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The relationship between corporate responsibility and the performance of the company

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Abstract

The purpose of the research is to study and deepen the theoretical provisions regarding the relationship between corporate responsibility and the performance of organizations via a set of scientific methods of cognition. The results obtained demonstrate certain differences in the impact of corporate responsibility on the activities of enterprises in the context of different countries of the world. The practical relevance of the research conclusions and recommendations lies in the possibility of their practical application at the level of the state and individual business entities, which will allow creating social and economic value for all interested parties.

Keywords: Corporate responsibility, Enterprise, Effect, Society.

La relación entre la responsabilidad corporativa y el desempeño de la empresa

Resumen

El propósito de la investigación es estudiar y profundizar las disposiciones teóricas sobre la relación entre la responsabilidad corporativa y el desempeño de las organizaciones a través de un conjunto de métodos científicos de cognición. Los resultados

obtenidos demuestran ciertas diferencias en el impacto de la responsabilidad corporativa en las actividades de las empresas en el contexto de diferentes países del mundo. La relevancia práctica de las conclusiones y recomendaciones de la investigación radica en la posibilidad de su aplicación práctica a nivel de las entidades empresariales estatales e individuales, lo que permitirá crear valor social y económico para todas las partes interesadas.

Palabras clave: Responsabilidad corporativa, Empresa, Efecto, Sociedad.

1. INTRODUCTION

The development of a new intellectual economy, the growth of the duration and reduction of the lag between the global financial and economic crises, increased competition and globalization affect the formation of the new paradigms and conceptual approaches to improving the business process management system of enterprises, the key component of which is corporate responsibility (CR). In some countries, CR is organically integrated into public policy, for example, in Sweden, Denmark, Finland; in others, socially responsible practices relate exclusively to the prerogatives of companies (the Netherlands, Greece, Slovenia). In 2000, the concept of CR gained worldwide recognition due to the creation of the UN Global Compact.

The annual European Competitiveness Reports provide compelling evidence that corporate responsibility contributes to saving and capitalizing enterprise funds (BURTON & TURNBULL, 2019). These conclusions are also supported by the Fair trade studies, which show a 65% increase in the sales of goods marked as fair. In 2010, the sales of

such goods amounted to \$ 3.4 billion and in 2018 they reached \$ 6.3 billion (EL DIN & ABDALLAH, 2016).

For a long time, Egyptian companies have been following the trend of change driven by the ideas of the A. Collar's Corporate Responsibility Hierarchy and Dan Woods' Corporate Development Model. Companies have become increasingly convinced of social responsibility, and today they face great social and economic challenges in their business process and assume their responsibilities and interactions with society, in pursuit of their economic goals first, and the needs of society secondly. Due to the eventful political processes taking place in the country over the past decade (EL-BASSIOUNY & LETMATHE, 2018; 2019), Egyptian companies have been able to practically assess the importance of building corporate responsibility both in terms of the relations with their customers, and in terms of the relations with the state (DRAGO, CARNEVALE & GALLO, 2019).

Thus, having stated that, it cannot be denied that there is a close relationship between corporate responsibility and the performance of modern enterprises, which is manifested in several aspects: ensuring sustainable business development, ethical and transparent functioning, staff loyalty, environmental standards, balanced satisfaction of the interests of all key stakeholders. These issues are especially relevant in developing countries where a market economy is being formed and, accordingly, the first steps towards introducing the concept of socially responsible business are being taken. These countries include the former Soviet republics and, in particular, Russia and Kazakhstan.

In 2008 Russia joined the United Nations Global Compact. However, at the end of 2019, there were only 71 Russian business representatives out of 9953 companies participating in the Global Compact. Kazakhstan, in turn, has been a member of the UN GC since 2015, and today there are only 18 Kazakh companies in the Compact. This obviously demonstrates that business entities both in Russia and Kazakhstan do not yet have a clear understanding of the importance and necessity of the corporate responsibility implementation and are not sufficiently informed about the advantages and benefits that can be gained from the implementation of the socially responsible management principles. At the same time, taking into the regime of saving financial resources, the concept of corporate responsibility cannot be fully implemented by any enterprise in a country with a transformational economy.

Thus, in the view of the above, there is a considerable scientific and practical interest in the impact of corporate responsibility on the indicators and results of business entities in Russia and Kazakhstan; this determines the theoretical and practical relevance of the study (DARRAG & CROWTHER, 2017).

2. METHODOLOGY

A set of scientific methods of cognition was used in the study, namely: elementary methods, axiomatic methods, observation, comparison, analysis and synthesis, modeling. The objects of empirical research included 5 Russian enterprises: (X5 Retail Group

(retail business), PJSC Sberbank (banking products and services), Russian Standard Vodka (alcoholic beverage industry), Cherkizovsky Meat Processing Plant (food industry), Euroset LLC (communication services) and 4 companies from Kazakhstan: (KARLSTORZ (sales of medical equipment), KEGOC (production and distribution of electricity), Raimbek Bottlers (juice production), Daily Express (postal and courier services). These companies operate in different economy sectors. We also analyzed 8 large Egyptian companies that 1) have already been the subject of research related to corporate social responsibility in business; 2) for at least the last five years, have been constantly creating corporate responsibility action plans and actively presenting the results of their activities in public. The latter allows a more objective assessment of the actions of companies (BILBAOTEROL, ARENAS-PARRA, ALVAREZ-OTERO & CAÑAL-FERNÁNDEZ, 2019).

3. RESULTS

Over the last few decades, foreign companies have shown a marked increase in economic and social indicators as a result of the introduction of CR elements in their activities. When analyzing secondary marketing information on the performance of American companies operating in various industries, scientists found a strong positive correlation between sales, return on assets, stock and capital value, business reputation, and social responsibility of companies (BISULTANOV, 2018).

Thus, Walker Information studies revealed a direct correlation between the company value (the total effect of its positive impact on society), reputation and customer loyalty to the brand. It was established that the introduction of corporate social values by one point leads to an increase in reputation by 0.55 points, and the use of economic leverage increases reputation by only 0.32 points. The facts mentioned above allow us to conclude that social projects affect company reputation twice as much as economic methods. The total profit of the corporations with high financial and social indicators has increased by 45% over the past 17 years; the organizations that were focused on the financial component and did not include the concept of social responsibility in their priorities increased their profits by 19%. The return on sales, the return on equity and the return on assets of socially active companies are greater by 3%, 10% and 4% respectively compared to those of socially neutral ones (CHEN, LIU & LIU, 2019).

Thus, it can be argued that the impact of corporate responsibility on the performance of organizations and enterprises is manifested through the creation of additional value, both tangible and intangible. Let us detail these measurements:

- Labor market: the company creates attractive jobs, pays a white salary, actively participates in the development of human capital;
- Public sector: a conscientious taxpayer;

- Interaction with partners and competitors: conscientious fulfillment of the obligations taken, compliance with the competition law;

- Production: production of quality goods and services; the use of the international quality management system;

- Financial sector: timely payment of the interest on loans and corporate bonds;

- Environmental standards: implementation of international standards and an environmental management system.

It is necessary to focus on the fact that in Russia and Kazakhstan, corporate responsibility has not yet been fully integrated with the enterprise management system as there is only a small number of organizations in the country fully implementing the strategy and principles of socially responsible management. Most enterprises do not have separate units that should deal with the issues of social responsibility; no mechanism has been introduced to monitor the implementation of social projects and social responsibility of enterprises is most often reduced to charity. However, there are also positive achievements. Let us discuss them in more detail.

Thus, in international practice, the impact of corporate responsibility on enterprise performance is usually assessed based on the business opportunity matrix proposed by Sustainability

International. To conduct the analysis, let us consider the activities of several Russian enterprises operating in various industries and sectors of the economy. The results of the study are presented in Table. 1.

Table 1: The impact of corporate responsibility on the performance of some business entities in Russia

Company	CR principles	Goals achieved
X5 Retail Group	Responsible employer, environmental responsibility, food safety, support for local communities, legitimacy and transparency of work.	Increased brand value; saving resources for establishing relationships with government agencies; decrease in staff turnover.
PJSC Sberbank	Well-being and development of employees, protection of their health and safety; quality of goods and services; development of local communities; environmental protection, the use of energy-saving technologies; corporate volunteering; business ethics.	Increased staff confidence in job security and greater loyalty to the bank; saving resources to attract and keep qualified specialists; strengthened reputation and image; improved business efficiency; effective social dialogue with local communities.
Russian Standard Vodka	Environmental protection; promotion of responsible and moderate alcohol consumption; creation of an internal code of conduct with suppliers, which includes a number of mandatory requirements for the company partners.	Improved financial performance; better reputation management; higher labor productivity and income; saving costs by using environmentally friendly and energy-efficient equipment.
Cherkizovsky Meat Processing Plant	Responsibility to society for environmental impact; responsibility to employees for creating optimal working conditions; responsibility to consumers for product quality; responsibility to partners for the honest and open partnership.	Standardization in accordance with international standards (ISO, etc.); increased labor productivity; higher social security; improved corporate culture; attracting employees to the ideology and mission of the company; staff loyalty; long-term increase in the effectiveness and sustainability of economic activity; environmentally balanced production.

Euroset LLC	The best service and the best product quality; honest and transparent relations with partners; honest and transparent labor relations; contribution to the professional development of employees; non-discrimination employment policy;	Transparency of operations and reliable reporting; continuous improvement of corporate management standards and practices; the availability and application of the corporate behavior code; socially desirable remuneration; the use of motivational remuneration schemes; the use of energy- and resource-saving technologies; compliance with advanced labor standards.
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The results presented in Table 1 demonstrate that the introduction of the corporate responsibility principles in the activities of Russian enterprises and organizations has a positive effect on their performance indicators and allows increasing the efficiency of business management by preventing social, economic, environmental and legal risks. However, unfortunately, some organizations in the Russian Federation only formally declare the use of the corporate responsibility principles and do not fulfill their obligations to customers, partners and staff (BEZUGLOVA, 2018).

Table 2 shows similar data for a number of large Egyptian companies that have been actively implementing corporate responsibility standards for more than five years; these companies have already participated in the studies that have demonstrated the positive effect of such an approach on objective indicators.

Table 2: The impact of corporate responsibility on the performance of a number of large Egyptian companies that have already dealt with CR

Company	CR principles	Goals achieved
Telecom Egypt	Well-being and development of employees, environmental responsibility, food safety, support for local communities, legitimacy and transparency of work.	Decrease in staff turnover; better company performance; higher financial indicators of the company; increased regional sales; easier interaction with government agencies.
Egyptian company for mobile service	Well-being and development of employees; quality of goods and services; development of local communities; environmental protection, the use of energy-saving technologies; business ethics.	Saving costs by reducing energy consumption; increased confidence and loyalty of employees; the influx of new specialists; improved discipline in the workplace; greater demand for company services in the regions; easier interaction with government agencies.
Egyptian Financial Group-Hermes holding company	Environmental protection; promotion of financial knowledge and financial responsibility; creation of an internal code of conduct with customers; ethical control in contacts with users.	Greater demand for company services; expanded brand awareness; improved internal working environment; increased customer loyalty; increase in the number of regular users and partners.
Raya Holding For Technology&Communi caton	Environmental responsibility; responsibility to employees for creating optimal working conditions; responsibility to consumers for product quality; responsibility to partners for the honest and open partnership.	Expanded brand awareness; reduction in internal organization costs; stabilization of relations with partners; increased regional sales; improved relations with international partners, in particular, foreign banks and investors.
Six of October Development & Investment (SODIC)	The best service and the best quality of work; honest and transparent relations with partners; honest and transparent labor relations; contribution to the professional development of employees	Better company performance; increased regional sales; easier interaction with government agencies; decrease in staff turnover; expanded brand awareness and increase in customers.
Egyptian Kuwaiti Holding	Financial literacy; ethical control over the activities of employees; support for local communities.	Expanded brand awareness; better business performance; improved internal climate in the company.

<p style="text-align: center;">Orascom Construction Industries (OCIO)</p>	<p>Transparent relationships with partners and customers; development of business ethics; environmental responsibility; well-being and development of employees.</p>	<p>Improved relationships with partners and customers; better financial performance of the company; decrease in staff turnover; easier interaction with government agencies.</p>
<p style="text-align: center;">Commercial International Bank (CIB)</p>	<p>Promotion of financial literacy; support for local communities; higher professionalism of employees; business ethics.</p>	<p>Expanded brand awareness; better sales and recognition in the regions; improved relations with institutional local and foreign investors; increased confidence and loyalty of the employees.</p>

Corporate responsibility in the business environment of Kazakhstan has its own socio-economic characteristics; as a result, most enterprises tend not to advertise their socially responsible practices or consider the disclosure of their company information to be optional. This contradicts global approaches as the transparency of information about CR is one of the important principles of its implementation. At the same time, it should be noted that the financial difficulties of companies and the lack of national legislation regulating corporate responsibility in Kazakhstan are the most significant obstacles to the development of social responsibility of a business. Let us discuss in more detail the CR expenses of business entities in Kazakhstan. For example, let us consider 4 Kazakh companies that were the first to join the UN Global Compact (Table 3). They are KARLSTORZ, KEGOC, Raimbek Bottlers, Daily Express.

Table 3: The ratio of the CR expenses and the revenues from the sales of goods and services of Kazakh companies

Indicator	2015	2016	2017	2018	9 month 2019	2019 to 2015
CR expenses, millions of tenges	629915	764995.4	885767.2	903432.4	895030.2	1.42
Sales revenue (goods and services), millions of tenges	6732456.4	7982478.8	8406339.2	8341320	8100430	1.20
The share of CR expenses in the sales revenue, %	9.36	9.58	10.54	10.83	11.05	-

According to Table 3, the share of CR expenses in the total sales revenue (goods and services) of the Kazakh companies under consideration is characterized by a slight upward trend: over the past five years, this indicator has increased by only 0.4 percentage points. These insignificant growth rates are due to the fact that over the period being studied, the CR expenses grew more rapidly than the company production volume. Taking into account the fact that the development of the public relations concept in the country is only at its initial stage, the outperforming growth rates of relevant business costs compared to the rate of change in the volumes of

sales of goods and services are a positive characteristic of the changing attitude of business owners and a gradual adoption of CR as an important component of enterprise management in Kazakhstan. At the same time, a range of corporate responsibility development indicators having negative dynamics in the country can be listed (for example, the number of collective labor contracts, payment for ecosystem services, charitable contributions, etc.).

It should be noted that the reason for the limited introduction of corporate responsibility in the activities of most enterprises, both in Russia and in Kazakhstan, is the unresolved dilemma about the feasibility of implementing social projects, which is still being ambiguously perceived by the management. The activities associated with CR are often considered as surplus material, financial and human resources that do not bring obvious results, but only negatively affect financial performance, and, among other things, boost prices for goods and reduce the competitiveness of the business (BURYKIN, 2018; TSINDELIANI, 2019).

In this context, it is necessary to determine a quantitative indicator of the impact of corporate responsibility on the operation of enterprises. In accordance with the production approach, the main quantitative indicator of the effective activity of any enterprise is its profit (DANSHINA, 2018). Thus, taking into account the concept of corporate responsibility, it should be noted that the production approach is the most acceptable at the stage of evaluating the effectiveness of its implementation; it does not contradict the stakeholder approach and the principles of socially responsible

business and allows determining the possibilities of expanding the range of social initiatives of the enterprise.

Thus, the target model function can be described as the pre-tax profit of the enterprise, which makes it possible to take into account not only the interests of business owners (in the case of using the net profit indicator), but also of other interested parties, in particular, staff (timely and appropriate level of remuneration), state authorities (the amount of tax revenues to the budget), etc.

$$E = f(\beta; X_i) + y_i - a_i$$

where E is the pre-tax profit of the enterprise;

β is performance indicators;

X_i is the factors directly influencing company activities;

y_i is margin of error;

a_i is the inefficiency indicator, which demonstrates the effect of indirect determinants on the activities of the enterprise.

4. CONCLUSIONS

Currently, corporate responsibility is an important component of effective business management, which should be implemented in the development of social partnership both at the level of society as a

whole and in the context of its individual institutional units. In the course of the study, we analyzed the experience of implementing the principles of corporate responsibility by three countries. We also identified the features of the concept implementation in the practical activities of the organizations located in Egypt, Russia and Kazakhstan. The analysis of specific activities and the results obtained was carried out based on the example of 8 Egyptian companies, 5 Russian companies and 4 Kazakhstan companies that operate in various business segments. Particular attention was paid to the quantitative assessment of the impact of corporate responsibility on the activities of organizations.

Based on the results obtained, we developed the recommendations regarding the prospects for using corporate responsibility tools in the activities of enterprises from the perspective of coordinated actions of the public and private sectors. The practical relevance of the obtained results is the fact that the recommendations and conclusions made can be applied by both individual enterprises and various government agencies. This will provide economic, environmental and social benefits through strengthening the corporate responsibility of business entities. The prospects for further research are associated with the development of a consistent algorithm for evaluating the effectiveness of CR measures, its methodological support, as well as the development of practical tools for finding information sources and calculating a system of indicators.

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