

English Section

1 SOCIAL RESPONSIBILITIES OF THE BUSINESSMAN: 60 YEARS AFTER (R)

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Abstract

Back in 1953 american professor H. R. Bowen has published a long essay on the responsibilities of business and its role in society. Ever since that time there was somewhat truncated discussion on the role of business in society discussing the conflict between efficiency and profit generating on one side and responsibilities to outside environment (people, nature, community) on the other. Are there any significant changes in position of business in the 21st century? Are there any new avenues improving the position of members of society in relation to businesses? Are the society and business cooperating partners or competitors? What is the impact of business on society? Our contribution aims to bring some insight to this discussion in providing the comparison of the original ideals of H.R. Bowen with today's modern views and practices of corporate social responsibility. The role of business has important implications for business policy especially in smaller countries, where the role of state fades in comparison to powerful international conglomerates.

Keywords: Role of business in society, CSR, Responsibilities of business, triple bottom line, sustainability,

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INTRODUCTION

Corporate social responsibilities were defined in 1953 by H.R. Bowen (1953) as "*the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society*" (Bowen, 1953, p. 6). At the time, corporate social obligation was linked to the power that business holds in society. This point was later stressed by other authors, e.g. Davis (1960) who described business social responsibilities as "*the businessman's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest... which need to be commensurate with the company's social power*" (Davis, 1960, 70 and 76)

Another important reference addressing specifically social behaviour (social audit) of companies appeared in the early 1960s in a book by Goyder (1961) entitled "The Responsible Company". Goyder referred to various activities in the mid and late 1950s and suggested that social audit could provide a management tool, which could offer stakeholders a platform for challenging and influencing companies. The idea of social audit was repeated again in recent Czech literature e.g. *Etické řízení ve firmě* by Putnova et al (2007).

However, on-going discussions called also for opposite views to the notion that companies should have any social responsibilities. Authors have claimed that following social interests will divert attention from the primary economic objectives. The most well known proponent of this stream was well known and respected economist Milton Friedman who stated in 1962 in his work *Capitalism and Freedom*, that "*Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible*" Friedman (1962, pp. 133-134.

1 UNDERSTANDING CSR

In a broader sense the notion of corporate social responsibility refers generally to:

- (a) an expectation that business is **accountable** to society (Bowen, 1953, Carroll 1979) and **responsible** for society - in the sense of compensating for negative externalities and contributing to social welfare (e.g. Crouch 2006, Arrow 1974);
- (b) the expectation that business **conducts itself in a responsible fashion** (Carroll 1979); and more specifically
- (c) the enhancement of stakeholder relationships through the **management of the corporation - society interface** (Barnett, 2007; Gond and Matten, 2007; Freeman, 1984).

Moon and Gond (2011) focused to definitions that have varied together with the concepts used to describe the social phenomena corresponding to CSR. Although these transformations usually reflect sound conceptual developments (Wood, 1991; Carroll, 2008) or changes in managerial practices and visions, they also reveal the **fashions influencing management behaviour**. They show that a company follows the cycle of consulting and managerial fads and fashions (Abrahamson 1996, den Hond, de Bakker and Neergard, 2007). In recent years this phenomenon has transpired as “zeitgeist” movement”. “Zeitgeist” means “the spirit of the times” and recently spirit of the time is represented as sustainability movement.

2 DRIVES AND TRENDS IN CSR

Baker (2012) analysed the drivers that characterize the current trends and showed where they are leading. Human numbers are growing faster, and the impact of our activities is being felt in more areas. He found these three important tendencies.

First - attitudes to **business** and its **relationship to society** are changed and shaped by outside events. These can be demonstrations of **social problems that substantially change the environment** within which companies operate. These problems are partially or wholly caused by business activities, or which businesses are likely partners in finding solutions. These can be as diverse as extreme climate events raising the profile and public concern about climate change, right through to a run of incidences of corporate corruption. Businesses are called upon to change behaviours or solve problems because of something external to them.

Some companies are now starting to focus their aim on the engagement side. Since customers, employees and suppliers generally don't read reports, companies are beginning to experiment with another ways to raise public interest. To motivate stakeholders to engage with the company to inform about what it's doing.

Second - expert practitioners have a vision about how should sustainable business operate, and thus develop new ideas based on past experience, trying to implement these within the business. This defines how businesses focus their activities when the attention is not particularly devoted to them. Thus they define CSR as being about **philanthropy**, or **environmental management**, or core purpose and the business model.

More companies begin to understand the challenge that faces us in terms of **sustainability**, and they implement various measures appropriate for their business model.

There is a central dilemma on the current model: If a company does very well, does its activity automatically result in damage to the environment? Is the achievement of a positive outcome something the company has to work hard to achieve in spite of your business process? Or **can such business model exist, where the better the social outcome is achieves, the better the business does in terms of profit?**

Third - outside agencies create a vision for the achievement of future goals, and actively recruit businesses and partners.

CSR Executives have been asking whether they are part of a proper professional discipline or not. This concept has its *pros* and *cons*. An acknowledged profession can establish standards of

expertise for those entrusted by companies with this important responsibility. The CSR “profession” can gain respect within corporations and increase the authority of its importance among other executive managers.

The potential minuses come because of the negatives that come with professionalization.

Professions usually create for themselves a series of incentives, rules, codes and standards that lead to **somewhat irrational motivations**. In particular, every profession builds its own jargon and sense of exclusivity - which is part of communicating to the rest of the world that this is a real area of expertise that ordinary mortals can't hope to understand.

Companies are **pragmatic entities** that are used to defining themselves around adaptability to change. That makes them almost uniquely suited to responding to global environmental challenges. Compared to pragmatic companies governments and government authorities are struggling in this regard. The global economic situation has placed many governments in defensive positions where their citizens are holding them responsible for the fact that suddenly they can no longer afford the things they used to be able to. It is a difficult backdrop to take bold action in an area that many people will believe to be separate and disconnected to their current discomfort. And the fact that it isn't disconnected at all makes no difference if that's what people believe, e.g. Baker, 2012.

In a recent study of Mohin, 2012 the author deals with the Top 10 trends in CSR. For 2012 and he claims that, the pressure for ever increasing levels of transparency and disclosure will build in 2012. Last year, according to CorporateRegister.com¹, more than 5,500 companies around the world issued sustainability reports, up from about 800 a decade ago. **All the big four accounting firms are expanding their practices to audit** all of these disclosures and are also sponsoring the expanded fourth edition of the Global Reporting Initiative Guidelines, which outline standard CSR disclosures. (See also Jindrichovska et. al. 2013 and Purcarea et al 2013)

It has been observed that there is the **connection between CSR and engagement of employees**.

This trend continues to grow. Recent study of McDougall from Hewitt & Associates (2010) measured the effect of CSR at 230 companies with more than 100,000 employees and found that the more a company actively pursues worthy environmental and/or social efforts, the more engaged its employees are.

Related issue of sustainability was researched by *the Society for Human Resources Management* (2010). This research **compared companies that have strong sustainability programs with companies that have poor ones** and found that in the former morale was 55% better, business process were 43% more efficient, public image was 43% stronger, and employee loyalty was 38% better. Add to all that the fact that companies with highly engaged employees have three times the operating margin (Towers and Watson, 2012) and four times the earnings per share compared to of companies with low engagement (Gallup, 2012).

Crane and Matten (2013) analysed the Top 5 CSR trends for 2013. One of the basic principles of the CSR movement in business has been it being voluntary and meeting social expectations above and beyond the law. This sounded good and no doubt many companies have done well in this regard. But after four years of on-going (and new) financial crises all over the world and some of the more recent scandals it is also fair to say that business has enjoyed a rather long lack of strict regulations the last decades, thanks to deregulation and globalisation. The fallout of the tax evasion scandal in the UK or the BP disaster in the US however has shown that governments are no longer all that happy to just take ethical business behaviour on trust alone. Just to name a few most visible scandals starting with Enron in 2002.²

Flemming and Jones (2013) criticize the recent CSR approach based on case studies and claim that by this activity companies try to **gain legitimacy from their consumers and employees**, in

1 For more details please see <http://www.corporateregister.com/members/join/>

2 List of recent most visible and discontending scandals is in appendix 1

continuation of their profit maximizing behaviour. By examining CSR in the context of the political economy of late capitalism, the book puts the emphasis back on the fact that most large **corporations are fundamentally driven by profit maximization**, and use CSR activities as another tool to reach this goal. The CSR activities do not question the unsustainable corporate practices but turn to the vehicle that supports such practices.

Further in this direction authors claim that it cannot be overlooked that **CSR fatigue** is spreading far and wide. Not only has CSR been totally 'incorporated' and **has become a mainstream** practice for most large businesses. Furthermore and more importantly, it has also **not prevented the scandals** we had the opportunity of talking about. After all, most of the offenders actively performing in those incidents, including the major banks at the heart of the financial crisis, all have very much to tell us on their websites about *the wonderful things they are doing in the CSR, sustainability or corporate citizenship area!*.

One trend then we can now observe and which will continue to shape CSR practices is a **move towards the core value creation of business**. This may not be as comprehensive as Unilever's Sustainable Living Plan³, but it will certainly shape CSR instruments. The latest G4 revision of the reporting guidelines by the GRI (Global Reporting Initiative, 2013), for instance, will move CSR related reporting away from being a separate 'side show' to becoming an integrated part of the financial reporting of companies.

3 CONTEXT AND INTERRELATION OF BUSINESS ETHIC AND CSR

From theoretical and applied works it transpires that there is no doubt that ethical behaviour remains a standing stone of Corporate Social Responsibility. News reports are an important source of information about society and the textual analysis of these allows the measurement of the importance of key events and concepts (Montes-y-Gomez et al., 2001). Business ethics is described as part of a 'veritable explosion of concepts that aim to explain what the **proper role of business in society** should be' that includes terms such as corporate citizenship, corporate social responsibility, and sustainable development (Preuss, 2008). This explosion of terminology is a result of the widening concern of business studies to include social and environmental dimensions alongside the traditional economic concerns.

Barkemeyer et al (2010) analysed 62 international newspapers from 1990-2008 with regards to the content of two samples of articles containing the term business ethics comprising of 100 newspaper articles spread over an 18-year period from a sample of US and UK. Their research presents an analysis of the representation of business ethics within the media as a mechanism to track this evolution over time and within different regional contexts.

Authors examined the framing of business ethics over time and in specific contexts as represented by media coverage, as surrogate measure of the penetration of business ethics concepts into society. They aimed to explore a longitudinal analysis of the relationship between the use of the term business ethics in society and associated concepts such as corporate accountability and citizenship. They also examined the coverage of **business ethics** from different regional perspectives; and analysed the content of business ethics reporting within a US and UK context. Their conclusions explained that business ethics as a concept has a base level of coverage within society that has not significantly increased over the last 18 years. This coverage tends to reflect coverage of financial management topics though some regions (such as the UK) may be broadening this to include topics associated with **sustainability**.

There are clear increases in the level of coverage of sustainability topics and it may be that business ethics is being subsumed into this theme and now is known by a different terminology. There are significant events in the business world that are seen to be defining moments in business ethics, such as Enron, that have an immediate impact, and in this case also policy implications. But even these do not make a discernible impact on the overall trends in business ethics coverage. There are

3 For more details please see <http://www.unilever.com/sustainable-living/> accessed on 6.10.2013

clear regional differences in the level of business ethics penetration into society as reflected by media coverage and the US/UK sample suggests that business ethics also covers very different topics.

CONCLUSION

Our paper set out to answer a key question regarding the link between the original ideas of CSR and business ethics and its demonstrations as they are understood today. Original ideals of Corporate Social Responsibility were without any doubt based on virtues of ethics; however, recent development in the corporate sector does not seem to be necessary in line with the merit of socially responsible corporate behaviour defined as: *...going over and above the stated law and beyond duties.*

In our study we have identified that CSR is understood as the company being **accountable** to society, and **responsible** for society, **conducting itself in a responsible fashion** and **actively managing of the corporation - society interface.**

In the real world setting the **behaviour** of corporate management is influenced by fashions. Companies are rational entities and therefore attitudes to business and its relationship to society are changed and shaped by outside events to which they speedily adapt. In recent years the big companies tend to define CSR as being about **philanthropy**, or **environmental management**, which is becoming the core purpose and their business model.

Companies face a dilemma in their current business model: Does the company by its business activities necessarily damage the environment (and social environment)? **Can such business model exist, where the better the social outcome is achieved, the better the business does in terms of profit?**

Big corporations are nowadays hiring CSR executives and all the big four accounting firms are expanding their practices to audit this region of corporate performance. CSR activity shrinks to the "improved reporting effort".

In recent years we can see some reservation to CSR reporting. CSR reporting has now become a standard which does not prevent corporate scandals - many firms and banks directly responsible for recent financial crisis and scandals have very well elaborated sustainability reports. This feature has been identified as so called "CSR fatigue". This resulted from the popularity and speedy standardization of the whole procedure and using the tool of CSR as another promotion tool of the business impressing employees and customers.

Even though the idea of CSR might have been originally based on virtues and on the notion to bring corporations closer to society and make the viable part of community. The literature showed us that there are different perspectives on this topic. The imminent goal is the consequence of corporate behaviour and its external impact, which depends on the mental settings and behaviour of corporate management.

Our outcome and conclusion is that it is a time to skip all the fashions and fancy buzzwords trying to make an impact talking about business sustainability and environmental responsibility and return to the plain original ideas of corporate ethics and return to the simple formulation going over and above the stated law and beyond duties. And simply make the companies and company management responsible for the consequences of their business activities in the place, where they operate. This pressure must necessarily start with international giants, who do not have a partner in small economies and local communities where they conduct their business.

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Appendix 1

List of recent selected corporate scandals:

1. Enron scandal:
<http://whatreallyhappened.com/WRHARTICLES/enron.html?q=enron.html>
2. Parmalat:
<http://www.corporatenarc.com/parmalat scandal.php>
3. WorldCom:
http://www.associatedcontent.com/article/162656/worldcom_scandal_a_look_back_at_one.html
4. Northern Rock:

<http://www.telegraph.co.uk/finance/markets/2815859/Why-Northern-Rock-was-doomed-to-fail.html>

5 Lehman Brothers:

<http://www.investopedia.com/articles/economics/09/lehman-brothers-collapse.asp#axzz2KmBc4Bax>