

## THE ETHICAL AND DISCRETIONARY RESPONSIBILITIES OF BUSINESS TOWARDS SOCIETY

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### ABSTRACT

*The main purpose of this paper is to develop a framework for the analysis of corporate social responsibility (CSR) practices, which could be used as a theoretical and practical guide. Starting from the Carroll's CSR pyramid model, we show that the concept of CSR as currently used is limited to the two top levels: ethical and discretionary. After discussing the relations between these two levels, we show that the main ethical obligation of the companies is to mitigate the harmful effects of their business activity, and the CSR activities should take primarily this direction. In the end, we will provide few guidelines for an ethical approach to CSR practices.*

**KEYWORDS:** *social responsibility, ethical duties, discretionary duties*

**JEL CLASSIFICATION:** *A13, M12*

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### 1. INTRODUCTION

The concept of social responsibility is often used in a broad and imprecise way, so that its place in the overall field of business ethics becomes unclear. This shortcoming has serious theoretical and practical implications. Without a clear guiding strategy, companies contribute to a number of initiatives, which are seen by public rather as a public relation exercise. At a theoretical level, the paper aims to provide a more clear-cut delimitation of the concept of social responsibility than generally available. However, the main goal of the paper is practical, to provide a general framework that can be used for the development of coherent social responsibility policies. On the basis of the CSR pyramid model, presented in the first part, the second part will provide a delimitation of the CSR. In the third part, we will analyze how companies can contribute to society in an ethical and efficient way. We will finish with some recommendations regarding companies' social responsibility practices.

### 2. THE PYRAMID MODEL OF CORPORATE SOCIAL RESPONSIBILITY

The most famous social responsibility model is developed in a series of works by Archie Carroll and his collaborators (e.g. Carroll, 1991). This model, called the "pyramid of social responsibility", distinguished four categories of hierarchically organized responsibilities.

At the lowest level of the CSR pyramid lie economic responsibilities. Managers are required to manage profitably the company in order to provide gains for shareholders. Companies are also obliged to pay fairly their employees and suppliers. A company cannot survive in the long term without profit or without paying its employees, and, therefore, economic responsibilities occupy a fundamental role and are prerequisite for achieving all other responsibilities. At the legal level, companies are required to comply with regulations on taxation, workers' rights, consumer rights, environment, etc. Above responsibilities at the first two levels, whose expectation is required by the

society, lie ethical responsibilities. Companies have a duty to treat fairly the employees, to provide to consumers information relevant to their purchasing decisions. Companies have also an obligation not to adversely affect the environment or the health of employees and consumers. Although not imperatively required by the company, compliance with ethical responsibilities is expected by society.

At the top level of corporate social responsibility lie discretionary responsibilities, compliance with which is desired, but not required by the company. Discretionary actions are not mandatory, even from an ethical point of view, but are praiseworthy. Philanthropic actions, such as charitable donations and voluntary actions, taken by employees are examples of discretionary actions.

It is noteworthy that the term "discretionary responsibility", which we use even in the title of the paper, is problematic, as long as, some authors argue, discretionary actions are not responsibilities (obligations), even from a moral point of view, but only desirable. Some authors, from whom Norman Bowie is the most prominent, argue that CSR practices can be justified as imperfect duties, in the Kantian sense (Bowie, 1999). According to the distinction, imperfect duties, unlike the perfect ones, give large latitude on how they are put into practice. As human beings, we should, as far as possible, benefit others, help those in need, contribute to others' well-being, in the most general sense. However, as long as they have limited resources and their own legitimate ends, people cannot help all those in need and have the liberty to choose the actions realized in complying with the duty of beneficence. In the same way, companies have a moral duty to improve the society by donating a small share of revenues to good causes, and this is a discretionary responsibility.<sup>3</sup> We will not further analyze whether this justification of a company's discretionary duty to benefit society is sound. Regardless of the argument above, most large companies do realize discretionary actions and more important is how their charitable actions can be more efficient for society.

Distinction between the legal, moral and discretionary levels has significance in terms of priority. Companies are primarily required to comply with regulations in that country, then, to the extent that this requirement is met, to satisfy the legitimate expectations of society on ethical conduct. Finally, only if the legal and moral requirements are met, the discretionary actions performed by companies are really desirable and laudable.

One of the important issues regarding Carroll's model is the distinction between the first two levels of the pyramid, namely between ethically mandatory and discretionary actions. In many papers and CSR documents, corporate social responsibility practices are justified by the fact that companies have a moral duty to give back to the community what they receive in their everyday activity: the opportunity to conduct their business into a economically stable country, to have well-qualified employees etc. On this basis, we could draw the conclusion that any practice of social responsibility is the fulfillment of ethical perfect obligations and no such practice is discretionary, in the sense used by Carroll. However, many authors correctly argue that large companies, in exchange for what they receive, provide wages and pay taxes. For this reason, philanthropical actions, even targeted towards the community in which the company operates, are not ethical obligations, but rather desirable actions, expected by the community, but not required by moral norms. Therefore, we should keep corporate ethical and discretionary responsibilities distinct.

### **3. A DELIMITATION OF THE CONCEPT OF *CORPORATE SOCIAL RESPONSIBILITY***

Although the above model provides an appropriate framework for understanding the companies' responsibilities, in the current context social responsibility refers rather to the two top levels, ethical and philanthropic responsibility. We begin with a definition which can be found in a document of the European Commission "Corporate Social Responsibility is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with

their stakeholders on a voluntary basis.” (European Commission of the European Communities, 2002, 3). Two central elements emerge from the definition.

The first is that the corporate social responsibility includes voluntary, not legally mandatory practices. Therefore, using the pyramid model, corporate social responsibility regards the two top levels of the pyramid. Social responsibility includes ethical and discretionary corporate responsibilities, but not legal ones, with which the company did not comply voluntarily, but by fear of sanctions, or economic ones. Secondly, social responsibility refers to the company's relationships with stakeholders. The shortcoming of this definition is that it extends much the concept of social responsibility, so that issues related to CSR became almost similar to those related to business ethics. This equivalence between the two notions, which occurs in many definitions, does not allow understanding of the specificity of corporate social responsibility within the business ethics field.<sup>4</sup> For this reason, we will define a narrower concept of corporate social responsibility.

The basic element for this is the term “social”. Corporate social responsibility does not regard to companies’ obligations towards all stakeholders, but to their obligations towards society. In 2011, at the EU level a new definition of CSR, based on this idea, was issued. Under this recent definition, CSR regards “the responsibility of enterprises for their impacts on society.” (European Commission, 2011, 6) Therefore, through social responsibility activities, the company does not consider only the impact of its activity on employees and consumers, but also on society as a whole. In conclusion, in this narrow sense, social responsibility is the use of company resources for action and practices that are not required by law and have impact on the whole society. Using fair wage practices is an important ethical requirement, but it is not an element of corporate social responsibility, in this narrow sense. However, some actions directly related to employees or customers may have a significant social relevance. For example, closing of a subsidiary in a small town has an impact on the community as a whole, not just on employees.

Large companies are those whose activity has a significant influence on society and therefore they are the ones who generally promote CSR initiatives. Most large companies have also CSR departments, develop CSR strategies and projects, manage CSR programs and prepare CSR reports. Social responsibility initiatives include social responsibility practices assimilated into companies’ daily activities or programs carried out over a period of time. An example of an initiative undertaken for a limited period of time is the rehabilitation of some buildings in a town in which the company operates, while a company's decision to work only with suppliers that comply with workers' rights is a responsible everyday business practice. In the usual approach, the concept of social responsibility includes disparate individual activities (sponsorships, donations). As we will return below, this picture is wrong; individual CSR initiatives must be related to companies’ everyday business practices and to fit into the overall business strategy of the company.

#### **4. SOCIAL RESPONSIBILITY INITIATIVES: HOW COMPANIES CAN CONTRIBUTE TO SOCIETY**

After in the previous sections we have analyzed the concept of social responsibility, we go further and examine the social responsibility initiatives by which companies can bring their contribution to society. In order to do this, we will start from a definition of corporate social responsibility as “the obligation of organizations to maximize the positive and minimize the negative impact on society” (Pride & Ferrell, 2010, 94). According to this definition, which can provide a general analysis framework, social responsibility initiatives are directed in two directions. Firstly, companies have an obligation to take measures in order to mitigate and compensate the negative effects of their daily activity. Secondly, companies can try to bring their contribution to society through charitable actions. In Carroll’s model, the first category of measures can be classified as ethical responsibilities, as long as companies, to the same extent that individuals, have a moral obligation to mitigate, as far as possible, the negative effects of their activities, while measures of second

category should be included among discretionary actions. For this reason, since the primary duty is not to harm others, the measures in the first category override those in the second category. If the company's activity has a significant negative impact on society (as happens, for instance, in the case of heavily polluting companies or of alcoholic beverages fast food, tobacco companies, etc.), CSR measures aiming at mitigating the negative impact should have priority over philanthropic actions. This idea contradicts the common view that social responsibility is almost synonymous with social philanthropy.

### **i) Minimizing the negative impact**

Many companies' activities bring, inevitably, a number of negative consequences, which companies should try to compensate through social responsibility initiatives. We will give some examples of such initiatives from companies operating in the "sensitive" areas.

- a. The abuse of alcoholic beverages and alcohol consumption by minors, people with certain diseases or pregnant women bring a number of negative consequences. For this reason, for most companies producing alcoholic beverages, awareness campaigns on the undesirable effects of alcohol abuse are an important component of their social responsibility strategy. Many alcoholic beverages companies inform the public, for example through internet sites, on the negative effects of alcohol.<sup>5</sup> Companies also realize awareness campaigns on the dangers of driving after consuming alcohol.
- b. Excess consumption of sweetened beverages has many adverse health effects; among them obesity is a determinant factor of obesity. Many social responsibility programs of the sweet beverages companies focus on awareness campaigns on healthy lifestyle and diet. Such campaigns are designed to mitigate the negative effects brought by their products and to show how they may be part of a healthy diet, if they are consumed responsibly. The "Exercise is medicine" campaign, initiated by Coca-Cola, is a good example of a project which aims to encourage a healthy lifestyle. As a part of such programs, companies working in the field often sponsor sports competitions. It is noteworthy that the adverse effects in the above examples do not regard only the consumers, but also the society as a whole.

### **ii) Maximizing the positive impact**

Beside the measures by which companies try to mitigate the harmful effects of their activity, companies contribute to society through charitable acts. Such action must, however, be part of an overall strategy connected with the company's competencies and its key business objectives. Developing a social responsibility strategy starts with drawing general objectives, under which to subsume particular programs and actions. A company where highly skilled labor is a strategic resource may choose to undertake social responsibility actions in education. CSR actions of a company for which the care for environment is an important strategic objective should move in this direction. The companies can also implement CSR programs through which to exploit their strengths and resources, specific to the company or to the industry. The following two examples go in this direction:

- a. Some hypermarkets implement CSR programs based on the fact that constantly have access to large quantities of food products. In order to avoid throwing away food that has not yet expired some supermarkets donate food to charities. In the same time, in hypermarkets enter daily a significant number of customers, and this resource can be efficiently used by supermarkets. Creating a public recycling point for electric and electronic waste is an efficient idea to use this resource.
- b. The Coca-Cola Company has a huge distribution network, its products reaching isolated places, where even vital products are not available. Based this fact, Coca-Cola has created an independent non-profit organization, called ColaLife, which collaborates with

other private or charitable organizations, private or charitable, to make available vital products to very poor residents in remote areas, such as those in Africa.

Social responsibility programs in the two examples, and other similar ones, are based on the idea that company's resources are underutilized and that a relatively small contribution from the company can bring significant gains to society as a whole.

#### **4. HOW CAN CSR ACTIONS BECOME MORE THAN A PR EXERCISE?**

Social responsibility activities are often perceived by the public rather as part of a public relations strategy designed to give visibility to the company, or conformist actions done only for the sake of complying with a social rule. According to the argument, social responsibility initiatives are not genuine evidence of ethical behavior, but just another way of increasing company's profit. Unfortunately, this criticism is sometimes justified. For many companies, the CSR actions have a minimal effect on society as a whole, and focus more on communication. In such cases, social responsibility is just a facade. In some cases, CSR actions are done only because they have become a compulsory element, whose failure would cause criticism from consumers and commentators. However, social responsibility initiatives can represent much more than an instrument of advertising and next we will summarize some elements necessary for this purpose.

- 1. Improving everyday business practices is the basic element of ethical conduct.** A company that is willing to behave ethically should start from improving daily practices towards employees, customers, business partners. If the daily practices of companies are ethically questionable, isolated social responsibility projects become mere public relation instruments, rightly perceived as a sign of hypocrisy. Only when the company's common business practices are at a good level from an ethical point of view, CSR projects are laudable and can reach their goal. For instance, building a new park is praiseworthy action for an oil company only after it complies with the environmental standards specific to the industry.
- 2. CSR initiatives should be subsumed under CSR strategies, closely linked with the daily business practices and objectives of the company.** There are some companies who fund social responsibility initiatives that have no connection with the main activity of the company. Although they can bring benefits to some people, such actions can not be very efficient in economic terms and may not have a significant impact on society. CSR actions should be the result of a CSR strategy, designed on the basis of some factors: i) the negative consequences of the company's activity, which give rise to criticism; ii) the resources that the company can efficiently use for the good of society; iii) marketing, human resources, environmental company policies, which should be coordinated with the CSR strategy.
- 3. In cases where daily activities of the company bring adverse effects on society, the CSR actions should primarily aim to mitigate these effects.** Even if some of negative effects of companies' activity are inevitable, companies should try to mitigate them. There are many examples of such measures. For instance, companies that operate in heavily polluting industries initiate actions that make a positive impact on the environment. As a long-term practice, companies in these industries (e.g. airline companies) can adopt voluntary certification schemes, provided by organizations that confirm that the pollution resulted from their daily activity is compensated by other environment measures.
- 4. Social responsibility initiatives should not be turned into advertising campaigns or directed towards immediate gain.** Although communication is an important element of the social responsibility campaigns, they should not focus primarily on this field. By definition, social responsibility initiatives provide a contribution in the benefit of society, not for their own

immediate benefit. For this reason, the actions directed towards an immediate benefit to the company can hardly be considered CSR actions. Sponsorship of sporting events is a good example. Even if this may be a CSR initiative, in order for sponsorship to represent a genuine social responsibility action, aiming to encourage physical activity in the society, the corporate resources must be directed rather to amateur sport events. Sponsorship of sport events that provide high visibility to the brands is more a part of the marketing policy than evidence of social involvement of the company.

## 5. CONCLUSION

In this paper, we tried to build a framework for CSR. From a theoretical perspective, the framework explains the specificity of CSR and their role in the field of business ethics. From a practical perspective, the framework provides guidelines regarding the CSR initiatives. The companies should primarily try to mitigate the harmful effects of their business activity. Secondly, in order to organize other CSR initiatives, companies should use the resources that can be most efficiently used for the good of society. These two ideas can give the general lines for building a CSR strategy adapted for each company.

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<sup>3</sup> Some papers wrongly consider that the compliance with imperfect duties is not morally mandatory (Schwartz & Carroll, 2003, 506). It is noteworthy that the imperfect duties are moral obligations, not mere supererogatory (desirable, but not mandatory) actions. Therefore, the two concepts – imperfect duty and supererogatory action – should not be confounded.

<sup>4</sup> See Ducu, 2010, 84.

<sup>5</sup> See, e.g, [http://www.carlsberggroup.com/csr/ourfocusareas/responsible\\_consumption](http://www.carlsberggroup.com/csr/ourfocusareas/responsible_consumption).