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Corporate Social Responsibility, Business Sustainability, Leadership and Financial Gain

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Abstract – Corporate Social Responsibility (CSR) has become an integral part of many corporate establishments. This concept emphasizes on the social awareness of different organizations and their implementation. A lot of research has been conducted on this topic in recent years. Research results have shown a positive impact of CSR on the organizations. Companies which undertake CSR initiatives, have positive, visionary leaders who motivate the employees to work to increase business productivity. This paper will discuss how Sustainability and financial gain influence CSR and their interrelation.

Index Terms – Business productivity, corporate social responsibility, financial performance, leadership, sustainability, Project Management, Environmental management systems

LITERATURE REVIEW

Business sustainability requires firms to adhere to the principles of sustainable development. According to the World Council for Economic Development (WCED), sustainable development is development that "meets the needs of the present without compromising the ability of future generations to meet their own needs. There are a number of best practices that foster business sustainability, these practices include:

- Stakeholder engagement
- Environmental management systems
- Reporting and disclosure
- Life cycle analysis

Firms that are sustainable have been shown to attract and retain responsible leaders and employees more easily and experience less financial and reputation risk. Responsible leaders are defined as people of the highest integrity and deep understanding of difficult concepts such as sustainable development, committed to building enduring organizations in association with others, leaders who have a deep sense of purpose and are true to their core values (Roome & Bergin, 2006).

The relationship between leadership and Corporate Social Performance (CSP) has become important in leadership studies. Corporate social responsibility requires Corporate Social Leadership (Hilton, Gibbons, 2002). This research, however, is still in its formative years. In the attempt to link top management (characteristics) with some form of CSP, three streams of analysis has developed: values, personal characteristics and compensation levels. Studies have a strong link between social responsiveness and conservative values (Sturdivant et al, 1985). Recent research (Mc Guire et al, 2003) examined the relationship between levels of CEO compensation and CSP, but could not find any positive correlation. Other studies found evidence of a reversed correlation: high CEO salaries related to relatively poor social performance (Stanwick and Stanwick, 1998). Studies have been conducted that examine the professional background of leaders and it relation to CSP (Thomas, and Simerly, 1995; Simerly, 2003).

Thoughtful, committed leadership is the way to take this very necessary action forward – and to begin to earn back the public's trust. And also are responsible for financial performance of any organization. It is evident that a (more) sustainable organization with good financial performance requires projects to realize change.

In fact, this connection between sustainability and projects was already established by the World Commission on Environment and Development (1987). However, Eid concludes two decades later that the standards for project management "fail to seriously address the sustainability agenda" (Eid, 2009). Given the temporary nature of projects this may not be surprising. Projects and sustainable development are probably not "natural friends.

1 Introductory Note

The concept of Corporate Social Responsibility can be defined in simple words. It means "doing the right thing". Corporate Social Responsibility, or CSR for short, is about how organization's effect stakeholders beyond their own personal interests and also recognizing how the company operations will influence the community at large. Adopting CSR will have a positive impact on the company resulting in sustainable growth and financial gains. Over the years, CSR has become more and more popular; back in 2007 more than 80% of the FTSE 100 index reported on Corporate Social Responsibility within their Annual Report. [1]

1.1 Corporate Social Responsibility (CSR)

CSR is the continuing commitment by business to behave ethically and contribute to economic development and improve the quality of life while improving the quality of life of the workforce and their families as well as the local community and society at large.[2] The relationship between economic conditions and corporate behavior is mediated by several private and public regulations. Also the presence of other independent bodies which govern corporate behaviour. [3]

1.2 Background of CSR

Since the 1970s, many Anglo-American studies have tried to determine the theme of corporate social responsibility (CSR) and its costs and benefits. Most studies have tried to test, largely in samples of multiple industries, the relationship between corporate social performance (CSP) and corporate financial performance (CFP). These analyses, however, have produced conflicting results and any attempt to give a generalized and coherent conclusion has proved inadequate. These studies have long investigated the link between CSR and financial performance. Two prominent hypotheses are mentioned below:

Negative relationship- assumes that CSR produces costs which are higher than the profits of the business and this lowers financial performance. Costs include additional expenses undertaken to satisfy stakeholders.

Positive relationship-This indicates that there is a direct and growing relationship between CSR and financial performance. Private ownership has led to banks trying to maximize profits so that they can pay the highest shareholder dividends. They have adopted a shareholder view rather than a stakeholder view. Some authors argue that higher financial position can lead to better CSR because the businesses have the money to invest. Others say that CSR leads to higher profits after positive stakeholder involvement. Banking ethics need to be determined to judge how effective CSR will be. In Pakistan, banks like Standard Chartered take CSR initiatives. This bank has hired a number of blind people in its telemarketing department. They are all hired as permanent employees. This initiative has not only given hope to blind people of being given equal opportunities but it has also presented a positive image of the bank among its customers and employees, hence this results in better profitability. [4]

Some argue that since corporations draw resources from society they should also work for the betterment of the society. Others argue that such investments in social responsibility initiatives are a waste of stakeholder funds. Likewise, CSR can be considered as a source of investment or financial loss.

2 Business Sustainability

Business sustainability is often described as managing the triple bottom line- a process by which companies manage their financial, social and environmental risks, obligations and opportunities. These three impacts are sometimes referred to as profits, people and planet.
Firms that are sustainable have been shown to attract and retain employees more easily and experience less financial and reputation risk. These firms are also more inventive and adaptive to their environments. [5]

2.1 Sustainability (Interchangeable with Corporate Social Responsibility)

Within business practices, sustainability is closely related to corporate social responsibility. In the future, the two terms might become completely synonymous and some might argue that they already are the same.

According to a recent study in the Ivey Business Journal, a business model must combine and continually maintain four elements to achieve sustainability:

Sustainable development: This concept balances the corporate need for economic growth with environmental protection and societal progress. With regards to sustainability, sustainable development sets the boundaries of the societal and environmental issues and defines the company's goal(s).

Corporate social responsibility: Corporations use CSR as tool to address societal and environmental issues. Sustainability incorporates societal and environmental issues as building blocks within a business model. Therefore, a sustainable business will use some CSR practices.

Stakeholders: While CSR primarily focuses on shareholders, sustainability focuses on stakeholders.

Corporate Accountability: This contributes to a sustainable business practice in that corporate accountability provides a legal and moral basis for a company to report on its impact on society and the environment, in addition to their financial performance. [6]

2.2 The Integration of Sustainability and Project Management

Projects as instrument of change are critical to sustainable development. Association for Project Management (past-) Chairman Tom Taylor recognizes that "Project and Program Managers are significantly placed to make contributions to Sustainable Management practices". And at the 2008 IPMA World Congress, Vice-President Mary McKinlay stated "the further development of the project management profession requires project managers to take responsibility for sustainability". [7]

Sustainability has become a component of business success, and project management is one of the ways to get there. If it's going to be part of the way a company operates, it has to be integrated into the way projects are managed.

TABLE 1:
THE CONTRAST BETWEEN THE CONCEPTS OF SUSTAINABLE DEVELOPMENT & PROJECTS

Sustainable Development	Project Management
Long + short term oriented	Short term oriented
In the interest of this and future generations	In the interest of Sponsor / Stakeholders
Life-cycle oriented	Deliverable/result oriented
People, Planet, Profit	Scope, Time, Budget
Increasing complexity	Reduced complexity

Yet only when sustainability is recognized as an organizational goal at the very top layers of management and driven down through every project and program across the portfolio, is it successful.

By incorporating sustainable goals and measures into their project management process, companies see increased market share and improved profits, while meeting growing client and government demands for more socially responsible business practices. Project management provides companies with the tools they need to achieve their sustainability goals.

2.3 Leaders and Followers (Leadership Point of View)

Those companies just beginning to make sustainability part of their project and program management practices can pick up plenty of knowledge from those who have been doing it for years. Those pioneering companies have learned valuable lessons about how to create the culture and infrastructure necessary to reap the benefits of sustainable project management. They've created sustainability roadmaps, set environmental criteria for projects, and made it lavishly clear to employees, suppliers and clients that making socially responsible choices is a requirement of doing business with them.

And the more disciplined an organization's project management process and team, the more able they are to meet their sustainability goals.

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2.4 The Long View (profitability point of view)

Chasing sustainability does not mean sacrificing profitability. In fact, the opposite is often true. Companies that invest in developing sustainability talent on their project teams reap impressive benefits. According to a study by MIT Sloan Management Review and The Boston Consulting Group, 68 percent of business leaders cited improved financial returns as a benefit of their organization's investments in socially responsible practices. The research also indicated that once companies begin to follow sustainability initiatives in serious, they tend to discover more opportunities to reduce costs, create new revenue and develop innovative business models.

"The world has reached an inclining point now," Steve Fludder, vice president of "ecomagination" at General Electric, says in their report. "We're beyond the debates over whether talking about sustainability is something that needs to be done or not—it's now mostly about how we do it."For project-oriented organizations, that means making sustainability a part of their project management best practices. [8]

3.0 Leadership and Sustainability

Leaders are the first true earthly citizens; they have wide-reaching ability and responsibility for socially liable leadership that needs to be effective and proactive. The role of the leader towards sustainable social responsibility is diverse and enormous, and it has been assumed that it needs an individual set of leadership skills and capabilities. We focus in particular on research which assesses the relationship between leadership and firm financial performance. In an examination of fortune 500 corporations we can find a proportional and direct relationship between directors and returns to investors. Leaders and leadership structures clearly matter for CSR – and ignoring these runs the risk of CSR failing to gather momentum or encountering many obstacles.

3.1 Leadership and Financial Gain

The leadership style affects business performance greatly. An elected leader will engage his employees and delegate the responsibilities. This results in employee motivation and job satisfaction. The more the employees are contented the more output and productivity will be expected, which results in high profit gains and financial incentives for all.

A study was conducted to verify the above statement. Respondents consisted of a convenient sample of 649 company heads of the Human Resources or Organizational Development business units from 94 corporations (minimum of sales of $300 million), representing 23 different industries. Transformational leadership was evaluated by using 10 items from the Leadership Practices.

There was a positive and important relationship between visionary leadership and long-term net income growth. "These results indicate that for participating companies that when there is a strong presence of effective leadership practices in the company there are also long term, positive financial results" In summary, the author reports: "Companies reporting higher levels of effective leadership practices are positively associated with long term income growth.[9] .

Considering leadership, not just "leaders," enables us to connect CSR directly to what the firm *is* and *does*, and draw a scale for ethical business practices, ranging from the transformational to the destructive. Leadership thus presents an important connection between CSR and the firm's business operations. [10]

3.2 Responsible Leadership is the Foundation for Corporate Social Responsibility

Broadly speaking, responsible leadership rests on taking decisions only after you have looked carefully at the impact on all stakeholders and feel that you have done the best you can to assure that sustainable value is created and that the outcomes are fair. Responsible leadership is central to unlocking value from CSR initiatives – just as it is in all corporate activities.

Responsible leadership begins with a clear commitment to tell your own direct reports the truth about the firm's performance and their performance. When business is profitable and growing, we tend to ignore over failings and concentrate on the upside.

When the business environment weakens and profits lag, we suddenly have to look closely at who we are and what we do well and not so well. This is hard work, and

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sometimes painful. We have close relationships with the people who work with us; we like them. Providing them with support and guidance in hard times is a challenge. It is only then we see that we didn't do the job we needed to do in the good times. Responsible leadership is about commitment to truth and fairness and working at it – in good times and hard times.[11] Those leaders who exhibit ethical values have employees that do the same. Their departments also have less internal conflict and colleagues are more supportive and respectful of each other.

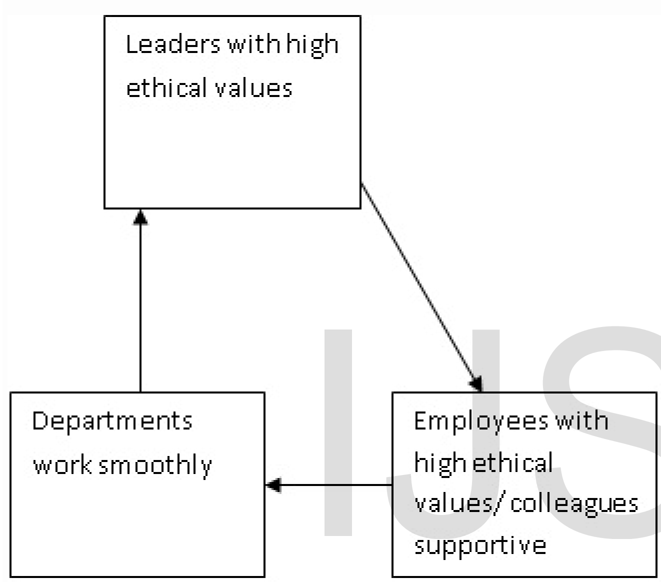

Fig 1: Relationship between Leaders and their Employees

The research shows the best sustainability leaders have three distinct traits. They show concern for the welfare of others and the environment, and they are motivated to create change within the company. They are multi-talented "master managers" who simultaneously perform a wide variety of leadership and managerial roles. And they inspire others to support their vision. They get this support by collaborating across the organization and focusing on employees as individuals. [12]

4 CSR and Stakeholder Engagement

Critics argue that spending limited resources of the firm on CSR only reduces the spending money they have on business activities and thus results in less profits. This leads to redistribution of wealth from shareholders who are the rightful owners to others in society who have no rightful claim. However, the supporters of CSR argue that CSR increases the trustfulness of a firm and so strengthens relationships with important stakeholders for example: employee satisfaction leads to reduced cost i.e. employee turnover. CSR can reduce operating costs and provide better opportunities in the future. Thus, CSR can be viewed as an investment. CSR activities are aimed at social welfare. Research on the business case has a link to profitability, but any financial gains from CSR are by-products of these contributions to social welfare. Certain type of CSR activities attempt to establish a strong firm/stakeholder relationship and should be positively linked to a company's financial performance. Firms that work on mutual trust perform better than those that do not. This advantage is the result of reduced costs. CSR improves financial performance by improving terms with relevant stakeholders. As trust builds, certain transaction costs and risks decline. Improved stakeholders relationships can bring in new customers and new investment and enable the firm to charge premium prices. The business case is that as stakeholders observe a firm's socially responsible behavior they will be inclined towards doing transactions with them. Social welfare gains can certainly arise from corporate efforts to improve processes and reduce harm to the environment. The link between investment and the financial return is direct. The gains to corporate financial performance are achieved through cost savings by improving the efficiency of the processes.

Some analysts have suggested that firms view social responsibility as opportunity platforms that generate future opportunities. One of the prominent issues in CSR literature is to explain why so many firms devote resources to CSR when the expenditure is private and the benefit is public. The firms which are able to obtain the private benefits will invest more in it. CSR does not directly affect financial performance but instead affects it through its stakeholder relations. Each key response provider has his or her own unique image which can be aggregated into a collective representation. Along with a good reputation, this is treated as an intangible asset. A firm's reputation

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assesses its ability to meet customer expectations. Popular measures of corporate reputation have weighed financial performance heavily, leading researchers to conclude that corporate reputation ratings result from rather than predict financial performance. To summarize, charitable donations, support of social causes and other CSR acts are a means of improving stakeholder relations. On the other hand, if some CSR activity is found to be fraudulent then this will destroy any trust created due to CSR and greatly affect stakeholder relations. [14]

4.1 Issues

Another challenge for companies when considering CSR is the possible negative perception of shareholders. Historically, publicly-owned companies had a primary focus of maximizing shareholder value. Now, they must balance the financial expectations of company owners with the social and environmental requirements of other stakeholder groups. Some shareholders are happy to invest in companies that operate with high integrity. Others may not approve of the associated expenses of operating under CSR guidelines.

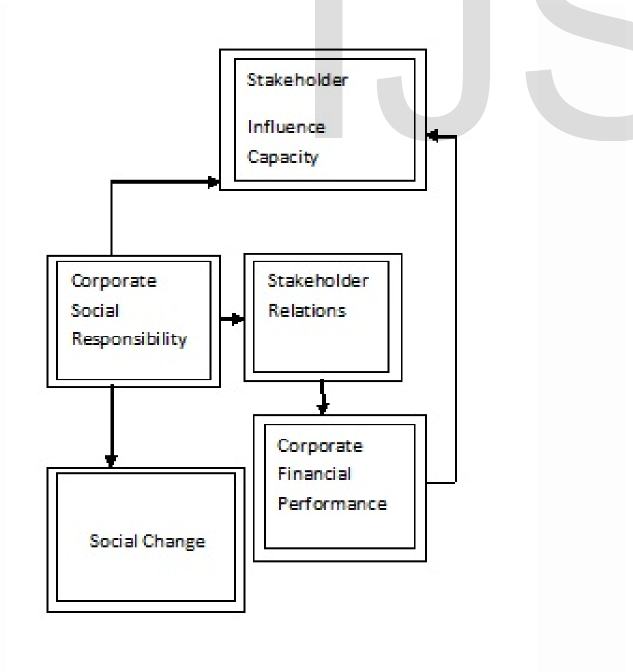

Fig 2: A Conceptual Framework Underlying the business case for CSR [13]

This is a framework which illustrates a discrete act of CSR. The remainder of the diagram shows the effects of the discrete act on the other variables.

4.2 Implications for Managers

Positive CSR acts as a protecting agent and reduces the financial impact of negative publicity. Consumers purchase intentions were twice as high for products of companies described as having a strong CSR reputation compared with a weak CSR reputation. Develop long term relationship with social causes using employee volunteer programs, product donations, and resource access. This can show commitment which can improve company's reputation. Managers should be modest in promoting CSR to gain customer goodwill. [14]

4.3 Stronger Financial Performance and Profitability

The investment community has been exploring the links between corporate social responsibility and financial performance of businesses. There is growing evidence (through indices such as the Dow Jones Group Sustainability Index (DJGSI), the FTSE4 Good indices, and the Jantzi Social Index) that companies that embrace the essential qualities of CSR generally outperform their counterparts that do not use features of CSR. This information is being translated into action within the investment community. An increasing number of mutual funds are now integrating CSR criteria into their selection processes to screen in sounder companies and/or screen out businesses that do not meet certain environmental or social standards. Thus, a CSR approach by a company can improve the status of the company in the perspective of the investment community, a company's stock market valuation, and its capacity to access capital from that community. The passing of shareholder proposal on CSR leads to an increase in financial performance.

4.4 Issues

There is a conventional wisdom in business that companies can ill afford to be socially responsible. It is believed that such behavior incurs costs with no corresponding financial return and that, therefore, to maximize profit and optimize shareholder value companies are best advised to just get on with the task of making money, legally, and pay little attention to wider social responsibility.

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4.5 Enhanced Employee Relations, Productivity and Innovation

A key benefit from CSR initiatives involves establishing the conditions that can contribute to increasing the commitment and motivation of employees to become more innovative and productive. Companies that employ CSR related perspectives and tools tend to be businesses that provide the pre-conditions for increased loyalty and commitment from employees. These conditions can serve to help to recruit employees, retain employees, motivate employees to develop skills, and encourage employees to pursue learning to find innovative ways to not only reduce costs but to also spot and take advantage of new opportunities for maximizing benefits, reduce absenteeism, and may also translate into marginally less demands for higher wages.

A socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its stakeholders. Arguments exist that support the firms which have solid financial performance have more resources available to invest in social performance domains. Financially strong companies can afford to invest in ways that have a more long term strategic impact. Those allocations result in better public image and improved relations with the community in addition to an improved ability to attract more employees.

4.6 Does Corporate Social Responsibility Increase Profits?

It is generally held that CSR could increase company profits and thus most large companies are actively engaged in it. But few executives and managers are aware of the research on this important subject. However, linking profit growth to abstract variables that are frequently difficult to define is a challenging task.

Most executives believe that CSR can improve profits. They understand that CSR can promote respect for their company in the marketplace which can result in higher sales, enhance employee loyalty and attract better personnel to the firm. Also, CSR activities focusing on sustainability issues may lower costs and improve efficiencies as well. An added advantage for public companies is that aggressive CSR activities may help them gain a possible listing on the stock exchange. This may enhance the company's stock price, and make stock options more profitable. [15]

4.7 Issues

The main reason any company would object to participating in CSR is the associated costs. With CSR, you pay for environmental programs, more employee training and efficient waste management programs. Proponents of CSR agree that any expenses to businesses are ultimately covered by stronger relationships with key customers. However investment in CSR programs may not necessarily result in measurable financial results. One of the most common arguments companies make when indicating reluctance to CSR policies is the disadvantage it causes against companies that do not. Thus, without strict implementation policy, some companies argue that they cannot fall behind by putting money into CSR programs.

5 Conclusions

We can safely conclude that CSR is now becoming part and parcel of organizational culture. Top multinationals depict their humane side by engaging themselves in CSR initiatives. Hence, this should remove the misconception that CSR investment reduces profits on the contrary it increases employee productivity and motivation which results in more profitability and increased market share. Businesses who initiate CSR believe in reward and recognition. This means that the concerned leadership is effective and people orientated. When employees are motivated they will work effectively and efficiently which results in increased profitability for the institution. Ultimately this results in business longevity and sustainability. Sustainability is a business reality. The challenge executives are facing these days is finding a way to address work place issues in a way that also delivers bottom line results, one of the most effective ways of doing that is to embed sustainability into the organization's overall project management practices. The concepts discussed above can be effectively incorporated in certain service and manufacturing sectors such as, banking, education, textile, auto mobile etc where the primary focus of the management is on profit generation based on fulfilling their commitment to the society as a whole for ultimate business sustainability.

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