

# The impact of corporate social responsibility on business competitiveness

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## Abstract.

**Research background:** The social and environmental problems of the current globalised world are primarily targeted on the South and Southeast Asian business environment. However, according to the idea "think global, act local", practices of Czech local business also contribute to the global environment.

**Purpose of the article:** The Czech Republic is classified as a small open economy in the final stage of a transformation into a market economy, and on the top of that, it is also a member of the European Union. Thus, the Czech Republic is very dependent on the global market. Firstly, this paper is focused on analysing the Czech businesses' attitude to competitiveness with special emphasis on corporate social responsibility. Secondly, there is predicated the future approach of the Czech managers to CSR.

**Methods:** Primary research is based on individual structured interviews with Czech managers on the top and middle level (n=15). The interviews were conducted from February to May 2020 via a combination of face to face and distance communication.

**Findings & Value added:** The results indicate that the Czech business mostly does not perceive CSR as a key factor of corporate competitiveness. However, the significant part of the interviewees considers CSR as moderately important and what is more, they predicate the upward trend of this factor. In addition, corporate social responsibility is often associated with other factors of competitiveness – more precisely to customer loyalty and innovation capability. Moreover, all the corporations stated that they apply at least some of the CSR principles in their ordinary course of business.

**Keywords:** *competitiveness; corporate social responsibility; employees; SME*

**JEL Classification:** *M12; M14; Q01*

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## 1 Introduction

Some of modern civilization's most serious problems include the gradual exhaustion of natural resources, insufficient energy and water, as well as the degradation of biosphere quality along with the quality of the environment for society, among other things. Now, a new developmental trend called sustainable development has emerged, which also takes the ecological aspect of business activities into account. It is a complex and substantial concept that links three mutually dependent areas of progress and development – the environment, societal evolution, and economic development.

There is a whole range of approaches and definitions for describing the concept of competitiveness; these try to answer the question of what this concept entails and what are its essence and substance. Most relevant authors who have helped define the concept of company competitiveness – Porter [1] and Kotler and Keller [2] – agree that the basic element of competitiveness lies in obtaining a competitive advantage with which a business can distinguish itself from the competition and create both long-term profit and favorable market positioning. In modern terms, competitive advantage can be obtained and maintained primarily by a company satisfying customer needs in an entirely new way or aiming to perfectly adapt its products to client demands by customizing product traits or minimizing prices and streamlining the use of production resources.

Recently, there have been a number of authors investigating the relationship between company competitiveness and applying the concept of CSR – both in conjunction with individual CSR components as well as with the concept of CSR as a whole. The authors Koneczna and Kuliczka [3] have dealt with sustainable entrepreneurship, specifically with analyzing the competitiveness of ecological goods and services in selected industries in Poland. In their study, they have proven that increasing costs for protecting the environment positively influences the competitiveness of the industries analyzed. Winroth, Almstrom, and Andersson [4] also dealt with the subject of sustainable entrepreneurship in relationship to competitiveness using a system of ratios. In their article, Jovane, Yoshikawa, Alting, et al. [5] dealt with creating a reference model of sustainability at the national and global levels. An inherent part of developing the competitive abilities of small and mid-sized enterprises (SMEs) is having sufficient resources and workers with sufficient motivation and specialized knowledge [6].

How competitive business entities are under the conditions of sustainable development is very closely linked to customer interest and loyalty. Habanik, Martosova, and Letkova [7] dealt with how the degree of social awareness about corporate social responsibility influences loyalty, employee identification with their company, and how these mutually intersect, i.e., creating a conceptual model in this area. One study's authors [8] investigated how service quality and trust impacted customer loyalty via integrated variables. It was discovered that customer loyalty was influenced positively in this area, which can significantly strengthen a company's competitiveness.

A number of authors list brand as a meaningful tool for supporting company competitiveness under the conditions of sustainable development. For example, He and Lai [9] consider CSR to be a good marketing tool that significantly influences consumer behavior. The results of their research show that the perception of a company's legal and ethical responsibilities can improve brand loyalty by reinforcing positive images. The authors also recommend that companies have their marketing programs target key dimensions of social responsibility based on customer expectations.

## **2 Methods**

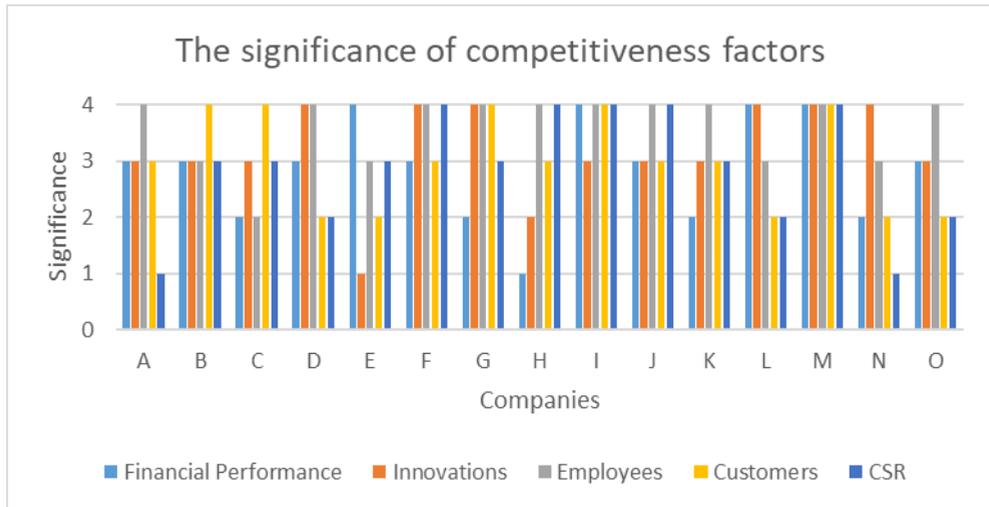
The goal of this paper is to define the attitudes, methods, and tools used by Czech businesses to increase competitiveness in the context of CSR strategy. A series of in-depth structured interviews with managers of mid-size or large (n=15) Czech enterprises were used for researching CSR's influence on company competitiveness. Some of the main reasons for selecting the Czech businesses were their availability and willingness to participate in qualitative research. The research's topicality is evident from the long-term political and media attention devoted to the state of the Czech entrepreneurial environment as well as the current pandemic crisis and its impact on company competitiveness. Secondary analyses were used for research in the literature, primarily those from international sources, which were then judged from the perspective of their relevancy, significance, and currency.

The primary research was conducted between February and May of 2020 using a combination of personal and long-distance communication. The interview topics were firmly set according to the defined goals. The questions were conceived on the basis of prior research, although the interviewed managers had the option of elaborating on their answer and placing it in the context of their business activities. Specific questions addressed the criteria for company competitiveness, the factors of social responsibility, their use in building company image, and the credibility of social responsibility. All the answers were recorded and subsequently analyzed in the context of the given company as well as the research as a whole.

The managers approached were mostly employed by limited liability companies (categorized according to Act No. 90/2012, Coll.) of various sizes; overall, ten corporations classified as small to mid-size businesses and five large companies (evaluated according to Commission Recommendation 2003/361/ES) were surveyed. The business activities and market impact of the interviewed companies were also taken into account. A total of seven companies stated that a key part of their turnover was from the B2C market with eight corporations then listing the B2B market as their main focus. Comprehensive analysis of the reports published by these companies, their websites, the public commercial register, and Czech media reports about the given issue were all used as supplemental information.

## **3 Results**

The results show that Czech enterprises view qualified, loyal employees as a key factor in competitiveness – regardless of their size or market orientation. In the following questions, the companies had to give points for certain factors such as financial performance, the ability to innovate, employee qualifications and loyalty, customer loyalty, and namely how CSR impacts the competitiveness of business activities. Large companies placed stronger importance on the first three factors than did the SMEs; conversely, the SMEs judged CSR's impact on competitiveness to be more fundamental than it was for the large companies. As to the aspect of employee influence, their assessment tended to be identical, see Fig. 1. Moreover, two managers stated that they expected CSR to become markedly more important factor in the future on account of rising societal pressures.



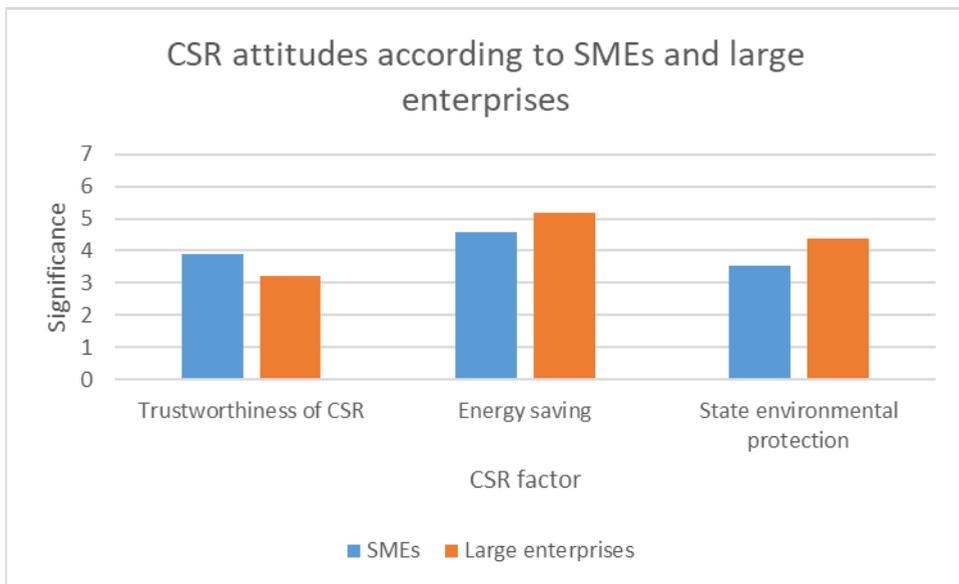
**Fig. 1.** The significance of competitiveness factors.

A total of 13 enterprises stated that they apply CSR principles voluntarily. The companies spoke most frequently about the social pillars (seven corporations total); they had the option of listing activities from multiple pillars at the same time. From the perspective of internal stakeholders, this primarily concerned employing handicapped individuals, limiting various forms of discrimination, ongoing employee education about CSR, setting fair working standards, and improving the work environment. From the perspective of external stakeholders, the companies then only explicitly mentioned supporting schools and local socio-cultural events. From the environmental perspective, four managers mentioned ecological handling of waste and their recycling and packaging policies. One of these managers moreover listed increasing production efficiency, minimizing waste, and prolonging product lifespan. Examples of CSR activities from the economic pillar were mentioned explicitly by only two managers – both were concerned with limiting corruption. The second also mentioned following the rules of economic competition and business transparency. A total of four managers stated that they engage in all three CSR pillars (mainly in the context of their code of ethics), although only two of these managers were able to name a specific activity of theirs in all three pillars.

The next two questions concerned using CSR for employer branding and product promotion. In both cases, the managers could again select more than one factor. A total of seven companies had a reaction to CSR's relation to acquiring and keeping workers; however, they also stated that they only see CSR at this level as a subsection of a wider strategic aspect. They often link it to overall philosophy, tradition, and their company image. Regarding the CSR aspect of people, five of the companies expressed that they mostly engage this by employing disadvantaged individuals such as the handicapped, workers under 24 and over 50 years, people who have served a prison sentence, and individuals that have overcome addiction. Next, from the product perspective, only two companies consider corporate social responsibility to be a competitive advantage for their products, with none of these companies predicting distinct growth in this factor's importance for Czech customers.

The last series of questions dealing with the issue of CSR was aimed primarily at the environmental pillar, see Fig. 2. Managers were supposed to specify the credibility of CSR on seven point scale (with 7 being the most important, the most credible), how much their company engages in saving energy and water, and whether the Czech Republic is dealing sufficiently with protecting the environment. Answers to the question of whether

companies see CSR as a sincere effort or only as a marketing tool hover around the mid-range values; however, SMEs typically trust in these activities more. Large companies tend more towards the opinion that it is just marketing strategy. The question of saving energy and water is mentioned quite frequently in prior studies; in line with this, managers also provided a reaction to this issue even in the context of the previous questions. The results showed that there are significant efforts to achieve savings in this area, with only one small company stating that they do not address this question. There is slightly greater interest in this issue on the part of large corporations. Just as with CSR credibility, the issue of environmental protection at the government level is ambiguous for the managers at SMEs; answers also fluctuated around mid-range values. However, this protection tended to be sufficient for large companies, according to their remarks. At the same time, this question revealed the most marked conflict between SMEs and large companies. Another clear finding was that the enterprises mostly engaged in B2B markets trust in CSR more, they save more energy, and trust the government more where environmental protections are concerned. Fundamental differences were seen between companies with turnover on the B2B and B2C markets for the first two aspects, i.e., CSR credibility and energy savings.



**Fig. 2.** CSR attitudes according to SMEs and large enterprises.

## 4 Discussion

As mentioned in the introduction, streamlining production factors and their influence in a company's financial health has been historically considered an essential factor of competitiveness. Porter [1] likewise lists this aspect among his four basic factors of competitiveness, and along with the conditions of demand, he monitors companies' financial performance in two conjunct points. However, as of the mid 20<sup>th</sup> century, opinions can be found questioning the importance of maximizing company profit as the only factor for conducting business – Anthony [10] primarily considered this principle to be unrealistic and immoral. Currently, it is still possible to see a strong dependence on financial performance, for example, in the agricultural sector [11]. This dependence exists mainly because the agricultural market is considered to be nearly perfectly competitive [12], which is also supported by the homogeneity of its production. In turn, this makes price a key

parameter for differentiation. However, there is an alternative even in this market, which takes the form of ecological production. From the perspective of organically cultivated land, the Czech Republic has one of the best results in the EU; however, it is not even in the top ten for consumption of ecological produce [13]. This is primarily because of the higher price of environmentally friendly products in combination with the strong price elasticity of Czech consumers – as well as their distrust of green products or disinterest in ecological certification [14, 15]. Therefore, first and foremost, the relationship between price aspects and emphasis on CSR supports our research conclusions indicating that for the most part, it is large companies on the B2C markets who see financial aspects as a key factor for competitiveness.

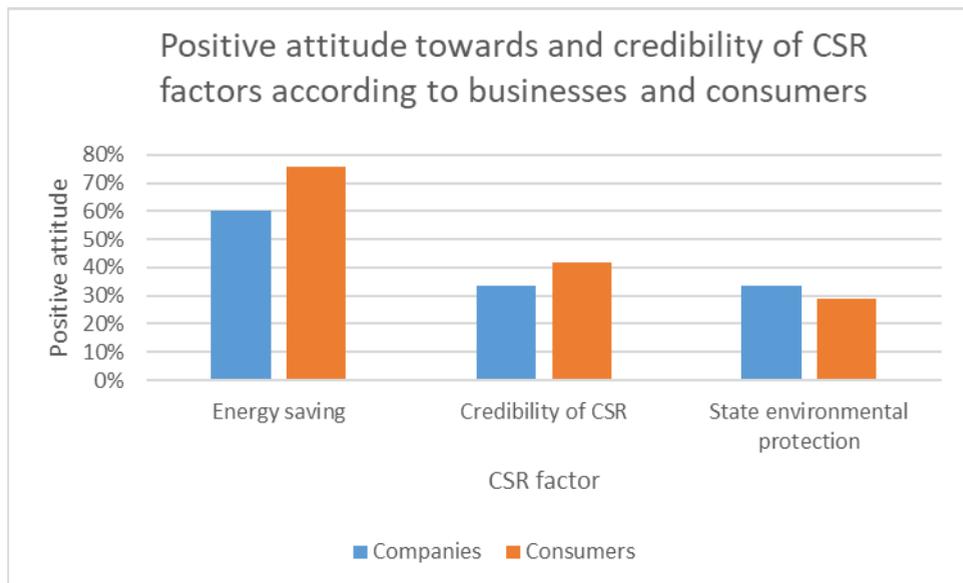
Further, this relationship also corresponds to the question on using CSR as a part of sales strategy – only two companies explicitly selected CSR as a competitive advantage for their products (though only as part of a wider strategy, similar to employer branding). One of these companies is involved in the B2C market and the other in the B2B market, which also is consistent with the question of the companies' stance on competitiveness, because the average value given for CSR's influence on competitiveness differs only in hundredths of a point in favor of B2B. At the same time, none of the 15 managers interviewed predicted that customers would increase their demand for products with responsible features. If they mentioned CSR increasing in importance, it was only in regards to the question about company competitiveness factors – and then only in relationship to society as a whole, not specifically targeting customers. However, companies should be showing greater adaptation to the concept of CSR on B2B markets, according to theoretical sources [16, 17]. From the perspective of B2C markets, the literature tends to be more fragmented, because customers are interested in the societal impact of products only in certain industries and only in developed markets [18]. Research conducted directly in the Czech Republic confirms this disinterest in CSR from the perspective of consumer behavior. The only exception is product packaging – Czech consumers view instituting an extra fee for plastic bags in shops positively and purchase products in recyclable packages or mega-packs [15]. However, research results indicate that the second type of packaging is being purchased mainly for economic reasons.

Regardless of industry, the contacted managers felt that their products' competitive advantage lies in the comprehensiveness of the solution they supply (12 companies), and more than half of them also see advantages in the sections labeled “quality, lifespan, and wholesomeness” and “technical advancement, performance, and equipment.” They additionally stated that these factors can combine with price or the possibility of “their customers welcoming a lower price.” However, only four companies listed the factor of price on its own as a specific advantage for their products. At the present time, the Czech managers' opinion was that their customers are mostly concerned only with functional value, but in the future, they expect a product's emotional value to become increasingly influential, as described by Sheth, Newman, and Gross [19]. However, both of these aspects would still be linked to monetary value [20].

As to the content of CSR activities, it was determined that internal activities from the social pillar are by far the most prevalent, which agrees with previous studies indicating that the social pillar is the broadest [21]. Also, on its own, the method of Global Reporting Initiative [22] has listed an outright total of 19 independent standards in the social sphere, with eight in the environmental pillar and only seven in the economic one. This could be a reason to split the social pillar into work environment and local community, resulting in the creation of a total of four independent CSR pillars [23]. In line with this, the fact that the social pillar is of greatest importance corresponds with employee loyalty being listed as a key competitiveness factor as well as with widespread use of CSR for employer branding.

CSR's influence on employer branding was also confirmed by previous studies – primarily for Generations Y and Z [24, 25].

The last series of questions was selected on the basis of previous research [15], with consumers being asked these same first three questions. Fig. 3 depicts the respondents who adopted a positive stance towards the given factor (meaning they selected the given factor as important or rather important, i.e., they listed a value of 5, 6, or 7 on the given scale). From the results, it is clear that the most significant difference can be seen in saving energy and water (76% for consumers and 60% for companies). Trust in CSR strategies and the government is low for both groups. Nonetheless, it is interesting that consumers trust companies more than companies trust each other. Trust in the government and its environmental legislation produced the closest results, though companies saw environmental legislative measures as being slightly more important.



**Fig. 3.** Positive attitude towards and credibility of CSR factors according to businesses and consumers

## 5 Conclusion

On the basis of our own research and the literature review, the Czech companies' results can be considered relatively positive, especially for the region of Central and Eastern Europe. In line with this, Czech enterprises generally focus highly on CSR's social pillar, partially at the expense of the environmental pillar, although chiefly they entirely neglect the CSR's economic dimension. Using CSR activities in the context of promoting products is still largely problematic in the Czech Republic, because consumers are not willing to accept a greater price for a sustainable product. However, at the same time, they believe that companies should be engaging in such activities. It is possible to conclude that there is potential for Czech consumers to activate the concept of CSR even if it has not yet been utilized as a part of purchasing behavior.

Even though companies do not currently perceive CSR as a key factor for competitiveness, if they could change Czech stakeholders' perception of sustainable development, they would be able to create an entirely new market of products. The problem is that there are distinct barriers to such attempts, because this strategy would require a long-term effort across the entire Czech Republic that would need to be supported by

various communication channels. From the financial perspective, only truly large companies or clusters of small and mid-sized enterprises could afford this strategy. Engaging cooperation in this area would thus markedly lower financial demands and increase the credibility of such attempts, primarily if these clusters were able to use the support of NGOs and government institutions. At the same time, spreading out these attempts over a longer time period would allow stakeholders to understand the issue and thus reinforce trust in corporate social responsibility to an even greater degree. One starting point for this strategy could be to use current activities in the social pillar, e.g., with employees and local communities, where Czech companies are the strongest. Here, a correct strategy could lead to success in the field of viral and word-of-mouth marketing.

Nonetheless, according to the interview results, Czech enterprises are not planning to use such a strategy in the near future, but if they were, their communication strategy would then target NGOs, the government, and employees rather than consumers. Thus, the companies' end goal would be to lower societal pressure on business activity rather than to directly increase the success rate of sales. At the same time, however, it should be mentioned that it is possible for these stakeholders to adopt the role of customer; in this way, companies could also engage their CSR strategy in the area of sales, at least indirectly.

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