

## The Responsible Corporation Syndrome

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### Abstract

This lecture is intended to contribute to spreading the concept of responsible company conduct. In the interests of this, the interpretative framework and dimensions of social responsibility are presented. The measurement and assessment systems pertinent to responsible behaviour have been collected, as have all the international documents which define the framework of social responsibility. Finally, that which is understood to be responsible conduct, and what behaviour is characteristic of socially responsible enterprises is presented in several variants.

Without getting absorbed in the details of various definitions of corporate responsibility, that which is understood by this concept is formulated. **In business practice, responsible corporation behaviour involves making an efficient contribution to the attainment of social goals.**

### Dimensions of the corporate social responsibility

The essence of the social responsibility of business organisations can be captured as four elements.

The first is the role of the whole business community, in that its capacity to produce income provides a basis for the conditions for the operation of society, which requires all kinds of financial resources. The income producing capacity of the individual also generally comes into its own in an organisational framework. Taken together, these lead to the fact that the actualisation of the financial state and opportunities of society as a whole, or community prosperity, is to a large extent the consequence of the successfulness of undertakings. This may be called the *primary* social responsibility of companies. One easily measurable sign of the primary responsibility is the contribution to community expenditure; essentially, the payment of taxes. Tax revenues basically come from two sources: inpayments by organisations (enterprises) and individuals. Taken together, these provide for and cover community expenditures.

Organisations, enterprises, companies and corporations are (micro-)organisms, independent structures within society (as are families). A highly significant proportion of people live their lives within the context of these. Their quality of life is determined to a large extent by which organisations and communities they are linked with and where they carry out their work. For those of working age, organisations providing employment represent the most general, and at the same time the greatest life opportunities. Those who are not linked with some organisation which provides employment (usually a job, even if that is a personal venture) under the general conditions and situation of present society, with the exception of the minority living off their private assets, generally have to rely on provision and support. The fact that the organisations represent the most significant mode of life for those able to work, also means they not only have a sustaining role (provision of employment) but also one which determines the whole of life. This can be regarded as the *secondary* social responsibility of the companies. The magnitude of the level of employment of the working-age population is also an expression of the measure of participation in the problems of society. After all, people who are able to work but are not employed, not only cannot contribute to the financing of public duties, but they themselves are in need of support. Besides the financial burdens, the jobless are distracted from public issues by moral problems and those of life in general, and they cannot be relied upon to act in the interest of the building and development of society.

Besides the economy, the operation of society is generally organised by individuals, the political authority system (e.g. government) and the civil sphere working together. The

last of these takes care of the fulfilment of duties and the filling of roles which neither individuals nor political institutions – primarily the government – are able to deal with. The reason for this may vary, from lack of money to incompetence, from inattentiveness to political intention. To all events, the civil allocations and activities, i.e. those not organised and/or financed by the government, are highly significant with regard to society as a whole. The activity of business organisations which is not directly of economic character can also be included here.

Undertakings participate in the solution (sometimes the agitation) of many significant social problems which could be dealt with by the state, in fact, to some extent they must be. In this sense, the undertakings also fulfil a supplementary, stop-gap socio-political role with regard to the operation of society as a whole. Developed public policy assigns a large role to corporate social activities in the process of running society as a whole. This primarily involves direct support for the maintenance and operation of local and smaller communities. This is the *tertiary* corporate social responsibility.

The *fourth* dimension steps outside the traditional company framework having, shall we say, an interest in profit. A social enterprise is an organisation which is established in order to solve the social problems found in certain strata of society.<sup>1</sup> Fundamentally, therefore, the interest is not in the production of profit, but in the solution of problems. The organisational form is frequently a co-operative, which in an organised manner offers those affected – who are struggling with social problems – an escape from their situation within the framework of corporate activity. The usual approach is that the profits gained are not distributed among the owners (members of the co-operative), but they are utilised for solving the given social problem. The social enterprise is first and foremost suitable for dealing directly with the problems of underdeveloped areas and underprivileged groups. They generally also receive considerable international, state or other, e.g. corporate support. Very often they are also favoured as to their legal form, e.g. receiving tax reductions, etc. Many people consider all organisations to be social enterprises if they are not profit oriented, but aim to fulfil other, broader community goals. In this regard, the concept of social enterprises has not been completely clarified. A sports association for hobby purposes or a block of owner-occupied flats, for instance, can hardly be construed as an organisation with a calling to solve social problems (although undoubtedly their activities are of public benefit). A foundation for culture, education or promotion of the arts is more easily acceptable as an organisation for the realisation of social goals, as is an establishment for health protection or for aiding the underprivileged.

For the evaluation of business management problems, instead of mere utilitarianism, a broader solution is seen to be practicable. It is worthwhile supplementing analyses based on the comparison of advantage-disadvantage or input-yield during certain time periods with another angle. In this way an estimation must also be made of how a given action or process will affect the strategy of the organisation, the quality of management and the mission concepts. This is worth supplementing with one more point, which is linked with the problem we are dealing with: what effect do the company operations have on the whole of society? These are summarised in the scatter diagram below:

	<b>Following short-term interests</b>	<b>Following long-term interests</b>
<b>Achievement of company</b>	Financial approach, profit	Economic, social and

<sup>1</sup> Petheo, A. (2008) Beyond the Corporate Responsibility: The Social Enterprise. PhD thesis, CUB (hungarian)

<b>strategic goals</b>	oriented management	sustainable development oriented management
<b>Contribution to the realisation of social goals</b>	Donations, actions for marketing and PR purposes	<i>Corporate government is also socially responsible</i>

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The social vocation and responsibility of business (profit-making) organisations is summarised most strikingly by the approach which has become notorious under the name<sup>2</sup> of the triple bottom line: undertakings represent *economic, social and environmental* values.

## Views on the social role of business organisations

Regarding business organisations, several significant theories have discussed the concept of what is known as the inherent or foundational, essentially *a priori* responsibility, i.e. that directed to profit-making.

Furthermore, management according to the profit principle as the decisive approach to engaging in business is usually linked with the name of Milton Friedman.<sup>3</sup> In a newspaper article<sup>4</sup> he expressed a somewhat more precise view, in that he now considered the production of profit fundamental whilst adhering to social standards (“they should keep to the rules of the game, in free and open competition without deception or fraud”).

1. One viewpoint group which moves beyond the concept of a company with only a profit principle is the approach based on so-called *stakeholders*. According to this, companies are interested parties, and are responsible for achieving satisfaction for all the stakeholders who can be linked with their activities. Besides the owners (investors) and customers already mentioned in the traditional approach, these would be the employees (including managers), suppliers, creditors, local and broader residential and tax-collecting communities, etc.
2. The sphere of stakeholders is usually supplemented not only with natural persons or their groups, but also, for example, with the natural environment, which leads to a broader interpretation (basic in international practice) of the concept of responsibility. A significant proportion of the damage and danger to the environment has been caused as a result of human activities, and what is more, those related to business. In consequence, the responsibility is not only linked with the stakeholders, but with the shaping of society as a whole. An established concept in connection with responsibility is *sustainable* (using another word: durable) *development*, the inheritance intended for future generations, protests against the exploitation of natural and artificial resources accumulated in the course of earth’s history, preservation of the biological living-space, etc. Previously less polluted or damaged spheres such as rain forests, oceans, the atmosphere or outer space are increasingly bearing the negative marks of human activity.
3. In every one of today’s societies, revenues, their utilisation and (re)distribution play a decisive role. Revenue is essentially – though not exclusively – produced by the economic (business) sector. Following on from this, everything which characterises the condition of the society as a whole depends in a decisive way on the (revenue producing) activity of the business community. If a certain business community is not

<sup>2</sup> Elkington, J. (1998) *Cannibals with Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business*. Gabriola

<sup>3</sup> Friedman, M. (1962) *Capitalism and Freedom*. Chicago University Press

<sup>4</sup> New York Times Magazine 13. aug. 1970

capable of increasing the production of revenue, then neither can the development of the society as a whole be guaranteed. In this sense, the economy is a de facto branch of power, which provides the material-financial basis for social development.

4. Responsible behaviour is (also) a highly significant PR activity. The conscious interpretation of this, however, is more modest than its utilisation. The social rating of the firm as a whole (“saleability”) only represents the high level of achievement according to the financial indicators in a few, specified circles (e.g. owners, investors). A broader social evaluation is formed based on responsible conduct. The management of a firm acts correctly if they raise awareness of this and stress it, and this cannot be regarded as just dealing with appearances, or policy to compensate for problems and tensions. Company experts have frequently interpreted the effects of responsible behaviour PR or marketing as an approach to be concealed, though we are of the opinion that these are value-creators and resources to be tapped.
5. Further dimensions of company responsibility are rarely mentioned by the traditional and usual interpretations of responsibility. At the same time, scientific results indicate increasingly clearly that processes significant in society – besides the production of revenue – are related to economic achievements also in other areas. It can be mentioned as a well-known example that illnesses such as cancer are closely related to products of the chemical, pharmaceutical and food industries, which are reaching an increasing number of consumers and appearing in their systems. The nature of a lifestyle typified by stress as an influence on health is an accepted precept. Alongside the company-related and generally recognised *factors influencing the quality of life* such as working conditions, income, risk of accident, etc., more and more hazards can be listed which are indirectly linked with the activities of the economy. An example of these would be global warming. It can be established that the bulk of the problems endangering humanity are directly or indirectly caused by human activity itself. Civilisation also involves powerful, self-destructive influences.
6. As a further approach to responsible behaviour, the reinforcement of the principle of *fairness* (meritum) can be mentioned. According to this view, companies basically exist for the purpose of gaining profit, but besides this, they must also reinforce fairness, i.e. they must take into account other considerations as well as the interests of the owners (and also the customers in a market economy). Primarily the interests of various social groups, including first and foremost providing aid for the underprivileged, are regarded as other interests of this type.
7. Besides the above, the *corporate social responsibility* (CSR) approach deals with the problem more broadly, in an institutionalised way, and not only based on profitability but also on behaviour. Many definitions and concepts can be linked with the interpretation of the responsible company and corporate conduct. Phrases such as responsible corporate citizenship, social dialogue and corporate conscience are also known. We will not elaborate here on the details of these subtle approaches, though they may be important in some cases.
8. Primarily for large firms with international relations, it is recognisable in an increasing number of cases in corporate practice that the management is aware of expectations in connection with responsible behaviour, and also follows these with a variety of approaches. It is characteristic of organisations with responsible thinking and conduct, that they stress those of their activities which, in the opinion of the management, are related to broader, social interests. These are generally regarded as the manifestations of responsible conduct. In known cases in this country, the following elements may be identified in the interpretation of responsible corporateness *in Hungary*:

- health care, health protection
- creation of opportunities
- community links
- employee relations
- environmental protection
- discrimination problems (including dealing with the underprivileged)
- donations
- establishing and following ethical norms

This approach (may) include more important elements, though it is worth identifying these more precisely. According to other documents and information, attention is also paid to equitable and ethical conduct, as well as political compatibility – primarily working behind the scenes. These are often not combined to form a unified responsibility strategy, however, and no account is given of them either.

9. Treatment of the problem is placed within the framework of the corporate social responsibility concept (CSR), accepted by many. According to this, **responsible corporation management (company conduct)** involves the following:

- **Legal respect, adherence to rules.** This also mediates the ethical norm of reliability for the business community (keeping to contracts). As part of the black and grey economy, illegal acts result in significant social risks and damage.
- **Ethical management** following the norms of the community, i.e. reinforcement of the principles of fairness and community norms. Ethical conduct is interpreted as respect for the social environment.
- **Respect for the environment**, environmentally aware management, primarily signifying equitable conduct in connection with the living and inanimate natural environment.
- Results achieving **satisfaction** for the stakeholders (first and foremost the owners, investors, customers and employees). This may also be regarded as the stakeholder approach (with restrictions).
- **Political compatibility**, cooperation with the political system, institutions of the social establishment, and the civil sphere.
- **Activity which is useful to society, but non-profit-making** (this may also be called *non-invoiceable activity*). This includes sponsorship, patronage, making donations, holding events, other support for community goals, etc.
- **Responsible corporate governance**, the use of leadership and management systems, which in an institutionalised way provide for participation in the achievement of society goals.
- **Personal sensitivity to social problems**, the presence of players (primarily decision-makers), who identify and recognise social problems and are prepared to play a role in solving them on behalf of themselves and their companies.

Another source<sup>5</sup> also discusses a similar approach to the integrated view detailed above, summarising what responsible conduct involves. According to this, the taxonomy of business responsibility extends to the following:

- Legal responsibility
- Philanthropy and community investments
- Environmentally aware management

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<sup>5</sup> Blowfield, M. – Murray, A. (2008) Corporate Responsibility. Oxford University Press

- Sustainability
- Animal rights
- Human rights
- Rights and well-being of workers
- Market connections
- Corruption
- Corporate management.

The most detailed manifestation of corporate social responsibility<sup>6</sup> refers to a total of 147 different opportunities in seven different areas. The individual fields where responsible conduct can be realised are the following:

- Personal guidance, formation of visions and values
- Market activities
- Activities linked with man-power and live work
- Activities in connection with supply chain
- Commitments with regard to stakeholders
- Communal activities
- Activities connected with the environment

The GRI<sup>7</sup>, as a system for evaluating the undertaking of even the most general social roles, measures the following segments:

- Strategy (within this, administration, commitments, as well as management approaches)
- Economy
- Environment
- Society, within this, work performance and integrity
- Society
- Product responsibility

Other sources clearly approach responsible conduct from the side of ethics. For instance, the Ethics Manual of the Upper Management Society of the United States<sup>8</sup> considers honesty to be determinative. Within this, the fulfilment of obligations, the devotion of the time available to the fulfilment of obligations and the attainment of a high level of reliability are the most fundamental. Besides independently evaluating the role played in society, the EFQM, i.e. the European and Hungarian Quality Award grading system, by assessing Customer satisfaction, the treatment of workers and strategy, also devotes attention to certain elements of responsible conduct.

### **The evaluation of social responsibility**

The best-known of the systems for measuring and evaluating social responsibility are summarised in the table below.

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<sup>6</sup> Ethical Performance (2005) A Catalogue of CSR Activities. Ashridge Center For Business and Society, Berkhamsted

<sup>7</sup> [www.GRI.com](http://www.GRI.com) Sustainability Reporting Guidelines

<sup>8</sup> Dane, F. C. (2008) Restoring trust in government and business: Principles over rules. Oxford Round Table Paper 2008 spring

<b>System evaluating corporate responsible conduct</b>	<b>Chief evaluation, observational and analytical fields of the system</b>
EFQM, Hungarian variant the National Quality Award	Comprehensive company evaluation, including effects on society
GRI, in domestic wording frequently Sustainability Report	Evaluation combinable with company annual report system
The Committee of Enquiry	Recommendation produced for the government of the United Kingdom, dissecting the methods which may be used in public policy, and with which corporate responsibility may be supported
Dow Jones Sustainability Index (New York Stock Exchange)	System for grading stock-market companies
Ethical Trading Initiative	An initiative of the United Kingdom government, which summarises the satisfactory conditions of the working world, primarily for the less developed countries and regions
Global Sullivan Principles	In 1977, the Reverend Sullivan drew up the requirements for corporate political, economic and social responsibility
London Benchmarking Group	Initiative of certain London-based enterprises to form a model for the distinguishing of correct and incorrect business practices
Social Accountability 8000	Voluntary universal grading system, primarily in the area of the working world, which can also be applied to suppliers
Account Ability 1000	System for the evaluation of the ethical responsibility of organisations, may be used for all types of organisation
World Business Council	Method of an association established by 130 international companies in the interest of sustainable development
SAIP Self Assessment and Improvement Process	Grading system formed on the basis of the Caux Roundtable approach
FSGO Federal Sentencing Guidelines	The US Federal Guidelines, for the purpose of the election of decision makers and the evaluation their efficiency, primarily on the basis of legal and ethical suitability
Fair Trade Labelling	System for the recognition of fair trading (more broadly: business activities)
Chartered Good Corporation	Grading system of the London-based Institute of Business Ethics organisation
ISO 26000 standard	Recommendations for companies concerning the practice of responsible social conduct

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If the above – and other – procedures for the evaluation of responsible corporate conduct are examined, our experience is that the most powerful is the measurement and evaluation procedure related to the areas of *human rights and environmental protection*. In these areas, the conduct of organisations is also influenced by strong legal support. A significant number of countries have accepted and enacted the international accords which serve the above purposes.

### **International agreements influencing responsible conduct**

Of the most significant sources influencing responsible conduct, including accepted accords, several are mentioned<sup>9</sup> which are also known, accepted and in use internationally. Hungary has acceded to all of the accords mentioned above; professional public opinion in this country is familiar with the measurement and evaluation principles.

1. OECD Guidelines for Multinational Enterprises, 1994
2. The Global Sullivan Principles of Social Responsibility, 1977

<sup>9</sup> Leipziger, D. (2003) The corporate responsibility code book. Greenleaf Publishing

3. The UN Global Compact 2000
4. The Universal Declaration of Human Rights 1948
5. The Voluntary Principles on Security and Human Rights 2000
6. The Norms on the Responsibility of Transnational Corporations and Other Business Enterprises with Regard to Human Rights 2003
7. International Labour Organisation: Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy 1977
8. Fair Labor Association: Workplace Code of Conduct 1996
9. The Rio Declaration on Environment and Development 1992
10. Coalition for Environmentally Responsible Economies – The CERES Principles 1989
11. The Natural Step 1994
12. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transaction 1999
13. The Business Principles for Countering Bribery 2002
14. Organisation for Economic Co-operation and Development Principles of Corporate Governance 1999
15. Green Paper Promoting a European Framework for Corporate Social Responsibility 2001 EU COM 366
16. Communication from the Commission concerning Corporate Social Responsibility 2002 EU COM 347

## Summary

Within the circle of practising business managers, the view is still rather frequent that corporate social responsibility is fundamentally of marketing and PR significance. At the same time, it can be experienced that in the management of major companies and stock-market firms, to an increasingly significant extent there is a turn to not only the appearance, but also the genuine practice of responsible enterprise. Also in smaller organisations, very many elements of responsibility may be identified, such as making donations, respect for the law and the environment, or the reinforcement of moral principles. This lecture comprises a number of extracts from a book in preparation, summarising the problems of responsible corporate management. The purpose of the selection is to present some important information and considerations in connection with the subject, which may also be used in education.

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