

ETHICS AND CSR – BACK TO BASICS

Irina Purcarea – Dana Kubickova – Irena Jindrichovska

Abstract

There is a difference between Business Ethics and Corporate Social Responsibility, which is now perceived by both business professionals and academic community. This ambivalence can be perceived from practical proposals for introducing business ethics in big companies that codetermine the culture of society in general.

The main characteristics of European approach to 'Corporate Social Responsibility' are (1) going over and above legal requirements by adopting voluntary measures; (2) linking to the European Union "sustainable development" concept; and (3) changing management approaches pursuing changes in the business model. Even though the goals seem to be well specified: going over and above the stated law and beyond duties, the practical incorporation of these ideas is somewhat lagging behind and does not reach the goal.

We suggest that there may be a fundamental conflict between the deontological nature of sustainability movement and business goals, which mostly follow the practical short-term oriented best practices. In this paper we attempt to disclose the nature of current CSR practices and show why CSR cannot contribute to achieving the long term goals of sustainability.

Key words: corporate social responsibility, business ethics, financial crisis, deontology, utilitarianism

JEL Codes: A13, A11, O1, O2

Introduction

At the beginning of the new millennium Corporate Social Responsibility was seen by the European Commission as an engine contributing to the European goal adopted by the Lisbon Summit of March 2000¹.

¹ See http://europa.eu/legislation_summaries/education_training_youth/general_framework/c10241_en.htm, accessed on 17.5.2013.

The goal was then to create the most competitive knowledge-based economy in the world by 2010. It was assumed that Europe will be capable of sustainable economic growth after introducing practical measures enabling dissemination of innovation serving whole communities and creating new sectors for further development.

Unfortunately the recent financial crisis of 2007–2010 and the on-going instability in the Eurozone revealed significant holes in implementation of this strategy. There are two main forces behind the accounting scandals (2001–2003) and the following global financial crisis 2008–2010. The events that caused financial instability and scandals have a common denominator: Shortcomings in the field of financial regulation and management responsibilities in corporate governance (Bavoso, 2013).

We feel that even recent critical approaches using new aspects of Corporate Social Responsibility mainly try to increase the value of the company and do not care of other aspects of company life as showed by Finch and Nigel (2005). This trend is witnessed by recent empirical study on mandatory CSR reporting that has been performed on 94 European and non-European countries by Ioannou and Serafeim (2011, 2012). Mixed evidence on contribution of CSR to value of company has been found also by Kim at al. (2011) and Flammer (2012).

Goals of management of worldwide operating industrial complexes and governments of many countries is not to serve the community but they primarily strive to increase the value of international companies and/or influence the country politics (Rodriguez et al., 2006) corruption scandals and involvement of politicians in companies recent scandals in the Czech republic and elsewhere (Jindrichovska, 2011). Multinational companies, which became dominant players in the globalized society, support this impression. Corporate social responsibility cannot be just a question of mechanical replication of corporate “best business practice”. The main purpose of principles of the best practice is to improve the growth and profit of commercial company and not necessarily to promote corporations’ ethics (Porter, Kramer, 2002). It has been frequently argued, that any other goal would be jeopardizing the effort to for increase corporations’ monetary value.

1 Approaches to ethics – Deontology versus Utilitarianism

Why should companies and business people behave ethically? Do we imply by this question that companies are not ethical? To say that one *should* do something is another way of saying the suggested behaviour it is ethical. If it is not ethical, then one should not do it. Ethics is

a correct and fair behaviour. Individual ethics is rather easier to understand as each individual follows ethical values and norms. This question is far more complicated in the context of corporations. Corporations are not individuals and cannot be judged and cannot be responsible for their behaviour. His view is changing with arrival of corporate social responsibility, which is a term re-born in the last few decades of 20th century.

Responsibilities of entrepreneurs and enterprises have been firstly mentioned by American economist H. R. Bowen (1953) in his work *Social Responsibility of Businessman*.

In 1970s the corporate responsibility has been characterised by Milton Friedman. His opinion was often cited in texts on business ethics and it essentially explains the limited responsibility of businesses. These ideas are based on the trust of free market capabilities, which has been described by another important economist Adam Smith in his work *Wealth of Nations* (1776). However, elsewhere at most during the same period Adam Smith has written another important treatise: *The Theory of the Moral Sentiments* (1759) which deals with ethics or morality in business. So, the idea was important even then – back in 18th century.

Modern understanding of ethics requires *the companies to going over and above the stated law and beyond duties*². Companies have responded to this agenda by advocating what is now a common term in business: corporate social responsibility. More often known simply as ‘CSR’, the concept of corporate social responsibility is a management idea that has gained big popularity throughout the global business community during the last few decades. Most of large companies and even some smaller ones now prepare their CSR reports. They employ management specialists, or form CSR departments or at least run some CSR projects. This subject is recently more and more often promoted as a core area of management, next to marketing, accounting, or finance (Crane et al., 2008).

Corporate Social Responsibility is a construct build upon three fundamentals: good economic results, social responsibility of business and responsibility for environmental impact of own industrial activity so called ecological footprint. In its early version this concept was called the Tripple Bottom Line a term coined by British business consultant John Elkington, who was a member of London think tank. This concept has gained tremendous popularity since then.

The concept “Tripple bottom line” has later become a basis of much broader theme – the Corporate Social Responsibility, which is also looking at all three major aspects –

² See <http://knowledge.insead.edu/csr/ethics/drucker-on-the-bounded-goodness-of-corporate-social-respon-1254>, accessed on 19.5.2013.

economic gain, social aspects and environmental impact. An imminent question now is, whether the Corporate Social Responsibility is the same as business ethics.

Ethics has many forms and faces. The main distinction appears to be between deontological ethics and utilitarianism. Deontological ethics is an ethics of duty. This stream of ethics is based on values formerly called also virtues. The main author in more modern age connected to this stream of thinking is Immanuel Kant (1724–1804) and his followers. Kant is the author the Critique of Pure Reason (1781, 1787) where “argues that the human understanding is the source of the general laws of nature that structure all our experience; and that human reason gives itself the moral law”³. His important concept “Categorical imperative” is the basis of deontology. Categorical imperative, the sense of duty is according to Kant inherent in human minds. *The goal of this ethical attitude is to respect the true values.* In Kant’s interpretation duty is the major value. Kant synthesized early modern rationalism and empiricism.

Quite a different view on ethics is represented by another stream: “utilitarianism”. Main representatives of this stream in modern times are Anglo-Saxon thinkers D. Hume, A. Smith, J. Bentham and J. S. Mill. Utilitarian doctrine is an ethics based on consequences. It stipulates that the useful is the good and that the *determining consideration of right conduct should be the usefulness of its consequences.* Specifically this is a theory that states *that the aim of action should be the largest possible balance of pleasure over pain or the greatest happiness of the greatest number of people.*⁴

These two major streams influence to the great deal the current discussion on business ethics the contrasts and correspondences between consequentialism (utilitarianism) and value based ethics.

One key questions of our paper is how does CSR relate to business ethics. Are we referring to the same thing? The literature on CSR and business ethics provides a background for a classification of the different types of CSR. In this regards, *ethical CSR* is “morally mandatory and goes beyond fulfilling a firm’s economic and legal obligations, to its ethical responsibilities to avoid harms or social injuries, even if the business might not appear to benefit from this” (Lantos, 2001). On the other hand, some authors chose to make this classification based on the investigation of the different motives behind CSR initiatives (Smith, Nystad, 2006). Such classification identifies two types of CSR, namely economic

³ Please see <http://plato.stanford.edu/entries/kant/>, accessed on 17.5.2013.

⁴ Please see <http://www.merriam-webster.com/dictionary/utilitarianism>, accessed on 19.5.2013.

CSR and ethical CSR. However, the findings reveal that it is impossible to judge a company's actions from purely ethical or purely economic perspective. The main rationale consists of the fact that there would be no business without an economic dimension and, in addition to the economic function, the social dimension to address social concerns.

Another dimension analysed in the literature is CSR in relation to stakeholders. Some business ethics organizations believe that corporate responsibility encompasses all responsibilities that a company has to all of its stakeholders, which includes ethical, social and environmental responsibilities (Noterdaeme, 2004 cited in Hurst, 2004). There is, however, a prevailing belief that CSR emerges from society's ethical norms, with society setting out its CSR expectations to reflect its ethical norms. From an ethical perspective, companies should thus accept social responsibility as an ethical obligation more than any other consideration.

One perspective on this matter looks at CSR in relation to sustainability, by saying that firms that engage in unsustainable CSR may find themselves being pushed out of business. Just because the legal system may allow firms to sacrifice profits in the social interest does not mean that firms can do so on a sustainable basis in the face of competitive pressures (Reinhardt et al, 2008).

2. New trends in CSR

Given the rapid pace with which the world is changing, it is worth looking at what are the current trends in the world of CSR nowadays. One of the most interesting trends, as emphasized by Baker⁵, is the shift from reporting to engagement of relevant stakeholders. In their quest for identifying new ways of measuring CSR in a reliable and meaningful way, companies are now starting to focus their aim on the engagement side involving customers, employees and suppliers with the company to learn about its activities and practices, given the fact that they generally don't read reports...

Other studies discuss the CSR dimension in relation to its implications for the HR function within a company where CSR practices are seen as an important factor with regards to employee loyalty, morale, retention, recruitment and productivity, important HR responsibilities and important business drivers in the firm⁶.

A recent survey of midsized companies set to explore major trends in mid-sized businesses' social responsibility efforts revealing some interesting findings. Businesses chose

⁵ Please see http://www.mallenbaker.net/csr/page.php?Story_ID=2747, accessed on 19.5.2013.

⁶ Please see Trends and drivers (2011), retrieved at <http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/rs00554.html> accessed on 19.5.2013.

to invest in their community's young people and the development of the workforce of the future, using their CSR efforts to support education, alongside with youth services and the environment.⁷

Fig.1 : Mid-sized companies impact on social communities



Source: BUSINESS4BETTER SURVEY: MID-SIZED COMPANIES AND SOCIAL RESPONSIBILITY, 2013⁸

Corporations must not forget about innovations. Most of innovation is brought by employees. Recently we have seen many new terms like effective PP collaborative dynamics, working (not-for-profit, for-profit & community), transformational leadership and managerial ethics, but it seems that these terms are good for big companies only and not for communities or small companies. It seems that these new trends fail to recognize the importance of the new industries role of business in society. To the contrary, good lessons about community case can be brought from Germany, where there is an active relation between community and companies.

'...the so called German Mittelstands-Companies, who are world leaders in many industrial fields, have been managed during the height of the crisis in way that was directed to long term business sustainability and not to profit maximization. Human resources were dealt with as people, as humans....

⁷ Please see <http://www.prnewswire.com/news-releases/new-research-report-reveals-corporate-social-responsibility-trends-in-mid-sized-companies-202306671.html>, accessed on 1.7.2013

⁸ BUSINESS4BETTER SURVEY: MID-SIZED COMPANIES AND SOCIAL RESPONSIBILITY (2013), retrieved at http://www.business4better.org/csr-survey-results/Business4Better_Survey_Report.pdf accessed on 1.7.2013

Many of these companies are also role models in unleashing the creativity and innovation capacity of their knowledge workers. This is a major element of their global success'.

Straub R. (2012: 4)

2.1 CSR in the Czech Republic

In the Czech Republic the CSR activities are led by the initiative Business leaders' forum which principally concentrates on CSR reporting. This is a realm of applied ethics - choosing the right words to make an impact. Business Leaders Forum organizes seminars on effective reporting with impact. The accent is on the reporting style and on the impact of reporting style. Clearly, the expected impact is on marketing and PR.

Typical outline of such course is as follows:

Why report CSR activities?

What to report?

What format of your CSR report give?

What is reporting according to GRI?

How to communicate with stakeholders that your message was well targeted and therefore read?

How do you report will be with your internal and external communication?

What to do when writing reports according to GRI?

What to do when collecting data for the GRI report?

How to externally verify the contents of the report according to GRI?

The presentation explains the GRI Reporting Framework and it is followed by discussions of practical issues related to this work.

Even though the idea might have been originally based on virtues, its pronunciation is rather practical and belongs quite to the region of applied ethics – choice of suitable wording and tight arguments to persuade of own true and does not necessarily understand ethic and ethical development as a value based and principle based behaviour Seknicka et al, (2006).

We claim that this activity is lacking the substance and this contribution basically argues that CSR as practiced today has failed as a business, governance and ethics system. Current CSR practices do not embrace ethics. We claim that success or failure should be measured as net impact (positive or negative) of business on society and the environment. The paper contends that a different kind of CSR is needed if we are to reverse the current direction of many of the world's most pressing social, environmental and ethical trends. At the emerging Age of Responsibility the CSR is based on five principles (creativity, scalability, responsiveness, glocality and circularity) and forms the basis for a new responsible business, built around the four elements of value creation, good governance, societal contribution and

environmental integrity. Yet the practical CSR must not overlook the basic „old“ principles of value based ethics.

Conclusion

Our paper set out to answer a key question regarding the link between CSR and business ethics, whether engaging in CSR practices is the same with behaving in an ethical manner from a business standpoint. The literature showed us that there are different perspectives on this topic. On the one hand, there are views that state that CSR is not always ethical from a business standpoint whereas other views clearly state that companies should accept social responsibility as an ethical obligation.

Some authors consider that engaging in CSR, as a company, does not necessarily imply that company has any ethical motivation, if we are to consider the classification according to which one should distinguish between two types of CSR, namely economic and ethical, where economic CSR tends to regard CSR as an instrument for maximizing profits and shareholder's value. On the other hand, if the company is concerned predominantly with profit it does not necessarily mean that the business is unethical, which leads us to the utilitarian theory which encourages us to look at the consequences of the action and judge the ethical standing of that action in terms of those consequences.

CSR as a modern theory of ethics looks into questions of relation of individual investor towards economic prosperity of enterprise, relations towards social issues inside company attitude to employees and customers, potentially also to suppliers and environment. Lately CSR and CSR reporting are used as a marketing tool to attract attention of clients and investors. One can observe different stages in development of CSR.

Even though the idea might have been originally based on virtues, its pronunciation is rather practical and belongs quite to the region of applied ethics. The goal imminent goal is the consequence of corporations' behaviour and its external impact. Obviously, important is the extent to which this attitude is prevailing in investment behaviour and activity of each individual company.

Our outcome is that ethics and responsible investment cannot be delegated to market forces solely because ethics is supposed „to go over and above law“, whilst investing uses opportunities and loopholes in trading to make money. It is therefore a fundamental question of ethics *how to get from where we are to where we aspire to be*. The question between reality

and ethical ideals that was open in new age by predecessor of Immanuel Kant philosopher and economist David Hume.

Acknowledgement

This contribution is supported by University of Economics and Management.

The authors also acknowledge the support of the internal grant of the Prague University of Finance and Administration No 7745 “Preparedness of Czech SMEs for implementation of IFRS”.

References

1. Bavoso, V. (2013). *Explaining financial scandals: Corporate governance, structured finance and the enlightened sovereign control paradigm (introduction)*. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2206253.
2. Bowen, H. R. (1953) *Social Responsibilities of the Businessman*. New York: Harper and Brothers.
3. Drucker, P. (1954) *The Practice of Management*. New York: HarperBusiness.
4. Elkington, J. (1998) *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*. Gabriola Island, Canada: New Society Publishers.
5. Finch, N. (2005) The Motivations for Adopting Sustainability Disclosure (August 2005). MGSM Working Paper No. 2005-17. Available at SSRN: <http://ssrn.com/abstract=798724> or <http://dx.doi.org/10.2139/ssrn.798724>
6. Flammer, C. (2012) Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach (September 13, 2012). Available at SSRN: <http://ssrn.com/abstract=2146282> or <http://dx.doi.org/10.2139/ssrn.2146282>
7. Friedman, M. (1970). The social responsibility of business is to increase its profits. *New York Times magazine*, 13(1970), 32–33.
8. Hurst, N.E. (2004). Corporate ethics, governance and social responsibility: comparing European business practices to those in the United States, available at http://www.scu.edu/ethics/publications/submitted/hurst/comparitive_study.pdf
9. Ioannou, I. and Serafeim, G. (2011) The Consequences of Mandatory Corporate Sustainability Reporting (March 30, 2011). Harvard Business School Research Working Paper No. 11-100. Available at SSRN: <http://ssrn.com/abstract=1799589> or <http://dx.doi.org/10.2139/ssrn.1799589>

10. Ioannou, I. and Serafeim, G. (2012) What drives corporate social performance? The role of nation-level institutions *Journal of International Business Studies*. Vol **43**, 834–864. doi:10.1057/jibs.2012.26
11. Jindrichovska, I. (2011) Corporate Governance in Transitional Countries-Shareholders or Stakeholders *QFinance: the Ultimate Resource*. Bloomsbury Information Ltd. London, 2011, pp. 605-7, ISBN 978-1-84930-005-6
12. Lantos, G.P. (2001) The ethicality of Altruistic Corporate Social Responsibility, available at http://faculty.stonehill.edu/glantos/Lantos1/PDF_Folder/Pub_arts_pdf/Altruistic%20CSR.pdf
13. Porter, M. E., Kramer, M. R. (2002). The competitive advantage of corporate philanthropy. *Harvard business review*, 80(12), 56–68.
14. Reinhardt, F., Sravins, R., Vietor, R. (2008), Corporate Social Responsibility through an economic lens, *Review of Environmental Economics and Policy*, volume 2, issue 2, summer 2008, pp. 219–239 doi:10.1093/reep/ren008
15. Rodriguez, P., Siegel, D., Eden, L. and Hillman, A. (2006) Three Lenses on the Multinational Enterprise: Politics, Corruption and Corporate Social Responsibility (April 2006). Available at SSRN: <http://ssrn.com/abstract=900544>.
16. Seknička, P., Putnová, A., Uhlář, P. (2006) *Etické řízení ve firmě*. Praha, Grada, 2006
17. Smith, A. (1759) *The Theory of the Moral Sentiments*. Retrieved from <http://www.excellentfuture.ca/sites/default/files/Theory%20of%20Moral%20Sentiments%20Adam%20Smith.pdf>
18. Smith, A. (1910) *The Wealth of Nations*. London: J.M. Dent & Sons; New York: E.P. Dutton. Retrieved from <http://www.core.org.cn/NR/rdonlyres/Literature/21L-448JDarwin-and-DesignFall2003/AC75932F-D0B9-40CE-AAD0-AE7A4B86A190/0/lecture8.pdf> accessed on 13.5.2013
19. Smith, K., Nystad, O. (2006) Is the motivation for CSR profit or ethics?, available at <http://www.crrconference.org/downloads/2006hauglandsmithandnystad.pdf>
20. Straub R. (2012) From CSR to Sustainable Business—Transformational Leadership in Action *Business & Professional Ethics Journal*, 31:2, 2012, pp. 349–361.

Contact

Asst. Prof. Dr. Irina Purcarea, PhD.

The Bucharest University of Economic Studies,
Calea Grivitei, nr. 2A, Bucuresti, Romania,

Mail: irina.purcarea@gmail.com

Asst. Prof. Dr. Dana Kubickova, CSc.

Department of Business Management

Estonska 500, University of Finance and Administration, Prague

Mail: dana.kubickova@mail.vsfs.cz

Assoc. Prof. Dr. Irena Jindrichovska, CSc.

University of Economics and Management,

Nárožní 2600/9a, Prague, Czech Republic

Mail: irena.jindrichovska@vsem.cz