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CORPORATE SOCIAL RESPONSIBILITY AS A NEW ETHICAL MANAGEMENT FORMULA

Будь-яка економічна діяльність оцінюється в основному з погляду економічної успішності, показниками якої є ефективність і економічність. Однак така оцінка неповна, тому що кожну економічну діяльність потрібно також оцінити з дотриманням етичних норм. Ця стаття присвячена визначенню концепту корпоративної соціальної відповідальності, її моделям та способам формування.

Каждая экономическая деятельность рассматривается в основном с точки зрения экономической успешности, показателями которой есть эффективность и экономичность. Однако такая оценка неполная, потому что каждая экономическая деятельность должна также оцениваться с учетом этических норм. Данная статья посвящена определению концепта корпоративной социальной ответственности, её моделям и способам формирования.

Each economic activity is perceived basically from the point of view of economic success, that is effectiveness (efficiency) and economics (thriftiness). However, this valuation is not complete as each economic activity should also be evaluated from the ethical perspective. This article is devoted to the definition of the corporate social responsibility, its models and the process of forming.

Ключові слова. Бізнес-етика, корпоративна соціальна відповідальність.

Introduction. Recent years have seen increased public interest in Corporate Social Responsibility and rapid growth in the number of companies introducing this concept. CSR is present on the front pages of the most influential economic newspapers and magazines, United Nations are promoting this idea, and some governments actively support CSR policy e.g. Stephen Times, Minister of CSR in the United Kingdom. The practice of CSR is an issue which undoubtedly generates a great deal of heated debate, with supporters maintaining that application of CSR guarantees economic success and competitive advantage, and opponents who question the real motives for engaging in CSR.

Why do companies introduce and apply this concept? Is it a reasonable strategic decision, adjustment to the prevailing economic conditions, administrative compliance or maybe temporary fashion? The aim of the article is to find out the answer to the question formulated above.

The first hypothesis assumes that obeying the rules of CSR philosophy, improves ethical standards of the company, which in consequence increases productivity and competitiveness on the local and global markets. The second hypothesis assumes that CSR is pure hypocrisy and a utilitarian marketing strategy.

The results of the research

1. Growing interest in business ethics and corporate responsibility

In the 21st century, the demand for more ethical business processes and actions is still increasing. Historically, interest in business ethics high accelerated during the 1980s and 1990s, both within major corporations and within academia. The term Corporate Social Responsibility came in to common use in the early 1970s although it was seldom abbreviated. The term stakeholder, meaning those impacted by an organization's activities, was used to describe corporate owners beyond shareholders from around 1989.

Corporations exist to provide products and/or services that produce profits for their shareholder's. Milton Friedman and others take this a step further, arguing that a corporation's purpose is to maximize returns to its shareholders, and that since (in their view), only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society [1]. Some people become conscious of CSR as incongruent with the very nature and purpose of business, and indeed a hindrance to free trade and economy. Those who assert that CSR is incongruent with capitalism and are in favor of neoliberalism argue that improvements in health, longevity and/or infant mortality have been created by economic growth attributed to free enterprise [2]. Critics of this argument perceive neoliberalism as opposed to the well-being of society and a hindrance to human freedom. They claim that the type of capitalism practiced in many developing countries is a form of economic and cultural imperialism, noting that these countries usually have fewer labor protections, and thus their citizens are at a higher risk of exploitation by multinational corporations.

2. The way ethics are formed

According to Griffin, an individual's ethics are determined by five basic forces: family influences, peer influences, experiences, values and morals and situational factors. Individuals begin to form their ethics in their childhood, as response to their parents' behaviour and the behaviours that their parents allow them to choose. As children grow, they also become susceptible to influence from their peers with whom they interact everyday. John Snarey suggests that a person's values and morals also contribute to his or her ethics.

Finally, ethics are influenced by situational factors – things that arise naturally but often unexpectedly in a person's life. For example, some people who steal money from their employers do so because of personal financial difficulties. If they had been able to avoid personal problems, they might also have avoided the temptation to steal [3]. Ethics can affect managerial work in any number of ways, but three areas are of special concern.

3. Definitions of ethics and business ethics

The term "ethics" comes from the Greek word *ethos,* meaning character or custom, writes a philosophy professor Robert C. Solomon. Today the word "ethos" is used to refer to "the distinguishing disposition, character, or attitude of a specific people, culture, or group". According to Solomon, the etymology of "ethics" suggests its basic concerns:

1) individual character, including what it means to be a "good person", and
2) the social rules that govern and limit our conduct, especially the ultimate rules concerning right and wrong, which we call morality [4].

In his book, William H. Shaw says that "the study of ethics concerns questions of right and wrong, duty and obligation, and moral responsibility", whereas business ethics is "the study of what constitutes right and wrong, or good or bad, human conduct in a business context" [5].

According to another source: "business ethics is a form of the art of applied ethics that examines ethical rules and principles within a commercial context, the various moral or ethical problems that can arise in a business setting, and any special duties or obligations that apply to persons who are engaged in commerce" [6].

For thirty years, academics and practitioners have been trying to establish an agreed-upon definition for what social responsibility really is. In 1960, Keith Davis suggested that social responsibility refers to businesses' " decisions and actions taken for reasons at least partially beyond the firm's direct economic and technical interest." Ells and Walton argued that CSR refers to the "problems that arise when corporate enterprise casts its shadow on the social scene, and the ethical principles that ought to govern the relationship between the corporation and society" [7].

A. B. Carroll's definition explains CSR in the following way:

a) economic and legal responsibility,
b) ethical responsibility,
c) humanitarian responsibility.

CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis:

a) CSR is a behavior by businesses over and above legal requirements, voluntarily adopted because businesses deem it to be in their long-term interest,
b) CSR is intrinsically linked to the concept of sustainable development: businesses need to integrate the economic, social and environmental impact in their operations,
c) CSR is not an optional 'add-on' to business core activities – but about the way in which businesses are managed.

Holmes and Watts define CSR in the following way: "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" [8]. Corporate social responsibility (CSR) is a concept that suggests that commercial corporations have a duty of care to all of their stakeholders in all aspects of their business operations. CSR is closely linked with the principles of Sustainable Development which argue that enterprises should be obliged to make decisions based not only on financial/economic factors (e.g. profits, return on investment, dividend payments etc.) but also on the social, environmental and other consequences of their activities [9].

Referring to other sources, the concept of corporate social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A traditional view of the corporation suggests that its primary, if not sole, responsibility is to its owners, or stockholders. However, CSR requires organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, local, state, and federal governments, environmental groups, and other special interest groups. According to Carroll and Buchholtz, Corporate Social Responsibility can be defined as the “economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time”. Four-part definition indicates the complexity of the multifaceted nature of social responsibility [10].

The economic responsibilities concern society’s expectation that companies will manufacture goods and services needed by society and that they will be sold at a reasonable price. The legal responsibilities relate to the expectation that companies or organizations will comply with the laws set down by society while competing in the marketplace. The ethical responsibilities, go beyond the law, and refer to societal expectations that organizations’ affairs will be conducted in a fair and just way. Lastly, the discretionary responsibilities of corporations refer to society’s expectation that organizations are good citizens. In practice it is connected with philanthropic support of programs benefiting a community or the nation, and a donation of employee knowledge and time to worthy causes, etc.

Corporate social responsibility is a concept that suggests that commercial corporations have a duty of care to all of their stakeholders in all aspects of their business operations – is a concept that suggests that commercial corporations have a duty of care to all of their stakeholders in all aspects of their business operations. What’s the Stakaholders concept? The term stakeholder has two distinct uses in the English language:

- The traditional usage, in law and notably gambling, a third party who temporarily holds money or property while its owner is still being determined.
- More recently a very different meaning of the term has become widely used in management. This sees a stakeholder as a person or organization that has a legitimate interest in a project or entity.

The new use of the term arose together with and due to the spread of corporate social responsibility ideas, but there are also utilitarian and traditional business goals that are served by the new meaning of the term. In the last decades of the 20th century, the word “stakeholder” has become more commonly used to mean a person or organization that has a legitimate interest in a project or entity.

In the field of corporate governance and corporate responsibility, a major debate is ongoing about whether the firm should be managed for stakeholders, stockholders, or customers. Those who support the stakeholder view usually base their arguments on the following four key assertions:

1. Value can best be created by trying to maximize joint outcomes.
2. Supporters also take issue with the preeminent role given to stockholders by many business thinkers, especially in the past. The argument is that debt holders, employees, and suppliers also make contributions and take risks in creating a successful firm.
3. These normative arguments would matter little if stockholders had complete control in guiding the firm. However, many believe that due to certain kinds of board of directors structures, top managers like CEOs are mostly in control of the firm.
4. The greatest value of a company is its image and brand.

4. Areas of social responsibility

Professor Freeman, the author of the stakeholder theory, defined to whom business is responsible. He developed the concept of stakeholder, “who is any subject (organization, group or individual) who can affect or is affected by the organization’s activities”. To put it briefly, stakeholder has a “stake” in the company. To the main stakeholders of the firm belong shareholders, employees, clients, communities and the environment.

The environment. The natural environment is one of the crucial areas of social responsibility. Not so long ago, practices such as: dumping of radioactive waste at sea or sewage, waste products and rubbish into streams and rivers were very common to many businesses. It can not be denied that it still happens. However, nowadays this situation has slightly improved as laws regulate such activities, and companies themselves, in many instances, have realized their mistake and have become more socially responsible. As a result, most of the forms of air and water pollution have been reduced.

Customers. Corporations can introduce socially responsible attitude toward their customers. According to President John F. Kennedy, there are four basic consumer rights: the right to safe products, the right to be informed about all relevant aspects of a product, the right to be heard in the event of a complaint, and the right of consumers to choose what they buy.

Employees. Organizations can be socially responsible in dealings with their employees through fair treatment, making them a part of the team, and respecting their basic human needs.

Shareholders. A socially responsible position of the companies toward their investors is also very important to be taken. As Griffin points out: managers should maintain proper accounting procedures, provide appropriate information to shareholders about the current and projected financial performance of the firm, and manage the organization in such a way as to protect shareholder rights and investments.

General Social Welfare. It is believed that companies should be involved in promotion of the general social welfare by making contributions to charities or non-profit organizations, etc., supporting the public sector institutions (television, museums, theatres, hospitals, etc.), and being actively involved in the fields of health and education. The idea of being engaged in political decisions is very popular as well. “A prominent illustration of this feeling is the argument that businesses should withdraw their operations from South Africa to protest that nation’s policies of apartheid” [11]. There were two companies: Kodak and IBM which have responded to these concerns and shut down their operations in South Africa.

5. Critics of CSR

Some critics of CSR, such as the economist Milton Friedman, argue that a corporation's principal purpose is to maximize returns to its shareholders, while obeying the laws of the countries within which it works. Others argue that the only reason corporations put in place social projects is utilitarian; that they see a commercial benefit in raising their reputation with the public or with government. Proponents of CSR, however, would suggest a number of reasons why self-interested corporations, solely seeking to maximise profits are unable to advance the interests of society as a whole.

Key challenges to the idea of CSR include:

– The rule of corporate law that a corporation's directors are prohibited from any activity that would reduce profits.

– Other mechanisms established to manage the principal-agent problem, such as accounting oversight, stock options, performance evaluations, deferred compensation and other mechanisms to increase accountability to shareholders.

Because of this, it has been suggested that CSR activity is most effective in achieving social or environmental outcomes when there is a direct link to profits: hence the CSR slogan "Doing Well by Doing Good". Note that this requires that the resources applied to CSR activities must have at least as good a return as that that these resources could generate if applied anywhere else, e.g. capital or productivity investment, lobbying for tax relief, outsourcing, offshoring, fighting against unionization, taking regulatory risks, or taking market risks – all of which are frequently-pursued strategies. This means that the possible scope of CSR activities is drastically narrowed. And corporations, with their constant incentive to maximize profits, often have identified all areas where profits could be increased, including those that have positive external social and environmental outcomes.

The scope for CSR is thus narrowed to situations in which:

– Resources are available for investment.

– The CSR activity will yield higher profits than any other potential investment or activity.

– The corporation has been remiss in identifying this profit opportunity.

A conflict can arise when a corporation espouses CSR and its commitment to Sustainable Development on the one hand, whilst damaging revelations about its business practices emerge on the other. For example the McDonald's Corporation has been criticised by CSR campaigners for unethical business practices, and was the subject of a decision by Justice Roger Bell in the McLibel case (which upheld some of these claims, regarding mistreatment of workers, misleading advertising, and unnecessary cruelty to animals). Similarly Shell has a much publicised CSR policy and was a pioneer in triple bottom line reporting, but was involved in 2004 in a scandal over the misreporting of its oil reserves which seriously damaged its reputation and led to charges of hypocrisy.

Critics of the role of business in society argue that:

– Corporations care little for the welfare of workers, and given the opportunity will move production to sweatshops in less well regulated countries.

– Unchecked, companies will squander scarce resources.

– Companies do not pay the full costs of their impact. For example the costs of cleaning pollution often fall on society in general. As a result profits of corporations are enhanced at the expense of social or ecological welfare.

– Regulation is the best way to ensure that companies remain socially responsible.

– Supporters of a more market based approach argue that:

– By and large, free markets and capitalism have been at the centre of economic and social development over the past two hundred years and that improvements in health, longevity or infant mortality (for example) have only been possible because economies – driven by free enterprise – have progressed.

– In order to attract quality workers, it is necessary for companies to offer better pay and conditions which leads to an overall rise in standards and to wealth creation.

– Investment in less developed countries contributes to the welfare of those societies, notwithstanding that these countries have fewer protections in place for workers. Failure to invest in these countries decreases the opportunity to increase social welfare.

– Free markets contribute to the effective management of scarce resources. The prices of many commodities have fallen in recent years. This contradicts the notion of scarcity, and may be attributed to improvements in technology leading to the more efficient use of resources.

– There are indeed occasions when externalities, such as the costs of pollution are not built into normal market prices in a free market. In these circumstances, regulatory intervention is important to redress the balance, to ensure that costs and benefits are correctly aligned.

– Whilst regulation is necessary in certain circumstances, over regulation creates barriers to entry into a market. These barriers increase the opportunities for excess profits, to the delight of the market participants, but do little to serve the interests of society as a whole.

6. Corporate social responsiveness

Stoner and Freeman suggest that debates about social responsibility raise more questions than they answer and for this reason some managers turned to corporate social responsiveness. It is a theory of social responsibility that focuses on how companies become aware of and then respond to social issues, rather than trying to determine their ultimate social responsibility.

Corporate social responsiveness takes two basic approaches. On the micro-level, it analyzes how individual companies respond to social issues. This approach is represented by Robert Ackerman's model. On the macro-level, the theory studies the forces that determine the social issues to which businesses should respond. This approach is represented by Preston and Post's model. Archie Carroll's theory combines the micro and macro approach to classify the ways in which corporations can and do respond to specific social issues.

Source: James A. F. Stoner, R. E. Freeman. Management. – New Jersey : Prentice Hall, 1989. – P. 100.

Ackerman's Model. Robert Ackerman, as one of the first suggested that responsiveness, not responsibility, should be the goal of the corporate social endeavours. He described three phases through which companies commonly pass in developing a response to social issues.

In phase one, a corporation's top managers find out about an existing problem. At this stage, no one asks the company to deal with it. The chief executive officer only acknowledges the problem by making a written or oral statement of the company's policy toward it.

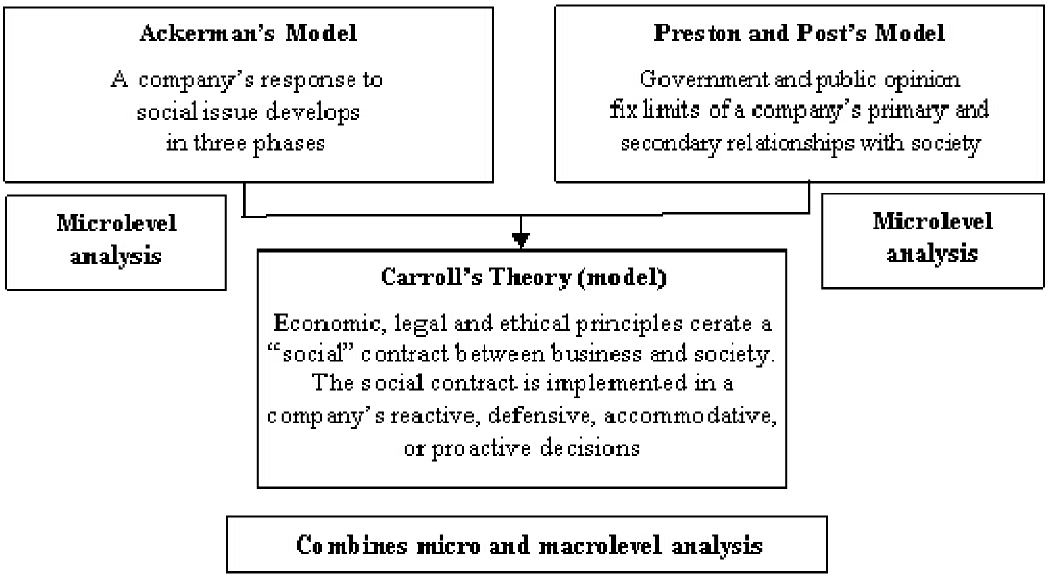

Figure 1. The Theory of Corporate Social Responsiveness

In phase two, the company hires staff specialists or engages outside consultants to study the problem and to suggest ways of dealing with it. Up to this point, the company has limited itself to declaring its intentions and formulating its plans.

Phase three is implementation. The company now integrates the policy into its ongoing operations. Unfortunately, implementation often comes slowly – often only after the government or public opinion forces the company to act. By that time, the company has lost all the initiative.

Preston and Post's Model. Lee Preston and James Post presented one of the first definitive statements of the macro approach to the concept of corporate responsiveness. In this model, business and society interact in two distinct ways. The primary relations of business with customers, employees, shareholders and creditors are market-oriented. When these relations create social problems, secondary (or non-market) relations, such as with the law and morality, come into play [12].

Carroll's Theory. A.B. Carroll formulated the most popular model of social responsibility. According to him, CSR will be accepted by business people if the entire range of business responsibilities is included. He suggests that there are four kinds of social responsibilities that form total CSR, namely: economic, legal, ethical and philanthropic. They might be illustrated as a pyramid. What is worth adding, Carroll emphasizes that all these components of CSR have always existed to some extent, but in recent years, ethical and philanthropic functions have taken a significant place.

Source: Archie B. Carroll. The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Staeholders // Business Horizons. 1991. July–Aug. – P. 20.

Economic Responsibilities. When we look back in the past, the profit motive was the primary incentive for entrepreneurship. However, at some point, as Carroll notices "the idea of the profit motive got transformed into a notion of maximum profits, and has been an enduring value ever since". The economic responsibility of the firm is the primary one, all other business responsibilities are predicated upon it.

Legal Responsibilities. Business is not allowed to operate only according to the profit motive; at the same time it is obliged to comply with the laws and regulations formulated by the government. Companies are expected to realize their economic missions within the framework of the law.

Figure 2. The pyramid of Corporate Social Responsibility

Ethical Responsibilities. Economic and legal responsibilities, described above, embody ethical norms about fairness and justice, however, "ethical responsibilities embrace those activities and practices that are expected or prohibited by the society even though they are not codified into law". As Carroll points out: "ethical responsibilities embody those standards, norms or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights" [7].

Philanthropic Responsibilities. If companies respond to society's expectation, that is, they are good corporate citizens, it means that they behave philanthropically. This involves active engagement in acts and programs promoting human welfare and goodwill. Contributions to the arts, education, community are good examples of philanthropy. The distinction between philanthropic and ethical responsibilities is reasonable as some firms think that they are socially responsible if they are good citizens in the community. This distinction helps us to understand that CSR includes philanthropic contributions but is not limited to them.

Described above components of CSR constitute the pyramid of social responsibility. At the bottom of it, there is the basic economic building block which "undergirds" the others. At the same time, business is expected to function according to the law as the law regulates acceptable and unacceptable behaviour. Business's responsibility to be ethical is the next building block on the pyramid. "At its most fundamental level, this is the obligation to do what is right, just and fair, and to avoid or minimize harm to stakeholders" [6]. Finally, at the top of the pyramid, there is a philanthropic responsibility as business is expected to be a good corporate citizen, contribute financial and human resources to the society and to make the quality of life better. Carroll presents CSR responsibilities in a form of pyramid to emphasize that the total CSR of business comprises distinct components which, taken together, constitute the whole. Presented as separated, they help to see that the different types of obligations are in a constant but dynamic tension with one another.

The most critical tensions, of course, would be between economic and legal, economic and ethical, and economic and philanthropic. The traditionalist might see this as a conflict between a firm's concern for profits versus concern for society," but it is suggested that here that this is an oversimplification. A CSR or stakeholder perspective would recognize these tensions as organizational realities, but focus on the total pyramid as a unified whole and how the firm might engage in decisions, actions, and programs that substantially fulfil al its component parts. Carroll points out that the total corporate social responsibility of business requires the simultaneous fulfilment of the firm's economic, legal, ethical and philanthropic responsibilities. It means that the CSR firm should strive to make a profit, obey the law, be ethical and be a good corporate citizen.

The amount of company's responsibilities may seem to be large, especially while comparing with the classical economic argument of Milton Friedman that the company has only one responsibility, namely to maximize the profits of the owners or shareholders. As Milton emphasizes "social problems are not the concern of business people and they should be resolved by the free market system". Management "is to make as much money as possible while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical custom." However, as Carroll rightly notices, Friedman's assertion must be considered in its totality, and more attention should be paid to the second part of Friedman's quote, not to the first as most people do.

It seems clear from this statement that profits, conformity to the law, and ethical custom embrace three components of the CSR pyramid – economic, legal, and ethical. That only leaves the philanthropic component for Friedman to reject.

Conclusion. Without a shadow of a doubt, Corporate Social Responsibility is a phenomenon and a key business issue of the 21st century that is subjected to much heated debate and criticism with supporters underlining the numerous advantages of CSR and opponents showing the gaps between practice and expectations. Due to the provided information, it can be concluded that it is a very controversial issue, causing a lot of disagreement and solution to the question whether it is a marketing strategy or a tool helping the company to increase its productivity or competitiveness in a responsible way can not be provided. The only thing that can be done is to observe the companies which adhere their strong commitment to Corporate Social Responsibility, and the true reasons for their introduction and application of CSR philosophy will become clear in the nearest future.

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