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Corporate Social Responsibility as Value for the Customer

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Abstract

Consumers are increasingly paying attention to contemporary environmental and social problems, and increasingly declaring their willingness to take action to solve these problems. Their desire does not always translate into behavior in this regard. Consumers also have ever-increasing demands and expectations of companies in the field of environmental protection and other social activities. Social involvement of enterprises may therefore represent a specific value for the customer. These trends affect the growing importance of corporate reputation. Customers are increasingly interested in companies that conduct their activities in accordance with the principles of sustainable development and treat their reputation as an element of the value offered. The aim of this paper is to identify social problems of businesses in the context of value for the customer. Corporate social responsibility is one of the biggest challenges faced by enterprises today. Reflections contained in the paper do not have definite characteristics and should be treated as an opinion in the discussion.

Keywords: Social Responsibility, Customer Relationships, Cooperation, Business

Introduction

Socially responsible marketing is currently an important determinant of modern economic activity. This state of affairs raises the interest of various entities in a concept involving the building of a strategy that takes into account the implementation of three groups of objectives: economic, ecological and social.

Corporate social responsibility, a sustainable supply chain and responding to increasingly greater pressure to solve environmental and human rights problems in a creative manner are already usually important objectives of businesses.

It should be noted that economic activity often causes a number of problems (for example, environmental pollution, depletion of natural resources), and individual enterprises should participate in finding solutions to these problems; enterprises have a legal personality, and are a kind of social "citizen" that should take care of their environment; as a result of corporate social responsibility, companies can improve their reputation and thereby increase profits; companies with a developed strategy for social responsibility have an easier time retaining valuable employees, better motivate staff and attract new talent; at the same time, introduction of environmental and social policies into the business strategy can reduce costs

(charges for electricity, water), and provide better resistance to crises, increasing the confidence of shareholders.

Methodology of Research

There is still insufficient knowledge about how to manage an enterprise in order for corporate social responsibility to increase and bring better results for both the company and its customers. The author of this publication has set a target to fill at least part of this gap.

The aim of this work is to present the main aspects of companies' activity in their community in terms of value for the customer. The work is thus an attempt to present contemporary issues connected with corporate social responsibility. The work also suggests the possibility of solving environmental (ecological) and social problems in the context of value for the customer.

The theoretical output referenced in this study includes Polish and foreign, mostly English-language literature, concerning the mechanisms of management in the knowledge economy. The use of foreign literature was necessary because of the dearth of Polish studies. This has enriched the arguments and discussion of new aspects, and has allowed the showing of the research problem in a broader perspective.

This paper also uses the results of research carried out by:

- Harris Interactive,
- The European Commission,
- Environics International,
- Boston Consulting Group.

Models of Corporate Social Responsibility

Running a responsible business does not only mean complying with certain procedural requirements, but also involves voluntary commitment to increasing investment in environmental protection, human resources and relationships with various stakeholder groups. Corporate social responsibility is a process in which an entity appropriately manages the relationships with all stakeholders who can significantly influence the success of the activities carried out by the company. Today, more and more companies are expected to engage in solving difficult social problems. The decision to conduct business in a responsible manner is reflected in the approach to each process and economic operation, and is often present in the process of management, production, marketing and sales.

Social responsibility applies to virtually all areas of the company. The main functions responsible for customer relationships are sales and marketing. At the same time it is precisely these areas (and not only) that can be subjected to high criticism in terms of unethical behavior. Appropriately informing customers about company efforts to decrease the impact its activities have on society and the environment, results in increased confidence in the company and a better relationship with its products and services.

The model *after profit obligation*, developed by Carroll (Carroll, 1993) is presented as a pyramid of corporate social responsibility and is composed of four dimensions:

- Economic – this is recognized as the most important dimension, because it lies at the heart of being able to finance corporate social responsibility. This means that the company should focus on making wise strategic decisions that will enable it to achieve its main goal of profitability, by maximizing sales and minimizing costs. If the company operates at a loss, there is no question of taking social action.

- Legal - this is the next level of the pyramid, which lies in the fact that an entity fulfilling its objectives is required to comply with the law, including following the rules and regulations concerning business operations, environmental protection, consumer rights, and business commitments and so on.

- Ethical - this dimension of social responsibility highlights the need for fair and equitable operation of the organization, which is consistent with the principles of morality in the region and the country in which the company operates. It manifests itself in such examples as avoiding undesirable behavior or disclosure of malpractice.

- Philanthropic – Carroll located this dimension at the top of the pyramid of corporate social responsibility. The philanthropic dimension of an enterprise is the dedication of a part of its resources to bring specific material assistance to the needy and to help solve social problems by promoting education, sports, health, and charitable activities.

Kang and Wood have contributed to the formation of another model for the modern concept of corporate social responsibility. Their *before profit obligation* model implies that the essence of a company's activities should also include moral values. This model is based on three main considerations:

1. Today's society is composed of functionally interdependent and fluid social structures, not permanently separated units whose operation is based on functions resulting from a rigid division of labor. Therefore, the functions of social institutions are not entirely separate, but overlap and permeate one another. An individual company, as a social institution, is not synonymous with business per se, since its aim is to contribute to the material welfare of society (Rybak, 2007).

2. Each entity is required to comply with moral questions of what is and isn't ethical. Managers should monitor compliance with the applicable ethical standards at every stage of their business, and not just the pursuit of profit, because profit made without compliance with existing standards is not morally justified, and that is why companies should be subject to an external mechanism of social control.

3. The right to function and generate profits is only given to those organizational units that follow business ethics contributing to the preservation and strengthening of the governance of socio - economic development. Based on the above assumptions, Kang and Wood presented a model of social responsibility in the form of an inverted and partially modified pyramid, which distinguished three levels of corporate social responsibility:

- individual - describing the moral responsibility of individuals, including board members, managers, and employees, who during decision-making, may or may not follow the applicable laws regarding social and ethical standards; whose decisions are not only guided by the choice between profit and risk, but also, or even primarily, by their personal preferences;

- organization - referring to the social responsibility of the company and its stakeholders; companies are obliged to take into account the expectations of its stakeholders and put those expectations on a par with their own objectives;

- Institutional - showing the economic responsibility of institutions as participants in the business world; the authors placed the generation of profit and charity action at the top of the pyramid.

The main distinctive feature characterizing the models is the fact that the Kang-Wood model assumes freedom of choice and responsibility in the area of objectives and methods and means of their implementation, while Carroll's model states that in the area of economic responsibility, there is only a choice between profit and risk. Another important difference

between the discussed models is the range of perception of charity, which in the *before profit obligation* model goes far beyond philanthropy. In the Kang-Wood model, philanthropy consists of two elements. The first one includes the social and moral obligations of companies in relation to their stakeholders, and the second - the voluntary involvement of the company in solving social problems at the macro level.

The Requirements and Expectations of Society towards Enterprises

The study *Reputation Quotient*, conducted by Harris Interactive, published in 2008, shows that half of Americans believe that enterprises, in addition to profit, have a duty to their employees and customers. Nearly half believe that companies should also help solve global problems such as poverty, hunger and disease. Only 3% said that companies are responsible only for the generation of profits (*Reputation Quotient*, 2008). The results of earlier studies by Environics International confirm that social expectations go far beyond the economic performance of companies. In nearly 2/3 of the surveyed countries, the percentage of respondents who considered that the role of companies is *to establish higher ethical standards and to help build a better society* was greater than those merely expecting the generation of profits, the creation of jobs and compliance with the law from companies (*Millennium Poll*, Environics, 2013).

The results indicate high social expectations towards companies. The ability of companies to meet these expectations and fit into existing norms and values determines the level of legitimacy of the company, which derives from the perception of their actions as socially acceptable and desirable. Legitimacy influences the assessment of the value offered by individual companies - the value offered by companies which have a high level of legitimacy is seen as greater. A company which enjoys a high degree of legitimacy is seen not only as more valuable, but also as having greater importance, as being more predictable and more reliable.

The research firm Harris Interactive shows that approximately 30% of Americans, when selecting a company from which to buy products and services, take into account to a large or very large extent, the approach of the company to the issue of sustainable development and its responsibility toward the environment (*Reputation Quotient*, 2008-2009). In other countries, the proportion of ethical consumers is sometimes even higher. According to Danish studies, more than half of buyers in this country belong to this category of consumers (Pruzan, 2001). Ethical consumers, who often play the role of opinion leaders, are also more critical of corporate conduct. For them, important criteria for assessing the value offered by individual companies is the behavior of the company in matters such as compliance with labor laws and human rights, managing relationships with partners from less developed countries, abiding by the principles of fair trade, and protecting the natural environment. In making their purchasing choices, conscious consumers support companies with higher ethical standards (positive choices) and avoid companies that behave in an unethical manner, refraining from buying their products (negative choices).

It should be noted that there is a relationship between the purchasing behaviors of customers and their values. The growing number of conscious customers (who worry about the contemporary threats of civilization) shows which factors corporations must react to. These customers have increasingly greater demands in terms of products and services, and even supply chains.

There are many studies proving that consumers in different countries are becoming more aware and willing to take action to protect the environment. As many as 96% of

Europeans claim that the protection of the environment is important or very important to them personally (European Commission, 2008). What's more, up to 75% of consumers in the European Union stress that they are ready to buy products that are safe for the environment, even if they cost a bit more. About 25% of American adults (representing a group of well-educated, influential people) consider environmental protection as one of the four key values for them (Green Living, US, 2005). On the other hand, 18% of UK consumers are willing to participate in environmental projects. This is a group that is very sensitive about issues of sustainable development, making their purchasing decisions and leading their lifestyles in accordance with these principles (Consumers International, 2007).

The growing interest and demand from consumers for organic products is also shown in the research conducted by the Boston Consulting Group. Research shows that consumers are increasingly willing to buy green products and are willing to pay a bit higher price for them. A key objective for eco-oriented customers is the elimination of waste and greater efficiency in the consumption of resources. Almost half (46%) of respondents highly agree with the statement that the actions of individuals contribute to environmental protection. Most consumers (73%) believe it is important for companies to take action in terms of environmental protection. Respondents also indicated that companies should clearly communicate the risks associated with the use of their product, provide information on their environmental impact, as well as maintain high ethical standards and treat employees well. The study was conducted on a sample of nine thousand consumers aged 18-35, from nine countries (Boston Consulting Group, 2009). Nowadays, more and more often, the final version of the offer presented by the company is the result of collaboration across a network of companies forming a set of values for the customer. The value offered to customers is therefore dependant on the quality of the organization's cooperation with its business partners.

There are two dimensions of corporate reputation that play an important role in the perception of the value offered by a company; one is an evaluation of its ability to deliver valuable results, and the other is corporate social responsibility (the range of environmental and social activity taken by the company). A good reputation makes the company more attractive to potential business partners and helps in establishing cooperation, which enables the company to offer customers a wider range of values than its competitors (Teece, 2010). There is no doubt that reputation is a resource that is valuable, rare, and difficult to imitate and substitute. Enterprise characteristics that can be considered sources of reputation are its visibility, the ability to differentiate oneself from the competition, authenticity and transparency. Reputation depends on the same qualities as the resources necessary to build a sustainable competitive advantage. This advantage allows companies to achieve above-average results (Casadesus-Masanell and Ricart, 2010). As previously noted, reputation is recognized as a rare resource. Reputation reflects the relative status of the company in relation to other entities (Rindova, 1997). This means that gaining a good reputation is done by improving a company's position relative to other entities, and the best reputation is reserved for a small group with the highest status. This is what makes a good reputation a rare resource.

Changes in the Information Flow System

The model of communication characteristic of traditional media provided businesses with control over the message sent, or at least the opportunity to influence the message. Communication through modern media, while providing unlimited range, takes away control

over the delivery of the message, and clearly limits a company's influence over the information reported. Blogs and social networking sites offer the opportunity for any satisfied (or dissatisfied) client to share their opinion with millions of people¹, and the development of marketing communication often leads to disclosure and spread of information inconvenient for businesses about their unethical operations.

The increasing number of sources of information, the rapid increase in the amount of information available, the lack of restrictions on the spread of this information, growing information overload, necessitates the selection, organization, combination and presentation of information in a simplified form. This is primarily done by the media. They collect information, process it, and then present it to their audience. In this way, the media plays a very important role in shaping the image of reality (Brettel, Strese and Flatten, 2012). The media influences its audience by concentrating their attention on the problems, people, organizations, which are the subject of media coverage.

Organizations are successful if they have the ability to meet the needs of their customers. This ability depends on the degree to which they understand their customers, and on their ability to use this information in practice (Quinn, 2014). Rapid social and technological changes have resulted in a situation where having information and knowledge about the market, and the ability to predict the direction in which changes will occur, are the keys to success. Expansion in the methods of accessing information means that customers are interested in any type of information about the product, and they disseminate their views, expectations and acquired knowledge on a large scale via the Internet or mobile phone. Customers in this category change from being passive to being more involved consumers.

The position of the customer is becoming stronger, and the consequences of his actions for business entities are greater as the customer becomes more aware. Several years ago, a client was often isolated and on his own in product selection, purchase, use or reporting of complaints. Currently, customers often interact with one another, which gives them much greater power and increases the chances of having their needs met. With the global media, the Internet, and communication technologies, the uninformed have become informed. Consequently, once passive, now active consumers are participating in the shaping of market preferences, and hence they decide which companies can stay in business, and which must modify its offer, and even change its way of operating (Czarniewski, 2014).

Some researchers state that the social responsibility of the enterprise begins where the law ends (Crane and Matten, 2007). Confirmation of this formulation is, for example, the right of the customer to reliable information about the product: regulations in most countries prohibit the deliberate falsification of labels or false advertising. There are situations where the message cannot be considered as incompatible with the truth, but is misleading about the product's features and the benefits of its use.

In order to gain the confidence of consumers, a company must demonstrate its transparency and rational self-criticism. To this end, the authors of reports on the activities of enterprises should not only pay attention to content that is put in company publications, but also what is deliberately omitted. Disclosure of only positive information often creates a negative impression, because stakeholders know that in business, success comes with failure, and "shiny" reports show only part of the truth.

¹ A music video of the song United Breaks Guitars, sung by previously little-known Canadian artist Dave Carroll, presenting a humorous form of his experiences using the services of United Airlines, was watched by over 3 million people in 10 days after being uploaded to Youtube.

Companies have a tendency to make far-reaching promises in their communication transmissions, which are often far beyond their capabilities to fulfill. This problem applies particularly to companies which declare setting higher standards in the industry - associated with greater attention to the environment and higher ethical standards. With such declarations, companies create expectations they are unable to fulfill later on.

Conclusions

1. Value for the customer is a subjective and dynamic category. This means that the evaluation of the value offered by individual companies depends on the characteristics of the recipient - his attitudes, expectations, adherence to his system of norms and values, as well as the changes that occur in these areas. These changes are influenced by broader trends (social, political, technological) and affect consumers and their perception of the value provided by the company.

2. Currently, an important issue in many economies is the social responsibility of businesses. In recent years, there has been an increase in the requirements and social expectations towards companies. The influence of a growing number of consumers is increasing, requiring companies to conduct their businesses in a sustainable and responsible manner. These trends affect the increasing importance of ethics in individual companies. Actions taken by enterprises in this area undoubtedly shape - in the public eye - a positive image of the company.

3. Value for the customer is the difference between the sum of the perceived benefits, and the costs that the customer incurs in connection with selecting the offer of a certain supplier. A positive image of the company increases the benefits and reduces costs, contributing to the increase in value for the customer. This influences consumers' purchasing choices, who seek to maximize perceived value. Positive image is also linked with trust, granted to the company by its stakeholders. Loss of trust strikes at the foundations of the company. Yet when a company cares about its reputation, it builds trust capital at the same time. This capital is an expression of the company's credibility.

4. From the point of view of the enterprise, the role of customers in the process of creating value (long-term performance, competitive position) is increasing, and business decisions are increasingly being influenced by consumers. At the same time increased awareness of customers on not only economic, but also social and environmental issues, is increasing the need for information on the characteristics, method of production, environmental friendliness of the product and how it can be recycled, all issues which managers can no longer ignore.

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