



# Corporate Social Responsibility - Business Opportunity or Obligation for Georgian Companies

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## Abstract

CSR is a relatively new concept for Georgia. Its history is not even two decades old, and the development process is taking place at a slow pace. In recent years, the concept of social responsibility has been more or less accepted by large businesses. From unsystematic CSR measures companies are slowly moving to a strategic approach, although their social initiatives are mainly focused on increasing the well-being of vulnerable groups of society. On the one hand, this is due to the insufficient level of awareness of CSR in the business sector, and on the other hand, the limited expectations of society because the public's perception of CSR is mainly related to charity. The paper presents an analysis of the modern trends in the development of CSR in Georgia using qualitative and quantitative secondary data. It is based on the works and studies of various scientists. Qualitative analysis, namely statistical and thematic analysis methods are used as the method of analysis.

**Keywords:** corporate social responsibility, business strategy, altruistic responsibility, business opportunity, competitive advantage, sustainable development

## Introduction

The role of the private sector in solving social problems and increasing public welfare is increasing. Modern society demands much more from business than fulfilling its traditional role. In addition, CSR is considered one of the effective tools for gaining a competitive advantage for companies, and they actively seek to integrate CSR into their business strategy.

In Georgia, in the last decade, there has been an activation of business in the direction of CSR, although we can say this only about a small part of them. For most companies, the owner's interests (profit maximization) are prioritized over the well-being of all stakeholders, which hinders business social responsibility. However, it should be noted that the adoption of CSR may contribute to the improvement of the financial result, which simultaneously ensures the satisfaction of the owners' interests and the improvement of the stakeholders' welfare.

A number of studies confirm the positive relationship between CSR and financial results. However, Georgian companies do not realize what benefits CSR can bring to their business. Most companies do not perceive CSR as a business opportunity, which has a negative impact on the welfare of society, since companies do not have enough incentives to implement CSR and are less active.

**Research methods.** The literature review is used as a research method of modern trends in the development of CSR in Georgia. In the research, for trend analysis, we rely on both qualitative and quantitative secondary data (conducted research reports). Qualitative analysis, namely statistical and thematic analysis methods are chosen as the method of analysis.

### Literature review

The concept of CSR has gone through a long way of development and understanding. In different eras its conceptualization and perception were different, due to the fact that there was no consensus around the concept of CSR.

"In order for the definition of social responsibility to fully fit the entire spectrum of business obligations to society, it should include economic, legal, ethical and discretionary categories of business performance" (Carroll, A three-dimensional conceptual model of corporate performance., 1979).

A. Carroll's CSR pyramid divides CSR into four categories, the first of which is economic responsibility. A company's economic responsibility is expressed in its profitable operation by producing and selling goods and services that society wants. Legal responsibility includes the performance of the economic activity by a business within the framework of legal requirements. Ethical responsibility includes behaviors and actions that are not defined by law, but society expects businesses to perform them. Along with economic and legal responsibility, A. Carol considers ethical responsibility as an obligation, as opposed to discretionary responsibility. Discretionary responsibility depends on the view of the business and is purely voluntary because, in this case, the public does not have a clear message about it. Therefore, if the business does not act within the scope of discretionary responsibility, this in itself will not be considered unethical (Carroll, A three-dimensional conceptual model of corporate performance., 1979).

According to Carroll's approach, each of the four categories is only a part of the overall social responsibility. Therefore, they should be understood and accepted as a single system. Thus, we can conclude that CSR, depending on its aspects, is both an obligation and a business opportunity for the company.

To understand CSR in the context of both obligation and business opportunity, we should consider J. Lantos' (Lantos, 2001) approach. Lantos' categorization of CSR as an ethical, altruistic, and strategic responsibility clearly illustrates how CSR is transformed from an obligation into a business opportunity. J. Lantos presents ethical responsibility as a mandatory minimum level of CSR. It includes business actions that serve to avoid harm to society. Altruistic responsibility serves to solve a social problem, however, according to Carroll, businesses should limit charity and switch to strategic CSR, since altruistic CSR does not take into account all stakeholders' interests, in particular, owners' interests. The same cannot be said about strategic CSR. It implies the implementation of such investments which ensures the benefit of society and the company at the same time. Accordingly, if ethical responsibility is understood as an obligation for the company, strategic responsibility is presented as an important business opportunity. It is strategic CSR that considers discussing CSR issues as a business opportunity to achieve the company's goals (Galbreath, 2009).

Considering CSR as a business opportunity for companies is based on the voluntary nature of its implementation, although it should be noted that spending resources on CSR implementation may not be as profitable as investing in improving human resource management practices when the goal is to increase employee engagement (Smith V, 2011). The question arises: What makes companies in such a situation choose CSR, the consequences of which are associated with more uncertainty than alternative actions? In this case, CSR can be considered as an obligation arising from stakeholders' expectations harmonious relationship with stakeholders is the main focus of the CSR concept. Although there are different views on the organization's relationship with its stakeholders, the cultural and ethical norms established in the society represent the main characteristic on the basis of which this relationship should be formed.

Economic activity within the law is an important value in all countries, but expectations related to ethical and altruistic CSR are highly dependent on the cultural characteristics of the environment in which the business operates. Accordingly, the increase in public "pressure" on companies makes CSR an obligation, but this does not exclude the fact that at the same time it can be considered as a business opportunity. The mentioned possibility, in relation to the expectations of the ety, will be realized by integrating CSR into the business strategy.

CSR can be thought of as a business opportunity in the context of access to financial resources. Socially aware investors consider non-financial indicators along with financial indicators when making decisions. In responsible investing, companies are

evaluated in terms of the ethical, environmental and social impact of their activities, because it is believed that the integration of sustainable development goals into the business strategy ensures corporate sustainability and the improvement of financial results in the long term (Friede, 2015), which in turn affects the effectiveness of investments. Accordingly, we can conclude that CSR represents a business opportunity for companies to attract financial resources.

Thus, CSR is both an obligation and a business opportunity for companies. Obligations can be thought of as responsibilities related to its economic function, regulated by the legal framework and derived from ethical norms or society's expectations towards business. CSR becomes a business opportunity once it is integrated with the business strategy. As a result, we will get a strategic CSR, which unequivocally opens up wide opportunities for companies in different directions, ultimately manifesting itself in gaining a competitive advantage and improving financial results.

## Discussion

In 1963, Joseph McGuire (McGuire, 1963) recognized the superiority of economic responsibility, but also proposed a broader view of CSR and explained that the corporation, in addition to economic and legal obligations, also has a number of responsibilities to society that are beyond these obligations (although it is necessary to fulfill them). Jules Backman also takes a similar position. According to his definition, social responsibility usually serves those goals and motives that go beyond the goal of making a profit by the company (Backman, 1975). Contrary to McGuire's and Backman's opinions, Henry Manne (Manne, 1978) considers CSR as a purely voluntary action. George Steiner proposes the concept of CSR as a continuum of responsibility that starts with economic responsibility and through legal and voluntary responsibility ends with "expectations beyond reality" (Steiner, 1975). Differentiation of social obligation, social responsibility and social response is proposed by Prakash Sethi (Sethi, 1975). In social responsibility, he combines corporate behavior that is dictated by market forces and legal constraints. Social responsibility is based on social norms, values and expectations in society. As for the social response, in this case it is not the corporation's response to public pressure that is important, but the long-term vision of what should be its role in the developing (dynamic) social system. Therefore, a social response has a preventive character, which, in its essence, can be matched with the fifth stage of CSR development proposed by W. Visser, which is characterized by systemic CSR (Visser, 2011). Within the scope of the systemic CSR measures, companies are focused on identifying the causes of current unsustainability and overcoming them by developing innovative business models, which, in turn, lead to the expansion of business opportunities.

Although CSR is not defined as an official obligation for business and also according to the definition made by the European Commission in 2001, the concept of CSR is based on the principle of voluntariness, some of the issues covered by CSR are

regulated by international law<sup>1</sup>. The United Nations (UN) "Ten Principles of the Global Compact" (United Nations Global Compact Web Site, 2000) provide a clear idea of these issues. The UN Global Compact is an international initiative that encourages businesses to behave responsibly. It is aimed at ensuring corporate sustainability and contributes to the achievement of the United Nations Sustainable Development Goals. The "Ten Principles of the Global Compact" are the basic standards that must be implemented for socially responsible companies. Its implementation and realization as a basic level of CSR is, on the one hand, a mandatory responsibility for business, and, on the other hand, an opportunity to ensure corporate sustainability.

### **Trends in the Development of Corporate Social Responsibility in Georgia**

The activation of CSR in Georgia started in 2005 with cooperation between the non-governmental sector and business entities. We find the first large-scale research in the field of CSR in 2007, which was carried out by the "Center for Strategic Research and Development of Georgia" with the support of the "Global Compact" project of the United Nations Development Agency. The research concerns the attitude and expectations of society towards the social responsibility of business in Georgia. In the same year, the "Center for Strategic Research and Development of Georgia" conducted a study "Big Business and Corporate Social Responsibility of Tbilisi".

An insufficient level of awareness towards CSR is revealed in both studies mentioned above. According to the results of the survey of public attitude and expectations towards BSR, 93% of the surveyed respondents believe that BSR is a voluntary duty that companies should undertake, while 7% consider profit as the only concern of businesses. In addition, it should be noted that the part of respondents who expect businesses to take social responsibility, expect activities in this direction only from large businesses (CSR DG, 2007).

Traditionally, CSR has been seen as an event for large companies, as their impact on the environment and society has a wider scale, but taking social responsibility is also important in small and medium-sized businesses. They have the advantage of using CSR more effectively as an opportunity to increase competitiveness, as their small size allows for rapid development of corporate culture and more flexibility in the market to respond to the changing demands of society.

Despite this advantage, the problem of understanding the concept of CSR is even more acute in small and medium-sized enterprises. Often, compared to large companies, given their scale, they are more involved in social and environmental protection projects, but do not or cannot identify it as CSR. All this, among other reasons, is related to the skepticism of small businesses about the possibility of receiving benefits through CSR. The results of a 2019 corporate responsibility survey reveal

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<sup>1</sup> Universal Declaration of Human Rights; Declaration on Basic Principles and Rights in the Field of Labor; Rio Declaration on Environment and Development, United Nations Convention against Corruption

that 69% of small businesses do not report their corporate responsibility activities and results to anyone. Only 12% of them provide information to employees. 92% state that the corporate responsibility activities and results implemented by their organization are not covered by the media (Innova, 2019).

As for the realization of the CSR concept by large businesses, the favorable situation is not in this case either. Although the majority of businessmen distinguish between CSR and charity, most of them see this distinction as incompatible with the concept. Only 22% of the respondents perceive this difference as more or less real (CSR DG, 2007)

In 2018, according to the results of the research carried out by the "Caucasus Research Resources Center - Georgia" (CRRC-Georgia, 2018) 18% of the 568 surveyed organizations did not have information about CSR. If we consider the results according to the location and size of the business, this figure increases even more in the regions and in the case of small businesses. In particular, 27% of the surveyed organizations outside of Tbilisi have not heard of CSR, while a similar figure in Tbilisi is only 7%. As for the size of the companies, 92% of the large businesses have heard this term, and 70% of the small businesses - have not. If we compare the results of the research conducted in 2007 and 2018, we will see that no significant progress has been made in terms of raising awareness of CSR in 10 years.

In Georgia, companies associate the improper practice of CSR with its unprofitability for business and the fact that their customers are not interested in CSR (CRRC-Georgia, 2018) This is where the problem that limits the ability to satisfy the interests of all interested parties with the concept of CSR appears. Local companies are not aware of the benefits of corporate social responsibility. Most of them do not see CSR as a business opportunity. Consequently, they do not have enough incentive to fulfill the CSR and as a result, they are less active. As for the second reason - the lack of interest of the user in CSR - there is a problem with the understanding of CSR here too. mentioned above, the vast majority of companies do not adequately distinguish between CSR and philanthropy, only 22% of the respondents distinguished them as a systemic and non-systemic (strategic and non-strategic) approach to CSR. Also, it should be noted that the majority of the interviewees consider CSR as a tool for forming a positive image of the company in society and name this as the main motive. (CSR DG, 2007). Based on this fact, it becomes clear that CSR as a strategic tool for achieving corporate goals is new for Georgian businesses.

Our opinion is substantiated by the corporate responsibility research report conducted in 2019, according to the results of which 69% of the surveyed companies do not have a document written in the direction of corporate responsibility. This indicator varies depending on the size of the business and if it is 49% in the case of large businesses, it reaches 89% in the case of small businesses (Innova, 2019).

Using CSR as a strategic tool requires its inclusion in the company's strategic development document. The CSR strategy should be considered as important and clearly written out as the sales strategy, marketing strategy, financial strategy, human resource management strategy and other strategies included in corporate policy and strategy documents (Emezi, 2014).

Unlike philanthropy and charity, which consider the application of profits as a one-time act to solve social problems, CSR is a systemic managerial approach that focuses on the processes through which profits are made. Therefore, along with the creation of the CSR service in the organization, it is important to develop the CSR strategy in accordance with the company's strategic visions and its effective implementation.

In addition to the fact that in most companies there is no written document in the direction of CR, only 3% of the 1053 organizations surveyed in Georgia in 2019 had a structural unit of corporate responsibility, and in 49% of the organizations there was no responsible unit or manager (refusal to answer -19 %). In most organizations in Georgia, public relations, marketing and human resource management departments are the structural units that manage the HR process.

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Activities planned within the framework of CSR should be in accordance with the company's mission, strategic visions and values. Compatibility with the CSR mission increases employee engagement because they clearly perceive the connection between CSR activities and their core business. Social involvement in CSR events leads to the maximization of benefits from it. In order to maximize benefits, it is also important to involve top management in both the implementation and control processes. Their involvement in the implementation process increases the motivation of employees even more, and control is an effective tool for the effective use of resources.

In Georgia, there are also problems in the direction of control and evaluation of the effectiveness of CR. According to the results of the research conducted in 2019, 56% of the surveyed organizations do not monitor CR measures, and 7% monitor them with internal research. The results in the direction of effectiveness evaluation show that 58% of organizations do not evaluate the effectiveness of CR at all, and 9% apply an internal audit to evaluate the effectiveness of CR (Innova, 2019).

If we evaluate the state of CSR in Georgia according to the main areas of the "Ten Principles of the Global Agreement", we can more or less find the standards written

in the organization's charter and the code of ethics in the direction of human rights, labor rights and the fight against corruption. Despite the fact that most companies claim that in a problematic situation they compensate for the damage caused by the violation of the rights of employees, the preventive approach to the issue does not work, as in the case of corruption. It should be noted here that if in all other cases, compared to medium and small businesses, large businesses were in an advantageous position regarding the understanding and practice of the CSR issues, we find the opposite situation regarding the fifth principle of the "Ten Principles of the Global Agreement" of the United Nations, namely the effective prevention of child labor. In the case of small businesses, almost an absolute majority declares that no persons under the age of 16 work in the organization, which cannot be said for medium and large businesses, where this indicator decreases to 97% and 86% (Innova, 2019).

Despite the fact that in the context of CSR, the main emphasis of companies is on charity and sponsorship as a means of image formation, in most organizations there is no document and written strategy by which they will make a decision and implement relevant measures (Innova, 2019).

We find the same situation in the direction of environmental protection, which once again confirms that organizations in Georgia do not take a strategic approach to CSR, and it has an unsystemic, chaotic character.

## **Conclusion and recommendations**

Finally, it can be concluded that both the practice of CSR and the results of research carried out in this field at different times reveal a significantly low level of awareness of CSR in Georgia. We can name the wrong and inaccurate perception of CSR as the determining factor for companies' passive position in the direction of CSR. Accordingly, it can be assumed that the understanding of the importance of CSR by the business and the perception of the possibility of receiving potential financial benefits from it prompts companies to switch to systemic (strategic) CSR.

In the recent period, Georgia has seen progress in the process of understanding the concept of CSR, and some companies, mostly large businesses, are on the path of strategic CSR, which can be considered to some extent as an effect of the Covid-19 pandemic. Against the backdrop of the economic and social crisis caused by the Covid-19 pandemic, CSR acquired a special role. Taking into account the interests of stakeholders has become critically important in companies' actions, which has presented businesses with significant challenges, but at the same time provided an opportunity to create social and economic benefits through a new understanding of CSR.

Studies conducted in Georgia do not show a relationship between CSR and a company's financial results, which provides a great opportunity for future research.

In order to perceive CSR as a business opportunity, it is important to conduct research in Georgia to reveal the connection between CSR and the company's financial results.

A large number of companies in Georgia associate the improper practice of CSR with its unprofitability for business. As mentioned earlier, CSR becomes a business opportunity after it is integrated into the business strategy. The development trends of Georgian CSR show that companies are slowly moving to a strategic approach to CSR. Therefore, the current trend creates a good opportunity for conducting future research on the mentioned issue, so that Georgian companies can see what benefits CSR can bring to their business.

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