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## **THE THE ROLE OF SOCIAL RESPONSIBILITY AND THE GROWTH PERSPECTIVES IN BUSINESS (THE CASE OF GEORGIA))**

### **Abstract:**

In modern day, it is impossible to have a proper reputation and to not be active in terms of social responsibility. It is necessary for business sector development. Social responsibility is an additional tool for improving company image, efficiency of communication with the public and for sustainable development and ensuring stability. Social responsibility has become typical and a common way of doing business worldwide. According to the research consultation center Next Consulting, the degree of social responsibility is much higher in European Companies than in their American counterparts. According to the current data, 75 percent of the companies with high social responsibility are European and 25 percent is American.

The discussions on corporate social responsibility in Georgia began in 2005. The UN program Global agreement – Georgia was developed in 2007. The program aims promoting the concept of corporate social responsibility and installing international social reporting practices. In recent years, Georgia provided precedents for social reporting – British Petroleum Georgia, Natakhtari have already created first Georgian social reports.

Nowadays, business companies in Georgia spend quite a lot on social projects and charities in adequacy to their scope and capabilities. However, their actions often come in forms of individual charity activities rather than in the form of systematic social responsibility project. Therefore, it is important for corporate social activity to avoid chaos and get systematized. Its general principles should include: corporate management and ethics; protection of human rights; environmental protection; addressing the needs of society; forbidding corruption; protection of customer rights and product responsibility; transparency and accountability.

The research aims to evaluate the role of corporate social responsibility in business companies, to assess social responsibility in business companies operating in Georgia and to formulate activities for growth.

Within the research, theoretical analysis relies on the works conducted by world famous scientists in management, while practical part regards qualitative research of companies operating in Georgia for which surveys and company information resources have been used. The study uses graphical methods and methods of grouping and comparison.

The research findings reveal that social responsibility is important for succeeding in business and is necessary to be considered in company strategies. Novelty of the research is determination of corporate social responsibility trends in Georgia and formulation of recommendations for growth.

### **Keywords:**

Social Responsibility, reputation, charity, environmental protection.

**JEL Classification:** M14, M19

## Introduction

At present, the role of corporate social responsibility in business increases steadfastly. Most of the companies increasingly consider the interests of their consumers, suppliers, employees, business partners and society in general during their business activities. The views of corporate social responsibility permanently changes over the years. The first discussions about the corporate social responsibility started in the post-war period, in the 1950s. In the 1960s, Davis saw the corporate social responsibility as decisions and actions, which, were at least, partially beyond the company's direct economic or technical interests (Carroll, 1991). As the European Commission explains, corporate social responsibility is a concept serving as the basis for the business in ensuring the voluntary integration of the social and environmental requirements on the one hand and relationships with the concerned parties on the other hand (Bassen, 2005); Dahlsrud identified five dimensions for corporate social responsibility and prioritized them in the following manner: stakeholders, social, economic, voluntariness and environmental aspects (Mohan, 2009); the Center for Strategic Research and Development of Georgia considers that CSR is voluntary contribution of a business to social, economic and environmental sectors of the societal development.<sup>1</sup>

As the earlier views suggest, corporate social responsibility is concentrated on philanthropic and charity actions (Jamali, 2007). Even to date, CSR in the developing countries is still associated with charity, while in the developed western countries it is a much broader concept. CSR is deemed a new method of business suggesting that the companies with any business decision or operations must consider the possible impact of such decisions or operations on the natural environment, local society and social-economic system, reduce its negative and strengthen its positive effects. In this respect, the study of the issues of the business CSR development is urgent and has a practical value for the companies.

The practice of the business CSR is being introduced in Georgia gradually. The growth rates are not really favorable and there are still many companies not realizing the importance of CSR and not taking relevant steps. Therefore, for the further development of the business CSR, it is important to realize the importance of CSR by the business sector on the one hand and to take relevant supporting measures by the society, government and non-governmental sector on the other hand.

Consequently, the goal of the study was formulated as the following question: what major steps and proposals will help the development of the corporate social responsibility of Georgian business? Following this goal, the following objectives were set:

- Identifying the role of corporate social responsibility.
- Evaluating the degree of corporate social responsibility in Georgia.
- Identifying the trends of growth of corporate social responsibility in Georgia and developing recommendations.

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[http://www.globalcompact.ge/ckfinder/userfiles/files/pub/CSR\\_DGBusiness%20survey\\_wl5d.LQ4Kd.pdf](http://www.globalcompact.ge/ckfinder/userfiles/files/pub/CSR_DGBusiness%20survey_wl5d.LQ4Kd.pdf) [10.10.2011]

The object of the study is large business companies operating in Georgia, and particularly the business companies playing an important role in business in respect of corporate social responsibility.

The process of the study is based on the qualitative and quantitative studies. The study uses questionnaires, interviewing and information sources of the companies, as well as graphical, grouping and comparative methods.

The results of the study are important for the business companies engaged in business and any entity concerned. The recommendations will help the companies to realize the role of CSR what will help increase their incomes and improve social well-being.

### **Role of social responsibility in business and growth prospects in Georgia**

The international experience evidences that improving the business CSR has a great impact not only on the business of the companies, but also on the development of the country in general. It is deemed as the mechanism to reach the political goals of the country, improve the economic competitiveness, solve social and ecological problems, trade and attract investments, as well as ensure sustainable development.

The rate of incomes of business companies depend on the society, in which the companies operate. Therefore, good relationship with different members of the society is vitally important for the companies, because a business cannot be successful in the society, which has problems. By introducing corporate social responsibility, the companies voluntarily undertake more responsibility than it is envisaged by law, voluntarily try to solve the problems of the society and support the well-being of the society. Respectively, CSR has a positive impact on business, in particular, the CSR:

- Improves the company image and consumer loyalty. Brand and reputation are the most valuable assets for the company. The company reputation is based on such values, as reliability and quality. Respectively, the CSR brings trusts and loyalty to the companies not being the subject of interest for the consumers. As the western studies suggest, there is a close link between the consumer behavior and the company's reputation. Most of the consumers note that they prefer the production of the companies with high CSR, what, on its turn, contributes to the success and sustainable development of the company.
- Reduces the increasing risks in the environment. The risks companies face in the world permanently increase. The risks are associated with the changing environment, growing demands of the stakeholders, etc. A company establishing relations with the society and permanently considering the expectations of the society in respect of social, economic, environmental and other challenges, reserves stability on the market.
- Improves the company competitiveness. The CSR urges the companies to introduce innovations to improve technologies, create high-quality and/or high-technological and/or environment-saving production and deliver it to the consumer, what, on its turn, may become the basis to improve the productivity, incomes and competitiveness by creating the competitive advantage for the company on the one hand and reducing the costs on the other hand.

- Makes the capital available. At present, the number of organizations and financial establishments increasingly considering the degree of CSR of the companies when making investment decisions is increasing. Respectively, the companies with CSR have access to the significant capital.
- Helps the companies gain the favor of the authority. Many Western countries have introduced certain allowances in the fields within the competence of the state power for the companies with high CSR. For instance, many countries have established various allowances in the field of granting permits and licenses, state procurements or taxes for the companies distinguished for their environmental and social activities.

The business CSR in Georgia is not as high as in Western countries. It is only 10 years now since the question of CSR was put on the agenda, and certain steps have been taken to develop this field.

The first discussions of CSR in Georgia started in 2004-2005 when the Center for Strategic Research and Development of Georgia, together with other non-governmental organizations, held a campaign with business sector representatives about the initiation of the talks about the social responsibility and partnership.

In 2006, a UN “Global Compact” regional network was established in Georgia. The network aimed at popularizing business CSR and introducing the international social reports presentation practice in the country. At present, the network unites 37 organizations, including the representatives of large business units.

In 2008, the Center for Strategic Research and Development of Georgia published the Georgian version of report “Guidelines on the Corporate Sustainability Reporting based on the framework of Global Reporting Initiative (GRI)”. In recent years, Georgia has seen some precedents of developing social reports. The companies, like “British Petroleum”, “Bank Republic”, “Wissol” and “Natakhtari” have developed the first Georgian social reports.

In 2009, on the initiative of the UN “Global Compact” and Development Program, the first national conference about the introduction of the practice of corporate social responsibility in Georgia was held.

In 2011, the Center for Strategic Research and Development of Georgia accomplished the study of various legal and social-economic aspects of CSR and a work “Corporate Social Responsibility and Public Sector” was published.

In 2013, the first business development forum aiming at popularizing the topic of business corporate social responsibility in Georgia organized by British company BOC – Global Events Group was held in Georgia, and in 2014, the second forum with the first Business Brilliance Award and awarding ceremony was held. The best social project of the year was named during the ceremony and company “Natakhtari” won the prize in category “Brilliance CSR”.<sup>2</sup>

At present, Georgia’s affiliation with different international organizations, country’s aspiration to the European integration and activation of the action plan of the good neighborhood policy with the EU Union and agreement of free trade between Georgia and the European Union has resulted in the activation of the

<sup>2</sup> [http://www.bpi.ge/index.php?option=com\\_content&view=article&id=30755%3A--2014---420-000---164-&catid=948%3A2011-12-29-04-45-10&Itemid=127&lang=ka](http://www.bpi.ge/index.php?option=com_content&view=article&id=30755%3A--2014---420-000---164-&catid=948%3A2011-12-29-04-45-10&Itemid=127&lang=ka)

question of CSR. The state bodies, NGOs and business companies jointly try to develop the CSR development policy in the country, without which no success of the country or business or establishment oneself in the global environment is possible.

### **Methodology**

The goal of the study was to evaluate the degree of CSR among the business companies operating in Georgia and identify the problems of the CSR development. The study was based on the quantitative analysis, and the web-sites of the companies and information published by the National Statistics Office of Georgia, as well as interviews and questionnaires sent to the companies and respondents both, via e-mail and personal communication were used.

The large business companies creating the economic background in Georgia were selected for the study purposes. As per the data of 2014, total 118.108 business companies operated in the country with 40.070 large or average business companies;<sup>3</sup> however, only 70 large business companies with the highest annual incomes were selected for the study. 38 of them gave thorough information for the study purposes. Following the study specifics, approximately 200 respondents were also questioned. The gained data were analyzed by statistical software SPSS 15.0 for Windows and computer software MS Excel -2012, as well as grouping and comparative methods.

Three kinds of questionnaires were used in the study:

The first questionnaire asked the companies to evaluate their degree of CSR, their actions in this respect and degree of their CSR organization, i.e. if the companies considered the CSR realization in their developmental strategy.

The second questionnaire asked the society (respondents) to name the companies on the provided list with high CSR.

The third questionnaire aimed to find out what companies think in terms of the most important factors to improve the business CSR in Georgia.

### **Results**

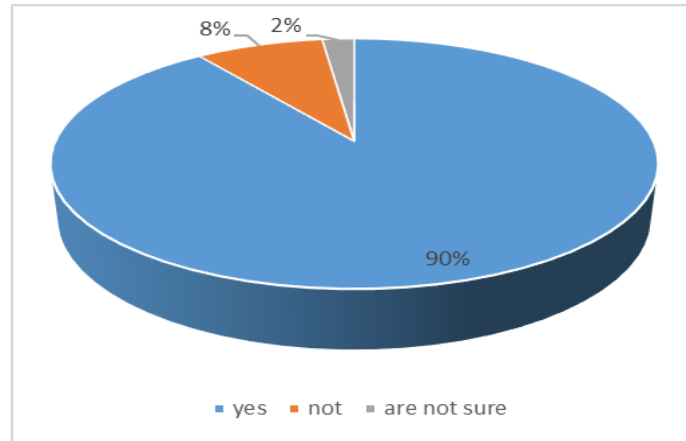
The results gained during the study were as follows:

As the data of the first interview demonstrate, 89% of the responding companies consider themselves as having corporate social responsibility, while 8% do not and 2% are not sure.

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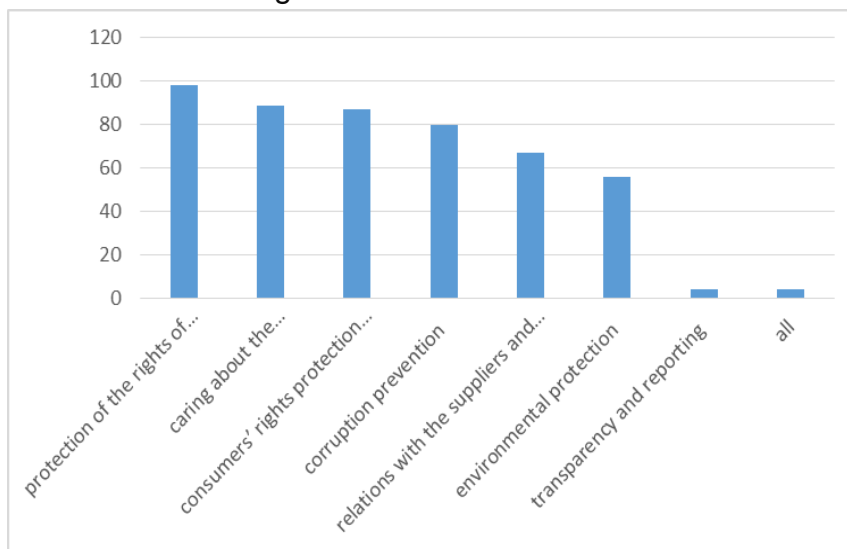
<sup>3</sup> <http://www.geostat.ge/index.php?action>

Figure 1. Consider themselves social responsibility companies



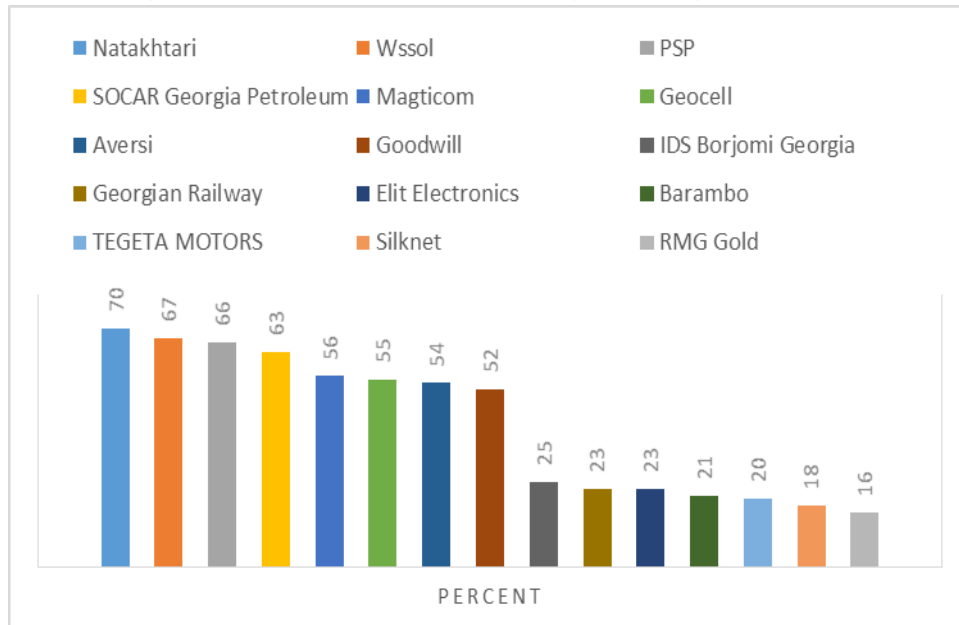
As for the social responsibility activities of the companies, they were as follows: protection of the rights of people and company’s employees – 98%; environmental protection – 56%, caring about the societal/community needs – 89%, consumers’ rights protection and production responsibility – 87%, relations with the suppliers and consumers – 67%, corruption prevention – 80%, transparency and reporting – 4%, all – 4%, while to the question as to how much the CSR was the part of the company’s strategy, the analysis of responses showed the following results: only 25% of the companies include the CSR in their developmental strategy, and accordingly, 75% of the companies have spontaneous CSR actions.

Figure 2. Activities of CSR



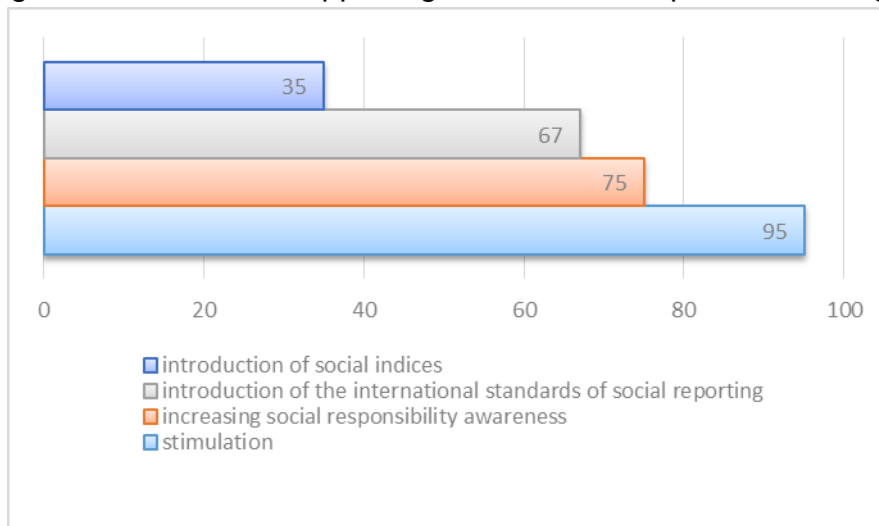
As per the second interview, the respondents were to select 15 companies with the highest degree of CSR out of 38 companies. The results were as follows: Natakhtari, Wissol, PSP, SOCAR Georgia Petroleum, Magticom, Geocell, Aversi, RMG Gold, IDS Borjomi Georgia, Georgian Railway, Elit Electronics, Goodwill, Barambo, TEGETA MOTORS, Silknet.

Figure 3. Companies with the highest degree of CSR



As per the third interview, in the companies' opinion, the factors supporting the CSR development in Georgia were classified as follows: increasing social responsibility awareness – 75%, introduction of the international standards of social reporting – 67%, introduction of social indices – 35%, stimulation – 95%, including certain allowances by the state in respect of taxes, licenses, export, etc. – 97% and various incentives, while 95% of the companies think in terms of various methods, such as awards, societal awareness, advertisement.

Figure 4. The factors supporting the CSR development in Georgia



**Conclusion and Recommendations:**

So, the development of CSR in Georgia is necessary, because at present, the degree of social responsibility in our country does not correspond to the level observed in the developed countries. In addition, the Georgian companies often take social actions just once as a charity, rather than regularly. In order to improve the level of social responsibility in Georgia, I think the following measures expedient:

- Improving the awareness of social responsibility. Improving the awareness of the essence and role of social responsibility among the business circles, different sectors of society and population in general is important to develop the social responsibility. This can be done by active operations in the following fields: initiation and realization of large-scale arrangements and conferences, strengthening the role of media, increasing the awareness by means of giving relevant knowledge during the seminars and trainings, popularizing the examples, etc. by the state and authorities.
- Ensuring transparency so that the society and those concerned should receive the information about the ethical principles of the companies and impact on the environment and society. For this purpose, it is of a primary importance to ensure the publication of the reports about the sustainable development. In some countries of the world, this is a voluntary obligation and many reputable companies publish the reports voluntarily, while in other countries the law obliges the companies to present the information about some individual aspects of the non-financial reporting to the public. This trend has become particularly popular recently.

In Georgia, in order to ensure the public nature of the reports, the following steps seem expedient: stimulating voluntary reporting (trainings, contests, awards, etc.), introducing legislative regulation about the public nature of the certain kind of information.

- Establishing the assessment criteria for the company's CSR. It is known that in many Western countries (Holland, Great Britain) have introduced ethical and social indices characterizing the responsibility of a company to its employees, protection of human rights, reporting of transparency and sustainable development, etc. Introduction of the similar approved indices will contribute to the Georgian companies' interest in improving their CSR.
- Stimulating social responsibility, meaning first of all, the application of different allowances and incentives. Allowance may mean facilitation in issuing certain types of licenses by the state to the companies meeting the CSR standards; introduction of the social partnership practice; tax allowances; prioritization standards during the state procurements, etc., while incentives may mean the organization of different contests and introduction of awards, informing the society about the activity of the CSR companies, etc.

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