Chapter 1

Fundamental Concepts of Corporate Social Responsibility and Sustainability

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EXECUTIVE SUMMARY

Social value is created when resources, inputs, processes, or policies are combined to generate improvements in the lives of individuals or society as a whole. It is crucial for any organization to be able to demonstrate the value it creates by its very existence. Corporate social responsibility (CSR) has never been more important. Citizens nowadays demand a responsible business behavior from all kinds of organizations, corporations, and their leaders who have become aware of the crucial role of social responsibility in seeking performance excellence and sustainable growth. This chapter introduces the concept of CSR and explains its importance providing the historical background that made it synonymous to sustainability. The benefits resulting from CSR are briefly presented while the main recent developments in the area of CSR and sustainability are analyzed. Particularly, emphasis is given on the 2030 Agenda, the European Directive (2014/95/EU) on non-financial reporting, and the recent trends for socially responsible investments.

A CHANGING BUSINESS ENVIRONMENT

In today’s turbulent business conditions, organizations are striving to identify tools and techniques that will enable them not only to survive but to gain competitive advantage as well (Antonaras et al, 2009). Traditional thinking implies that organizations exist to create economic value by taking a resource or set of inputs, providing additional inputs or processes that increase the value of those inputs, and thereby generate a product or service that has a greater market value at the next level of the value chain. On the other hand, social value is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole. It is crucial for any organization to be able to demonstrate the value it creates by its very existence. Shareholders demand it from for-profit
organizations, while in the case of not-for-profit organizations, citizens and donors want to see the impact of their funding and donations (Antonaras et al, 2011).

Corporate social responsibility (CSR) has never been more important. In recent years, the impact of corporations upon our world has become undeniable (Chaffee, 2017). Citizens nowadays demand a responsible business behavior from all kinds of organizations (for-profit and not-for-profit), corporations and their leaders who have become aware of the crucial role of social responsibility in seeking performance excellence and sustainable growth (Antonaras et al, 2011).

The last decades witnessed a vigorous debate over the role of corporations in society (Basu and Palazzo, 2008). Interest in CSR became intense as shareholders, consumers, activists, governments, and society in general called for higher standards of business.

SHIFTING TOWARDS CORPORATE SOCIAL RESPONSIBILITY

The shifting towards a more responsible way of doing business was thought to be a simple and very easy step. For many years, CSR strategies have been espoused by the international business community, in a great number of sectors of the economy, such as banks, retail organizations and public and private service providers. Progressively more and more businesses appreciate the role of CSR and wish to engage in positive social actions and communicate these to their stakeholders. (Antonaras et al, 2017)

Although many organizations have already tried to adopt this new approach, only few are those that have managed it successfully. This is mainly due to the fact that before applying CSR activities it is necessary for an organization to reform its corporate strategy, without eliminating its existing cultural elements. Crafting a CSR strategy is not a goal that can be accomplished from one day to another. It requires very precise planning, overall participation, well-managed operations and definitely continuous evaluation. Moving from the stage of simply doing profitable business to providing products or services in a responsibly profitable manner might be highly expecting.

Traditionally, organizations were interested in short-term profitability, operating for a general nonspecific purpose. In other words, their vision was based solely in quantitative perspectives like maximizing the shareholder wealth, without taking into consideration the other stakeholders of the organisation like employees, suppliers, and society at large. However, with the new thinking there is a need for achieving long-term profits while accomplishing specific, responsible strategic goals in a systematic way. Companies now face the challenge of providing products or services that are important and useful to their customers by fully utilizing their resources (including their employees) in a way that treats all stakeholders with dignity and respect. After all, CSR is about a company owning its impacts on individuals and communities.

The shift to Corporate Social Responsibility has to do with the passage from shareholder relationships to stakeholder management. The existed hierarchical and authoritarian leadership systems are being transformed to shared-powered and more democratic management systems. There is no longer competition in the way it has been known until today, but collaboration and participation through teamwork. Employees and employers establish better relationships based on mutual trust and responsibility and the overall enterprise is responsible even towards its competitors. As it is understood, the shifting towards CSR requires a multi-dimensional evolution and change in the internal and the external environment of the corporation.