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CORPORATE SOCIAL RESPONSIBILITY – PRINCIPLES, MECHANISMS AND CONTROLS

Principles, mechanisms and management methods of corporate social responsibility are examined in the article. An author distinguished five principles of corporate social responsibility and gave examples of management methods of corporate social responsibility.

Key words: corporate social responsibility, corporate management, mechanisms, principles and management methods.

Corporate social responsibility (CSR) can be defined as the «economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time». The concept of corporate social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A traditional view of the corporation suggests that its primary, if not sole, responsibility is to its owners, or stockholders. However, CSR requires organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, local, state, and federal governments, environmental groups, and other special interest groups. Collectively, the various groups affected by the actions of an organization are called «stakeholders.»

Corporate social responsibility is related to, but not identical with, business ethics. While CSR encompasses the economic, legal, ethical, and discretionary responsibilities of organizations, business ethics usually focuses on the moral judgments and behavior of individuals and groups within organizations. Thus, the study of business ethics may be regarded as a component of the larger study of corporate social responsibility.

Carroll and Buchholtz's four-part definition of CSR makes explicit the multifaceted nature of social responsibility. The economic responsibilities cited in the definition refer to society's expectation that organizations will produce goods and services that are needed and desired by customers and sell those goods and services at a reasonable price. Organizations are expected to be efficient, profitable, and to keep shareholder interests in mind. The legal responsibilities relate to the expectation that organizations will comply with the laws set down by society to govern competition in the marketplace. Organizations have thousands of legal responsibilities governing almost every aspect of their operations, including consumer and product laws, environmental laws, and employment laws. The ethical responsibilities concern societal expectations that go beyond the law, such as the expectation that organizations will conduct their affairs in a fair and just way. This means that organizations are expected to do more than just comply with the law, but also make proactive efforts to anticipate and meet the norms of society even if those norms are not formally enacted in law. Finally, the discretionary responsibilities of corporations refer to society's expectation that organizations be good citizens. This may involve such things as philanthropic support of programs benefiting a community or the nation. It may also involve donating employee expertise and time to worthy causes.

Key elements of good corporate social responsibility principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization.

Of importance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

Commonly accepted principles of corporate social responsibility include:

– Rights and equitable treatment of shareholders: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.

– Interests of other stakeholders: Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.

– Role and responsibilities of the board: The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are issues about the appropriate mix of executive and non-executive directors.

– Integrity and ethical behavior: Ethical and responsible decision making is not only important for public relations, but it is also a necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Because of this, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm steps outside of ethical and legal boundaries.

– Disclosure and transparency: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Issues involving corporate social responsibility principles include:

– internal controls and internal auditors
– the independence of the entity's external auditors and the quality of their audits
– oversight and management of risk
– oversight of the preparation of the entity's financial statements
– review of the compensation arrangements for the chief executive officer and other senior executives
– the resources made available to directors in carrying out their duties
– the way in which individuals are nominated for positions on the board
– dividend policy

Nevertheless «corporate social responsibility», despite some feeble attempts from various quarters, remains an ambiguous and often misunderstood phrase. For quite some time it was confined only to corporate management. That is not so. It is something much broader, for it must include a fair, efficient and transparent administration and strive to meet certain well defined, written objectives. Corporate governance must go well beyond law. The quantity, quality and frequency of financial and managerial disclosure, the degree and extent to which the board of Director (BOD) exercise their trustee responsibilities (largely an ethical commitment), and the commitment to run a transparent organization- these should be constantly evolving due to interplay of many factors and the roles played by the more progressive/responsible elements within the corporate sector. John G. Smale, a former member of the General Motors board of directors, wrote: «The Board is responsible for the successful perpetuation of the corporation. That responsibility cannot be relegated to management». However it should be noted that a corporation should cease to exist if that is in the best interests of its stakeholders. Perpetuation for its own sake may be counterproductive.

Corporate social responsibility mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. For example, to monitor managers' behavior, an independent third party (the external auditor) attests the accuracy of information provided by management to investors. An ideal control system should regulate both motivation and ability.

Internal corporate social responsibility controls monitor activities and then take corrective action to accomplish organizational goals. Examples include:

1. Monitoring by the board of directors

The board of directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance. Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision-making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes, ex ante. It could be argued, therefore, that executive directors look beyond the financial criteria.

2. Internal control procedures and internal auditors

Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting

3. Balance of power

The simplest balance of power is very common; require that the President be a different person from the Treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.

4. Remuneration

Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behavior.

External corporate social responsibility controls encompass the controls external stakeholders exercise over the organization. Examples include:

– competition
– debt covenants
– demand for and assessment of performance information (especially financial statements)
– government regulations
– managerial labor market
– media pressure
– takeovers.

Systemic problems of corporate governance are:

– Demand for information

In order to influence the directors, the shareholders must combine with others to form a voting group which can pose a real threat of carrying resolutions or appointing directors at a general meeting.

– Monitoring costs

A barrier to shareholders using good information is the cost of processing it, especially to a small shareholder. The traditional answer to this problem is the efficient market hypothesis (in finance, the efficient market hypothesis (EMH) asserts that financial markets are efficient), which suggests that the small shareholder will free ride on the judgments of larger professional investors.

– Supply of accounting information

Financial accounts form a crucial link in enabling providers of finance to monitor directors. Imperfections in the financial reporting process will cause imperfections in the effectiveness of corporate governance. This should, ideally, be corrected by the working of the external auditing process.

Corporations deal with a wide variety of social issues and problems, some directly related to their operations, some not. It would not be possible to adequately describe all of the social issues faced by business. This section will briefly discuss three contemporary issues that are of major concern: the environment, global issues, and technology issues. There are many others.

Corporations have long been criticized for their negative effect on the natural environment in terms of wasting natural resources and contributing to environmental problems such as pollution and global warming. The use of fossil fuels is thought to contribute to global warming, and there is both governmental and societal pressure on corporations to adhere to stricter environmental standards and to voluntarily change production processes in order to do less harm to the environment. Other issues related to the natural environment include waste disposal, deforestation, acid rain, and land degradation. It is likely that corporate responsibilities in this area will increase in the coming years.

Corporations increasingly operate in a global environment. The globalization of business appears to be an irreversible trend, but there are many opponents to it. Critics suggest that globalization leads to the exploitation of developing nations and workers, destruction of the environment, and increased human rights abuses. They also argue that globalization primarily benefits the wealthy and widens the gap between the rich and the poor. Proponents of globalization argue that open markets lead to increased standards of living for everyone, higher wages for workers worldwide, and economic development in impoverished nations. Many large corporations are multinational in scope and will continue to face legal, social, and ethical issues brought on by the increasing globalization of business.

Whether one is an opponent or proponent of globalization, however, does not change the fact that corporations operating globally face daunting social issues. Perhaps the most pressing issue is that of labor standards in different countries around the world. Many corporations have been stung by revelations that their plants around the world were «sweatshops» or employed very young children. This problem is complex because societal standards and expectations regarding working conditions and the employment of children vary significantly around the world. Corporations must decide which the responsible option is adopting the standards of the countries in which they are operating or imposing a common standard world-wide. A related issue is that of safety conditions in plants around the world.

Another issue in global business is the issue of marketing goods and services in the international marketplace. Some U.S. companies, for example, have marketed products in other countries after the products were banned in the United States.

Another contemporary social issue relates to technology and its effect on society. For example, the Internet has opened up many new avenues for marketing goods and services, but has also opened up the possibility of abuse by corporations. Issues of privacy and the security of confidential information must be addressed. Biotechnology companies face questions related to the use of embryonic stem cells, genetic engineering, and cloning. All of these issues have far-reaching societal and ethical implications. As our technological capabilities continue to advance, it is likely that the responsibilities of corporations in this area will increase dramatically.

Corporate social responsibility is a complex topic. There is no question that the legal, ethical, and discretionary expectations placed on businesses are greater than ever before. Few companies totally disregard social issues and problems. Most purport to pursue not only the goal of increased revenues and profits, but also the goal of community and societal betterment.

Research suggests that those corporations that develop a reputation as being socially responsive and ethical enjoy higher levels of performance. However, the ultimate motivation for corporations to practice social responsibility should not be a financial motivation, but a moral and ethical one.

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У статті розглянуто принципи, механізми і методи управління корпоративною соціальною відповідальністю. Автором виділено п'ять принципів корпоративної соціальної відповідальності і наведено приклади методів управління корпоративною соціальною відповідальністю.

Ключові слова: корпоративна соціальна відповідальність, корпоративне управління, механізми, принципи і методи управління.

В статье рассмотрены принципы, механизмы и методы управления корпоративной социальной ответственностью. Автором выделено пять принципов корпоративной социальной ответственности и приведены примеры методов управления корпоративной социальной ответственностью.

Ключевые слова: корпоративная социальная ответственность, корпоративное управление, механизмы, принципы и методы управления.

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