

# **DRUŽBENA ODGOVORNOST PODJETIJ, NEVLADNIH ORGANIZACIJ IN SOCIALNEGA POSLOVANJA: NAČIN USTVARJANJA VZAJEMNEGA GOSPODARSTVA**

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**Povzetek:** S tem prispevkom želimo predlagati, kako naj pojavi iz naslova delujejo vzajemno. Njihov skupni imenovalec je poudarek na normativnem vidiku ekonomskega razmišljanja in delovanja. Na tej osnovi je mogoče поближе pogledati na neki alternativni ekonomski sistem – vzajemno gospodarstvo. V njem socialno podjetje zmore ne le preživeti poleg družbeno odgovornih podjetij, ampak tudi prevzeti vlogo inovatorja. NVO delujejo kot korektiv politik in tradicionalnega poslovanja tako, da ustvarjajo informacije, s katerimi silijo podjetja k preglednosti in poročanju o njihovem družbeno koristnem in okoljskem delovanju. Znotraj tega novega modela – vzajemnega gospodarstva – mora človek delovati hkrati kot občan, udeleženec nevladnih dejavnosti, kot proizvajalec, ki se ukvarja s socialnim poslovanjem ali mikro podjetjem, in kot porabnik, ki se ukvarja z izdelki družbeno odgovornih podjetij.

**Ključne besede:** DOP, NVO, Socialno podjetje, vzajemno gospodarstvo, normativnost v ekonomiji

## **FORMATION OF SHARING ECONOMY: CORPORATE SOCIAL RESPONSIBILITY, NON-GOVERNMENTAL ORGANIZATIONS AND SOCIAL BUSINESS**

**Abstract:** The purpose of this paper is to order the interplay of new phenomena: Non-Governmental Organizations (NGOs), Corporate Social Responsibility (CSR) and Social Business and Innovation. NGOs function as a corrective of politics and traditional business by producing information, and through this forcing enterprises to be transparent and report on their social and environmental engagement (CSR). In this context, social business can not only sustain next to socially responsible enterprises, but also take the role of being an innovator. Taking into consideration the complex dynamics of social innovation, a closer look on the formation of an alternative social economic system – sharing economy – can be undertaken.

**Keywords:** CSR, NGOs, Social Business & Innovation, Social Economy, Sharing Economy

### **1. Introduction**

The term Corporate Social Responsibility (CSR) has joined the mainstream of management theory, business practice and media reports. This term refers to the normative thinking in profit organizations: making profit has to be interpreted in accordance with the social and environmental context. Non-Governmental Organizations (NGOs) aim on the other hand to fill the gaps left by national governmental power by regulating business activities. In doing so

they promote value based thinking within societies. A third phenomenon – social business – is also on everyone’s radar. This new understanding of business contributes to the promotion of innovations that are social and sustainable in both their ends and means. An important issue within the context of these three phenomena is the formation of an alternative socially oriented economic thinking. Therefore the aim of this paper is to associate these different normative movements with the collaborative economic practices of the sharing economy.

## **2. Non-Governmental Organizations (NGOs): The additional private regulation of business**

Within the framework of globalized economy business gains a new dimension of power. Next to the economic power of corporations the political power of business has emerged while the power of nations has decreased. This shift of political and economic power supports the rise of Non-Governmental Organizations (NGOs) as supporters of international and national politics and acting as a corrective of the profit maximizing type of logic. In the later half of the 20<sup>th</sup> century their growth in number and influence was considerable. These new political players exercise an additional sustainability-directed regulation on business (Clarck, 1995).

The influence of NGOs on international affairs is considered to be one of the strongest in the 21<sup>st</sup> century. In the business arena NGOs often serve as a counterweight to the profit maximization logic of business. They promote ethical business practices. They can buy shares of corporations and directly change the corporate direction towards a more ethical orientation. Another option is to work with socially responsible investment funds in evaluating stocks and portfolios. NGOs also use media to mobilize and exercise pressure on business. They are very efficient and are currently a recognized actor in-between politics and business (Guay, Doh, Sinclair, 2004).

## **3. Corporate Social Responsibility (CSR): The new mainstream in business**

The mainstream in economic thinking and practice emphasized the profit maximization throughout the entire 20<sup>th</sup> century, although this over-representation was being challenged by the beginning of the 20<sup>th</sup> century (Clark, 1916).

Accounting scandals, unfair manager practices and the global consequences of the financial crisis of 2008-2009 increased the general opinion in societies that business practices regarding external impacts on environment and society need an ethical dimension of assessment (Koslowski, 2009; Posner, 2009; Thielemann, 2009). Based on these changed social expectations, the initially political idea of sustainability was transformed in economic terms as social and ecological claims towards business (Dankova, Valeva, Štrukelj, 2014). These claims are known in theory and practice under various terms – business ethics, stakeholder approach or Corporate Social Responsibility (CSR). They are the basis for normative approaches in business (Matten, Crane, 2005).

The concept of CSR is currently the most important one in Western societies. There is a variety of specific understandings regarding the term CSR, the common denominator being the enlarged responsibility of the firm not only for financial results but also for environmental and social impacts of its business activities. Moreover CSR is recognized as a new mainstream in business activities (The Economist, 2008). Although CSR refers to all kinds of organizations, the focus is on large profit making organizations due to the fact of their increased presence in media and politics (Crane, Matten, Spence, 2010).

The success story of CSR within organizational management cannot be doubted since the business case for CSR emerged next to the normative understanding of CSR. Within the business case for CSR, the positive financial impact of considering environmental and social aspects is crucial (Porter, Kramer, 2006). While in the literature the business case for CSR is strictly distinguished from the inclusive understanding of CSR (enlarged responsibility of the organization for profit, environment and society), the practice of CSR is largely diffuse. Empirical studies suggest that in the case of powerful MNCs CSR is applied as an innovation for increasing profit (Bondy, Moon, Matten, 2012).

We can derive the preliminary conclusion that NGOs fill the lack of power of national states in conducting welfare politics. At the same time the power of businesses in economic and welfare issues has increased. These circumstances are the basis for the prominent claim for social and environmental responsibility of businesses.

## **4. Social Innovation & Social Business: The social prime of business innovations is en vogue**

Within the context of financial constraints of the public sector, the global climate change and poverty, traditional solutions for societal demands are insufficient. The market causes external costs that are not internalized and have a negative impact on environmental and social issues. The public sector is responsible for social welfare, but due to bureaucracy and low productivity as well as the lack of proactive innovation the services provided are insufficient. A recognized fact is that innovations in education, health and social services are underestimated in the public sector (BEPA, 2011).

Welfare provision has to additionally use the innovation approach of pulling the demand for and working closer with users of social services (Mulgan, 2007). Profit and non-profit organizations providing “innovations that are social both in their ends and in their means” (Caulier-Grice et.al., 2010, pp. 17-18) are specialized in social

innovation. Social enterprises are strongly connected with social innovations. The social enterprises are profit organizations with social objectives. Social demands are growing, while public budgetary constraints are growing. Traditional non-profit social organizations depend on public or private funding.

Within this context social innovators and enterprises providing innovative solutions for social challenges in a highly productive way build a growing element of the social sector of economies. The technological development of internet based products and services supports additionally individualized social services and innovation of the social enterprises.

Social innovations are new solutions for new problems like (Caulier-Grice et.al., 2010, pp. 7-8)

- Sustainable Economic Growth
- Unemployment
- Public Sector's decreasing financial capability
- Poverty
- Social Exclusion
- Aging Population
- Climate Change

Murray, Caulier-Grice and Mulgan (2010, pp.12-13) identify six stages of social innovation, which have the form of overlapping spaces.

- Prompts, inspirations and diagnoses: Recognition and definition of a concrete need for innovation. Within this stage the identification of the causes and not symptoms and therefore the right formulation of the problem that calls for solution are crucial.
- Proposals and ideas: Collecting ideas for solution is a creative process, where methods from a variety of fields can be used.
- Prototyping and pilots: The field test of the ideas involves the controlled trials of prototypes and pilots in practice. Iteration is needed in order to improve step-wise the prototypes.
- Sustaining: The everyday practice of the ideas brings evidence about the resources needed and the stable incomes. The planning and controlling could be defined within this stage.
- Scaling and diffusion: In order to ensure the growth and diffusion of the innovation strategies and tools of business innovation can be applied.
- Systemic change: This is defined as the "ultimate goal" of social innovation. Systemic change is complex process including a variety of actors and elements. Dealing with frameworks supporting the old order social innovations must bring economic arguments and be effective in the long term.

Social innovation includes, but is not restricted to, social business activities. It is based on interactive and inclusive perspective of markets, states, citizens and non-profit institutions and NGOs. It calls for nothing less than systemic change of economy and society.

## **5. The interplay of the NGOs, CSR and Social Business as formation of Sharing Economy**

A closer look at the economic developments over the last three decades shows that within the given mainstream economy the call for sustainability of economic practices and the social and environmental responsibility of businesses are the responses to impacts of economic activities. The precondition for the current call for responsible business was the increasing growth of the NGOs, both closing the gap between decreased national state power of politics and the powerfully demanding boundaries of profit maximization. Within this business mode corporations are accountable towards their chosen stakeholders for broader impacts of the products and services.

A typology of social orientation of businesses in the traditional economic system is shown in figure 1. The first chosen dimension is the normative orientation – predominantly ethically or predominantly profit oriented. The second dimension is the ethical impact – based on a specific case or systematic. The CSR approach can be interpreted as pseudo CSR, if the social orientation is superficial and serves as an external communication tool. A second form of pseudo CSR is the pure philanthropy, where the social contribution does not include the core business activity. The integrative CSR on the other hand can be defined as social responsibility of the firm, which includes all operations, processes and products and relevant stakeholders of the firm. Such businesses can develop social practices that could be implemented as best practices in specific industries or for specific problems. The concept of CSR can be classified into the traditional understanding of economy; however CSR takes the role of gradually improving the social welfare by internalizing external costs within a given economic system. In this traditional paradigm of ownership-based economy social business is the latest phenomenon gaining attention. It is responding to the lack of social responsibility of politics and putting clearly the emphasis on the ethical issue within the conflict of ethics versus business, which is inherent to the CSR-approach. This new understanding of business has however a niche-market potential, while CSR has the potential to become a mass market. Therefore within the

traditional economic system social business and integrative CSR there are the types of business that have their potential for gradually improve social challenges.

<b>Ethical impact</b>	<i>Specific case</i>	<i>systematic</i>
<b>Normative orientation</b>		
<i>Profit</i>	<b>Pseudo CSR</b>	<b>CSR as business case</b>
<i>Ethics</i>	<b>Social Business</b>	<b>Integrative CSR</b>

Figure 1: A typology of social orientation of business in the traditional economic system (Source: Valeva, Sell, 2014)

Social innovation is a much broader term than social business as it includes the collaboration of the public, the market and the civil society. Therefore social innovation has the potential for enabling economic system change. It functions as a transformer towards a new economy system. Though the objectives of social innovation are diverse and not well structured, they demonstrate a new direction of understanding the economic system. Murray, Caulier-Grice and Mulgan (2010, pp.4-5) define such an economy system as social economy. The main pillars of this social economy are information and networking based on technology and the human perspective rather than structures and systems of economy. This distinction from traditional economy is based on elements of social economy such as:

- Networks to manage relationships
- Unclear differentiation between production and consumption
- Collaboration and repeated interaction
- Value-based economic activities.

After reviewing the interplay between NGOs, CSR and social business in the given economic system and taking into account the potential of social innovation for changing the status quo into a social economic system, we assume that sharing economy is this first shape within the formation of the new social economy (Figure 2).

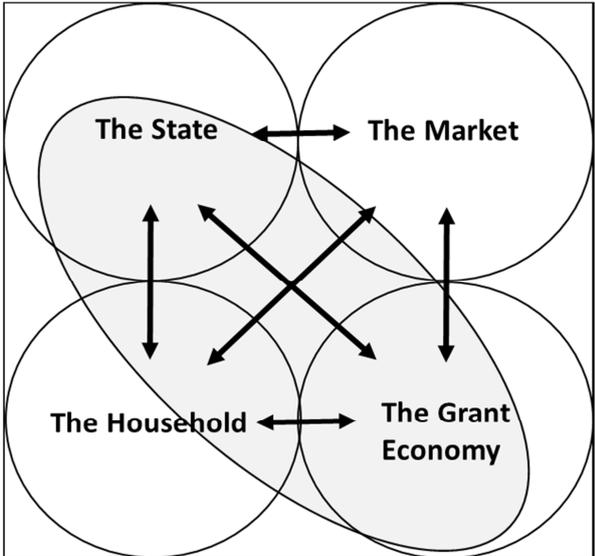


Figure 2: The Social Economy (Source: Murray, Caulier-Grice, Mulgan, 2010, p.143)

Traditionally, economy stands for production and consumption of goods, whereby ownership has been the main mode of economic transactions. This basic condition is put into question within a new economic phenomenon – sharing economy. The access enabled through sharing is replacing ownership. Through online platforms people can share resources, assets, services. The efficiency of used resources increases and the transaction costs (through online platforms) decrease, while trust through online peer assessments increases. Sharing economy is a new popular term in the media (The Economist, 2013) but also in the real economy. PwC (2014) estimates the size of sharing economy globally to hit 335 bn. USD in 2025.

Sharing economy is based on collaborative consumption, where unused assets can be used by others. The term sharing economy is a framework of three main different types of business activities (Botsman, Rogers, 2010):

- Product service systems: People share goods owned by others. Car-sharing activities like Car2Go, DriveNow, Zipcar are very popular examples.
- Redistribution markets: This second type contains platforms for reusing products, in essence increasing the utility of a single product for a greater number of consumers.
- Collaborative lifestyles: This type of economic activities is based on the sharing of similar interests and activities by sharing time or space or helping each other financially.

The technological development is definitely a main founding element of collaborative consumption and production. The possibility of individualized interaction on a global scale whereby the transaction costs are minimized is a precondition for sharing economic activities. The globalization of economic activity is also a condition for the scale of economic transactions.

By recalling the elements of the social economy, postulated by Murray, Caulier-Grice and Mulgan (2010, pp.4-5) and the above discussed characteristics of the sharing economy, a general overlapping cannot be ignored:

- Networks to manage relationships correspond with the emphasis on network and inter-subjectively based principles of the sharing economy.
- Unclear differentiation between production and consumption corresponds with the presumption standard of sharing economy (Ritzer, 2014).
- Collaboration and repeated interaction correspond with the general idea of sharing within the sharing economy concept.
- Value-based economic activities of the social economy correspond with the emphasis on sustainability within the sharing economy.

The direct positive impact on sustainability is one of the main arguments in promoting this understanding of economic activity as an alternative to the consumerism and profit-maximization based economy. Even more, experts analyzing the impact of sharing economy on the economic growth and consumption, predict a stronger effect on growth even if consumption decreases (Godelnik, 2013).

## 6. Conclusions and implications for research

In summary, this paper analyzes normative phenomena with impact on the economic system. NGOs, CSR and social business are discussed as drivers of improved social orientation of firms. Considering the potential of the complex and broader movement of social innovation, a systemic economic change towards a diversity of social orientations of business practices can be registered. Sharing economy can be viewed in relation with social economy as the first actual form within the ongoing process of formation. Social business and innovation as well as sharing economy are currently emerging; therefore the main achievement of this paper consists in the review and synthesis of the discussed diffused phenomena to provide insights into possible interrelations and common elements.

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