The interrelationship between the demands of Corporate Social Responsibility and co-operative principles and values

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ABSTRACT

Corporate Social Responsibility (CSR) and its integrated management in companies is leading to a new company model that willingly expands its concerns by giving equal consideration to economic, social and environmental aspects. Cooperative societies, in paying attention to the principles and values that define them, as shown in this work, are demonstrating that there is a close interrelationship with the basic demands of CSR, which can be a competitive advantage as long as it is driven by a strategy that leads to its integrated management. The singular structure and democratic composition of a cooperative’s management structure can guarantee the total integration of stakeholders in the decision-making process, as they are often not only owners, but also clients, suppliers and employees.

KEY WORDS: Corporate Social Responsibility, management, interest groups, cooperatives, stakeholders.

ECONLIT DESCRIPTORS: M140, P130, G300.

La interrelación entre las exigencias de la Responsabilidad Social Corporativa y los principios y valores cooperativos

RESUMEN: La Responsabilidad Social Empresarial (RSE) en las sociedades, y su gestión integrada, está dando lugar a un nuevo modelo de empresa, que expande su preocupación por el trato igualitario a los aspectos económicos, sociales y ambientales. Las sociedades cooperativas, al prestar atención a los principios y valores que los definen, como se muestra en este trabajo, demuestran que existe una estrecha relación con las demandas básicas de la RSE, que puede ser una ventaja competitiva siempre y cuando sea conducida por una Estrategia que conduzca a una gestión integrada. La singular estructura y la composición de una estructura de gestión democrática de la cooperativa puede garantizar la integración total de las partes interesadas en el proceso de toma de decisiones, a menudo no sólo de los propietarios, sino también a los clientes, proveedores y empleados.

PALABRAS CLAVE: Responsabilidad Social Corporativa, gestión, grupos de interés, cooperativas, partes interesadas.

La corrélation entre les demandes de Responsabilité sociale des entreprises et les principes et valeurs de coopération

RESUME : La Responsabilité sociale des entreprises (RSE) et sa gestion intégrée dans les entreprises conduisent à un nouveau modèle d’entreprise qui étend ses fonctions volontairement en accordant la même considération aux aspects économiques, sociaux et environnementaux. Les sociétés coopératives, si l’on prête attention aux principes et aux valeurs qui les définissent, tel qu’illustré dans cette étude, montrent qu’il existe une étroite corrélation entre les demandes de base de la RSE, qui peut être un avantage concurrentiel tant qu’elle repose sur une stratégie qui mène à sa gestion intégrée. La structure particulière et la composition démocratique de la structure de gestion des coopératives peuvent garantir l’intégration totale des parties prenantes dans le processus de prise de décision, puisqu’elles ne sont souvent pas uniquement propriétaires, mais aussi clients, fournisseurs et employés.

MOTS CLÉ : Responsabilité sociale des entreprises, gestion, groupes d’intérêts, coopératives, parties prenantes.
Currently, there are several definitions for Corporate Social Responsibility. From these we would like to highlight the one that the European Commission stated in *The Green Book Promoting a European framework for corporate social responsibility*, which defines Corporate Social Responsibility (CSR) “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”.

In Spain, on 12 July 2007 the *Foro de expertos en Responsabilidad Social de las Empresas* (Corporate Social Responsibility Forum), constituted by the Ministry of Labour and Social Affairs, approved a document on CSR that incorporates 29 recommendations and the following definition:

“Corporate Social Responsibility is, apart from the strict application of all current legal obligations [by a company], the voluntary integration of social, working, environmental and human rights observation concerns, that arise from the relationship and transparent talks with its stakeholders, into its government and management, strategy, policies and procedures, in a way that the company takes responsibility for the consequences and impact of its actions”.

In this sense, it is said that organizations exert their social responsibility when they aim to satisfy the expectations that the different stakeholders (employees, partners, clients, local communities, environment, shareholders, suppliers, etc.) have on their behaviour. This integrated approach to management involves a new management model based on sustainability and on the management of factors external to the business in terms of economic, social and environmental matters.

There has been much time spent on, and discussion of, Corporate Social Responsibility to reach these and other similar definitions, where similarities are more numerous than differences, and agreement has been achieved, at least in regard to the main points.

Although during the nineteenth and early twentieth century we began to see evidence of initiatives and practices of CSR; for example some measures to improve workers’ conditions as well as some philanthropic activities, it was in the 50’s when CSR started taking shape and initiatives related to it started to take place.

Several authors (Carroll, Garriga and Melé) mark the original conception of modern CSR in 1953, with the publication of the book *Social Responsibilities of the Businessman* by Howard R. Bowen. After
that publication, there started a series of discussions on CSR in business that gained strength in the 60-70’s.

During the 60-70’s, the matter began to be tackled from several points of view, and different series of theories, that have caused much discussion in later years, were developed.

In that period, there were two clearly opposed positions on the feasibility of implementing CSR initiatives. One position claimed that the only aim that companies should pursue was to generate profit and that company managers should take care of the interests of one single type of stakeholder, that is, the shareholder. This position was defended, among others, by Milton Friedman (1962) who claimed that “there are few tendencies, which undermine the fundamentals of free economies as radically as the assumption of any other social responsibility than a corporation’s purpose of maximizing returns for its shareholders”.

In opposition to this, a new attitude began to emerge, claiming the importance of taking into account the interests and needs of all groups directly or indirectly related to the activity of the company (the stakeholders), as they were affected by that activity. This position expressed that the sharing of profits generated by companies among all stakeholders would increase their value and reputation, and would bring a series of advantages in the long term. At the same time, it would enable to solve problems that could arise within companies as a consequence of their activities.

In accordance with this approach, economic development must be accompanied by improvements for society as a whole.

2.- The Stakeholder Approach in Corporate Social Responsibility

One of the main aspects that the different definitions of and approaches to CSR contain is the fundamental role that stakeholders play in a company. Regarding this, in recent years, numerous authors have analysed the relationship between stakeholders and CSR. This is known as the Stakeholder Approach.

According to Emshoff and Freeman (1978), there are two basic principles on which the stakeholder approach to management is based:

The first states that the main objective is to get the maximum global cooperation between all stakeholders to achieve the organization’s objectives.
The second states that the most efficient strategies to manage the relationships with stakeholders, involve effort that has to be simultaneously applied to other matters that affect multiple stakeholders.

Therefore, stakeholder management tries to integrate stakeholders in the business decision-making processes of the company. Instead of focusing on a generic responsibility, in specific matters or in the principle of public responsibility, this approach is focused on stakeholders or the people that affect, or are affected by, company policies and practices (Garriga and Melé, 2004).

Donaldson and Preston (1995) point out that, stakeholder theories can be classified under a descriptive, instrumental or normative perspective:

The descriptive simply shows that companies have stakeholders; the instrumental shows that companies that take stakeholders into account are designing successful strategies; and the normative describes why companies take account of their stakeholders.

In regards to the normative point of view, some authors point out that a theoretical approach is not enough and that it is necessary to have a normative core that includes a series of ethical principles (Freeman, 1994).

In accordance with Donaldson and Preston (1995), the normative core of the stakeholder approach would be based on two main ideas:

(a) Stakeholders are the people or groups that have legitimate interests in the process and/or the substantive aspects of the business activity. Stakeholders can be identified by their interests in the corporation, if the company has any functional interest in them, and (b) the interests of all stakeholders have an intrinsic value, that is, each group deserves to be considered individually, and not only for its capacity to promote the interests of any other group, such as the shareholders.

These theories, where stakeholders become one the main actors, have been favoured in recent years by the growing concern of the general public, who have witnessed the recent financial and social scandals. This has lead to growing pressure from society to develop more transparency and more information about business practices.

In this sense, the importance given by companies to relationships with stakeholders has increased in recent years. For example, the number of companies that have taken into account the relationships with their stakeholders when making their reports has increased significantly, especially in relationships with suppliers and the improvement of relationships with public authorities, which have grown from 13% in 2005 to 32% in 2008, and from 9% to 21% respectively.

1.- According to the report “KPMG International Survey of Corporate Responsibility 2008”.

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Therefore, developing philanthropic activity is not enough, because society and stakeholders demand not only these actions, but also that the general business activity, whether direct or indirect, doesn’t involve any risk.

To really assume all the companies’ duties toward society, CSR must incorporate all the economic, loyalty, ethical and discretionary aspects of business results (Carroll, 1979).

### 3.- Strategic view of Social Responsibility and the stakeholders’ role

The increasing pressure by society on companies to take responsibility for their actions, together with the increase in competitiveness, has lead companies to consider CSR factors more and more in their actions. Indeed, an answer to this situation can be a strategic view of Social Responsibility where, being more conscious of the benefits for the company and its stakeholders, the management can make better decisions in CSR matters (Burke and Logsdom, 1996).

In this sense, other authors (Mahoney, 1990; Badaracco, 1998; Carroll, 1999) point out to the existing relationship between social responsibility and the strategic view of the company and stakeholders.

The spanish *Foro de expertos en Responsabilidad Social de las Empresas* (Corporate Social Responsibility Forum), constituted by the Ministry of Labour and Social Affairs (2005), in a paper published in 2007 refers to Corporate Social Responsibility (CSR) as “a model of company management that respects all its stakeholders and involves a strategic approach that must take part in the daily management of decision-making processes and the operations of the whole organization, creating value in the long term and significantly contributing to the obtaining of durable competitive advantages”.

To carry out this integration of CSR in business strategies and to ensure that stakeholders can identify with these initiatives, it is necessary an interrelationship between them. According to Lozano (2006), it is fundamental to know that “Corporate Social Responsibility (CSR) is structured through the relationships between companies and stakeholders”.

On this matter, Porter and Kramer (2006) proposed the existence of a mutual dependence between society and companies, which “implies that business decisions and social policies must follow the principle of shared value”, so that both parties will benefit.
This new way of leading business must involve integrated management in the decision-making process and in the daily operations of the company, where the different interests of all stakeholders are observed. In this way, it will be possible to create value in the long term and, therefore, competitive advantages too, as long as the different agents involved feel involved in the initiatives.

According to Enquist et al (2006), the values related to CSR (seen as the voluntary integration of social and environmental aspects in business operations and their relationships with stakeholders) are used in marketing strategies to create distinctive long-term relationships with clients and other stakeholders.

Therefore, the organization must incorporate social responsibility in all of its areas of activity, trying to satisfy the needs of all stakeholders involved, in a way that it is able to achieve a system of sustainable management that leads to an economic, social and environmental improvement and the creation of corporate and social value.

To achieve this, it will be necessary to define which CSR policies must be carried out so the company and stakeholders’ interests come together and the results mean a significant benefit for both society and company.

Those benefits resulting from applying CSR as part of the business strategy will be a unique competitive advantage if each company seeks an exclusive position, establishing lasting relations with the stakeholders in order to reinforce their competitive position.

In order to achieve this, it is necessary that the different stakeholders (employees, clients, suppliers, etc.) are involved, to a greater or lesser extent, in decision-making processes.

This integration must take each company’s particularities into consideration, identifying which objectives and strategies are more appropriate to the organization’s characteristics, in order to define its management plans.

In this sense, the World Bank Group (2003) states that a proper strategic evaluation of the benefits of CSR improves business efficiency.

Therefore, an integration of CSR into business management is necessary. This integration can be easier in certain companies, such as cooperatives, whose nature implies many aspects of CSR.
4.- Social Responsibility integrated management

The adoption of social responsibility in a company as part of its strategy must be done in a comprehensive way, so that all areas of the company are involved in its development, through all the different levels of management.

With the integration of CSR, companies are seeking a sustainable management system that allows them to improve at an economic, social and environmental level, and create corporate and social value.

Therefore, organizations must integrate social responsibility into all their fields, trying to satisfy the needs of all stakeholders involved.

Figure 1

Indeed, if we analyse the main fields which a socially responsible organization is based on, according to the AECA [Spanish Association of Accounting and Management] (2004), we will notice that Corporate Social Responsibility is present in several areas of a company:
Therefore, companies must introduce the necessary changes in their management systems and internal processes, in order to guarantee that their activities take account of social, economic and environmental dimensions and respond to the interests of their stakeholders, without neglecting the need to make a profit or the economic progress of the company. As the European Commission (2002) states: “companies must integrate the economic, social and environmental consequences of their actions into their operations”.

Alongside the integration of CSR into company management policies, there must be a communication and indicators system that allows, on one hand, notification to the different interested parties of all the information about environmental, economic and social effects and consequences derived from their activity, and on the other hand, to measure and evaluate their behaviour relating to CSR.

This must be done in a trustworthy and transparent way in order to boost several intangible factors (reinforcement of the corporate reputation, client trust, productivity increase and quality improvement, increase in the ability to attract and retain talent, and increase in the ability to attract financial resources) that will lead to a series of competitive advantages for the company.

The establishment of a report system with proper indicators helps to integrate CSR in business management, and it also facilitates the analysis and the communication of its activity to the interested parties and society (report from the Foro de Expertos en Responsabilidad Social de las Empresas, 2007).

In this sense, to allow the integration of CSR in company strategic policies, it is necessary to establish management and analysis systems that allow them to clearly and precisely define the strategic lines and objectives to be achieved.

The Balanced Scorecard (BSC) is a tool that can cover those needs, leading to an effective management and analysis of the organization.

The Balanced Scorecard was developed by Kaplan and Norton in the 90’s in order to provide the executives a tool to translate the strategic objectives of their companies into a logical system of performance metrics. It is a management system approached from four different perspectives:
According to López and Llena (2006), the Balanced Scorecard is an appropriate tool for the integration of CSR in the strategic management of organizations because it represents an important change for them and, among other things:

- it facilitates the alignment of objectives and behaviour of human capital,
- it enables the reformulation of strategy,
- it helps in the transformation of the long term into the short term,
- it facilitates creation of future value in the present,
- it facilitates the integration and interrelation of information from the different business areas.

Therefore, the BSC is a useful tool to measure Social Responsibility variables in companies, by defining a set of variables and indicators which take account of the internal and external dimensions of companies and describe their relationship with CSR.
4.- Social Responsibility management in Cooperative Societies

As we have seen in previous sections, with the voluntary incorporation of Social Responsibility, companies are seeking a business strategy that integrates social, environmental and economic aspects, and that is able to produce competitive advantages.

From that point of view, if we analyse the case of cooperative companies we will see that these are entities with a characteristic legal nature in which CSR is fundamentally important in the way they operate.

If we analyse the definition of a cooperative company given by the International Cooperative Alliance (ICA) in the Manchester Statement (1995): “A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”, we can see a first approximation to the socially responsible behaviour of cooperatives.

If we go deeper and analyse the Cooperative Principles\(^2\) we can see implicit many aspects of CSR policies.

*Cooperative Principles:*
1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training, and information
6. Cooperation among cooperatives
7. Concern for community

In this sense, the European Commission stated in a communication in 2002\(^3\) that “cooperatives, mutuals and associations as membership-led organisations have a long tradition of combining economic viability with social responsibility. They ensure this through stakeholder dialogue and participative management and thus can provide an important reference to other organisations”.

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\(^2\) Cooperative Principles stated by the ICA in 1995.
This relationship is shown in the principles that the European Commission proposes to promote CSR:
- recognition of voluntary nature of CSR;
- need for credibility and transparency of CSR practices;
- focus on activities where community involvement adds value;
- balanced and all-encompassing approach to CSR, including economic, social and environmental issues as well as consumer interests;
- attention to the needs and characteristics of SMEs;
- support and compatibility with existing international agreements and instruments (ILO core labour standards, OECD guidelines for multinational enterprises).

We can state, therefore, that CSR (in its economic, social and environmental triple dimension) has numerous common points with the cooperative values and principles stated by the International Cooperative Alliance (ICA), as we can see in table 1.

**Table 1**

<table>
<thead>
<tr>
<th>Cooperative principles</th>
<th>CSR (European Commission)</th>
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<tbody>
<tr>
<td>1. Voluntary and open membership</td>
<td>Voluntary nature of CSR</td>
</tr>
<tr>
<td>2. Democratic member control</td>
<td>Credibility and transparency of CSR practices</td>
</tr>
<tr>
<td>3. Member economic participation</td>
<td>Attention to the specific needs of SMEs</td>
</tr>
<tr>
<td>4. Autonomy and independence</td>
<td>Balanced and all-encompassing approach to CSR, including economic, social and environmental issues as well as consumer interests</td>
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<tr>
<td>5. Education, training and information</td>
<td></td>
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<tr>
<td>6. Cooperation among cooperatives</td>
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<tr>
<td>7. Concern for community</td>
<td>Focus on activities where Community involvement adds value</td>
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<tr>
<td></td>
<td>Support and compatibility with existing international agreements and instruments</td>
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</tbody>
</table>

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(PP. 213-232)

Nevertheless, this relationship could be questioned due to the obligation of cooperatives to create a compulsory Education and Promotion Fund destined to develop educational activities as the fifth cooperative principle explains, to promote cooperation among cooperatives as the sixth principle states, and to promote the concern for community as the seventh principle states. However, as the first cooperative principle states, membership is voluntary and open, so we must consider the voluntary adoption of CSR promotion measures, because membership in a cooperative is voluntary (Server and Villalonga, 2005).

Cooperatives, in order to take advantage of this privileged situation over other entities, need to take full advantage of their characteristics and make an effort to comprehensively integrate CSR policies in their management and in the search for synergies and mutual benefits with their stakeholders, not losing sight of this approach in their daily management and operation, compared with the strategy of other types of company where maximizing profits is the only aim.

Simultaneously, these actions must be publicized through the publication of the corresponding sustainability reports, so both the stakeholders and the different social agents clearly perceive the actions that cooperatives are carrying out for the development of the “sustainability principle”, a basic concept in the application of CSR.

5. Stakeholders in Cooperative Societies

Therefore, in this context Social Economy companies, characterized by carrying out actions related to social cohesion, consideration of the environment, promotion of sustainable development and social innovation (among others), and specifically cooperatives, can be an example and a reference for other companies.

Cooperative Societies are companies that stand out due to the social nature of their actions, together with their commitment to the development of the local community in which they are located because these are companies that “are democratically controlled and act in accordance with certain values and principles, such as social responsibility and community concern. They strive to serve their members, not only in economic terms, but also in a wider range of areas that cover social, cultural and environmental matters”.


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Along these lines, Puentes (Puentes et al, 2009) claims that it is necessary to define a model of social responsible company management that widens the organization’s purpose creating wealth not only for shareholders but for all the company’s stakeholders. And this is the predominant model in cooperative societies, which due to their social nature develop their activities by serving their partners and the community under business ethics guidelines: the Cooperative Principles.

In this sense, the integration of partners in cooperative decision-making management bodies is one of the characteristics that differentiate them from other companies and that relate perfectly to CSR principles.

In accordance with Chaves (2004), unlike capitalist societies, the cooperative management model rests on certain characteristic premises:
1. Partners manage and make decisions democratically, in General Meetings.
2. Partners take active part in General Meetings and in the election of officers.
3. The officers, integrated in the Executive Committee, manage and represent.
4. The officers are accountable to partners.
5. Cooperatives, especially the biggest ones, can have directors and other salaried employees, the executive body, so they can execute the partners’ decisions and ensure that the cooperative functions well economically.

Therefore, the structure and composition of the management bodies in cooperatives constitutes a model of good management, because integrating partners in management and decision-making processes implies a responsibility for their interests and those of the stakeholders and for the social environment in which the company is working.

“This type of democratic management, in theory, ensures that its owners/partners’ interests are a fundamental part of the planning and running of the cooperative, such that the composition and regulations of their management bodies are, themselves, fundamental elements” (Chaves and Schedwy, 2004).

Simultaneously, another aspect that has to be taken in account while analysing the relationships with stakeholders is that in the case of cooperatives one of the particularities that they show is that often the partners don’t act only as partners/owners of the company, but also as clients, suppliers, and even employees of the cooperative.
Therefore, it is clear that there is a strong correlation between the stakeholders and cooperative management, both economic and corporate, and the management of their behavior towards Corporate Social Responsibility.

Parallel to the integration of CSR in company management policies, it is fundamental to establish a system of communication and indicators, that enables them, on one hand, to supply the different interested parties with all the information about the environmental, economic and social effects and consequences derived from its business activity, and on the other hand, to measure and analyse their behaviour concerning CSR.

Indeed, one of the main problems that stakeholders face is the lack of information provided by companies about their practices. Spear (2004) claims that the information about the management of cooperatives is too limited.

In order to enable companies to measure and analyse the degree of implementation and their business behaviour in matters of CSR, it will be necessary to establish a series of indicators that make it possible to measure CSR policy development.

To make those reports useful, there must be established a series of common criteria related to their format, the information they must contain and the veracity of their content.

Concerning these questions, different organizations and institutions have suggested several indicators that make it possible to describe an organizations’ situation with regard to their various stakeholders, depending on the type of entity they are applied to. For example, the indicators proposed by the Global Reporting Initiative (GRI) or by Social Accountability 8000 (SA8000).

**Table 2**

<table>
<thead>
<tr>
<th></th>
<th>Owner</th>
<th>Provides capital to take part in the cooperative</th>
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</thead>
<tbody>
<tr>
<td>2</td>
<td>Supplier</td>
<td>Delivery their products to the cooperative</td>
</tr>
<tr>
<td>3</td>
<td>Customer</td>
<td>The cooperative provides a range of services</td>
</tr>
<tr>
<td>4</td>
<td>Member of the board</td>
<td>If they are part of the management of the cooperative</td>
</tr>
<tr>
<td>5</td>
<td>Worker</td>
<td>Members can work in the cooperative as laborers</td>
</tr>
</tbody>
</table>

SOURCE: Marín et al. (2010).
In cooperatives, social indicators used are based on the Cooperative Principles stated by the ICA. They are parameters that, by ascribing them certain values, enable cooperatives to evaluate their behaviour in matters of Social Responsibility, and at the same time give a measure of the degree of observance of those principles.

A valid indicator, though not exclusive to evaluating CSR, is the Fund for Education and Promotion (FEP). This fund is a particular characteristic of cooperative societies. If we focus on its main applications, we can see they are quite similar to those ideals considered as fundamental components of CSR, such as:

- spread and promotion of cooperative companies,
- cultural promotion,
- community development,
- environmental action.

Moreover, this can be a guide to evaluate the level of a cooperatives commitment based on the percentage allocated (Server and Villalonga, 2007).

Although it´s quite clear that there is an obligation to provide the FEP with a minimum percentage of the cooperative surplus, above 5% in accordance with state law (Law 27/1999 of 16 July), this percentage varies considerably between different cooperatives, since it depends on the members of the cooperative, through its statutes and agreements of its general assembly, to decide what proportion of the profits are devoted to these necessities. Therefore, this percentage is a measure of the degree of involvement with CSR.

6.- Conclusions

In view of the increasing pressure by society for companies to assume responsibility and increase competitiveness, the incorporation of Corporate Social Responsibility into business policies can be a good response.

This Corporate Social Responsibility incorporation must be performed from a strategic point of view, being comprehensively incorporated in management policy.

It is necessary to take account of the opinion and interests of all the different stakeholders while performing this incorporation.
The right integration of CSR in business policies will generate a series of mutual benefits for both society and organizations. For this, it will be necessary that companies establish and maintain relationships based on trust with all stakeholders.

While establishing a sustainable strategy, it will be necessary to take account of the singularities of each company, defining objectives, strategies and long-term plans appropriate to the type of company and its characteristics.

Cooperative companies, because of their social nature, their commitment to the development of society and the integration of stakeholders in their management, can be a reference for the integration of CSR in companies.

If we pay attention to the structure and composition of cooperative corporate governance with the implementation of cooperative principles showing the uniqueness of the partner/owner relationship, we see that this relationship can sometimes be extended to customer, supplier, employee, etc. Therefore, their integration into management processes and decision-making involves attention to not only their own interests, but also those of interest groups and the community in which the firm operates.

In order to inform society of the socially responsible behaviour of cooperative companies, it will be necessary to properly publicize their sustainability reports’ publications, which must show the application of CSR measures.

References


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