

# ETHICS, MORALITY AND CORPORATE SOCIAL RESPONSIBILITY

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## Abstract

In the second half of the twentieth century the issues of corporate social responsibility (CSR) gained increasing popularity and importance. Approach to CSR was evolving with different opinions on what is the essence of CSR and whether we are increasing the value of companies through practicing CSR. The question was whether the ethical approach can help the company in any respect. In our contribution we want to unveil an issue of CSR and its relation to ethics and morality. Modern trends in CSR are based on the concept of Triple Bottom Line that is based in managerial theory and judge whether the corporate ethics is based on values or on pure effectiveness and strive to increase value for shareholders. In this contribution, we discuss the new trends in CSR and the concept of corporate citizenship and other emerging trends in today's CSR using the grounded theory approach.

**Key words:** Corporate citizenship, corporate social responsibility, ethics, morality, values.

**JEL Code:** A13, A11

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## Introduction

According to the new trends management of big corporations are aware of increasing competition in the market and take in consideration the importance of responsibility towards its employees and society as a whole including the environment. Firms are not stressing only the profit, but also the form with what the profit has been attained. They invest in human capital and protection of environment. As it can be witnessed, proponents of the idea of CSR support this activity, because CSR when sensibly applied can ease the regulatory pressures of governments. The first ideas about corporate social responsibility start with the ideas of H. R. Bowen, author of *Social Responsibilities of the Businessman* (1953), who has first attempted to define the social responsibility of a person responsible for conducting business. He identified four basic issues of concern:<sup>1</sup>

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<sup>1</sup> Putnova, A., Seknicka, P. and Uhlár P. (2007). *Eticke rizeni ve firme*. Praha: Grada Publishing, ISBN 978-80-247-1621-3 (pp.115-151).

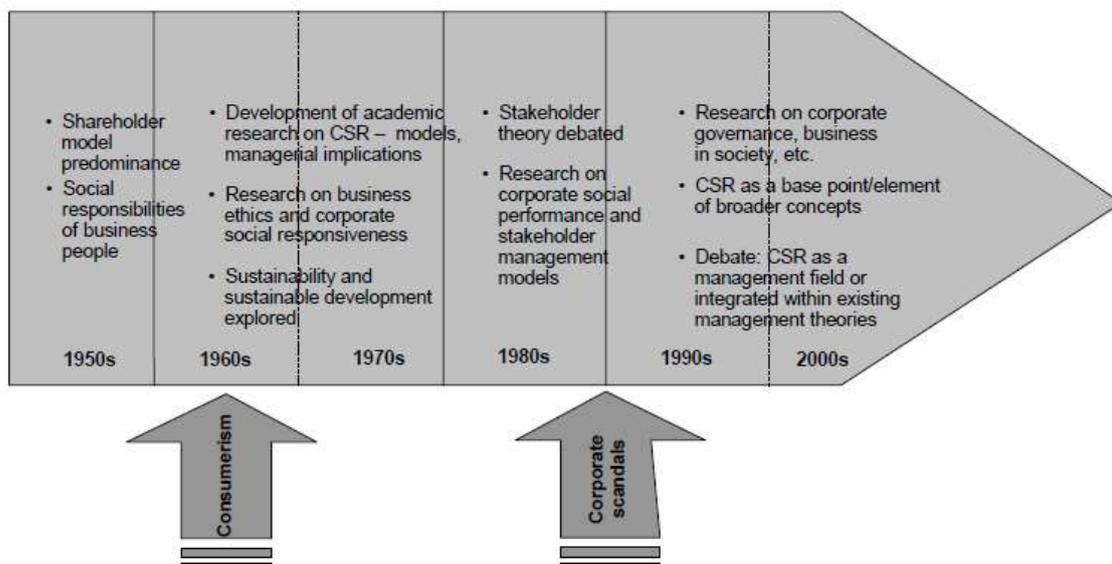
- Social impact of management
- Environmental impact of industrial activity
- Behaviour of enterprises in culturally different environment
- New models of enterprising

These were the first ideas about responsibility of enterprising firm to the outside world.

## 1 Brief summary of CSR development

The first known ideas about corporate social responsibility started in 1953 with the ideas of H.R. Bowen, who introduced the idea of ‘social responsibilities’ of business people in a wider sphere than pure profit-generation. Although, there were some doubts about the concept among liberal scholars due to growing discrepancies between liberal assumptions and socio-economic reality. There was a growing evidence of the inconsistency of the model of ‘economic man’ - a rational decision-maker, who wants to pursue only his own benefits and unquestionable impact of business on society (Takala, 1999). Society itself reacted strongly to the disillusion of the liberal economic model (e.g. Lantos, 2001), when the main idea was that businesses could and should serve society in a way that goes beyond their previous legal obligations – especially honouring legal obligations, minimizing tax and maximizing profit. Figure 1 summarises evolution in the CSR research since the 1950s.

**Fig. 1: Evolution of CSR research since the 1950s<sup>2</sup>**



<sup>2</sup> Kakabadse, N.K., Rozuel, C., Lee-Davies, L., Corporate social responsibility and stakeholder approach: a conceptual review, Int. J. Business Governance and Ethics, Vol. 1, No. 4, 2005, pp.277-302.

There was an opposite view of mainstream economists 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 his work *Capitalism and Freedom* (1962), 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”<sup>3</sup>. There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

In 1979, Carroll presented his CSR model as a pyramid, and suggested that although the components are not mutually exclusive, it “helps the manager to see that the different types of obligations are in constant tension with one another”.<sup>4</sup>

**Carroll’s model of CSR** includes the **economic, legal, ethical and discretionary** (philanthropic) expectations that society has of organizations at a given point in time, Economic obligations are, therefore, seen to be moderated by ethical responsibilities or social expectations and norms. Discretionary responsibilities go beyond ethical responsibilities and include philanthropic measures.

The CSR model contains four categories of corporate responsibility organized from most to least important (see Figure 2).

**Fig. 2: Carroll’s Three-Dimensional Model of Corporate Performance<sup>2</sup>**



<sup>3</sup> Friedman (1962, pp. 133-134)

<sup>4</sup> Carroll, A. B. (1979). A Three-Dimensional Model of Corporate Performance. *Academy of Management Review*, 4[4], p. 497-505.

Jones (1980) claims, that corporate social responsibility is a notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract, which is again reflects the original ideas of Bowen (1953) and Carroll (1979). And according to Baker (2003) the corporate social responsibility expresses how companies manage the business processes to produce an overall positive impact on society and this activity includes the **economic, legal, ethical and discretionary** (philanthropic) expectations that society has of organizations at a given point in time.

## 2 Sustainability reporting

One of the recent trends in the area of corporate social responsibility concerns the sustainability reporting. Mohin<sup>5</sup> (2012) 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 after 2012. Recently, according to CorporateRegister.com<sup>6</sup>, more than 5,500 companies around the world issued so called sustainability reports. This is 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.

The connection between CSR and engaged employees continues to grow. Recent study of McDougall from Hewitt & Associates<sup>7</sup> (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. The Society for Human Resources Management (2011)<sup>8</sup> 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% improved.

Fleming and Jones (2013) based on case studies criticize the recent CSR approach and claim that by this activity companies try to gain legitimacy from their consumers and employees, in continuation of their profit maximizing behaviour. Further in this direction

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<sup>5</sup> <http://www.forbes.com/sites/forbesleadershipforum/2012/01/18/the-top-10-trends-in-csr-for-2012/>

<sup>6</sup> <http://www.corporateregister.com/members/join/>

<sup>7</sup> [https://ceplb03.hewitt.com/bestemployers/canada/pdfs/HewittTheGreen30\\_eng.pdf](https://ceplb03.hewitt.com/bestemployers/canada/pdfs/HewittTheGreen30_eng.pdf)

<sup>8</sup> <http://www.shrm.org/Research/SurveyFindings/Articles/Pages/AdvancingSustainabilityHR%E2%80%99sRole.aspx>

authors Crane and Matten (2013) 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, it has also not prevented the scandals we had the opportunity of talking about. After all, most of the culprits 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.

### 3 The concept of Corporate Citizenship

The extent to which businesses are socially responsible for meeting legal, ethical and economic responsibilities placed on them by shareholders. The aim is for businesses to create higher standards of living and quality of life in the communities in which they operate, while still maintaining profitability for stakeholders.

#### Corporate Citizenship Concepts:

- Corporate social *responsibility* – emphasizes commitment and responsibility to society
- Corporate social *responsiveness* – emphasizes action, activity
- Corporate social *performance* – emphasizes outcomes, results

The concept was also introduced by A Carroll as a continuation and deeper elaboration of his approach to theory of corporate social responsibility. Details of the concept are summarized as the four faces of corporate citizenship in his work of 1989 and in his previous papers.

Further literature on corporations’ ethics, corporate citizenship and good corporate governance has received increased attention since the financial scandals prevalent at the beginning of the new millennium (Enron, Parmalat, Tyco, World-Com, etc.). Various empirical studies investigated the relationship of ethical corporate citizenship to financial performance (i.e., greater profitability and efficiency, and lower cost of capital), e.g. Blazovich, Smith, 2010. In particular, Blazovic and Smith used firms listed by Business Ethics as “The 100 Best Corporate Citizens” as their sample of ethical firms. They find that ethical firms have superior financial performance that derives from both internal and external sources: ethical firms have higher profit margins and use their operating assets more efficiently. Together, these allow ethical firms to have higher overall profitability metrics (ROA and ROE). Additionally, they find that firms deemed ethical are perceived as less risky and thus, they conclude that these firms enjoy a lower cost of capital. Nevertheless, given their study’s findings of better financial performance and lower risk, they conclude that

ethical corporate citizenship does indeed benefit a firm. Other studies have also explored whether ethical corporate behaviour is associated with a market-value premium. The results of their study contribute directly to the recent accounting literature in where particular features of ethical corporate behaviour were under scrutiny

#### **4 Implications**

It is still a question how and whether at all to measure the effects and benefit of ethical behaviour as market effect. It is also possible, but the results of activity are rather of qualitative nature and that would require a set of qualitative measures and schemes. It is well known that companies using BSC methodology are measuring qualitative variables. We propose to suggest a set of qualitative measures suggested in the original works of Porter and Crammer. Mura (2011) suggests that business success is determined many factors. The components of the business enterprises are reported to the concept of corporate social responsibility. It enhances their image, prestige and value in the eyes of business partners, customers and the general public. Jindrichovska et al (2013) and Purcarea et al (2013) claim that there is a problem incorporating CSR measures into system of corporate values especially when the companies are not listed on capital markets. Companies, which adopt CSR strategy and practices, may reach higher stock prices due to the fact that stakeholders evaluate these activities positively. This generalisation is based on the fact that our sample companies are of a wide variety on market capitalization and that they represent different kinds of industry. In spite of the costs that may occur, adopting CSR strategy, companies may obtain higher stock returns and satisfy the needs of their stakeholders (Karagiorgos, 2010).

Corporate philanthropy and social responsibility are different notions but they are not mutually exclusive. Companies can participate in both. Since philanthropy and social responsibility come with costs, they should evaluate the extent of their financial obligations before their make them. In particular, avoid over-committing and then had to back out of financial stress. Negative publicity of such actions may harm the company. Involvement in philanthropy and social responsibility at the same time can help others in establishing the company as a good neighbour and a generous donor.

The public tends to accept and respect the company to say that social responsibility is company of duty. If they can engage the community matters and their customers to help their efforts to engage in socially responsible business, they can create goodwill. This goodwill can translate into customer loyalty and positive brand awareness.

In the Czech Republic philanthropy is now relatively popular practice, as this particular activity can be displayed publically on company internet pages and so the information gets relatively easily to public domain. A then the company becomes known for its philanthropic activities and is perceived as socially responsible. At this place we dare to say that philanthropy is not a social responsibility. It is marketing. On the other hand we do not want to say, that it does not make any sense to donate money for good purposes, but we feel that responsibility should demonstrate a long term interest in certain domain o public life, not just one-off donation.

## Conclusion

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 using society interface**.

The original ideals of Corporate Social Responsibility were based on virtues of ethics; however, recent development in the corporate sector seems to twist the approach to move to different goals – increasing shareholders' value. Still, it depends, what is the actual manner how companies apply the CSR in their local community. One of the original initiators of the movement Carroll (1998) understood the CSR approach and corporate citizenship as *...going over and above the stated law and beyond duties*.

Must be admitted the responsible companies ease a little bit the difficult role of state in creating employment and caring for community. However, the danger of today's globalized word is that in in reality the big international conglomerates do not have a partner in small economies and local communities where they choose to conduct their business for the purpose of cost cutting and outsourcing.

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