The Corporate Social Responsibility and Accountability in the Modern Corporation

Hui Hu
Faculty of Business and Government
University of Canberra
Canberra, Australia
hui.hu@canberra.edu.au

Danni Wang
College of Business and Economics
The Australian National University
Canberra, Australia
dennie.wang@gmail.com

Abstract—**Friedman (1970) held that the only social responsibility of business is to increase its profits. With the ever changing business environment as well as the rapidly growing public concerns with the impact corporations have on society, the one-sidedness of his assertion becomes obvious in interpreting the behavior of the corporation and the influence of their conduct. Nowadays, the role of a corporation also includes corporate social responsibility (CSR) and accountability, of which the aim is to bring positive and beneficial effects to the stakeholders.**

Keywords- corporate social responsibility; accountability; corporation; business; profit.

I. Introduction

As an advocate of the traditional view regarding CSR, Friedman held that the only social responsibility of business is to increase its profits [8]. With the ever changing business environment as well as the fast growing public concerns with the impact corporations have on society, the one-sidedness of his assertion becomes obvious in interpreting the behavior of the corporation and the influence of their conduct. The concept of CSR is multi-dimensional nowadays and the role of a corporation today also includes CSR and accountability, of which the aim is to bring positive and beneficial effects to the collective stakeholders.

II. The Changing and Rounded Concept of CSR

Defining CSR is and shall always be the first step in the discussion of it. The classical view by reference [8] states that, the one and only one social responsibility of business is to maximize its profits. However, the concept now has been widely developed and is implicational with respect to many aspects of the economy and society. There exists no one universally accepted definition of the term [7]. One representative definition is given by reference [5] using a descriptive approach, defining CSR as "the integration of business operations and values whereby the interests of all stakeholders … and the environment are reflected in the organization's policies and actions". It takes account of the various stakeholders including shareholders, financiers, employees, unions, consumers, government, regulators, environmental organizations, communities and future generations. As outlined by Godfrey, Hodgson, Holmes and Tarca [4], rather than emphasizing solely on the single relationship between management and owner, where the responsibility is a duty owed by management to merely one party, namely the owners who are assumed to have no collective consent on the pursuit of benefiting other parties but maximizing their own profit.

Another widely supported view is Carroll's "Pyramid of Corporate Social Responsibility" [1]. It states that there are four dimensions of CSR: economic responsibility (which is placed at the bottom), with legal, ethical and philanthropic responsibilities on top of one another. It lays stress on the multiple goals of CSR as well as on the fundamental and basic requirements of CSR. It contradicts the single-dimensional recognition of social responsibility in Friedman's statement as well, pointing out the social obligations owned by corporations in different levels, whereas Friedman's concept of CSR concerns economic and perhaps legal responsibilities only and gives no weight on other requirements.

III. CSR, Sustainability and the Meaning of Business

Judging from its ever comprehensive concept, CSR nowadays expresses the hope of the society at large to achieve a balance between many stakeholders. As the general public and governments are becoming more aware than ever of the damaging and harmful impacts business activities have on the environment, the hope for a sustainable as well as environmental and ecological-friendly way of managing business has never been so given prominence to today.

As a result, the call for sustainability as one important component of CSR involves providing reports that not only contain financial performance information as traditional reports do, but also present environment-related information such as externalities caused by the reporting entity. This is known as triple bottom-line reporting; i.e. reporting on the economic, environmental and social performance of an entity [4], which is argued by Pava in reference [9] that it "underscores a remarkable change in society's understanding of corporate accountability". It implies that the more a corporate concerns being a sustainable entity and the more efforts it has put into doing so, the more accountable it is in the eyes of the society.

In the perspective of Friedman, the corporate responsibility of maximizing the profit simply ignores the potential externalities that may be caused (either actively or

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passively) by the untiring pursuit of profit [8]. The unfairness then emerges in his theoretically built free society when some “engage in open and free competition without deception or fraud”, there are some other unrelated third parties are possibly being influenced by their activities. This kind of situation that he didn’t take into account is exactly one of the circumstances that CSR concerns nowadays: how to balance the interest of all potential stakeholders. Triple bottom-line reporting here serves as a communicating tool between corporation and its stakeholders to express how well (or how badly) the corporation performs in respect of being “social responsible”, and more specifically, being sustainable and environment friendly.

Additionally, when it comes to the meaning in business, the present study is in agreement with the statement given by Pava in reference [9]:

> “If business is only about the pursuit of corporate profits there is no vocabulary inside businesses, other than the profit and loss statement, to convey meaning, values, and purposes… A question like whether or not a corporate mission is compatible with one’s most closely cherished values would make no sense whatsoever. The whole notion of social entrepreneurship would become completely incoherent.”

It is not merry to imagine a business world where all decisions would have to be grounded only in profitability considerations. The value of pure profit maximization is quite away from and against the majority of various groups of stakeholders’ understanding and perception of CSR nowadays.

IV. THE MOTIVATION OF BEING SOCIALLY RESPONSIBLE VS. THE OUTCOME OF ADOPTING CSR

Together with the development of the concept, the theories of what motivates CSR are blossoming in the recent decades as well. The three predominate ones are political economy theory, stakeholder theory and legitimacy theory [12].

Stakeholder theory and legitimacy theory are interrelated theoretical perspectives that embody the assumptions that are acknowledged by a political economy perspective [12]. In explaining the motivation of corporate being socially responsible and the disclosure of “social” information, the political economy theory suggests that the disclosure is used to stave off intervention [4]. Stakeholder and legitimacy theory, on the other hand, suggest that the corporation is responding to show that its actions correspond to social expectations and obligations as imposed by stakeholders. All of them involve corporation being active in legitimating itself in a situation where there are expectations or obligations with respect to its social responsibility and therefore may be criticized for being utilitarian. This perspective is somewhat in consistency with Friedman’s view of the use of the social responsibility as the cloak for actions that are justified on other grounds rather than a reason for the actions. He has a clear aversion to the temptation to rationalize the self-interest-motivated actions as an exercise of social responsibility to generate good will, which we are in favor of and agree on. However, one obvious flaw or subjective side of his assertion is that he holds *regardless* of how much or how little such actions benefit society.

The motivation or why corporations behave socially responsible should be examined separately from the actual social impacts of the behavior. Reference [9] believes that it will make much more practical sense to judge the degree of social responsibility in terms of social outcomes only, of which the implication is that even if the motivation of such action is out of self-interest instead of social responsibility, as long as the action itself eventually has positive social impact and beneficial to the stakeholders as an outcome. Therefore, this action should be regarded as being socially responsible. When Friedman’s argument was more theoretically focused on the purposes of some possible self-interest-accommodating actions, he overlooked the actual positive changes brought by actions such as the disclosure of the social-responsibility-related information and other benefits of CSR.

One example is the voluntary or discretionary environmental disclosures. Though these disclosures can be explained by the theories of motivation of CSR, which suggest some self-interest-accommodating drivers play a part in making these disclosures, the outcome of the disclosures can be very applausive and positive. Reference [10] finds that, by using a sample of 191 firms from the five most polluting industries in the US, there is a positive association between environmental performance and the level of discretionary environmental disclosures, indicating superior environmental performers are more forthcoming in truly discretionary disclosure channels.

The benefits of voluntary disclosure in the perspective of the corporation itself are various and may be self-interest driven, for instance, the benefits including improved corporate image, improved financial returns and better recruitment and retention of employees [2]. Nevertheless, they are at the same time also welcomed by the stakeholder as a means by which they can enter a dialogue with the management about the possible social, economic, and environmental obligations, while the management are being able to balance the demands of their stakeholders [6]. Findings on the positive relationship between corporate social and financial performance is also given in reference [11], suggesting being socially responsible in some extent leads to better financial performance in the long run.

Evidently, other positive and socially welcoming changes in corporate behavior besides the disclosure of social information are concluded by Vogel in reference [3], including: “a reduction in the employment of child labor and improvements in health and safety conditions…”; “a decrease in greenhouse gas emissions…”; “a reduction in the quantity of wood products produced from tropical… forests”. While we cannot accurately determine the precise motivation of the actions contributable to the above changes, we definitely shall not deny the goodness and social benefits of them. Nor shall we say no to these contributing actions merely because they are not justified by pure social-benefiting motivations.

V. THE MEANING OF FRIEDMAN'S "RULES OF THE GAME"

The concessive and conditional aspect of Friedman's view only reinforces the necessity of including CSR and accountability in the role of a corporation today.

In order not to be considered to be the supporter of a wicked and immoral pursuit of profit, Friedman in his statement provides a condition under which the maximization of profit is to be encouraged, that is, business must "stays within the rules of the game". The present study assumes the "rules" refer to either the legal principals and regulatory terms as a bottom line, or more morally elevated, the social ethics and perceptions of what is right or wrong. This assumption should hold because obviously Friedman was never supportive of illegal or immoral conducts only to pursue profits.

The public recognition of environmental protection and CSR nowadays has well improved. While there was a lack of mandatory requirements in the past, government, regulators and standard setters today have already put requirements of disclosing environmental information into law or guidelines. For example, in Australia, Section 299(1)(f) of the Corporations Law requires disclosure of the entity's performance with respect to environmental regulations, if the firm's operations are subject to significant environmental regulation [4]. Internationally, regulations were made as well. Also, there are guidelines for voluntary environmental disclosure such as the Global Reporting Initiative (GRI) as an international one and in Australia the New South Wales and Victoria State government both prepared guidelines as well.

The rules of the game are now widened and more relative to the CSR. Corporations are always allowed to pursue profit as this is one of its fundamental goals. They are allowed to do so now as they have been doing for a long time, as long as they stay within the rules of the game, which now requires CSR.

VI. CONCLUSION

The present study examined the widened concept of CSR and discussed the current understanding of corporations being socially responsible to their stakeholders. According to the results, it can be concluded that the role of a corporation should no longer solely involve maximizing profit, as stated by Friedman in reference [8], but to include social responsibility and accountability as well in order to meet the ever-restricting requirements and higher expectations of the general public.

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