Sethi (1973) and Goebbels and Jan (2003), *social responsibility* was a special term, but it did not

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convey the same meaning to everyone. A number of various approaches, combined with different contexts where companies carry out their activities, can be the alternative to a more comprehensive definition [1]. According to Caroll [2], social responsibility of organizations is performed with the purpose of improving an important aspect of the society or the relations with communities and NGOs. Thus corporate social responsibility activities can result in creating a new, parallel organization within the company to cope with certain non-economic issues and to assess the performance of non-economic aspects [2].

Schaltegger and Wagner (2006) identified two problems with such approach. First of all they mentioned that the development is in contrast with the vision of sustainability for integrating social, environmental and economic aspects. Secondly, sustainable development and corporate sustainability require the involvement and commitment of stakeholders, besides the community and company's managers. Business strategy, sustainability communication and reporting should be closely connected with sustainable performance management. In order to establish this connection, there should be an interaction sustained by certain parallel organizational structures, which constantly face the risk of going under during hard times of economic decline [3].

Company's social responsibility communication and reporting should be addressed as a distinctive process for each department, such as strategic planning, accounting and public relations. Linnanen and Panapanaan (2002), whose opinion is also shared by Wempe Kaptein (2002), believe that corporate sustainability is the ultimate goal whereas corporate social responsibility is an intermediate stage, where organizations try to balance their economic, social and environmental interests.

The broadest definition of corporate sustainability and corporate social responsibility includes all voluntary activities that prove the integration of social and environmental concerns in the company's objectives [5].

Corporate Social Responsibility (CSR) or Socially Responsible Businesses (SRB) is a business concept that has emerged as a reaction to the interest and expectations regarding the proper and active role that organizations should play in the society. The context that has influenced the evolution of this particular concept is provided by the visible and significant impact of the development of companies' activities, emphasizing certain aspects associated with the quality of life and the overall development of the society and by the constantly increasing public attention to the ethical issues. [2]

Keeble, Topiol and Berkely (2003), believe that these above-mentioned indicators should reflect the business reality, its values and

organizational culture. Moreover its development should not limit to prescriptive methodologies or standards. The link between research and MCDA-C. Moreover, all these data will enable stakeholders to predict the alternative consequences on the relevant aspects [7].

In this context, the mission of the socially-responsible organization is to take into account the consequences of the impact upon the community and the environment. This holistic approach of businesses is a necessity for each organization, which will become an equal partner in the community with certain rights and obligations.

2. Assessing the performance corporate social responsibility management - Multi-criteria Decision Aid – Constructivist - MCDA-C Methodology

Increasing the social pressure on companies generate in turn higher responsibility and transparency of activities. The stakeholders receive information beyond the financial performance of the company as a result of good corporate governance, source of raw materials, production and product life-cycle management. Business leaders fully acknowledged the importance of coping with such pressure, which determine company's activities to be in compliance with social responsibility policy [4].

The multi-criteria decision aid – constructivist tool, which is used to assess corporate sustainability and which is based on the value system, interests and preference of the decision-makers, enables the identification of a set of performance indicators that characterize corporate sustainability and assess its commitment both at individual and global level. Moreover, the model identifies the company strategy that should take into account economic, social and environmental criteria, showing that the differences between replacement rates are small and that stakeholders will support the company's socially-responsible profile through optimum communication.

Within this context, the present study addresses the following aspect: the way in which a set of performance indicators to assess corporate sustainability can be identified. Starting from this premise, we aimed at designing a model of assessing corporate sustainability, built on value system, interests and preference of the decision-makers. The novelty of model is that it provides the ability to address certain aspects that have been neglected by traditional methods of performance assessment. Thus the practical relevance is given by the suggested methodology, which emphasizes the following aspects:

1. Selecting the decisions which are relevant in performance assessment, in the internal context of an organisational system;
2. Evaluating the integration criteria on a scale;
3. Integrating the above-mentioned aspects to enable a comparative analysis and an overall presentation of the assessment system.

The major driving force behind the interests of corporate sustainability is the legislation in some countries. In the European Union, the European Commission is actively involved in developing policies that promote corporate social responsibility. Moreover, there is also a second reason, i.e. the integration of corporate social responsibility into business practice. Among the business benefits of promoting CSR and company sustainability, we can mention the following:

- low costs due to cleaner and more innovative production methods, since innovation and new technologies can increase the efficiency of materials and process;
- diminishing health and safety costs – a safe and healthy environment for the employees and for the community generates wellbeing, which leads to increased productivity, reduced compensation, reduced social and medical services;
- reduced costs for manufacturing and innovative solutions – by ensuring optimum workplace conditions leads to motivation and productivity increase, low absenteeism and reduced turnover;
- easy access to credit and insurance – low risk achieved by implementing a sustainable development strategy that can lead to lower payment rates and insurance costs;
- best practices have a better regulatory impact - companies that implement the best practices occupy better positions compared with their competitors and influence the way in which their standards are defined as well as the direction of regulatory changes;
- a better reputation of the company – the commitment to sustainable development can improve reputation and ensure social license which would attract better-trained employees;
- competitive advantage on the market – promoting the integrated supply chain management would enable the development of solid relationships with clients and would gain more value by providing services;
- investments – the rapid expansion of socially and ethically responsible investments is a new challenge for companies that are looking for investors, especially for those with good social and environmental performance.

In spite of the above-mentioned benefits, Hahn and Scheermesser believe that the “*methodologically correlation studies bear no evidence on the causality of*

how economic performance can be improved by good environmental and social performance' [6].

In CSR management, decision-making should consider the following:

- social and environmental aspects taken into account by the decision-makers of the organizations;
- how these aspects are understood and interpreted.

Consequently the perception and behaviour of the organization's management concerning the environment both at the individual and the team level can be regarded as important predictors at the management level of socially responsible companies [13].

The model makes use of a tree-shaped typology of criteria based on a cognitive map. Thus the model based on a multi-criteria system enables the identification of the relevant aspects needed for problem-solving by the decision-maker who considers both the requirements and the resources. The tree-shaped structure allows logical decomposition of more complex criteria that can be broken down into sub-criteria that can be assessed more easily. A series of descriptors can be thus obtained as a result of logical decomposition. These descriptors are defined according to two levels of reference impact, which are relevant in assessing independence and references [7].

In order to convert the descriptors into a parameter for assessment (interval scale), the performance level of each action must be defined according to the value system of the decision-maker. A value function is a tool widely accepted by the decision-makers to support the preference flexibility and is used to divide intensity of preference among the impact levels. These functions have been designed taking into account the decision-maker factor, aiming at assessing actions [8].

The implementation of MCDA-C criteria requires understanding of the following aspects:

- the issue that must be analysed is configured as presented in the manager's exposure;
- all aspects leading to understanding the issue are generated by the way the subject assesses the context. Therefore, the value system of the company, objectives, decision-makers' level of understanding of the entire context must be thus considered;
- accepting the fact that there is only one set of proper tools to clarify a decision and there are multiple ways to use it.

Implementing the MCDA-C methodology can be achieved by covering three basic, different but correlated stages:

- structuring the decision-making context;
- elaborating an assessment model for alternative actions;
- formulating recommendations for the actions to be carried out.

The next figure shows the outcome of implementing MCDA-C methodology in each of the three stages:

- in the structuring stage, the outcome is a model, which represents the main elements of CSR capital structured on its two dimensions, i.e. the internal dimension and the external dimension, the interaction between these elements and the interventionist practices that allowed their emergence;
- during the indicators assessment stage, the meaning of the data is converted into numeric data so that the elements of CSR capital can be assessed (locally – in descriptors) or globally for each branch or industry (globally – local aggregate assessments);
- in the recommendation stage, the outcome is an intervention procedure used to boost CSR management at the organizational level. Thus, the analysis of the company’s CSR profile will result in identifying those elements that can ensure a level of performance above the current one.

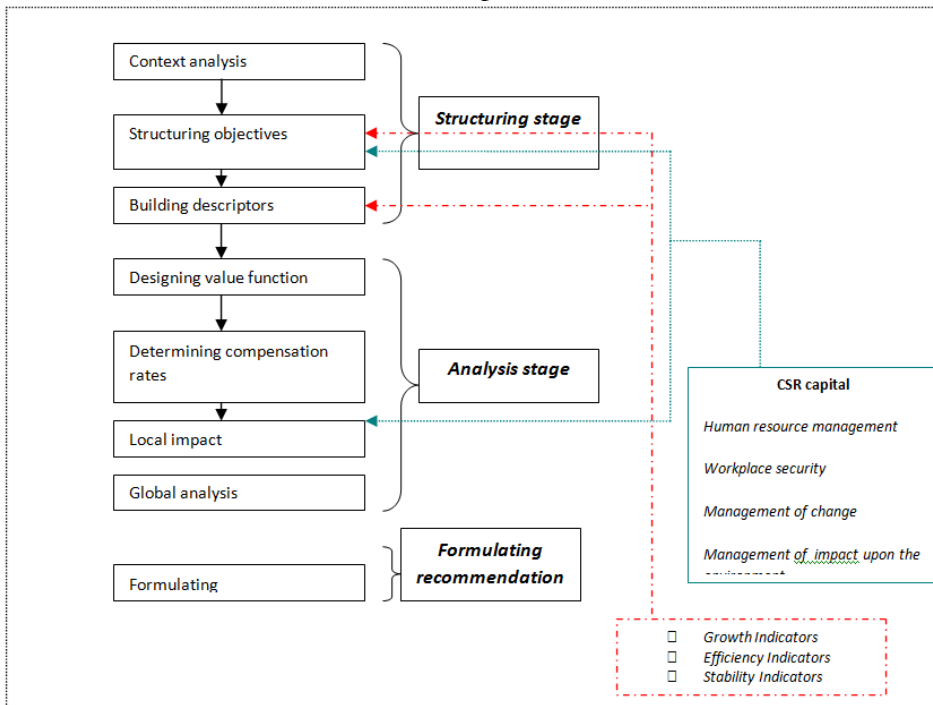


Figure no. 2 – MCDA Methodology
Source –adapted by the author

The above tree-shaped structure shows elements that can be included in the two dimensions of CSR: internal dimension – HR Management, Workplace Security, Management of Change, Management of Impact upon the Environment, which in turn can be explained by sub-elements: life-long learning, personal life–professional life balance, the company’s communication policy, reward system, real world training evaluation, equal employment and promotion opportunity policy, workplace security standards and guidelines, product certification, implementation of modernization programs, engagement in local-development projects, alternative procedures and strategies to restructuring, employee protection, integrated policies for company’s products, environmental management and audit.

As far as the external dimension is concerned, i.e. local community, business partners, clients, global environmental objectives, its elements can also be explained by sub-elements: recruitment policy of the local workforce, protecting the environment of the local community, recruitment of vulnerable people, local sponsorships, supporting cultural events, charity, integrating subsidiaries in local markets, reducing regional disparities through investments, outsourcing services to partners, initiating start-up programs, supporting financing programs, abiding ethical principles, understanding clients’ needs, providing higher quality products, positive dynamics of competitiveness, implementing environmental protection standards, alignment to European/international norms, etc.

This division can continue up to the smallest details required to build a descriptor, which can be associated with an interval scale, identifying a set of levels of impact specific to each element that will further enable the assessment and measurement of CSR *performance* at the organizational level.

For each descriptor, the reference areas, also called the anchor areas, are defined as follows: the area of maximum interest is regarded as the *reference point*, i.e. the level of sought excellency (level whose score ranges between 30 and 50 points, area of indifference or the neutral area (whose score ranges between -10 and +10 points) and low interest area, which received negative scores.

For the first case study, we can observe that the way in which the change process is managed within the company is assessed negatively and the impact upon the environment is neutral. This framework influences the performance indicator for the internal dimension and also the global one implicitly. ICRS is the synergetic result of all interconnected elements based on the interdependence between the following elements: HR Management, Workplace Security, Management of Change, Management of Impact upon the Environment.

Due to the interventionist practices developed by the company, the degree of attractiveness between the levels of descriptors can be further determined, by creating a value function, namely the cardinal scales for each of them.

The method used for building the value function is the method of qualitative judgement, where the value function is obtained by qualitative pairwise comparison of actions.

In order to do so, the decision-making factor is taken into account expressed in qualitative judgements through a semantic scale whereas the measurement of attractiveness can be done by using the MACBETH software (http://www.m-macbeth.com/en/download_EN.aspx#software).

In order to determine the overall performance of each action, we need to identify the references at the level of decision-making factors and the performance loss of a potential action will be impaired at the level of a certain criterion in order to compensate a performance gain of some other criterion. During the next stage, the performance of projects in a certain field of activity will be assessed by using the HiView software, which can be used to analyse, assess and justify complex decisions and which can be used as decisional support.

Due to the context data imprecisions as well as to decision-maker uncertainties in building the multi-criteria model, the sensitivity analysis is needed in order to test the model's robustness on the parameters variations. As a result of the sensitivity analysis, variations can be determined, meaning that a change in references for compensating a certain criterion or performing an action that could have an impact upon assessing potential actions. The main challenge will be to increase the level for all the criteria. The improvement process will be constant and will maintain the balance between the economic, social and environmental areas. Thus, after analysing the results, the decision-maker understands that sustainability in a field implies work longevity to boost the level for all the criteria, to identify the necessity to develop a strategy which seeks to increase the performance level of corporate sustainability followed by the initiation of some common actions for various criteria built on the model.

The structuring stage aims at grasping the issue as well as the entire context. In order to do so, the decision-makers build a specific structure to represent the objectives in an organized manner and the way they will be achieved. In order to design such structure the following aspects are necessary: characterization of the context and the teamwork, i.e. all those involved, identification elements of primary assessment, establishing the areas of interest for company's actions, determining the way of action, drawing up a report on how to act, establishing the objective descriptors.

Characterization of the decision-making context involves the following aspects: establishing the performance level at the level of CSR capital elements where there is a certain difficulty in managing and emphasizing such indicator at the organization level; the aimed performance is the ability to have a systemic procedure that will support the CSR performance.

The *identification* of the decision-making factor is based on the manager of the organization, who assesses the effects on stakeholders: employees, shareholders, suppliers, partners, clients, community, etc.

The *assessment stage* aims at building a mathematic model in which are assessed the alternative actions of the decision-makers. In this case, there are four stages that should be considered:

- building value functions;
- identifying compensation rates, i.e. objective replacement;
- identifying performance profile;
- global assessment.

The *recommendation stage* aims at providing solutions to the decision-makers through tools that are capable of improving each decisional alternative and of contributing to global performance of organization.

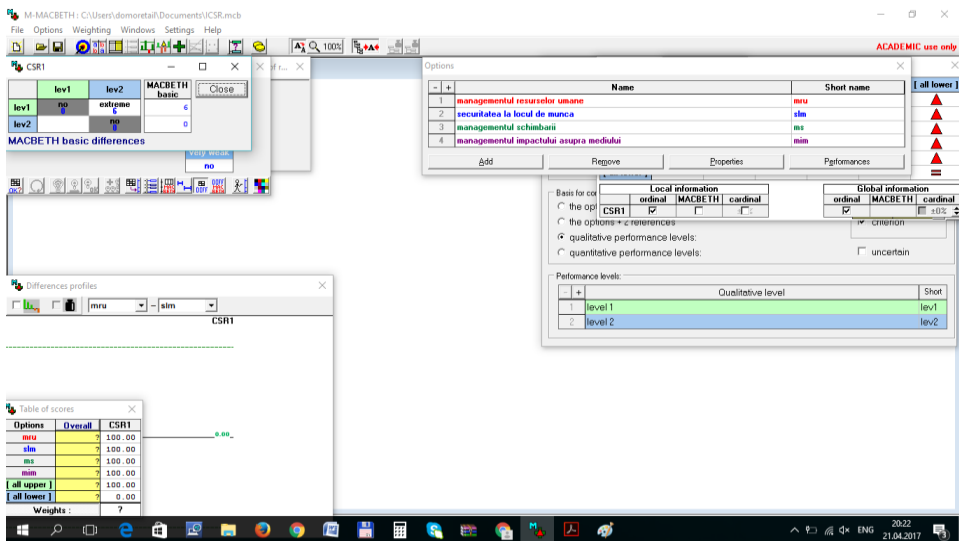


Figure no. 3 – Print screen from software
Source – adapted by the author

Macbeth Software can do so by using queries that require the decision-makers, i.e. the manager, to show through semantic data the loss of

attractiveness degree perceived by passing a descriptor from one level to another.

At this point, the local assessment can be made, i.e. assessing the performance of each element within CSR's internal dimension. If we analyse the profile of the organization, we can observe that performance for element 1, Human Resource Management has a great impact upon level 2 (number of hours allocated for lifelong learning, personal life-professional life balance, the company's communication policy, reward system, real world training evaluation) included in ICSR, with a score of 4.8. The value of this score shows that the performance of ICSR1 element has a positive impact upon the company's ICSR performance.

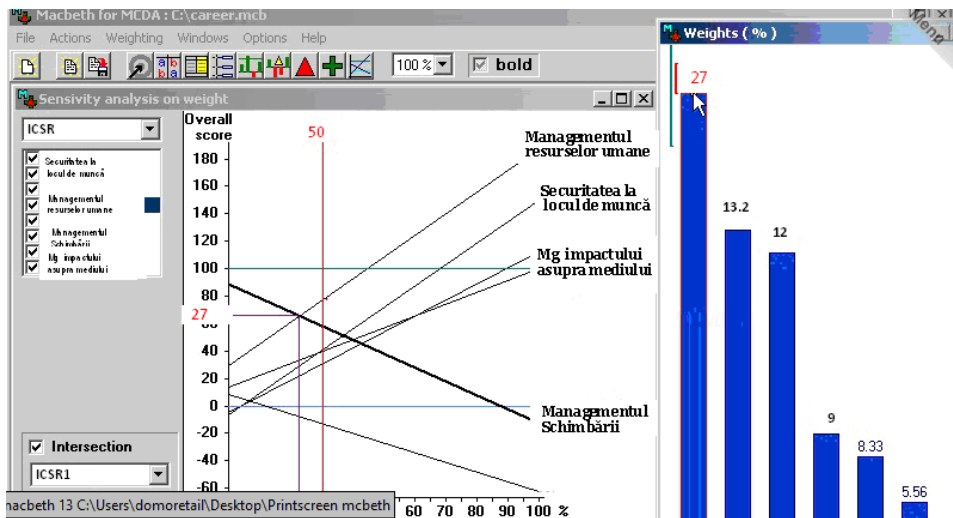


Figure no. 4 – Print screen from software
Source –adapted by the author

The global CSR assessment is calculated using a mathematical equation of the aggregation additive. The ICSR result reached a score of 27 on a scale from “-50“ to “50“, characterized as a competitive performance level. However, the simple identification of the performance score is not enough to support the process of improving these elements. In order to completely and accurately assess CSR performance at the organizational level, we need opportunities for improving each element and its descriptors in addition to the identification of the performance profile.

In this case, the recommendations operate at the level of the following elements: descriptors for the management of change, management of impact upon the environment, global environmental objectives. As a

result, we can identify those practices that can improve the performance of those descriptors, we can make a selection of those practices which contribute the most to the leverage effect of resources in terms cost-effectiveness. After implementing these practices over a given period of time, the company reassesses the performance of descriptors.

We can observe that MCDA-C methodology provides a systemic process for building the model. The model of CSR management includes identification, measurement, assessment and suggestions for improving the elements of CSR capital.

3. Conclusions

Like any other important concept, which at the beginning was regarded more as fashionable concept than as a result of understanding the needs, has been undergoing the pressure of a need of accelerated assimilation.

In this context, a rather immature and volatile economic framework, social responsibility has also been appreciated in Romania, much more for its commercial aspects than for the ethical ones. In an increasingly-competitive market, companies have rapidly discovered the potential of this dimension in the process of enhancing the company's image and building its reputation, as premises for short- and medium-term success.

The Romanian society needs business ethics, social commitment, quality services, increased concern for the environment and for the employees. Moreover, there should be a harmony between the social programmes and the attitude towards business, clients, partners and employees.

Generally speaking, there is not a clear-cut delimitation of the CSR's real dimension as a guaranty for business success but we must be aware that it is not just a tool for maximizing value by enhancing the image but also an essential element for long-term success, which is directly connected to social and environmental performance of the community.

The organic integration of the organization in the environment in which it operates and strengthening the connections with the target audience generate value, competitive power and most importantly, create elements that can differentiate a company from its competitors.

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