Corporate Social Responsibility and Sustainable Development

The paper analyses corporate social responsibility in the context of corporation sustainable development models. These models were created by modifying popular business theories and integrating in to them not only economic and management principles but also some principles of modern concepts from other social sciences. During last decades the greatest transformations have appeared in a neoclassical firm model, which new versions authorize social responsibility costs as strategic investment.

Keywords: corporate social responsibility, sustainable development, social auditing.

With a view to describe CSR thoroughly, the endeavour of various social sciences is necessary (sociology, economics, ethics, management and other). Although the interest in corporate responsibility is growing, CSR researches are still in the embryonic stage. The margins of exploratory object, the empirical research methods and quantative evaluation indicators are unsettled.

None the less, the delicate problem is a sustainable development in global and local context. Although the idea of sustainable development in scientific activities is being developed for a few decades already, the researches on company’s level are not comprehensive. The sustainable development’s content fluctuation is unexplored as
well as the constituent influence’s evaluation parameters and indicators, moreover, the sustainable development’s evaluation models raise a lot of discussions.

The problem of corporate social responsibility in the context of sustainable development is induced to study by the experience of international companies. It was noticed by the executive managers of the companies that business’s rules of behavior, standards and regulation margins, as well as the requirements of concerned groups and the subsequences in various regions, states and even business branches are very different.

The object of the research in this article is the position of corporate social responsibility in modern sustainable development theories.

The aim of this article is to explore and to evaluate the role of corporate social responsibility in the newest theoretical models of sustainable development.

Research methods: systematic and critical analysis, generalization and synthesis methods.

Corporate social responsibility (CSR) conception

Commonly, the companies’ attempt to follow certain social characteristics or provisions in production processes is related to CSR (including the results). These companies are called socially responsible which are pursuing higher ecological requirements of recycling, reducing pollution of environment, as well as are applying modern human management methods in ergonomics, motivation, qualification improvement or re-qualification ranges, which collaborate with local residents’ organizations when implementing their social intentions.

Officially, the corporate social responsibility theory was explicated in 20th century, particularly in the second part of it. However, the question of business’s social functions was already raised in the papers of English classical political economy representatives. A. Smith and D. Ricardo substantially formulated the principles of social responsibility for businesses operating in the free market. In spite of the fact that the brand of corporate social responsibility in the scientific papers appeared almost one hundred and fifty years later, the representatives of classical economy theories in a way may be considered as the initiators of corporate social responsibility modern models.

Firstly (and most importantly), English classical economists clearly separated the goals of business companies which were identified with profit maximization.

Secondly, it was natural that because of it, the principle of social responsibility was not only indefeasible, but even was implemented this way. This meant that society was expecting from business companies the products and services produced with lowest expenditures and adequate to customer’s expectations\(^1\).

Although the term „corporate social responsibility“ (CSR) is widely used in scientific literature and publications, the meaning of it has been approached differently in various contexts. Often CSR conception is not presented at all; therefore it is quite complicated to study the content of this concept or to measure it. One of the most quotable CSR researcher’s S. Sethi noticed: „Devoid of internal structure and content, it has come to mean all things to all people (Sethi, 1975)."

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\(^1\) More about evolution of CSR theory look at: V. Juščiū (2007).
Leading scholars in the “business in society” field periodically indicate the lack of consensus regarding terminology. When describing the relationship compatibility between business and society, various terms are used: “corporate social responsibility“, “corporate performance“, “corporate citizenship“, “corporate social responsiveness“, “corporate social relationships“, “corporate community involvement“, “corporate social obligations“ and other. When attempting to identify the content of the above mentioned categories, it appears that the authors quite often are trying to describe the same or very close phenomenon. The researchers have signified that, for instance “corporate citizenship” has been considered as a synonym to “corporate social performance” (Jacobs, Kleiner, 1995). “Corporate citizenship” is commonly employed by business practitioners and the notion of “social performance” speaks more of outcomes than of actual corporate activities and processes. D. Wood defines corporate social performance as: “A business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships” (Wood, 1991, p. 693).

Thereby, without further analysis of the above mentioned categories’ conception aspects, the author is going to use the most common term – “corporate social responsibility”, which the Commission of the European Communities describes as follows: “Corporate social responsibility (CSR) 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. It is about enterprises deciding to go beyond minimum legal requirements and obligations stemming from collective agreements in order to address societal needs” (Implementing the Partnership...2006).

In the scientific literature, CSR has not changed fundamentally in the last three decades. One of the most quotable corporation’s behavior researchers A. Carroll, in his three-dimensional conceptual model of corporate performance described CSR shortly: this is “responsibilities above and beyond economic and legal obligations” (Carroll, 1979). The author marked three-side set of responsibilities in his model: economic, legal, ethical, and discretionary responsibilities. As suggested by A. Carroll, the main social responsibility of businesses is economic: commercial organizations are expected to produce the goods and services that society desires, and thereby to create sustainable economic wealth. Businesses also have to follow the rules of behavior considered appropriate by society, whether these rules are stated in laws or are defined by ethical standards. Finally, discretionary responsibilities reflect society’s desire to see businesses participate actively in the betterment of society beyond the minimum standards set by the economic, legal, and ethical responsibilities. Providing work-family programs, offering pleasant work aesthetics, or giving donations to charities are examples of some activities undertaken by businesses to meet their discretionary responsibilities.

It is clear that the economic responsibility basics have been formed by English classical economic thoughts postulates which have not declined in the neoclassical economics theories as well. Recently the tendency appears that corporate social responsibility is justified by financial benefit².

² The new researches verify that companies, which pay more attention to CSR obtain better results in financial terms (Moneva, Rivera-Lirio, Munoz-Torres, 2007).
There are growing scientific articles of neoclassical economic thoughts representatives where it is attempted to justify corporate social responsibility costs by showing their productivity in a long-term period. A conjunctive point incorporating social costs into neoclassical profit maximization model becomes strategic investment conception.

Yet a couple of decades ago, some economists of neoclassical deviation drew their attention to the fact that not all investments bring quick benefit to the company (Baldvin, 1969). However, they are vital for to achieve long-term strategic goals of a company, regardless that it is hard or even impossible to measure the feedback using common evaluation indicators. The costs like that are not waste of companies resources, just the other way about they set the necessary conditions to maximize the profit.

Traditionally the strategic investments are considered as costs, which are subjected to train personnel, to improve working environment, or even to organize the repose of employees. Even though, the feedback of companies’ social programmes evaluation is even more complicated than the above mentioned, in the sense of methodology there is no difference. This kind of methodological belonging explains why more and more attempts appear to embed the avail of social responsibility in even neoclassical microeconomical models.

It is impossible to maximize two dimensions at the same time in neoclassical company’s theories: profit and social benefits. However, some scientists are using traditional instruments of macroeconomical analysis; they are trying to prove that company’s social programs have to be treated as strategic investments. Taking that into consideration, the profit maximization and social responsibility dimensions congruence (Husted, Salazar, 2006).

In the newest scientific papers, CSR is introduced as actions taken by a firm intended to further social goods beyond the direct interests of that firm and in accordance with law (McWilliams, Siegel, Wright, 2006; Doh, Guay, 2006; Nielsen, Thomsen 2007). In CSR concept the principle of free will was highlighted from the beginning, that’s why for many, it was and still is synonymous with voluntary and philanthropic acts made by business organizations and designed to alleviate social ills or benefit a disadvantaged group chosen by the corporation’s managers (Meehan, Richards, 2006).

However, in modern business practice the principles of voluntarism ant philanthropy in relation to interested groups (stakeholders) become a realized necessity.

After well known scandalous cases of CEO indulgence in ENRON, FANIE MAE, AMERICAN INTERNATIONAL GROUP and lots of other companies, the trust in their positive activities staggered not only in the USA but also in other countries. The increased attention and scandals induced discussions (scientific too) wave, which made most of business managers change their attitude towards CSR and its role in modeling corporate strategy. A deeper CSR evolution analysis opens the real CRS development reasons, which lies in the aim of corporations’ stability. In the corporate world, concerns about corporate sustainability have increased over the past decades (Schaefer, 2004; Epstein, Roy, 2003), in part due to a series of highly publicized corporate environmental disasters, coupled with an emergence of social and environmental legislation and pressures from the public for better corporate behavior and responsibilities in the interests of the society and future generations.
The Organization for Economic Co-operation and Development (OECD, 1999) identified the following four factors as drivers of CSR:

1. New concerns and expectations from citizens, consumers, public authorities, and investors in the context of globalization and large-scale industrial change.

2. Social criteria increasingly influencing the investment decisions of individuals and institutions both as consumers and as investors.

3. Increased concern about the damage to the environment caused economic activity.

4. Transparency of business activities brought about by the media and modern information technologies.

Many companies have accepted a wider view of social responsibility: considerations of the external costs of daily operations to the wider society. Modern managers of the companies realized that CSR supports corporate stability, without which the growth of corporations becomes impossible in the twenty-first century.

**Corporate sustainability and social auditing**

There are a large number of definitions on sustainable development. For example, J. Pezzey (1989) suggests 60 definitions. The World Commission on Environment and Development (1987), which was established by the United Nations under the chairmanship of Gro Brundtland, former Prime Minister of Norway, defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, p. 43). But this paper will concentrate on the definition of sustainable development which relates to corporation level.

The notion that sustainability is a key strategic asset of an organization has been recognized as a theoretical premise for the development of various contemporary management models and business process initiatives. Strategic assets are defined as internal strengths of the firm, which it has developed over time. Usually these internal strengths are not measured in financial terms and as such do not appear on the balance sheet. Yet, these internal strengths (strategic assets) are viewed as important sources and determinants of a firm’s competitive advantage (Pegels, Yang, 2000). The basis of strategic assets lies in the resource based view of the firm.3

The key premise of corporate sustainability is that corporations should fully integrate the social and environmental objectives with their financial aims and account for their actions against the wellbeing of a wider range of stakeholders through the accountability and reporting mechanism. There are four key components in this premise: trade-offs within the three dimensions of sustainability (i.e. “triple bottom line” (Elkington, 1997): stakeholder’s engagement, accountability, and sustainability reporting. Effective stakeholder dialogue is a critical element of sustainable development at the corporate level.

Corporate sustainability in the dynamic complexity of the twenty-first century economy means that businesses need to, through developing and sustaining relationships with key stakeholders, establish

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a corporate culture consistent with the concept of sustainable development. To achieve this, R. Welford (1995) identifies the following “six shifts”:

1. Shift from objects to relationships;
2. Shift from parts to the whole;
3. Shifts from domination to partnership;
4. Shift from structures to processes;
5. Shift from individualism to integration; and
6. Shift from growth to sustainability.

CSR can be regarded as a firms’ contribution to sustainable development (Bansal, 2005). This concept embraces the corporate policies or codes of conduct in the fields of voluntary behavior, business ethics, environmental impact and the improvement of the living conditions of the society in which companies carry out their operations (AECA, 2004).

CSR companies are typically attuned to trend lines in consumer and investor communities that might give them an actual competitive advantage in the marketplace by touting their corporate responsibility profile.

Sustainability is a simple concept to define, but complex to put into practice. P. Selman (1998) identifies the abstract nature of sustainability as a concept and the need to build progressively from small tangible beginnings to a fuller sustainability agenda. Since it is difficult to secure consensus amongst different stakeholders, a well-researched guidance is necessary. There are many issues and obstacles that must be addressed if the sustainability concept is to be translated into practical implementation strategies. A process of defining sustainability in its context and identifying its limits must then be converted into needs, aspirations and principles. These should be put into operations by strategies and frameworks encompassing relevant instruments, procedures and processes.

At a broad level, social auditing can be defined as “a process that enables an organization to assess its performance in relation to society’s requirements and expectations” (Elkington, 1997).

Vinten (1990) provided a working definition of social auditing: a review to ensure that an organization gives due consideration to its wider and social responsibilities to those both directly and indirectly affected by its decisions, and that a balance is achieved in its corporate planning between these aspects and the more traditional business-related objectives. The social audit process involves three key stages. The first stage is to identify key stakeholder groups. The second stage is to initiate a process of consultation with each stakeholder group that allow them to initially establish a criteria against which they feel companies’ social impact and ethical behavior should be judged, and then to assess the organization’s activities on this basis. This stage requires consultative approaches tailored to the characteristics of each stakeholder group, including focus group face-to-face discussion, postal questionnaire survey, and group workshops. The third stage is the production of draft social accounts (Zadek, 1993).

Figure 1 shows a relationship between sustainability and social auditing process.

The core element of the relationship is stakeholder’s dialogue, which is a way to balance and integrate the three dimensions of business activities, and also the starting point of a social auditing process. The social auditing process in Figure 1 shows ten divided (but integrated) stages starting from stakeholder dialogue which aims at setting up an agreed process and methodology of social auditing between stakeholders and
an organization. However, a stakeholder's dialogue does not end at this stage; rather, it is an integrated part of the whole process that can take place at any time at any stage. Generally, a social auditing cycle consists of ten key stages, namely: policy and strategy review, define audit boundaries, stakeholder-based design of social audit process, defining performance indicators, stakeholder consultation, internal audit and document review, preparation of accounts and external report, external verification, publication of statement and reports, and a follow-up dialogue with stakeholders.

Fig. 1. Sustainability and social auditing process
Conclusions

1. It is more and more clear that modern corporation's growth is followed not only by positive but also by negative social effects, which indicate the growing concern of various society groups. Social problems which have been created by business are escalating apparently in this internationalization (globalization) stage of economics.

2. The society pressure on companies to admit the negative results of business activities and to take part in smoothing or even eliminating negative activity results has reflected not only on companies' executive managers' decision making but also on building new corporative behavior theoretical models.

3. A. Smith and D. Ricardo substantially formulated the principles of social responsibility for businesses operating in the free market. In the light of business and public relation analysis, the representatives of classical economical theory may be considered as the initiators of corporate social responsibility modern models.

4. Those models were created by modifying popular business theories and integrating not only economic and management principles but also some principles of modern concepts taken from other social sciences (sociology, ethics and political science) and implementing into them. Therefore, new versions of theories are characterized as eclectic and hard to justify by empirical researches.

5. CSR interpretation in scientific literature during the last three decades basically has not changed. CSR models have been developed in the frames of neoclassical and institutional theories in the economical field. During the last decades the greatest transformation has appeared in the neoclassical firm model, the new versions of which justify social responsibility costs as strategic investment.

6. The notion that sustainability is a key strategic asset of an organization has been recognized as a theoretical background for the development of various contemporary management models and business process initiatives. The key premise of corporate sustainability is that corporations should fully integrate the social and environmental objectives with their financial aims and account for their actions against the wellbeing of a wider range of stakeholders through the accountability and reporting mechanism.

7. The core element of the relationship between sustainability and social auditing process is stakeholder dialogue, which is a way to balance and integrate the dimensions of business activities, and also the starting point of a social auditing process.

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Corporation Social Responsibility and Sustainable Development


The paper submitted: September 2, 2007
Prepared for publication: December 1, 2007
Vytautas JUŠČIUS

ĮMONIŲ SOCIALINĖ ATSAKOMYBĖ IR DARNUS VYSTYMASIS

S ant r a u k a

Formalai verslo socialinės atsakomybės teorija buvo išplėtota XX amžiuje, ypač antrojojo praeišiuo amžius puseje. Tačiau realiai verslo socialinių funkcijų klausimas nagrinėjamas jau anglių klasikinės politinės ekonomijos atstovų darbuose. Klasikinės ekonomikos teorijos atstovus tam tikra prasme galima laikyti verslo socialinės atsakomybės modernių modelių pradininkais.

Mokslinėje literatūroje įSA suprantama per pastaruosius tris dešimtmečius iš esmės mažai pasikeitė. Švietimo mokslų srityje ĮSA modeliai buvo pločiojami neoklasikinės ir institucinės teorijų rėmuose. Pastaraisiais dešimtmečiais ryškiausias transformacijas patyrė neoklasikinės firmos modelis, kurio naujausios traktuotės pateisina socialinės atsakomybės kaip būtina investiciją.


Tradiciškai strateginės investicijomis laikomos išlaidos, skirtos personalui mokytis, darbo sąlygoms gerinti, kai kuriais moksliniais tyrinėmams ir net darbuotojų palaikymui organizuoti. Nors įmonių socialinės atsakomybės programų atsirinkimo įvertinimas yra dar komplikuotas neis minėtujų, metodologinė analizė prasme tarp jų nėra jokio skirtumo. Dėl tokio metodologinio bendrumo tampa aišku, kodėl pastaruoju metu atsiranda vis daugiau mėginimų net neoklasikiniuose mikroekonominiuose modeliuose įmonių socialinės atsakomybės naudingumą.

Įmonių socialinės atsakomybės gali tapti tik deklaracija ir vien tik rinkodaros priemonė, jei jos nuostatos nėra įgyvendinamos praktiniuose įmonių veiksmeuose. Pastaruoju metu įmonės suinteresuotos darnų vystymuisi vis daugiau dėmesio skiriama socialiniams auditams. Socialinio audito pagrindą sudaro dialogas su suinteresuotomis grupėmis ir net darbuotojų polityka. Tokie įmonių socialinės atsakomybės gali tapti tik deklaracija ir vien tik rinkodaros priemonė, jei jos nuostatos nėra įgyvendinamos praktiniuose įmonių veiksmeuose. Pastaruoju metu įmonės suinteresuotos darnų vystymuisi vis daugiau dėmesio skiriama socialiniams auditams. Socialinio audito pagrindą sudaro dialogas su suinteresuotomis grupėmis, kurių vaidmuo modernioje visuomenėje neabejotinai auga.

Socialinio audito procesą galima galima išskaidyti į eilę nuosekliai vykdomų etapų: įmonės politikos ir strategijos analizė, audito ribų nustatymas, audito proceso tvarkos numatymas, socialinės veiklos rodiklų įvertinimas, dokumentų analizė, suinteresuotų grupių atstovas, video ir dokumentų analizė, suinteresuotų grupių įvertinimas, paruošimas, išorinis įvertinimas, dialogas su suinteresuotomis grupėmis ir publikavimas, dialogas su suinteresuotomis grupėmis.