

SOCIAL CAPITAL THEORY RELATED TO CORPORATE SOCIAL RESPONSIBILITY

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Abstract

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The article deals with corporate social responsibility and its relationship to strategic management dealing with acquisition, development and utilisation of essential inputs. They influence the design of processes related to the creation of products or services that satisfy customers' needs. Authors claim that the successful securing, deployment and development of any input is of human origin or linked to human activity which means that the nature of relationships plays a crucial role. As businesses are not isolated, they operate on a global scale where the question of trust is very important. The concept of social capital stresses that trust in norms and reciprocity facilitate increased productivity in individuals, teams and organisations. Social capital promotes value-added collaboration including on-going and demonstrative transparency which can secure closer bonding among those group members. Business responsibility, CSR and Putnam's definition of social capital is shown on real case studies as a sign of importance for credibility and effectiveness of any CSR efforts. It is evident that the good will and support garnered from CSR can be fragile and easily damaged.

social capital, corporate social responsibility, strategic management, global business

Much has been written about corporate social responsibility (CSR) and most likely there remains even more to come. And although there is no universally accepted definition (WBC, 2000), it continues to attract the ever-growing attention of business academics and practitioners who cite its introduction and development as a factor in competitive advantage (WBC, 2000). However, it is not the intention of this paper to analyse how and why it came into being, but view it through the lens of a Strategic Operations Management which primarily deals with the acquisition, development and utilisation of essential inputs that, in turn, go into the design of processes geared around creating products or services that satisfy customers' needs (MIT, 2012). It is the authors' contention that the successful securing, deployment and development of any input is either human in origin or inextricably linked to human activity, in which the nature of relationships plays a crucial role.

MATERIALS AND METHODS

Setting the scene: why does business exist?

In 1970, the controversial American economist Milton Friedman is accredited with saying *there is one and only one social responsibility of business to increase its profits* (Friedman cited in Mackey, 2005). Taken at face value, this quote represents a rather orthodox view of business activity that stresses that the company's overriding raison d'être is to efficiently serve only one key group of people, namely the shareholders. However, the statement implies next to nothing about the existence of other interested parties that make the generation of profit possible. Conversely, if we 'fast forward' by 30 years or so, we note the emergence of countervailing forces in recent years that seem to question the optimisation of shareholder value by factoring in a growing awareness of a much broader set of groups known as stakeholders (Couillad, 2011). This can be illustrated

by the sentiments expressed by the former CEO of AT&T, Michael Armstrong, who said *AT&T understands the need for a global alliance of business, society and the environment. In the 21st century, the world won't tolerate businesses that don't take that partnership seriously, but it will eventually reward companies that do* (WBC, 2000). Undoubtedly, the aforementioned suggests a wider group to which business must account, but why the change?

Businesses do not exist in isolation

It can be argued that the shift in business attitude may be due to recognition of the increasing importance of stakeholder theory that states that a company should take into account not only shareholders but also other important people and organizations that have an influence on the corporation. The stakeholders can be divided into internal ones such as employees, managers and owners, followed by external stakeholders – suppliers, society, government, creditors, shareholders and customers. Therefore, the nature of these relationships is extremely important, as a positive or negative series of stakeholder interactions can have real financial implications, both within and without the company. For example, stakeholders can threaten a company, e.g. employees engaged in a long, protracted strike action. Conversely, when the relationship is good, they can assist the company. For example, positive relationships with your suppliers may secure you extended credit (Van Nieuwenhuize, 2010).

In addition to stakeholder theory, the effects of globalisation, i.e. increased competition and greater economic instability, have underscored the need for stable, strategic relationships to help companies weather an increasingly uncertain global business environment. Moreover, it can be argued that globalisation has put many multinational enterprises (MNEs) work practices under close scrutiny (Strategis Canada, 2006).

Globalisation and CSR

Globalisation and the unrelenting proliferation of cross-border business activity by MNEs has resulted in a growing interest in CSR work practices in areas such as work-related human rights, green issues, health and safety, and anti-corruption. Furthermore, improved global access to information communication technology and media allows for the easy monitoring of corporate activities worldwide resulting in a more informed national/international public. In addition, a succession of high-profile corporate collapses, e.g. Enron in 2001, have contributed to growing public mistrust culminating in a renewed demand for improved corporate governance, accountability and transparency (Strategis Canada, 2006).

Globalization can be also defined as *the process of intensification of cross-area and cross-border social relations between actors from very distant locations, and of growing transnational interdependence of economic and social activities ...with globalization the modes of connection between different social contexts or regions become networked across the earth's surface as a whole* (Scherer, Palazzo, 2008: 416).

A question of trust

Clearly, cases such as the Enron meltdown can have a devastating effect on the company's shareholders¹ as it struggles to secure, maintain and nurture vital human inputs which are embedded in the company's social capital fabric, as posited by Putnam's social capital theory (Putnam, 2000: 19).

Putnam (2000: 19) provides the following definition of social capital: *Whereas physical capital refers to physical objects and human capital refers to properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them. In that sense social capital is closely related to what some have called civic virtue.* Alternatively, this can be rewritten as social capital which may be weakened in a social organisation if trust norms and reciprocity are damaged or absent, thus reducing the efficiency of society by unsuccessfully facilitating coordinated actions. Essentially, the concept of social capital stresses that trust norms and reciprocity facilitate increased productivity in individuals, teams and organisations (Putnam, 1993). Consequently, this increased productivity that is garnered through the willingness of human identification, association and secured fulfilment can have financial, intellectual and social dynamics that underpin an overall improvement in such human social configurations.

Moreover, it would seem that even the World Bank (2011) has given credence to social capital theory by publishing the following: *Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together.*

An interesting point for Strategic Operations managers to note is that the World Bank (2011) also accepts that social capital “when utilized properly can enhance the efficacy and sustainability of projects”. For instance, central to view point is the belief that social capital promotes value-added collaboration, which, in turn, requires on-going transparency so as to secure closer bonding among those group members.

1 Source: http://www.youtube.com/watch?v=Uxd9AcXft64&feature=player_embedded

RESULTS AND DISCUSSION

Social Capital

It can be argued that the notion of demonstrative transparency may be more achievable in some kinds of groups than in others. For example, if we return to Putnam (1993; 2000) we note with interest his distinction between 'bridging social capital' which facilitates the bond of connectedness and exchange among groups that are heterogeneous in nature and 'bonding social capital' that facilitates cohesion in homogeneous groups, e.g. groups that share the same cultural predispositions, locality and outlook, etc. It can be said that social capital refers to the utilisation of available social resources through established structures, networks and traditional norms in order to serve a community of like-minded members. In another words 'bridging' social capital is trust derived from looser, more external bonds (Grannoveter, 1973) and 'bonding' social capital is trust derived from a sense of belonging to a close, localised unit, e.g. a family, a clan or a social class (Putnam, 2000).

However, it would be prudent at this juncture to highlight the potential negative effects that bonding social capital may have on society due to its intrinsic nature, e.g. the secrecy that strengthens criminal gangs, rigid caste systems and cartels. But, in fact, may be positive for those who are offered support in return for acceptance, participation and reciprocity in those closed social groups. By contrast, bridging capital requires the extrinsic membership of different groups freely engaged in the sharing and creation of opinion forming ideas that demand and promote greater transparency in those networks (Putnam, 1993; 2000). Social capital framework is influenced by the following characteristics: reciprocity, participation, citizen power (proactivity), values, norms and outlook in life, diversity, sense of belonging, feelings of trust and safety and networks (bonding and bridging).

At the beginning of this paper, authors deliberately contrast the two diametrically opposing views of business. And in the preceding years since Milton Friedman's pronouncement, it would seem that the sentiments expressed by Michael Armstrong have been gaining ground (WBC, 2000). Moreover, it can be said that MNEs have committed both energy and resources in persuading consumers that they are the most ardent champions of green issues, or our most reliable and truly caring friends in the provision of products or services we consume, or that they are fair partners in the creation of economic growth at home or abroad. This is particularly true of British Petroleum (BP) and TV commercials which pulsate with the implied messages of "we care about the environment"² and "we really want to make

thing better for you"³ which could be construed as an attempt to create and secure good will from the public who are receptive to such messages. Consequently, the desire to garner this good will is now of such utmost importance to such MNEs that they have developed strategies to secure it, e.g. corporate social responsibility (CSR).

Responsible Business

The term *responsible entrepreneurship* refers to economic success of a business by the inclusion of social and environmental considerations into a company's operations. It satisfies customers' demands, whilst also managing the expectations of employees, suppliers and the surrounding community. It is a positive contribution to society including management of enterprise's environmental impacts. This demand is not only an issue for multinational companies, but also for medium-sized enterprises. An initiative of the European Commission, Directorate-General for Enterprise, has produced the guide: Introduction to Corporate Social Responsibility for Small and Medium-Sized Enterprises as part of the pan-European awareness raising campaign. It gives answers to questions on motivations for CSR and also introduces CSR in practice (Introduction to CSR 2011).

According to Husted and Allen (2006), relatively little is known about the management of CSR by multinational enterprises (MNEs) which results in a failure of global MNEs to respond effectively to issues of importance in their host countries. Well-known examples include protests and consumer boycotts experienced by Nestlé in selling baby formula in Africa and Nike as a result of child labour abuse in outsourcing in Asia. It is common practice for global MNEs to use strategies in which local market units have limited functions with small staffs and then find themselves unable to monitor and respond successfully to CSR issues.

Corporate Social Responsibility has been receiving increased attention both from academics and managers. Most of the academic attention focuses on CSR linkage to performance while firms are engaging in CSR on largely moral or ethical grounds, without clear strategic rationale. It may be an issue of a favourable image or relationship with constituent groups, such as customers. According to Waldman *et al.* (2006), demographic, economic, cultural and leadership factors are critical determinants of the CSR values of managers. His team states that: *A key implication for multinational firms is that it might be wise to assess such variables for managers based in different countries. For example, stakeholder-based CSR values and policies of a multinational firm could be strong, and this may be in line with home country's high*

2 Source: http://www.youtube.com/watch?feature=player_embedded&v=AAkiXLeYelQ

3 Source: http://www.youtube.com/watch?v=GU2DIBoy87A&feature=player_embedded

institutional collectivism and low power distance. However, in contrast, managers in a subsidiary country might have weaker stakeholder CSR values in line with that country's weak institutional collectivism and high power distance.

Corporate Social Responsibility and Strategy

It can be said that CSR is a deliberate decision by business to invest time and resources in practices, services and products that aim to reduce the external cost of doing business in society. Essentially, CSR can be defined according to the following three broad categories: environmental responsibility, social justice and economic growth and sustainability (Business Link, n.d.). Furthermore, businesses that are considered to be socially responsible try to market themselves as organisations dedicated to reducing the environmental impact associated with their activity, improving the equity of employer and employee relationships and, last but not least, delivering on-going improvements in shareholder value. With reference to specific areas of business in which a CSR programme can help to improve, Business Link (n.d.) has identified the following.

1. Branding Benefits

A considerable number of businesses invest in their CSR programmes to improve and raise the profile of their public reputation. As a result, companies can utilise a positive business image shared among potential customers, and augment it with their branding to create greater brand awareness and distinction in the market place. In addition, as noted by Business Link (n.d.), the branding opportunities generated by CSR efforts can aid companies both internally and externally. For example, a company with good CSR credentials can use its brand in the recruiting, retaining and motivating of skilled and productive people. Alternatively, the same profile can be deployed as a part of an external risk reduction strategy to curtail customer migration in the wake of negative media coverage.

2. Economic competitiveness

According to Inc. magazine (2007), because of successful CSR effort resulting in the creation or improvement of social capital reserves, businesses may be able to access valuable sources of human talent or human capital to deploy. However, Newell (2010) sounds a word of caution, i.e. although CSR offers the potential for competitive advantage, it is important to note that "a business must commit to it even in cases where it does not deliver an immediate

return if it expects its efforts to be effective." The implication of the aforementioned is that any CSR initiative is not a short-term strategic quick fix, but a long-term, sincere commitment to people and society, if it is to be credible.

3. Emerging Market Opportunities

As noted by Inc. magazine (2007), interest in CSR is growing, both among consumers and business owners (Newell, 2010). Consequently, CSR represents a long-term market trend in which companies must position themselves now in order to avoid the cost of doing so later (Newell, 2010).

Threats to CSR

At the heart of CSR is the need to secure stability reserves of good will from the company's stakeholders that can be leveraged (i.e. in the form of added value relationships) in order to promote sustainable business activity. However, the problem appears to be unforeseen event in the world that can severely test a company's hard-fought CSR credentials and lead to stakeholder disengagement and estrangement. For example, BP's oil spill into the Gulf of Mexico in 2010, as mentioned earlier in this paper. Moreover, as the enormity of the disaster began to be understood, coupled with images of a billowing broken pipe⁴ and oil-covered aquatic wildlife lying lifeless on long stretches of populated beach did public opinion of BP turn hostile, as illustrated by the call for a BP boycott. Furthermore, the sense of anger was particularly strong in those people whose livelihoods depended on the fishing industry along the Gulf's shorelines.⁶

In the face of increasing criticism from all quarters of North American society as well as international environmental groups, BP's CEO Tony Hayworth took the unprecedented step and apologised to all BP's stakeholders. Although the apology was severely lampooned by social media networks, such as YouTube⁷, it can be seen as an attempt to realign the company with its stakeholders, in order to reduce a further breakdown of trust. Other attempts at re-humanising and rebuilding trust in the BP community include official BP videos that focus on the ordinary men and women who work hard at BP to make the world less dependent on petroleum⁸ but more importantly the message here is "join us". Moreover, the official BP website⁹ is now bristling with general information, job vacancies, blogs, and renewed commitments to CSR and, of course, Gulf updates, all of which can be accessed on Twitter, Facebook and YouTube. After being on the receiving end of the wrath from social media networks, it

4 Source: http://www.youtube.com/watch?feature=player_embedded&v=EJ91G3e0OBQ#t=3s

5 Source: http://www.cbsnews.com/8301-505123_162-43042025/bp-gulf-spill-w

6 Source: <http://gulfofmexicooilspillblog.com/2010/11/21/gulf-of-mexico-oil-spill-blog-grand-isle-rally-for-truth/>

7 Source: <http://www.youtube.com/watch?NR=1&feature=endscreen&v=zqldCf19iGs>

8 Source: <http://www.youtube.com/watch?v=MmnRECaXs5Q>

9 Source: <http://www.bp.com/bodycopyarticle.do?categoryId=1&contentId=7052055>

would appear that BP now recognises the value of such networks in service of BP's sustainability.

CONCLUSIONS

It is impossible to measure the impact of the Gulf tragedy on the credibility and effectiveness of BP's CSR efforts vis-à-vis social and human capital attainment and their deployment in competitiveness and sustainable business activity. What is clear is that the good will and support garnered from CSR is fragile and easily damaged. However, if a company has invested sincerely over the long-term in CSR, then perhaps it may be able to weather better such storms than a company that has not.

Clearly, this does echo those views expressed by Business Link (n.d.) regarding branding benefits, economic competitiveness and emerging market opportunities as the strategic by-products of CSR initiatives. Simply put, a company's survival in times of uncertainty will be ever dependent on those stakeholders who must still believe and support what the company stands for, if those said companies are to benefit from those vital human inputs. However, if CSR is proven to be nothing more than an insincere sham, then it is hard to see how those very same stakeholders will be willing to trust and reciprocate a second time; a sentiment echoed in the posits of Putnam (1993; 2000).

SUMMARY

The article deals with CSR, social capital and its relationship to strategic management. Authors claim that the successful securing, deployment and development of any input which is of human origin or linked to human activity makes the nature of relationships a very important issue. As businesses are not isolated, they operate on a global scale where the question of trust is very important and the good will or support garnered from CSR is fragile and easily damaged.

The concept of social capital claims that trust in norms and reciprocity facilitate increased productivity in individuals, teams and organisations. Social capital promotes value-added collaboration including on-going and demonstrative transparency which can secure closer bonding among those group members. Business responsibility, CSR and Putnam's definition of social capital is shown on real case studies as a sign of importance for credibility and effectiveness of any CSR efforts. The World Bank has also given credence to social capital theory. M. Friedman is accredited with saying *there is one and only one social responsibility of business to increase its profits*. Taken at face value, this quote represents a rather orthodox view of business activity that stresses that the company's overriding raison d'être is to efficiently serve only one key group of people, namely the shareholders. The nature of relationships is extremely important, as a positive or negative series of stakeholder interactions can have real financial implications, both within and without the company. Stakeholders can threaten a company or conversely, when the relationship is good, they can assist the company. In addition to stakeholder theory, the effects of globalisation have underscored the need for stable, strategic relationships to help companies in an increasingly uncertain global business environment.

CSR, described as environmental responsibility, social justice and economic growth or sustainability, is a deliberate decision by business to invest time and resources in practices, services and products that aim to reduce the external cost of doing business in society. For example, BP's oil spill into the Gulf of Mexico in 2010 was a good case to show the role of (social) media, public opinion and stakeholders' trust building. Authors believe that if a company has invested sincerely over the long-term in CSR, then perhaps it may be able to weather better such storms than a company that has not. A company's survival in times of uncertainty will be ever dependent on those stakeholders who must still believe and support what the company stands for.

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