CORPORATE SOCIAL RESPONSIBILITY: MYTH OR REALITY?

While the idea that corporations bear certain obligations to serve the public interests can be traced back more than a century, the importance of corporate social responsibility (CSR) has dramatically increased in recent years. The current revival of interest in CSR can be linked to the formation of the World Business Council for Sustainable Development by 170 international companies from 35 countries. According to Green (2003) [1], demand for corporate social responsibility has developed largely in response to the perceived or real failure of legislation, regulation and enforcement to control and regulate the impact of company activities on people and the environment. Mah (2004) [2] added that other factors in the rise of CSR stem from the social, environmental and economic impacts of globalisation in its varied manifestations (for example, the increasing drive for competitiveness and innovation).

CSR has no single definition to date – it can mean different things to different people in different national contexts. Mallen Baker (2001) [3] noted that in general, CSR is about how companies manage the business processes to produce an overall positive impact on society. Carroll (1979) [4] distinguished four types of responsibility for corporations: the *economic* responsibility to be profitable; the *legal* responsibility to abide by the laws of the respective society; the *ethical* responsibility to do what is right, just and fair; and the *philanthropic* responsibility to contribute to various kinds of social, educational, recreational or cultural purposes.

Numerous publications and research into the concept of corporate social responsibility illustrate a lack of consensus, not only about the definition of

CSR, but also about the relationship between corporate ethical behaviour and profitability. Friedman (1962, 1970) [5] and other opponents of CSR argued that businesses are owned by their shareholders – and any money they spend on so-called social responsibility is effectively theft from those shareholders who can decide for themselves if and what they want to give to charity. Deborah Doane (2005) [6] pointed out that CSR, as a concept, simplifies some rather complex arguments and fails to acknowledge that, ultimately, when trade-offs are made between the financial health of the company and ethical outcomes, profit undoubtedly wins over principles. Doane insisted, that CSR strategies may work under certain conditions, but they are highly vulnerable to market failures, including such things as imperfect information, externalities and free riders. Most importantly, there is often a wide gap between what is good for a company and what is good for society as a whole. Therefore, it can be argued that a CSR activity, generally, can only be effective in achieving social or environmental outcomes to the extent that it maximises profits. Hence, the CSR slogan – 'doing well by doing good'.

The advocates of CSR argue that corporations have social responsibilities that extend beyond the pursuit of shareholder benefits to numerous stakeholders including (among others): customers, employees, suppliers of raw materials, the government, the community, the environment, various activist groups and shareholders. Proponents of the stakeholder approach (for example, L'Etang, 1995; Longsdon and Yuthas, 1997; Mitchell et al., 1997 and Waddock, 2002) [7] argued that, while the interests of shareholders should not be ignored, they are just one of many stakeholders; and it is the common good of all stakeholders that is paramount for CSR. A business case for CSR becomes stronger if CSR is seen as a process by which the business manages its relationships with a variety of influential stakeholders who can have a real influence on its licence to operate. Therefore, it can be argued that CSR is about improving the competitiveness of companies (not only large, but also small and medium-size enterprises [8]) through building relationships with customers, attracting and retaining talented staff, managing risk, reducing costs, stimulating innovation and assuring reputation.

Recent years have seen new developments that can become influential drivers of corporate behaviour in the future. These include the ethical and fair trade movements [9] and the development of the growing community of investors and fund managers whose decision to invest in a company will be determined by the extent to which the company can meet social responsibility criteria. As a result, Dow Jones created the Dow Jones Sustainability Indexes in 1999, followed by the FTSE4Good. All of these initiatives have been based on the notion that companies can 'do well' and 'do good' at the same time. Most large companies now issue voluntary social and environmental reports alongside their regular annual financial reports; meanwhile, some socially linked brands, such as Fair Trade, and the amount of money being channelled into socially responsible investment (SRI) funds has been growing, year by year. A study by *Environics International* revealed that half of the people surveyed in 23 countries pay attention to the social behaviour of companies, while only one in five consumers have punished or rewarded a company based on its social practice [10]. While CSR still largely retains its voluntary status [11], the market-place itself has recently imposed heavy penalties for poor ethics and socially irresponsible behaviour. However, it is not always easy to prove that doing good makes economic sense.

The reality of CSR has become prominent in the language and strategy of business and by the growth of dedicated CSR organisations nationally, both in the EU and globally. Governments and international governmental organisations are also increasingly encouraging CSR and forming CSR partnerships. In the UK, the New Labour Government appointed the world's first minister for CSR in 2000 and launched a CSR Academy. Just over two years ago, the *Economist* [12] noted: 'CSR is thriving. It is now an industry in itself, with full time staff, websites, newsletters, professional associations and massed armies of consultants. This is to say nothing of those employed by NGOs that started it all'.

As Reich (2002) [13] pointed out, 'a healthy civil society is a necessary condition for corporate success and the constructive participation of corporations in civil society is important to the success of democracy'. Therefore, CSR is not a myth or contradiction in terms.

CSR is a reality. It is, however, only one element of a series of responsible actions by governments, individuals and companies that leads to prosperity in free societies. We all have a role to play in that chain of events, whether as representatives of government, non-governmental organisations (NGOs), business, or civil society.

REFERENCES AND NOTES

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[5] In 1962, Nobel Prize winning economist Milton Friedman said that '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.' **(**Friedman, M. (1962) *Capitalism and Freedom.* Chicago: University of Chicago Press, p. 133.). This argument was further developed in Friedman, M. (1070) The social responsibility of business is to increase its profit. *The New York Times Magazine,* 13September 1970.

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[8] A MORI Survey of 200 managing directors of small and medium-sized enterprises in 2000 found that over 90% agreed that social responsibility would become increasingly important to businesses like theirs over the next 5 years.

[9] For example, ethical consumerism in the UK was worth almost £25 billion in 2004, according to a report from the Co-operative Bank.

[10] Gupta, A. (2003) Why Should Companies Care? *Mid-American Journal of Business*, Vol.18, No.1, p.3.

[11] However, there is a growing pool of evidence to suggest a move towards the development of various regulatory models that would impose mandatory rules on a company to ensure that it behaves in a socially responsible manner.

[12] *The Economist* (2004) 'Two-faced capitalism', January 24th, 2004, p.53.

[13] Reich, O.J. (2002) *Corporate Responsibility: Myth or Reality?* Remarks to the International Development Bank (IDB) Conference on Corporate Social Governance. Miami, Florida, September 23, 2002.