Connections between the Concepts of Corporate Social Responsibility and Social Enterprise

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Abstract: Trends in international economics such as globalization and environment degradation put imprints upon economics both on theoretical and practical grounds. The article emphasizes two concepts that attract more and more the interest of economists and put in question the Economics as known until now. Corporate social responsibility and social enterprises are evolving very quickly and seem to get their legitimacy in practice. The author tries to connect the two concepts finding that their final goals seem alike, despite their different nature.

Key words: sustainable development, corporate social obligation, social capital, social networks

1. Introduction

In the past years, society proved a higher interest in pressing global problems such as climate change, poverty, human rights violations and health problems. Within this context, firms are increasingly called upon to play a positive role and contribute to a more sustainable development and, in the same time, civil society is dared to find new and more effective means to achieve their goals in terms of sustainable development.

Almost in the same time (the 90th), two concepts emerged from the generous sphere of sustainable development: social corporate responsibility and social enterprise. Without a well established connection between them, the two concepts are based on different tools and reside on different business philosophies. But the final result is similar: promoting social goals using economic instruments.

2. The CSR and the classic views upon a firm's mission

In market economies, the main purpose of a company is to maximize the shareholder value. In order to do that, companies pursue competitive strategies which rely upon and develop relationships between the corporation and its stakeholders (investors, customers, employees, business partners, local communities, the environment and society). Traditionally, economic and social objectives were perceived to conflict with each other (Friedman, 1970). According to this point of view, firms already advance social welfare to the fullest extent possible, when they endeavor to maximize total firm value. The only legitimate actor to address social concerns is the democratically elected government. Any effort by the firm to pursue social ends is tantamount to theft of funds from its shareholders. (Friedman, 1970).

The new vision of firm's main goal is that since firms do not function in isolation but as part of their local environment and society, then social and economic goals are fundamentally connected (Porter and Kramer, 2002). In certain circumstances social benefits can be achieved in conjunction with competitive goals (Porter and Kramer, 2002, Perrini, 2006) Socially responsible firms can be viewed as a vehicle for combining an investment with a charitable contribution, which can be attractive to investors since it avoids both taxation of corporate profits and the transaction costs of personal giving. Even if investors prefer to make direct charitable donations, socially responsible firms can still survive in the marketplace, although they will trade at a discount to other firms. The entrepreneur's creation of a CSR firm is a gift to society—he benefits from starting the firm, investors benefit from the expanded range of investment opportunities, and the recipients of CSR benefit directly. (Lyon and Maxwell, 2009)

Since the early 1990's, due to the realization that development centered only on economic growth paradigms is unsustainable and therefore there is a need for a more pro-active role by states, companies and communities in a development process aimed at balancing economic growth with environmental sustainability and social cohesion. Within this context, CSR represents the way companies achieve enhanced ethical standards and a balance of economic, environmental and social imperatives addressing the concerns and expectations of their stakeholders. Corporate governance provides the foundations upon which CSR and corporate sustainability practices can be built to enhance responsible business operations.

There can be perceived two interrelated dimensions for CSR:

a. Corporate responsibility as part of a new vision for the world based on a global partnership for sustainable development;

b. Corporate responsibility as a business management approach that should provide in the long run better value for shareholders as well as for other stakeholders.

Theoretical views expressed in the 1950s and 60s linked corporate social obligation to the power that business holds in society. Theoretical developments are currently broadly subdivided into the ethical and accountability issues and the stakeholder approaches to strategic management.

CSR is considered to shape the identity of organizations and are therefore increasingly integrated into the business strategy of successful corporations. Therefore, CSR is a company's verifiable commitment to operating in an economically, socially and environmentally sustainable manner that is transparent and increasingly satisfying to its stakeholders (Lyon and Maxwell, 2009). The World Business Council for Sustainable Development (WBCSD, 1999) summarizes 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.

The very core of the CSR concept is that actions must go beyond the immediate profit-maximization interest of the firm and beyond merely obeying the law or other regulation.

The UN, EU and OECD are three of the most important international institutions which got involved into a CSR frame creation, in order to define and propose CSR transparent evaluation indicators. This frame is accompanied by recommendations and principles able to guide states and local authorities in their effort to formulate public policies for the promotion and support of CSR initiatives.

UN initiatives, such as the Global Compact and the Millennium Goals, have defined the goal and principles for responsible corporate behavior in the following areas: human rights, labour standards, environment, health, anti-corruption and economic responsibility.

2.1 Society and firms - beneficiaries of CSR

CSR activities of a company bring benefices at two levels: the society and the company. The easiest to intuit, but the most difficult to measure, are the benefits for the society. They refer to the public interest and public welfare.

Even when politicians are well intentioned, government regulation can be a cumbersome and costly enterprise. As a result, CSR can be a less costly substitute for government mandates, and hence increase welfare. Industry self-regulation that preempts legislation is typically welfare-enhancing, since consumer groups can intervene in the political process if they find the firm's CSR efforts unsatisfactory. Similarly, if CSR is executed through voluntary agreements with regulators, this improves welfare as long as the regulator has society's best interests at heart. However, there is no guarantee that society gains if regulators are influenced by particular interest groups with narrow agendas. (Lyon and Maxwell, 2009)

CSR activities may influence regulatory decisions in several ways. CSR can benefit society by signaling to regulators that pollution abatement is not prohibitively costly, encouraging new regulations that may produce a competitive advantage for the signaler. However, if leading firms make modest environmental commitments, this may induce regulators to eschew tough environmental standards, potentially making society worse off. A company's CSR investments may also induce regulators to shift enforcement resources toward other firms that are more likely to be out of compliance with regulations. This can be beneficial for society, but there is also a risk that firms will become overzealous in their CSR efforts as they attempt to deflect regulatory attention towards other firms. (Lyon and Maxwell, 2009)

Building social capital is a measure of the extent of social networks in a community. It is particularly important in creating opportunities for excluded individuals to be engaged in civic life and to promote greater economic prosperity. Social capital can be seen as a shared resource, which is derived from and renewed through inter-personal networks, voluntary associations and trust generating interactions among citizens (Luckin and Sharp, 2005). The resources of social capital include a high degree of reciprocity in which short-term sacrifices are made with the implicit understanding that they will be repaid over time. (Tremblay, Gutberlet and Peredo, 2009)

The CSR benefits for companies are more and more obvious every day. Knowing these benefits and pursuing them, including by the general business strategy, is essential for the CSR adopting process to get amplified.

One of the advantages consists in the possibility to differentiate from the competition and obtain loyalty to the brand. There are two main factors that make from CSR a powerful weapon for the brand construction:

a. consumers are more and more aware, more capable to express opinions and more preoccupied by subjects concerning health, environment or social problems;
b. the markets are more and more agglomerated and brands are forced to find new and relevant ways to build emotional bonds with their targets.

Another advantage is that CSR helps companies to improve its reputation. Nowadays, a company's success directly depends on the trust that community, authorities, media or partners lends them. Without this trust, the company is under several risks: vulnerability in front of gestures of protest from civil society, weak relationship with authorities or partners who will refuse to associate their image with a doubtable company, bad image and sensibility in front of media attacks. In the same time, sustaining a social cause is the best way to get into partnerships with other companies, public authorities or media institutions.

CSR programs helps companies to raise their sales and market share. This thing is true mostly for Cause Related Marketing companies. The CSR contribution to the market success of a company is important not only in the case of campaigns, but also when it comes to a long term commitment. Another benefit comes from the fact that CSR programs help companies keep valuable employees. For any firm working in a competitive environment, the employees' attachment to the brand is crucial. And attachment doesn't get obtained only through wages, but mostly through the accent put on brand values.

Strategic practice of CSR involves a long-term shareholder value approach, which implies a long-term view of profit maximization, as well. If it is a company's goal to survive and prosper, it can do nothing better than to take a long term view and understand that if it treats society well, society will return the favor.

3. Social enterprises – business for society

3.1. Meaning and content of the concept

Social capital and positive social networks as useful concepts in understanding community-based enterprises, and are seen as necessary components for economic development. Social capital creates economic opportunity, builds political activity, and promotes social, cultural and environmental goals.

Social enterprises can be seen as initiatives meant to apply social entrepreneurship spirit for community's development. In American context, the idea of social enterprise is still vague, designing especially economic activities with social goals. In Europe the concept emerged at the beginning of the 90th, in Italy.

A social enterprise can be defined as "a revenue generating venture founded to create economic opportunities for very low income individuals, while simultaneously operating with reference to the financial bottom-line." (Alter, 2007) The concept may receive a second meaning, beside the one presented above, as a process, as an entrepreneurial attitude towards social issues

The UK-based Social Enterprise Coalition considers that the simplest definition of social enterprise, as business trading for a social purpose, allows for a wide range of interpretations and there is still an ongoing debate among practitioners and academics over the exact definition of social enterprise.

The most common characteristics of social enterprises consist in (Alter, 2007):

a. They are directly involved in producing goods or providing services to a market.

b. They have explicit social and/or environmental aims such as job creation, training or the provision of local services. Their ethical values may include a commitment to building skills in local communities and their profits are principally reinvested to achieve their social objectives.

c. They are autonomous organizations whose governance and ownership structures are normally based on participation by stakeholder groups (e.g. employees, users, clients, local community groups and social investors) or by trustees or directors who control the enterprise on behalf of a wider group of stakeholders. They are accountable to their stakeholders and the wider community for their social, environmental and economic impact. Profits can be distributed as profit sharing to stakeholders or used for the benefit of the community.

OCDE mentions two sets of criteria that help define social enterprises across national differences:

Economic Criteria:

a. Unlike traditional non-profit organizations, social enterprises are directly engaged in the production and/or sale of goods and services (rather than predominantly advisory or grant-giving functions);

b. Social enterprises are voluntarily created and managed by groups of citizens. As a result, while they may receive grants and donations from public authorities or private companies, social enterprises enjoy a high degree of autonomy and shareholders have the right to participate and to leave the organization;

c. The financial viability of social enterprises depends on the efforts of their members, who are responsible for ensuring adequate financial resources, unlike most public institutions. Social enterprises therefore involve a significant level of economic risk;

d. Activities carried out by social enterprises require a minimum number of paid workers, even if they may combine voluntary and paid workers.

Social criteria:

a. Social enterprises are the result of an initiative by citizens involving people belonging to a community or to a group that shares a certain need or aim. They must maintain this dimension in one form or another;

b. Decision making rights are shared by stakeholders. Although capital owners in social enterprises play an important role, decision-making power is not based on capital ownership;

c. Social enterprises are participatory in nature, insofar as those affected by the activities (the users of social enterprises' services) are represented and participate in the management of activities. In many cases one of the objectives is to strengthen democracy at local level through economic activity;

d. Social enterprises include organizations that totally prohibit the distribution of profits and organizations such as co-operatives, which may distribute their profit only to a limited degree. Social enterprises therefore avoid profit maximizing behavior, as they involve a limited distribution of profit.

e. Social enterprises pursue an explicit aim to benefit the community or a specific group of people. By doing so, they directly and indirectly promote a sense of social responsibility at local level.

Social enterprises are so divers that they transcend traditional nonprofit sectors (health, environment, education and social welfare) and also apply to economic development or job creation programs. Their motivation (either mission or money) for engaging in social enterprise may differ between sectors. Economic and employment development organizations are a natural fit with social enterprise, and therefore frequently integrate social enterprise as a program strategy. Other social sectors tend to incorporate social enterprise as a financing mechanism, though in both cases programmatic and financial benefits can be realized (Alter, 2007).

3.2. Forms of social enterprises

A social enterprise is conceived as a mechanism for both accomplishing a nonprofit's mission and generating funds for its social programs, therefore social enterprises must be designed to meet social needs as well as to achieve commercial viability.

The enterprise may be central to the organization's social mission (Alter, 2007). These social enterprises are created for the express purpose of advancing the mission using a self-financing model. Organizations created to employ disadvantaged populations (employment development) and microfinance institutions are examples of this type of social enterprise.

Another case is when the enterprise is related to the organization's mission or core social services. Mission-related social enterprises have synergistic properties, creating social value for programs and generating economic value to subsidize the organization's social programs and/or operating expenses.

The third case of social enterprise is when it is not related to the organization's mission, or intended to advance the mission other than by generating income for its social programs and operating costs. Such a company promotes CSR activities in order to add marketing or branding value, operate in an industry related to the nonprofit parent organization's services or sector, however, profit potential is the motivation for creating a social enterprise unrelated to mission.

a. Based on the level of integration between social programs and business activities, social enterprises can embrace several forms.

b. Embedded Social Enterprises appear when social programs and business activities are one and the same. Nonprofit organizations create these enterprises expressly for programmatic purposes. Social programs are self-financed through enterprise activities and thus, the embedded social enterprise also functions as a sustainable program strategy. The relationship between the business activities and the social programs are comprehensive: financial and social benefits are achieved simultaneously.

c. Integrated Social Enterprises are born when social programs overlap with business activities, often sharing costs and assets. Organizations create integrated social enterprises as a funding mechanism to support the nonprofit's operations and mission activities. In many cases integrated social enterprises expand or enhance the organization’s mission enabling it to achieve greater social impact. Mission expansion may be achieved by commercializing the organization’s social services and selling them to a new fee-paying to existing clients. Integrated social enterprises leverage tangible and intangible assets such as expertise, program methodology, relationships, brand, and infrastructure, as the basis from which to create their businesses.

d. In the case of External Social Enterprises social programs are distinct from business activities. Nonprofits create external social enterprises to fund their social services and/or operating costs. The enterprise's activities are "external" from the organization’s operations, but support its social programs through supplementary financing. External social enterprises generally do not benefit from leveraging, cost sharing or program synergies; therefore to serve their purpose, they must be profitable.

4. Conclusions and comments

Two different environments – business and civil society – are seeking for ways to support society’s sustainable development. Economic literature is abundant in subjects regarding the two concepts, CSR and social enterprises, but the debate is not concluded. Specialists, beginning with Porter and ending with practitioners within corporate firms and non-governmental organizations, argue in favor and against.

For the first concept, development non-governmental organizations have expressed their doubts and even critics concerning the voluntary initiatives undertaken by the corporate sector, arguing that CSR in an insufficient and inadequate response to the impact that multinational companies have upon nature or society. On the other hand, official development agencies take a much more positive view of the development impacts of CSR, considering that the growth generated by the private sector can be more inclusive, equitable and poverty reducing if CSR methods are used. (Jenkins, 2005)

As for the social firms, they are sustainable businesses supplying quality services and products in a supportive but not a care environment. They are risky and challenging enterprises requiring a long-term commitment (3–5 years start-up typically) and are costly, in time and energy as well as money. A Social Firm is not a quick fix to the problems associated with social inclusion or equal and ready access to employment for disabled people. They also do not create a large number of jobs in a short space of time nor are they a training project or sheltered workshop or day care on the cheap.

In Romania, both concepts are in infant stage and results cannot be yet evaluated on a relevant basis. Nevertheless, efforts can be notices and in a few years analysis may reveal unexpected positive effects, according to the extent of the interest manifested by both civil society and business environment.

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