Why Corporate Social Responsibility: A New Concept In The 21st Century

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ABSTRACT

Corporate social responsibility is not a new issue. The main aim of a company is to minimise the costs and maximize profits. On the other hand, ethical business people recognise their responsibility to the public and to themselves. Fulfilment of these responsibilities constitutes ethical and socially responsible behaviour. Although corporate social performance (CSP) has been used for several years in the business and society literature, in many cases it has been used synonymously with corporate social responsibility, corporate social responsiveness, or any other interaction between business and the social environment. This study will briefly examine the corporate social responsibility, the performance and reporting issues.

Key Words: *Corporations, Corporate Social Responsibility, Performance, Reporting*

JEL Classification: *M10, M14, M19*

Neden Şirketlerin Sosyal Sorumluluğu: 21. Yuzyilda Yeni Bir Kavram

OZET

Sirketlerin sosyal sorumlulugu kavrami yeni degildir. Bir sirketin ana amaci en az maliyet ile en cok gelir elde etmektir. Ote taraftan etik degerlere onem veren isadamlari halka ve kendilerine karsi sorumluluklarinin da bilincinde olurlar. Bu sorumluluklarin yerine getirilmesi ahlaki ve sosyal sorumluluk davranisini olusturur. Sirketlerin Sosyal performansi kavrami is ve toplum literaturunde yillarca kullanilmis ise de cogunlukla bu kavram Sirketlerin sosyal sorumlulugu, sirketlerin sosyal activiteleri ya da is dunyasi ve sosyal cevre arasindaki iletisim kavramlari ile esanlamli olarak kullanilmistir. Bu makale kisaca Sirketlerin sosyal Sorumlulugu kavramini performans ve raporlama konularini ele alarak inceleyecektir.

Anahtar Sozcukler: *Sirketlerin Sosyal Sorumlulugu, Sirketler, Performans, Raporlama*

JEL Sınıflaması: *M10, M14, M19*

INTRODUCTION

In spite of the fact that, the social responsibility of business was not widely considered to be a significant problem from Adam Smith's time to the Great Depression, since the 1930s. Social responsibility has become an important issue, increasingly since the 1960s. This concern for the social responsibility of business has even accelerated since the fall of the Berlin Wall and the onset of globalization. Global concerns have been given an additional edge by the awful events of 11 September. Also the recent collapse of some major companies in industrialised countries has raised the level of scrutiny of large companies, as well as their auditors (Hopkins, Michael. 2004).

The main aim of a company is to minimise the costs and maximize profits. On the other hand, by doing this ethical businesspeople recognise their responsibility to the public and to themselves to maintain principles (Godfrey, P.C., Hatch, N.W 2007). Fulfilment of these responsibilities constitutes ethical and socially responsible behaviour (Bohlman, Herbert M. and Dundas, Mary J. 1999). Banarjee, however, argues that despite their emancipatory rhetoric, discourses of corporate citizenship, social responsibility and sustainability are defined by narrow business interests and serve to curtail interests of external stakeholders (Banarjee, 2008). Perhaps the most powerful impetus sweeping organizational change is the information revolution and the accompanying rise in "knowledge management". Companies are quickly realizing that their greatest competitive weapon does not lie in their physical assets or product market analysis but in their workforce. Organizational knowledge and its successful deployment in the marketplace depend largely on the management of the relationship between an organization and its employees. Furthermore, this paradigm shift in management even affects the relationship between an organization and the society in which it exists. Therefore, corporate social performance takes centre stage in the information age. This study will briefly examine the corporate social responsibility, the performance and reporting issues and the relation between them.

2. WHY CORPORATE SOCIAL RESPONSIBILITY

First of all, as a requirement of ethic a management of organisation or company, must be concerned for the broader social welfare and just not for corporate profits (Schermerhon, John R. 2002). The concept of corporate social responsibility means like ethics, distinguishing right from wrong and doing right. The CRS is a requirement of being a good corporate citizen (Daft, Richard L. and Marcic, Dorothy 1998; Welford and Frost, 2006). As a requirement of this concept a management is obliged to make choices and take actions that will contribute to the welfare and interests of society as well as the organisation (Jenkins, 2006, Campbell, 2007).

Companies that are socially responsible in making profits also contribute to some, although obviously not all, aspects of social development (Porter, M.E., Kramer, M.R., 2006). Every company can not be expected to be involved in every aspect of social development. That would be ludicrous and unnecessarily restrictive. However, for a firm to be involved in some aspects, both within the firm and on the outside will make its products and services (for example financial services) more attractive to consumers as a whole. Therefore it will make the company more profitable. Although, there will be increased costs to implement CSR, but the benefits are likely to far outweigh the costs (Hopkins, Michael 2004).

The governments, almost entirely, have been to date responsible for the need to address questions of low living standards, exploitation, poverty, unemployment and how to promote social development in general. Clearly, they will continue to have *a*, if not *the*, major role to play in this area. But, increasingly in the future, the promotion of social development issues must also be one of partnership between government and private and non-governmental actors and, in particular, the corporate sector (ibid p.4).

The relationship between business and society has been a controversial topic. The topic has provoked scholarly research and attracted widespread attention. The fields of management, business ethics, economics and accounting are just a few of the academic disciplines that have devoted substantial time and attention to the study and understanding of this relationship. One explanation for the propagation of research and attention to this topic may be the fact that unlike most other intellectual phenomena, it almost directly became an issue of general public concern (Sethi, S.P. 1995).

Broadly, the relationship between a business and the society in which it operates can be referred to as corporate social performance (CSP). Although corporate social performance (CSP) has been used for several years in the business and society literature, in many cases it has been used synonymously with corporate social responsibility, corporate social responsiveness, or any other interaction between business and the social environment (Wartick, S.L. & Cochran, P.L. (1985). The last twenty years of scholarly work devoted to defining, modelling, analyzing, refining and measuring this important multidimensional construct, is evidence of its complexity, elusiveness, and importance (See Sethi, S.P. 1975; Wartick, S.L. & Cochran, P.L. 1985; Wood, D.J. 1991; Swanson, D.L. 1995).

Sometimes it is a legal duty of organisations to act with social responsibility. The governments often make laws and establish institutions to control and direct the behaviour of organizations. There are three key areas that legal regulations require organisations to act (Schermerhon, John R. 2002) :

- occupational safety and health
- fair labour practices. There are legislation and regulations that prohibit discrimination in labour practices.
- consumer protection.

3. THE ETHICAL CONDUCT THEORIES

The ethics is the study of moral standards that consist of guidelines for right behaviour or ethical conduct. Basically, ethics sets standard for determining right and wrong by making reflective choices and directing choice of action toward good. Ethics that applies to business namely business ethics is not a separate theory of ethics but it is an application of ethics (Bohlman, Herbert M. and Dundas, Mary J. 1999). It should bear in mind that higher standards of ethical conduct are imposed upon professionals who serves as social models whom business people are among them.

3.1 Deontology

Deontology tries to define universal duties that serve as moral guides to decision making. Immanuel Kant and John Rawls are academics that discussed those guidelines. When a person confronted with a dilemma he/she can apply these universal standards to determine a course of action that is good. One fulfils absolute moral duties regardless of whether good comes from the action or not. So the act of carrying out that duty is more important than the consequences of the act. In deontology the moral duty embodies the concept of good. The outcome of following that moral duty - whether being good or bad- is not important. One of the major problems of of deontology is its lack of guidance for prioritizing the duties. Another problem is the disregard for the consequences of keeping a moral duty (Bohlman, Herbert M. and Dundas, Mary J. 1999, p.31).

3.2 Utilitarianism

Contrary to deontology utilitarianism establishes ethical standards based on the consequences of an action. Jeremy Bentham and John Stuart Mill believed that decisions should be made on the basis of their utility or usefulness. The utilitarianism states that good is 'the greatest happiness for the greatest number'. The problem on the other hand with this approach is that prediction of success, failure or utility of certain behaviours is impossible. It could also cause the problem that individual well-being can be sacrificed for the social benefit. One individual may suffer more as a result of behaviour that brings society greater happiness (Bohlman, Herbert M. and Dundas, Mary J. 1999, p.31).

4. CORPORATE SOCIAL PERFORMANCE

Basically corporate social performance may be defined as a measure of the behavioural outcomes of managerial decisions regarding the management of stakeholder relationships. Another definition is that Corporate Social Performance concerns a business organisation's observable outcomes as they relate to its societal relationships (Wood, D.J. 1991). This definition also reflects its intended meaning as stated by Preston (Preston, L.E. (Ed.), 1988).

It is the management who is responsible for managing the quality in key stakeholder relationships and in doing so are held accountable for the quality of an organization's corporate social performance (for discussion on this see Waddock, S.A. & Graves, S.B. 1997 and Swanson, D.L. 1995).

The outcomes of corporate social performance can be divided into three types:

- the policies developed by the firm to handle social issues and stakeholder interests;
- the programmes it uses to implement responsibility and/or responsiveness;
- the impacts of its behaviour, regardless of the motivation for such behaviour or the process by which it occurs (Wood, D.J. 1991, pp.708-709).

Corporate social policies emerge to guide decision making in:

- Areas where problems recur, effort should not be wasted on reflection and analysis in routine matters or unfortunate incidents;

- Areas of great interest or importance to the firm, to effectively deal with threats and opportunities (Wood, D.J. 1991, p.709).

Corporate social programmes are usually adopted by firms that seek to meet particular needs or ends through the investment of resources in some course of action perceived by the firm as socially desirable. Those programmes may be one-shot ventures (e.g., spon-soring the celebration of the 50th anniversary of a hockey club), longer term but still time-specific projects (e.g., organising a campaign to stimulate the consumption of fruit instead of candy), or institutionalised features of corporate structure and culture (e.g., an apprenticeship programme).

Finally, corporate social impacts, as suggested by Preston[1] concern the ultimate results of the firm's activities. These results may involve the social as well as the natural environment. For instance, the income the firm provides to its employees and the wastewater it dumps in the local river respectively. Furthermore, as also illustrated by these examples, the results may be positive as well as negative. Or more accurately, the results may be more or less positive or negative (Preston, L.E. (Ed.), 1988).

The social dimension focuses on sustainable relationships with stakeholders. It should be bear in mind that stakeholders may differ for different firms. It is argued that most firms are confronted with five (groups of) stakeholders (Steg, L., C. Vlek, S. Lindenberg, T. Groot, H. Moll, T. Schoot Uiterkamp, and A. van Wit-teloostuijn, 2003) :

- employees;
- customers;
- the community;
- suppliers;
- competitors.

Taking into account the role of the above stakeholders Wood argues that;

> '[T]o assess a company's social performance, the researcher would examine the degree to which principles of social responsibility motivate actions taken on behalf of the company, the degree to which the firm makes use of socially responsive processes, the existence and nature of policies and programs designed to manage the firm's societal relationships, and the social impacts (i.e., observable outcomes) of the firm's actions, programs, and policies. In addition, the researcher would examine all these elements, principles, processes, and outcomes, in conjunction with each other to permit identification of analytically crucial but politically difficult results such as good outcomes from bad motives, bad outcomes from good

motives, good motives but poor translation via processes, good process use but bad motives, and so on (the terms good and bad are used loosely in this case) (Wood, D.J., 1991, p.693).

The outcomes of corporate social responsibility performance have three objectives:

(a) Institutional, to uphold the legitimacy of business in society,

(b) Organisational, to improve the firm's adaptability and fit with its environment, and

(c) Moral/ethical, to create a culture of ethical choice, which will support and encourage individual actors to exercise the options available to them in the fulfilment of corporate social responsibilities (Wood, D.J., 1991, p.693).

Figure-1: Possible outcomes of linking corporate social policy, i.e., one of the outcomes of Corporate Social Performance with the principles and categories of Corporate Social Responsibility[2]

Economic	Produce goods and services, provide jobs, create wealth for shareholders	Price goods and services to reflect true production costs by incorporating all externalities	Produce ecologically sound products, use low-polluting technologies, cut costs with recycling
Legal	Obey laws and regulations. Do not lobby for or expect privileged positions in public policy	Work for public policies representing enlightened self-interest	Take advantage of regulatory requirements to innovate products or technologies
Ethical	Follow fundamental ethical principles (e.g., honesty in product labelling)	Provide full and accurate product use information, to enhance user safety beyond legal requirements	Target product use information to specific markets (e.g., children, foreign speakers) and promote as a product advantage
Discretionary	Act as a good citizen in all matters beyond law and ethical rules. Return a portion of revenues to the community	Invest the firm's charitable resources in social problems related to the firm's primary and secondary involvements with society	Choose charitable investments that actually pay off in social problem solving (i.e., apply an effectiveness criterion)

[2] ibid, p.710

5. CORPORATE SOCIAL REPORTING

Corporate Social Reporting is an area of accounting research that covers both voluntary and mandatory disclosures made by firms regarding issues considered important to the community at large and of more than just an economic nature (Seidler, L. & L. Seidler 1975).

Corporate social reporting has been defined as having the following roles (Parker, L. 1986) :

1. Assessing the social (and environmental) impact of corporate activities;
2. Measuring effectiveness of corporate social (and environmental) programmes;
3. Reporting upon a corporation's discharging of its social (and environmental) responsibilities; and
4. External and internal information systems allowing comprehensive assessment of all corporate resources and impacts (social, environmental and economic).

CSR reporting has grown rapidly in recent years, especially in Europe. The number of UK companies reporting on their social and environmental impact increased from seven in 1991 to 583 in 2001. For reporting to provide maximum benefit, it needs to be more than an external public relations exercise. Best-practice CSR reporting is an internal discipline that measures the social impact of CSR investment, raises awareness of issues and opportunities across the business and creates a shared understanding of the role that CSR plays in developing winning strategies (BITC Workshop, "Trends in Reporting," using data from www.CorporateRegister.com, access date 15.02.2005).

Business in the Community (BITC) has identified five key areas for measuring impact, and three levels at which this can be measured, recognizing that companies will be at different stages in embedding reporting into their business.

What to report?

- **Marketplace**

– Advertising complaints
– Customer satisfaction levels
– Social impact of core products/offer

- **Environment**

– Overall energy consumption
– Use of recycled material
– Impact over the supply chain

- **Workplace**

– Diversity profile
– Staff turnover
– Staff satisfaction measure

- **Community**

– Cash value of company support
– Project progress measures
– Impact evaluations of community program

- **Human Rights**

– Grievance procedures
– Proportion of suppliers measured for compliance on human rights

How to report?

Level 1: Companies beginning to measure progress requires mostly baseline data.

Level 2: Companies wishing to move beyond a basic commitment; requires some performance and impact data.

Level 3: Companies aiming at further improvement of their performance; requires qualitative as well as quantitative information.

CONCLUSION

Companies are quickly realizing that their greatest competitive weapon does not lie in their physical assets or product market analysis but in their workforce. The concept of corporate social responsibility means like ethics, distinguishing right from wrong and doing right. Therefore, as a requirement of ethic, a management of organisation or company, must be concerned for the broader social welfare and just not for corporate profits. Companies that are socially responsible in making profits also contribute to some, although obviously not all, aspects of social development.

The management is also responsible for managing the quality in key stakeholder relationships and in doing so are held accountable for the quality of an organization's corporate social performance. The outcomes of corporate social performance can be divided into three types:

- the policies developed by the firm to handle social issues and stakeholder interests;
- the programmes it uses to implement responsibility and/or responsiveness;
- the impacts of its behaviour, regardless of the motivation for such behaviour or the process by which it occurs.

Some scholars suggest that the best way to get firms to behave in socially responsible ways is to convince their managers that it is either the right thing to do ethically or is in their self-interest (Prahalad & Hammond, 2003; Handy, 2003; Kaku, 2003). Arguments such as these may help, but institutions are critical, especially if we are concerned with ensuring that corporations actually behave in socially responsible ways, rather than just pay rhetorical lip service to the issue.

Corporate Social Reporting is an area of accounting research that covers both voluntary and mandatory disclosures made by firms regarding issues considered important to the community at large and of more than just an economic nature. It is clear that a well prepared reporting would improve the quality of the socially responsible activities of the Corporation.

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