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The Role of Business in the Society

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In the new global business setting, companies are expected to achieve economic growth and increase competitiveness, but at the same time to contribute to the sustainable development of economy, environment and society. This paper reviews the role of business in the society through a variety of perspectives that were dominant within a certain period of economics development. Special emphasis is given to the corporate social responsibility as a contemporary philosophy of doing business.

Key words: business, corporate social responsibility

1. Introduction

The business sector plays a very important role in the society today. When describing and defining this role, it is necessary to consider the core business i.e. the reasons why companies are established and operate. It is not to do business *per se* but to create profit and other benefits both to the owners of the capital, the employees and other participants in the market, as well as the society. It is important to mention that there are authors who discuss corporate social responsibility from an entirely different perspective. Namely, the argument of one of the most influential economists in the USA in the 1970's, Milton Friedman, that "the only social responsibility of business – to use its resources and engage in activities designed to increase its profits" is still frequently quoted even today [1]. Friedman argues that "corporations are agents of the individuals who own them" and, consequently, nobody has the right to decide how the profit will be shared, except for the owners of this profit. He also argues that in this way, the responsibility is shifted from owners of the capital to the companies which, without a just cause, decide on the distribution of resources, denying the right to the owners of the capital (and profit) the freedom to decide what they want to use these funds for. Although his approach has often been quoted as a different approach to corporate social responsibility, Milton Friedman does not have many followers in the academic community, which may lead one to conclude that the concept that he advocated for has been abandoned both in practice and theory.

Since modern companies have a great number of stakeholders, it is necessary to meet and to manage their expectations and demands with respect to the role of corporations as "corporate citizens" in society. In addition to financial stability and operations embodied in law, stakeholders expect that companies have minimum adverse impact on society and the environment, and a greater level of responsibility through partnership agreements with other stakeholders in the social community, for the purpose of a better overall social development [2].

The objective of this paper is to present the business development path in the society, through various perspectives that were dominant in certain phases, as well as to offer a strategic framework for understanding the philosophy of socially responsible business that defines the role of companies in modern business environments.

2. The role business plays in a society: different perspectives

From a business perspective, the main role of a business in a society is to provide good living conditions through production and sales of products and services of value for the customers [3]. As the role and power of business in society changed and grew over time, so did the pressures for its better inclusion into the society and social community. Namely, a greater influence brought forth more responsibility and obligation of businesses to invest into society in which they operated. The roles that the business played in the society during the past decades are summarized below through different perspectives [4] prevalent during the periods specified.

Capital Owner's Perspective

The capital owner's perspective implies a traditional profit-oriented approach to management where capital accumulation is the main and the most important role of business. The role of a company's executive is to ensure profit and increase the owner's capital since these are the measures of the executive's success. Such an approach was prevalent during the period of industrialization, until the 1950s.

Society's Perspective

The rise in the financial power and influence of companies and owners of the capital entailed, in parallel, a greater interest and pressures coming from the society, demanding that businesses show more responsibility for the society. In the 1960s and 1970s, businesses were regarded as members of societies and their environment who should respond to social pressures and demands with corresponding highly ethical standards. In line with the well-known model of corporate social responsibility [5], businesses have economic, legal, ethical and social responsibilities.

Owner's and Society's Perspective

Since the prime interest of each company is to make profit, which represents a basis for further development, businesses in the 1990s were heading towards harmonization of various expectations i.e. to corporate social responsibility. This actually comprises good business performances as well as social responsibilities that businesses are expected to demonstrate.

Stakeholders' Perspective

A modern business environment calls for new sources of competitiveness which, in recently published literature, increasingly refer to relationships with stakeholders [6]. In global economy which is characterized by a vast number of participants and a high level of their mutual interdependency, the business philosophy is focused on building upon stronger bonds and relationship between companies and their stakeholders that are nowadays regarded as one of the key assets of each company [7]. A business network, comprising a company with all its stakeholders, means a network of multilateral relationships, bonds established on the basis of which people are interacting in a relationship, or resources used by the relationship actors or activities they perform. The role of business in modern environments should be observed from the perspective of a stakeholder.

Stakeholders include any group or individual who can affect or is affected by the achievements of the firm's objectives [8]. According to Freeman, even in the past, the management models considered "traditional" stakeholders – owners, buyers, employees and suppliers. However, when he presented his new strategic management theory, the author enlarged the stakeholders to equally important groups that may have huge impact on the organization – governments, competition, customers' associations, environmental groups, special-purpose interest groups, media, etc.

"Corporate Community's" Perspective

The development of information and communication technologies has a significant impact on business environments and the method of doing business [9]. A new economic theory [10], regards a company as a socio-economic system within which the stakeholders act as partners in creating values. The role of a business under such terms is to integrate economic recourses, political support, as well as information and knowledge available to the stakeholders and, consequently, to gain an advantage over its competitors in the market.

The global financial and economic crisis that has hit most countries worldwide during the last several years has shown the weaknesses and lack of responsible governance, primarily in financial institutions that contributed greatly to the initial crisis and its deepening. Since the financial power of governments and financial sectors has been weakened by the crisis, the pressure on companies to participate in resolving social issues has increased, primarily in the philanthropy domain.

The first focus of a business is to create a greater value for itself, but to do it in a responsible manner [11]. In recent years, companies have been accused by and large of most social, environmental and economic problems, for making a progress to the detriment of society, or for focusing exclusively on profit. That is why, nowadays, the emphasis is on creating a *shared value* that meets not only economic but social needs, as well. It is regarded as a *win-win* situation that is beneficial for both parties (Figure 1).

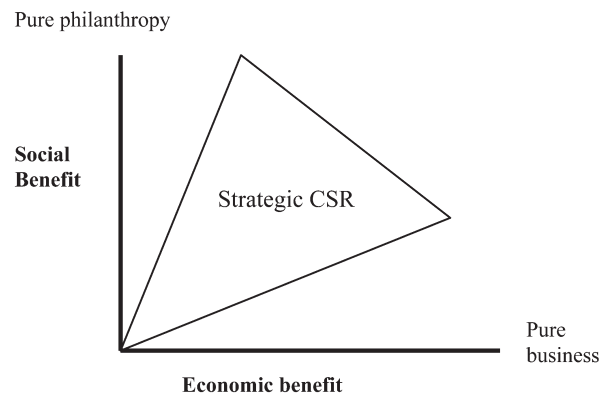


Figure 1. Strategic CSR: alignment of benefits for the company and the society[12]

The founder and the Executive Chairman of the World Economic Forum (WEF), Klaus Schwab [13], emphasizes that reality has created a need for new multi-stakeholder partnerships between public, private and civil society for addressing major issues, where businesses have an important role to play.

The global society's expectations regarding the engagement and contribution of all organizations, and companies in particular, were highlighted in the UN Millennium Declaration [14], that set the goals the fulfillment of which would help solve the major developmental challenges our humanity is facing. The UN Millennium Declaration reiterated that, although public policies should mainly channel and initiate development, the developmental process would depend on the contributions made by all organizations. The Millennium Development Goals (MDGs) include eight time-bound goals related to major global development issues to be achieved by 2015:

1. Eradicate extreme poverty and hunger.
2. Achieve universal primary education.
3. Promote gender equality and empower women.
4. Reduce child mortality.
5. Improve maternal health and achieve universal access to reproductive health.
6. Combat HIV/AIDS, malaria and other diseases.
7. Ensure environmental sustainability.
8. Develop a global partnership for development.

Taking into account the presented social responsibility strategy framework, the role of business in today's society can be accessed through the philosophy of corporate social responsibility [15]. It incorporates: creating products and services that have value for the customers, creating benefits for the stakeholders and maintaining a sustainable business, taking into account interests of all stakeholders, by following the principles embedded in law and ethics and with due respect to environmental protection.

3. Philosophy of corporate social responsibility

McKinsey's survey of global corporate social responsibility demonstrates that society nowadays has greater expectations than before and that companies will take upon themselves public responsibility, so that social responsibility will become increasingly important as a *win-win* solution both for companies and the society [16].

The research has demonstrated that organizations can achieve an advantage over their competitors through:

- Integration of non-economic factors in business operations [17];
- Improving their image and reputation [18];
- Achieving customer satisfaction and positive attitudes and behavior of their employees [19];
- Building corporative goodwill [20].

Corporate Social Responsibility (CSR) implies a permanent dedication to ethical principles of business, a contribution to economic development, a positive impact on the quality of life of employees and their families, as well as on the local community and the society as a whole [21].

In its "Guide to Communicating CSR" [22], the European Commission has defined corporate social responsibility as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

While working on ISO 26000 Standard for social responsibility, ISO 26000 Standard working group [23] defined social responsibility as the "responsibility of an organization for the impacts of its decisions and activities on the society and the environment, through transparent and ethical behavior that contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behavior and is integrated throughout the organization and practiced in its relationships".

Social responsibility represents a multidimensional concept that covers a wide spectrum of activities and programs that may be developed depending on culture, company's business operations and goals, as well as its business environment [24].

The CSR concept is based on company's mission i.e. the essence of its functioning, while its core business and the goal of creating profit are supplemented by social responsibility dimensions:

- Market – responsible market behavior means placement of safe and harmless products and services at adequate prices, having due respect for consumers rights, legal and ethical communications related to products and services, etc.
- Human resources – responsibility towards employees includes the provision of safety-at-work measures; respect for the human rights issues; equality (gender, racial, national, etc.); investing into further development of own employees; provision of additional benefits for the employees e.g. recreation, medical check-ups, etc.
- Environment – environmental responsibility means being responsible with regard to consumption, preservation and creation of resources, not jeopardizing biodiversity, making a positive impact with regard to the issue of global warming, etc.
- Social community – responsibility towards society is manifested through the elimination of detrimental impacts of business operations on local communities, solving the local community's needs and issues, development of a plan of investments into local communities (scholarships, financial support, volunteering activities by employees, etc.), and philanthropy and humanitarian purposes, etc.

Social responsibility is often the most visible form of corporate responsibility, but it should be emphasized that short-term investments, like donations, cannot be regarded as equal to social responsibility which also underlines a positive impact achieved in all the above mentioned dimensions [25]. Furthermore, it often happens that companies are more engaged in communicating their own social responsibility through individual short-term actions, while the corporate social responsibility is not embedded in their own business operations [26]. Communicating on one's own social responsibility should be only the peak point on the pyramid of the concept of corporate social responsibility which should be embedded in all other aspects of business operations.

4. Evaluation of corporate social responsibility

The CSR generates benefits for a business firm as long as it makes the bonds between the company and the stakeholders stronger. In addition to generating profit, the business firm's task is to generate benefits for its stakeholders, from tangible to intangible, from financial to psychological [27]. Numerous studies indicate that stakeholders appreciate companies which are dedicated to corporate social responsibility, although there is no guarantee for the return on the investment in CSR [28].

The most commonly quoted measures for the evaluation of CSR activities by different authors include the following:

- The amount of money invested in CSR activities, presented in the company's report;
- Awards and recognitions for CSR activities;
- Ranking by third parties/companies/agencies. These may, for example, include rating institutions that analyse the CSR policy and practices of the organizations and recommend them to investment funds, e.g. *Dow Jones Sustainability Investment (DJSI)* that includes an integrated evaluation of economic, environmental and social criteria with a strong focus on long-term values of stakeholders. This procedure is usually implemented in case of large corporations.

The latest comprehensive survey on corporate social responsibility in Serbia was carried out in Serbia by agencies Synovate Serbia and SMART Kolektiv in 2010 [29].

The survey covering the CSR experts in the corporate sector demonstrated that companies in Serbia recognized the need for corporate social responsibility and assessed that a strategic approach to adopting CSR as a business philosophy would be much more applied in the future.

On the other hand, the citizen awareness in Serbia regarding corporate social responsibility is still not fully raised, since one third of the total number of 2241 respondents interviewed said they did pay attention to the way certain companies are involved in social life i.e. whether they are perceived as taking care about the environment, their own employees, taking part in humanitarian events, etc. The major issues for the respondents included: working conditions and employment (health care and safety of workers, provision of a stable/permanent job), as well as environmental protection.

Over 50% of respondents believe that the Parliament, local authorities and the Government of the Republic of Serbia are not working for the benefit of the society as a whole, while between 40% and 50% of respondents expressed mistrust both in companies and non-government organizations, which makes the implementation and communication of CSR more difficult.

Only 16% of respondents were able to name at least one company that applied socially responsible practices. The most frequently mentioned companies included: Delta Holding, Holcim, Coca-Cola, Hemofarm and Telenor.

Apart from the surveys measuring the opinions and attitudes of companies and citizens, another possible way to evaluate CSR is through prizes and acknowledgements awarded by relevant institutions. As an example of best practice which was of topical interest at the time of writing this paper, the author could mention the *Disability Matters Award* won by the Serbian company Delta Holding in 2012 for a program of professional rehabilitation of people with disabilities. This programme of professional rehabilitation of persons with disability was launched by Delta Holding in 2008 as part of its CSR program directed to social community. The program included education, working and social inclusion programs and employment of persons with disability within the company.

Conclusion

The role of the business sector has changed alongside the development of economy and the society as a whole, from merely making profit for capital owners, to streaming it towards social benefits of business operations, all the way to harmonizing economic, legal, ethical and social responsibility of companies.

Since companies nowadays are regarded as socio-economic systems where stakeholders are partners in creating value, the role of business is to enhance value, but in a socially responsible manner. Modern theory and practice put an emphasis on adopting a philosophy of corporate social responsibility, through all dimensions it integrates. This paper presents a strategic framework for understanding a contemporary role of business in the society.

The results of the surveys presented in this paper confirm that companies in Serbia are faced with a huge challenge of understanding the strategic framework of corporate social responsibility, as well as adopting a new business philosophy in spite of a prevailing mistrust in this role of business demonstrated by the civil society. Only through a strategic approach that integrates CSR into business operations will it be possible for businesses in Serbia to fulfill their role of good corporate citizens and meet their stakeholders' expectations.

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