Chapter Four: The economic, legal and ethical dimensions of business ethics and corporate social responsibility

4.1. Introduction

- Corporate social responsibility is a gesture of showing the company's concern & commitment towards society's sustainability & development.

World Business Council for Sustainable Development (1999):

"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".

- *“CSR is the commitment of business to contribute to sustainable economic development-working with employees, their families, the local community and society at large to improve the quality of life in ways that are both good for business and good for development”* (World Bank, 2008).

- *“CSR is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources”*(Kotler & Lee, 2005).
- *Social responsibility of business is to encompass the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time”* (Carroll, 1979).

CSR includes:

- Responsibility towards society
- Responsibility towards employees
- Responsibility towards Consumers
- Responsibility towards environment
- Responsibility towards Share holders

Responsibility towards society

- Carrying on business with moral& ethical standards.
- Prevention of environmental pollution.
- Minimizing ecological imbalance.
- Contributing towards the development of social health, education
- Making use of appropriate technology.

Responsibility towards employees

- To provide a healthy working environment.
- To grant regular & fair wages.
- To provide welfare services.
- To provide training & promotion facilities.
- To provide reasonable working standard & norms.
- To provide efficient mechanism to redress worker's grievances.
- Proper recognition of efficiency & hard work.

Responsibility towards Consumers

- Supplying socially harmless products.
- Supplying the quality, standards, as promised.
- Adopt fair pricing.
- Provide after sales services.
- Resisting black-marketing & profiteering.
- Maintaining consumer’s grievances cell.
- Fair competition.

Responsibility towards environment

- Obey rules & regulations.
- Regular payment of taxes.
- Cooperating with the Gov’t to promote social values.
- Cooperating with the Gov’t for economic growth & development

Continued

- All companies – regardless of size or sector – can have positive and negative impacts on the environment. Negative impacts arise through :the direct or indirect consumption of energy and resources, the generation of waste and pollutants and the destruction of natural habitats.
- The institutional environmental policies, organization structure for environmental impact and sustainability management; policy and practices for minimization of the usage of materials resources, reuse and recycling policies and practices and so forth are the performance indicators that can show the institutional performance level with respect to environmental issues.

Responsibility towards Share holders

- To ensure a reasonable rate of return over time.
- To work for the survival & the growth of the concern.
- To build reputation & goodwill of the company.
- To remain transparent & accountable

4.2.Theories of Social Responsibility

Stakeholders theory

- stakeholder theory of is related to the belief that business entities have an obligation to all constituent groups in society in addition to stockholders and beyond the minimum legal requirements.
- That is to mean that business entities shall be held responsible to all internal and external (including remote) constituents that have interest in the company and get affected by their operations or affects the operation of the companies

Continued

Political Theories

- Business entities should assume social initiatives as governments may lack ability and capabilities to solve social problems like for example environmental problems.

Agency Theory

- According to Obalola (2008, 540) agency theory suggests the existence of a contract that results in establishment of a relationship between the principal and the agent.
- As applied to business firms, this theory propagates the necessity of having contract between the management (people in charge of discharging social responsibility) and shareholders of the firm

Continued

Cause Related Marketing Theory

- Cause related marketing theory is another type of theory that explains the motives behind social involvement of firms.
- The famous marketing guru, Philip Kotler has stated that cause related marketing is a form of societal marketing and practiced for mutual benefits of the marketer and the customer.

Continued

- ***Personal Satisfaction/ Altruism Theories***
- Murray and Montanari (1986,816) citing (Ostlund, 1977) stated that an empirical investigation that has assessed the view points of Fortune 500 executives towards CSR shows that corporate social action was driven basically by self-interest of firms

Legitimacy Theory

- The legitimacy theory, as developed by Davis, states that businesses do have a social contract with society. Hence, firms that do not operate in accordance with societal values will eventually lose their legitimacy to exist and will fail to survive.
- And hence, the theory implies that as the political and legal environment are the reflections of societal expectations and values so as to successfully accomplish the expected societal responsibilities

Ethical Theories

- These theories advocate that firms must accept social responsibilities as an ethical obligation

CSR theories can be categorized as:

- Maximizing profits
- Corporate citizenship
- Moral minimum
- Stakeholder interest

Theories….

Maximizing Profits

- A theory of social responsibility that says a corporation owes a duty to take actions that maximize profits for shareholders.

- The interests of other constituencies are not important in and of themselves.

Theories….

Moral Minimum

- A theory of social responsibility that says a corporation's duty is to make a profit while avoiding harm to others.
- As long as business avoids or corrects the social injury it causes, it has met its duty of social responsibility.
- The legislative and judicial branches of government have established laws that enforce the moral minimum of social responsibility on corporations.
  - e.g., Occupational safety laws
  - e.g., Consumer protection laws for product safety

Theories….

Stakeholder Interest

- A theory of social responsibility that says a corporation must consider the effects its actions have on persons other than its stockholders.
- This theory is criticized because it is difficult to harmonize the conflicting interests of stakeholders.

Theories….

Corporate Citizenship

- A theory of responsibility that says a business has a responsibility to do good.
- Business is responsible for helping to solve social problems.
- Corporations owe a duty to promote the same social goals as do individual members of society.

- This theory argues that corporations owe a debt to society to make it a better place.
  - This duty arises because of the social power bestowed on corporations.
- A major criticism of this theory is that the duty of a corporation to “do good” cannot be expanded beyond certain limits.

4.2 Dimensions and Challenges of Social Responsibility

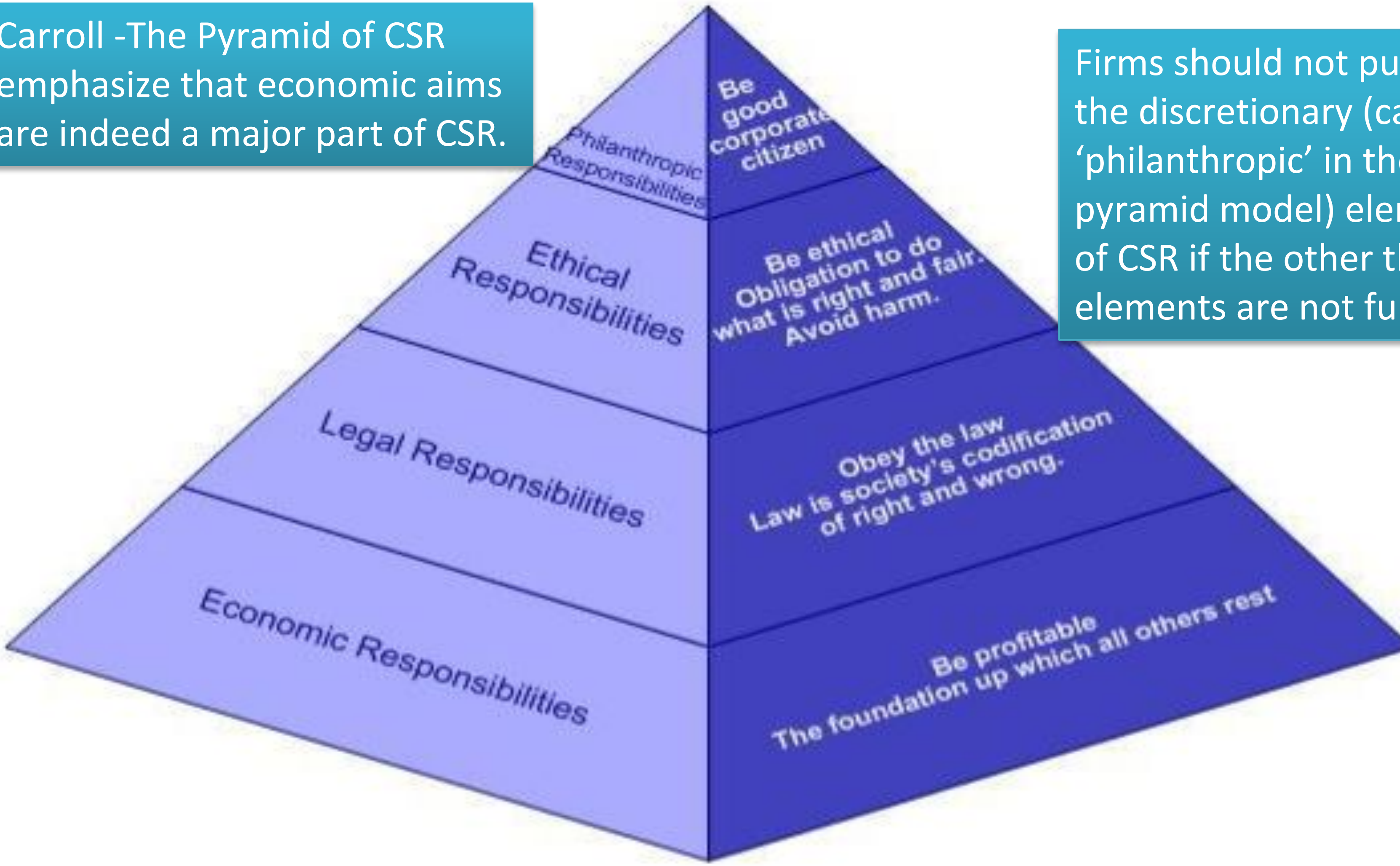
- Social responsibility is the assumed obligation of business to society.
- Being socially responsible means to maximize the positive effects and minimize the negative effects on society (customers, owners, employees, community, suppliers, and government).

- Carroll (1979) created a model that categorizes CSR into 4 components: economic, legal, ethical and philanthropy.

- There are four common dimensions of social responsibility:
  - legal,
  - ethical,
  - economic and
  - philanthropic.

Pyramid of Corporate Social Responsibility: Carroll's

Carroll -The Pyramid of CSR emphasize that economic aims are indeed a major part of CSR.



Firms should not pursue the discretionary (called 'philanthropic' in the pyramid model) element of CSR if the other three elements are not fulfilled.

Economic Dimension…

- Economic dimension of CSR refers to how resources for the production of goods and services are distributed within the social system.
  - Economically, companies are supposed to perform well financially and meet consumption needs.
  - Companies place economic responsibility as a top priority since they have to produce goods and services to meet the needs of society.
  - By producing and meeting the needs of society they will also be able to make a profit. Then there is the legal component in which companies are required to conduct businesses that comply with the law.

- In order to stay in business and to have a high performance companies are expected to abide to the laws and regulations.

- Social responsibility, in relation to the economy, encompasses many aspects of how firms, in terms of competition, consumers, employees, community and environment affect the economy.
  - For example, the economy is affected by the economic power of companies in relation to resources and supply of products control.

Dimension…

- **Legal dimension of CSR relates to compliance with laws and regulations established by the** authorities, which set standards for responsible behavior – the codification of what society thinks is right or wrong.
  - Legal regulation of businesses leadership are made because the society, including consumers, interest groups, competitors and legislators, cannot be confident that businesses do what is right in a particular field, such as consumer or environment protection.
  - This lack of confidence is the strength of legal size. Many ethical and economic issues go to court or legislative debates.

- In other words, the laws set rules for responsible businesses activities. They can be divided into laws that regulate competition, consumer protection laws, environmental laws and laws that promote safety and fairness.

- Then there is the legal component in which companies are required to conduct businesses that comply with the law. In order to stay in business and to have a high performance companies are expected to abide to the laws and regulations.

Ethical Dimension…

- **Ethical dimension of CSR refers to behaviors and activities that are permitted or prohibited** by organization members, community, society, even if they are not codified by law.
  - Milton Friedman said that "the basic mission of any business is to produce, with profit, goods and services, making the business to achieve its maximum contribution to society and, in fact, to be socially responsible.

- The ethical component – companies should conduct their business ethically and follow society’s moral rules. They can go beyond the minimum legal requirements and simply want to conduct businesses ethically and morally.

- **Philantrophic**
  - Lastly companies should be benevolent and philanthropic in nature – doing good causes, serving and helping communities and the society, etc. It is at their own discretion and completely voluntary for companies to contribute and engage in social activities.

Dimension…

- On the otherhand, Schwartz and Carroll (2003) built CSR as actually being composed of three domains
    - economic,
    - ethical and
    - legal.
- They overlap with each other and can best be represented as Figure 2.

- the authors explained that many supererogatory acts in business are undertaken for economic or ethical motives (i.e. strategically),
- thus making it more accurate to depict CSR as covering only three domains.

- Schwartz and Carroll argued that the best business strategy is to focus on the part of the diagram where all three domains overlap
    – or where the economic and ethical domains overlap as long as the firm passively comply with the law. Both would bring the most benefits to the business.

Dimension…

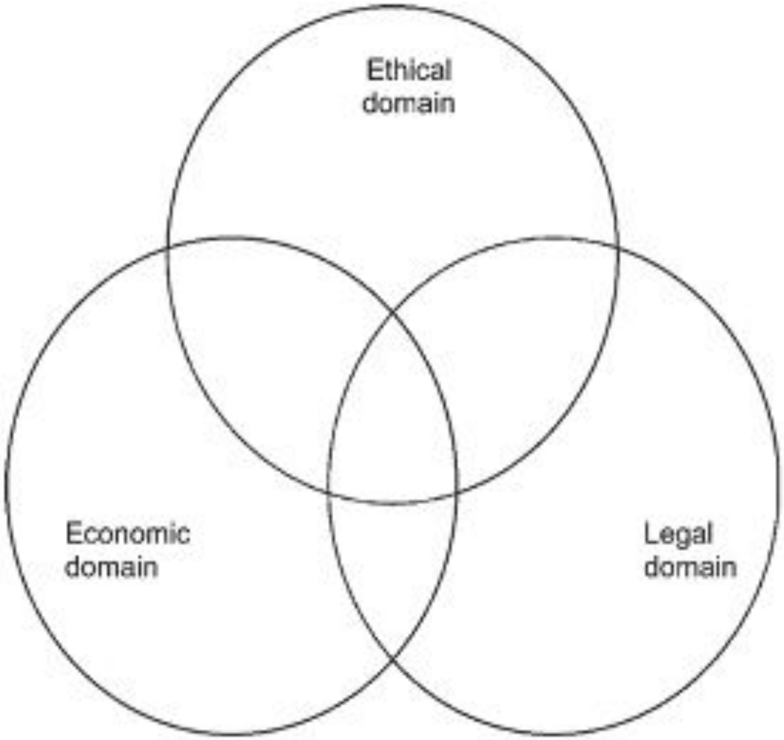


Figure 2. Three-domain model of CSR (Schwartz & Carroll, 2003).

Dimension…

- CSR has also been described as a tool to build good corporate reputation.

- Lewis (2003) found that public perception on the role of companies' in society has changed significantly, across period.
  - In late 1970s, two-to-one of the British public agreed that the profits generated by large companies make things better for their customers.

- Lewis argued that companies have a new basis to regain public trust—through exercising their CSR.

- Also (Porter, 2003) when he stated that 'today's companies ought to invest in CSR as part of their business strategy to become more competitive'.

Exploring further:
Corporate Philanthropy or Business Giving

- The word philanthropy comes from the Greek
  - philien, which means "to love," and anthropos, which means "mankind."

- Thus, the dictionary defines philanthropy as "a desire to help mankind as indicated by acts of charity; love of mankind."
- One more restricted contemporary usage of the word "philanthropy" is "business giving."
- Business philanthropy of one kind or another can be traced back to the 1920s
- people value the philanthropy of the business sector.

Philanthropy…

- these improved attitudes have positive performance consequences. For example,
  - employees remain with the company longer,
  - customers continue to make purchases from the company, and
  - community leaders value the company as a neighbor

Philanthropy…

A CALL FOR TRANSPARENCY IN CORPORATE PHILANTHROPY

- A major debate: to disclose which charities they support and how much money they give.
  - Although companies are required to disclose the money they give through foundations because of the tax benefits -tax-exempt status, companies need not disclose direct donations.
  - Proponents of disclosure contend that the money belongs to the shareholders, and they alone have the right to determine where it will go.

- Corporations are under no obligation to report their charitable giving, nor are they obligated to report what that giving has bought them in terms of access to politicians.

Philanthropy…

GIVING TO THE " THIRD SECTOR"—THE NONPROFITS

- According to philanthropist John D. Rockefeller III, business giving is necessary to support what has been called the third sector—the nonprofit sector.
  - The first two sectors—business and government—receive support through profits and taxes.
  - The third sector (which includes hundreds of thousands of churches, museums, hospitals, libraries, private colleges and universities, and performing arts groups) depends on philanthropy for support.

Philanthropy…

- To Whom Do Companies Give?
- the majority of business giving is distributed among four major categories of recipients in the following order of emphasis:
  (1) health and human services,
  (2) education,
  (3) civic and community in support of community improvement activities, environment and ecology
  (4) culture and the arts.

- Strategic philanthropy is an approach by which corporate giving and other philanthropic endeavors of a firm are designed in a way that best fits with the firm's overall mission, goals, or objectives.
  - strategic philanthropy is to make as direct contribution as possible to the financial goals of the firm
- Cause-Related Marketing- represents a close linkage between a firm's financial objectives and corporate contributions
- Other partnership options include sponsorships, vendor relationships, licensing agreements, and donations.

4.3 The basic Principles of CSR: 3

Principles ....

Sustainability.

- Sustainability therefore implies that society must use no more of a resource than can be regenerated.
- Measures of sustainability would consider the rate at which resources are consumed by the organisation in relation to the rate at which resources can be regenerated.
- Unsustainable operations can be accommodated for either by developing sustainable operations or by planning for a future lacking in resources currently required.

Principles ….

Accountability

- the organisation is part of a wider societal network and has responsibilities to all of that network rather than just to the owners of the organisation.
- Understanding to all parties concerned;
- Relevance to the users of the information provided;
- Reliability in terms of accuracy of measurement, representation of impact and freedom from bias;
- Comparability, which implies consistency, both over time and between different organisations.

Principles ….

Transparency

- the external impact of the actions of the organisation can be ascertained from that organisation's reporting and pertinent facts are not disguised within that reporting.

- Transparency is of particular importance to external users of such information as these users lack the background details and knowledge available to internal users of such information.

- recognition of responsibility on the part of the organisation for the external effects of its actions and equally part of the process of transferring power to external stakeholders.

4.4 Government Laws and Regulation Vs CSR

- CSR requires to ensure that corporate goals don't harm or disadvantage anyone or environment.

- Friedman demonstrates that governments themselves should set the agenda for social responsibility by laws and regulation

- In many instances separate organizational bodies are established to administer the workings of fair-trading on a local and global front.

- Government regulations poses some problems;
  - first, regulation in itself is unable to cover every aspect of detail in a corporation's process.
    - This leads to the argument and interpretation of the law and the debatable "grey areas" (Sacconi 2004).
      - General Electric is an example of a corporation that has failed to clean up the Hudson River after contaminating it with organic pollutants.

Law vs CSR…

- The second issue is the financial burden this places on an economy if such a corporation contributed significantly to the nation’s economy.
  - Australia=Signing the Kyoto pack 1997 would have caused significant economic losses national interest especially relating to the energy and resources industries
  - US=The Bush administration also opposed to regulatory measures along with resistance from many big US businesses

4.5 Authority of Responsibility: Stakeholder approach

- The Authority of Responsibility: By whom are Corporations Held Responsible?
- The Stakeholder (by Freeman), is still offers a helpful heuristic to categorize, sort and analyze multiple interests concerned by an organization.
- By definition, a stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives."
  - Clarkson (1995) suggests that a stakeholder is relevant if they have invested something in the organisation and are therefore subject to some risk from that organisation's activities
- This definition shows that companies face various different stakeholders' interests that are occasionally at conflict with each other or with the company's (i.e. the shareholders') own interests.

Stakeholder…

- Therefore, one can describe CSR as the challenge of "managing a multiplicity of interests."

- the stakeholder concept helps to put the concept of CSR into concrete terms.

- Examples of stakeholders include
  - employees, customers, shareholders,
  - supplers & subcontractors, the community in which the company operates,
  - governmentand non-governmental organisations (NGOs)-representing other s
    - This is for instance case with the natural environment, animals or future generations.

Stakeholder….

Organizations Need to Satisfy Multiple Stakeholders

Internal vs external

Voluntary vs involuntary

Stakeholder..

- Clarkson (1995) suggests that the voluntary stakeholders include shareholders, investors, employees, managers, customers and suppliers and they will require some value added otherwise they can withdraw their stake and choose not to invest in that organisation again.

- involuntary stakeholders such as individuals, communities, ecological environments, or future generations do not choose to deal with the organisation and therefore may need some form of protection may be through government legislation or regulation.