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SOCIAL RESPONSIBILITY (SR), CORPORATE GOVERNANCE (CG) & ETHICS

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Abstract

Since the 1970s, corporations have addressed business ethics in various ways, including the introduction of compliance programs and managers, the addition of board-level ethics committees, the development of codes of conduct, the preparation and dissemination of values statements, the hiring of corporate social responsibility managers and training programs of all kinds. As the events of the past few years in the United States and Europe have demonstrated, these. In this study we focus on the relationship between corporate governance, social responsibility, and business ethics. Also, we explain social responsibility, corporate governance, and business ethics respectively.

1. INTRODUCTION

The collapse of corporate giants such as Enron and Worldcom due to corruption and mismanagement reminded the world of the importance of concepts like corporate governance, social responsibility and business ethics. The success of modern business is apparent, but recently there is much concern in the business-and-society literature and in the general press on whether business fulfils its social role responsibly. Business ethics, corporate social responsibility and corporate governance movements have been developed in recent decades as responses to a growing sense of corporate wrongdoing. CSR is increasingly an essential issue for companies. It is a complex and multidimensional organizational phenomenon that is understood as the scope for which, and the ways in which, an organization is consciously responsible for its actions and non-actions and their impact on its stakeholders. It represents not just a change to the commercial setting in which individual companies operates, but also a pragmatic response of a company to its consumers and society. It is increasingly being understood as a means by which companies may endeavor to achieve a balance between their efforts to generate profits and the societies that they impact in these efforts.

The image transmitted by corporations reflects its values and business conduct. At a time where the mass media and public opinion, in a general way, claim for social and ethical responsibility, corporations are opting to publicize their codes of ethical conduct and CSR policies, on their web sites. On theoretical side, several arguments have been put forward to explain the underlying reason why firms disseminate their codes of ethics (CE) and CSR. Some of them try to relate the personal characteristics of the Board or the corporation employees with their ethic and responsible attitudes. Others try to demonstrate the impact of the existence of CE or CSR on the successful behavior of corporations. Despites all the studies published still remains the doubt on the effectiveness of such divulgation.

2. LITERATURE REVIEW

2.1. Corporate Social Responsibility (CSR)

CSR is a concept that has attracted worldwide attention and acquired a new resonance in the global economy (Jamali, 2006). Heightened interest in CSR in recent years has stemmed from the advent of globalization and international trade, which have reflected in increased business complexity and new demands for enhanced transparency and corporate citizenship. Moreover, while governments have traditionally assumed sole responsibility for the

improvement of the living conditions of the population, society's needs have exceeded the capabilities of governments to fulfill them (Jamali, 2006). In this context, the spotlight is turning to focus on the role of business in society, and companies are seeking to differentiate themselves through engagement in what is referred to as CSR. The World Business Council for Sustainable Development (WBCSD) defines CSR as the commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities (WBCSD, 2001). More generally, CSR is a set of policies, practices, and programs that are integrated throughout business operations and decision-making processes, and intended to ensure the company maximizes the positive impacts of its operations on society (Business for Social Responsibility, 2003). The most common conceptualizations of CSR are those of Carroll (1979) and Lantos (2001). Carroll (1979; 1991) differentiated between four types of CSR, namely, economic (jobs, wages, services), legal (legal compliance and playing by the rules of the game), ethical (being moral and doingwhat is just, right, and fair) and discretionary (optional philanthropic contributions), while Lantos (2001) collapsed these categories into three: ethical, altruistic, and strategic. According to Lantos (2001), ethical CSR is morally mandatory and goes beyond fulfilling a firm's economic and legal obligations, to its responsibility to avoid harm or social injuries, even in cases where the business does not directly benefit. Altruistic CSR, according to Lantos (2001), is humanitarian/philanthropic CSR, which involves genuine optional caring, irrespective of whether the firm will reap financial benefits or not. Examples include efforts to alleviate public problems (e.g., poverty, illiteracy) in an attempt to enhance society's welfare and improve the quality of life. Strategic CSR on the other hand is strategic philanthropy aimed at achieving strategic business goals while also promoting societal welfare. (Jamali, 2007). The company strives to identify activities and deeds that are believed to be good for business as well as for society (Quester and Thompson, 2001). Many scholars also conceive of CSR as encompassing two dimensions: internal and external. On the internal level, companies revise their in-house priorities and accord due diligence to their responsibility to internal stakeholders, addressing issues relating to skills and education, workplace safety, working conditions, human rights, equity considerations, equal opportunity, health and safety, and labor rights (Jones, Comfort and Hillier, 2005). With respect to the external dimension of CSR – which admittedly receives more attention in the literature (Deakin and Hobbs, 2007) – priority shifts to the need for corporations to assume their duties as citizens, and accord due diligence to their external – economic and social – stakeholders and the natural environment

(Munilla and Miles, 2005). The environmental component addresses primarily the impacts of processes, products, and service on the environment, biodiversity, and human health, while the social bottom line incorporates community issues, social justice, public problems, and public controversies. Addressing these two CSR dimensions often implies difficult adjustments and willingness to consider multiple bottom lines (Elkington, 2006). It also often requires good communication of CSR objectives and actions (Hancock, 2005), new standards, control and performance metrics (Lantos, 2001), and the successful integration of CSR into the culture of the organization (Jamali, 2006).

Corporate governance	CSR
Broader CG conception: Entails due regard to all stakeholders and ensuring that firms are answerable to all their key stakeholders (Dunlop, 1998; Kendall, 1999)	Stakeholder approach to CSR: Corporations are the crux of a complex web of stakeholder relationships and have an obligation or responsibility to these different stakeholders (Freeman, 1984)
Narrow CG conception: Ensuring accountability, compliance, and transparency (Keasy and Wright, 1997; MacMillan *et al.*, 2004)	Internal dimension of CSR: Corporations should accord due diligence to their responsibility to internal stakeholders addressing issues relating to skills and education, workplace safety, working conditions, human rights, equity/equal opportunity, and labor rights (Grosser and Moon, 2005; Jones *et al.*, 2005)

Figure 1. Preliminary Links between Corporate Governance (CG) and Corporate Social Responsibility

2.2. Core Principles of Corporate Social Responsibility

The 'triple bottom line' introduced by Elkington is one of the best-known models to discuss the core of CSR. In this model, the concept of CSR emphasizes three responsibilities of a company: social, economic and environmental. These responsibilities are necessary to ensure economic prosperity, environmental quality and social justice. Carroll has identified four responsibilities which a company should accept to become socially responsible in a balanced way. According to him, a socially responsible company 'encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time.' Another strong argument in the recent CSR practice literature relates to stakeholder engagement in CSR performance. Freeman argues that companies have a responsibility to add their stakeholders to corporate activities. To him, stakeholder engagement is a vital way for companies to deal with their external environment effectively. Considering these major

sources of CSR practices, they may be grouped into four major categories: the societal, environmental, economic and stakeholder approaches. Each of these approaches has different perspective in terms of definitions and boundaries of responsibility. However, each of these approaches has their individual underlying principles. Briefly, the principle of the societal approach to CSR is that companies should contribute to building better societies and therefore they should incorporate social concerns into their core strategies as well as consider the full scope of their impact on societies. More particularly, this principle requires companies to implement fair wage policies, uphold human rights, fair trade and ethical issues, produce safe products and cooperate in the network of companies and communities. The economic principle emphasizes company efficiency in producing goods without compromising social and environmental values. This principle denotes that along with their responses to the financial expectations of their shareholders, companies should focus on the economic wellbeing of society as a whole. The environmental principle, in short, states that the companies should not harm the environment in order to maximize their profits, and that companies should have a strong role in repairing environmental damage caused by their irresponsible use of natural resources. Finally, the principle of the stakeholder approach to CSR practice holds companies responsible for considering the legitimate interest of their stakeholders. These principles are the drivers of the sources of different CSR practices and hence important factors for initiating any strategies for developing CSR practices. These principles are used broadly within different segments of government, business and the academic world. For this book, these principles are considered to be the cornerstone for the development of socially responsible corporate culture. Defining a paradigm is problematic; defining CSR is complex and contingent on situational factors. In its second generation, although CSR should have a universal definition, this has not yet been satisfactorily achieved. Despite this, CSR has defined its principles, which are now acknowledged by standardization regimes, global business societies, civil societies and nation states. The broad understanding of CSR is that companies should be committed to ‘contribute to sustainable economic development—working with employees, their families, the local community and society at large to improve the quality of life, in way that is also good for business.’

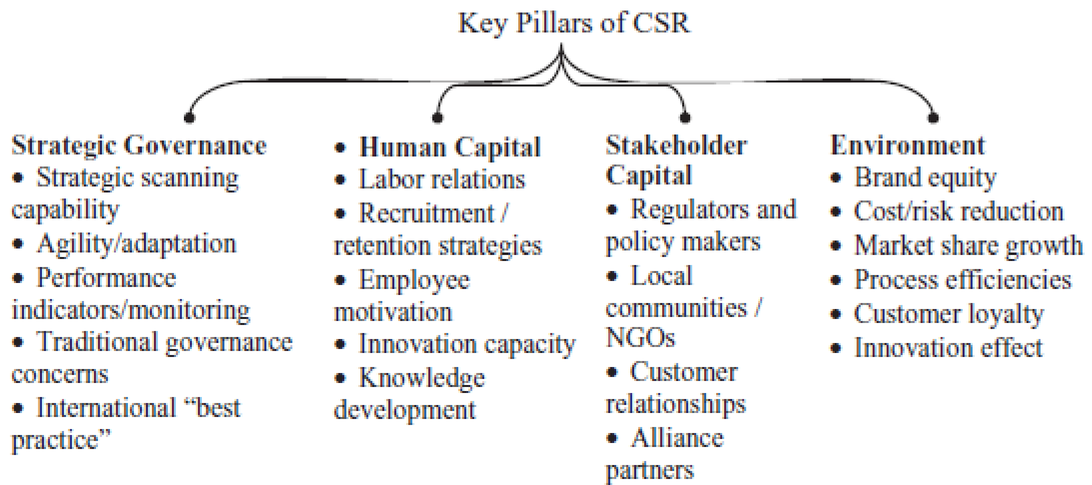

Figure 2. Four Key Pillars of Corporate Social Responsibility

2.3. Corporate Governance (CG)

Corporate governance is a relatively new term, both in public and academic debates. Even though, the problems it deals with have been around for a long time (Farinha, 2003).

Corporate governance is a broad concept, which covers a large range of phenomena (Arjoon, 2005). Schleifer & Vishny (1997, p. 737) consider that corporate governance "deal with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". They suggest that corporate governance mechanisms are economic and legal institutions that can be changed through a political process. Their research concludes that the systems of successful corporate governance are those that combine legal protection for investors with a great weight of large investors.

The OECD states that corporate governance is a central component in the improvement of efficiency and promotion of economic growth as well as on upgrading investor confidence. This organization considers that CG evolves a range of relations between management team, the board of directors, stockholders and other agents with relevant interests (OECD, 2004).

The recognition of the impact of management activities in the creation of corporate value illustrates the importance of corporate governance issues. Lashgari (2004, p. 47) argues that corporate managers "can create and add value to the firm by proper investments and financing decision, or they may transfer and redistribute corporate wealth among stakeholders, as well as destroying shareholders wealth". In turn, Hart (1995) believes that the subject of corporate governance arises when two conditions are combined. First, there is an agency problem, or conflict of interest involving members of the organization. Secondly, transaction costs are

such that this agency problem cannot be dealt with through a contract. Farinha (2003) has the same opinion.

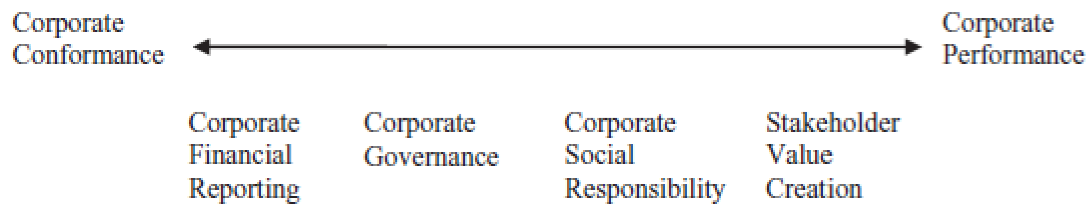

Figure 3. The Corporate Responsibilities Continuum

Jensen & Meckling (1976, p. 72) argued that "agency costs are as real as any other costs and it is necessary to take them into account in management activity. The level of agency costs depends, among other things, on statutory and common law and human ingenuity in devising contracts". Therefore it is necessary to anticipate those costs during the management process. Only in this way corporations can optimize their resources.

Farinha (2003) considers that there are several reasons for the growing interest in corporate governance. First, the efficiency of the prevailing governance mechanisms has been questioned. Secondly the high profile financial scandals. The awareness of the vital importance of corporate governance is a key factor of success. It is, however, noted that the social and legal characteristics of each country or region seems to affect both, firm performance and the level of government within it (Anderson & Gupta, 2009).

For Bonn & Fisher (2005), the concept of corporate governance is related to the process by which organizations are managed and controlled, requiring a balance between the interests of various stakeholders and society as a whole to the economic objectives of the organization. In this context the interaction between firms and their stakeholders becomes increasingly important. The awareness of the relevant importance of stakeholders to corporate success permits the definition of new goals and new ways to reach them.

OECD principles	Description
Protection of shareholders' rights	Entails the protection of shareholders and maintaining investor confidence at all times in way of ensuring the continuous inflow of needed capital.
Equitable treatment of shareholders	Entails the equitable treatment of all equity investors, including minority shareholders.
Protection of stakeholders' rights	Entails the skillful consideration and balancing of the interests of all stakeholders, including employees, customers, partners, and the local community.
Accurate disclosure of information	Entails the accurate and timely disclosure of clear, consistent, and comparable information in good times and bad times.
Diligent exercise of board responsibilities	Board elections should be totally free from political interference and board members should exercise their responsibilities diligently and independently.

Figure 4. Basic Principles Of Corporate Governance

2.4. Mechanisms of Corporate Governance

Silva et al. (2006) consider that corporate governance comprise all the mechanisms which are related to the definition and fulfilment of corporate goals. Farinha (2003) considers that the existing evidence strongly suggests that some managerial actions are inconsistent with the maximization of shareholders' interests. Hence, the adoption of mechanisms of corporate governance assumes an imperative role.

Accordingly to Hart (1995) there are several mechanisms for controlling management activities. Those mechanisms' are the board of directors, proxy fights, large shareholders, hostile takeovers and financial structure. The board of directors is elected by the shareholders "to act on their behalf, and the board, in turn, monitors top management and ratifies major decisions" (Hart, 1995, p. 681). Because the board of directors may fail on its monitoring activity, shareholders can replace them, and the standard way to do it is trough a proxy fight: "a dissident shareholder puts up a slate of candidates to stand against management's slate, and tries to persuade other shareholders to vote for his (or her) candidates" (Hart, 1995, p. 682). The third mechanism to improve corporate governance identified by Hart (1995) consists of ensuring that the firm has one or more large shareholders. Large shareholders have a bigger incentive to monitor management activities. According to the author, all the described mechanisms have a problem: "those who incur in the costs of improving management receive only a (relative) small fraction of the gains" (Hart, 1995, p. 684). That problem can be solved by a hostile takeover. Finally, we can also use the financial structure, in particular, corporation's debt, to monitor the manager's performance because "debt serves as a bonding or commitment device" (Hart, 1995, p. 685).

Anderson & Grupta (2009) have considered eight measures to analyze corporate governance quotient, namely the board characteristics, the anti-takeover provisions, the executive and director compensation, qualitative factors, the auditor and audit committee related, the charter/bylaws, the director and management ownership and the director education. They concluded that higher corporate governance quotient implies better firm level corporate governance and corporate governance quotient was statistically significant and higher for corporations operating within a market oriented financial structure than for firms operating within a bank-based financial structure. The underlying reason might be the fact that banks have the ability to obtain non public and financial information from firms and it can, in some extent, substitute the need for more corporate governance mechanisms (Anderson & Gupta, 2009).

Farinha (2003) presented several internal and external mechanisms of corporate governance. The internal disciplining mechanisms are quite similar to those identified by Hart (1995) and include the large institutional shareholders, the board of directors, the insider ownership, the compensation packages, the debt policy and the dividend policy. The external mechanisms comprise takeover threat, the product-market competition, security analysis, the legal environment and the role of reputation. The author considers that all of the mechanisms have different marginal costs and marginal benefits which are not identical across firms or industries. "As a result, we might expect that firms would rather rely on mixes of such monitoring mechanisms" (Farinha, 2003, p. 48).

Schleifer & Vishny (1997) consider that corporate governance deal with the agency problem and its basic issue is to define the reasoning that guarantee that financiers will get the return to their investment. Firstly, the authors considered that the underlying reason might be on the managers need to obtain a good reputation in the capital market or on the excessive optimism of investors who believe they will get their money back. Then, Schleifer & Vishny (1997) have considered several additional reasons that might justify investor's behaviour, namely legal protection of investors and concentration of ownership. They argued that "legal protection of investor rights is one essential element of corporate governance" Schleifer & Vishny (1997, p. 56). But legal protection does not give enough control right to small investors. That is the reason why "concentration ownership - through large shareholders, takeovers and bank finance - is also a nearly universal method of control that helps investors to get their money back" Schleifer & Vishny (1997, p. 56).

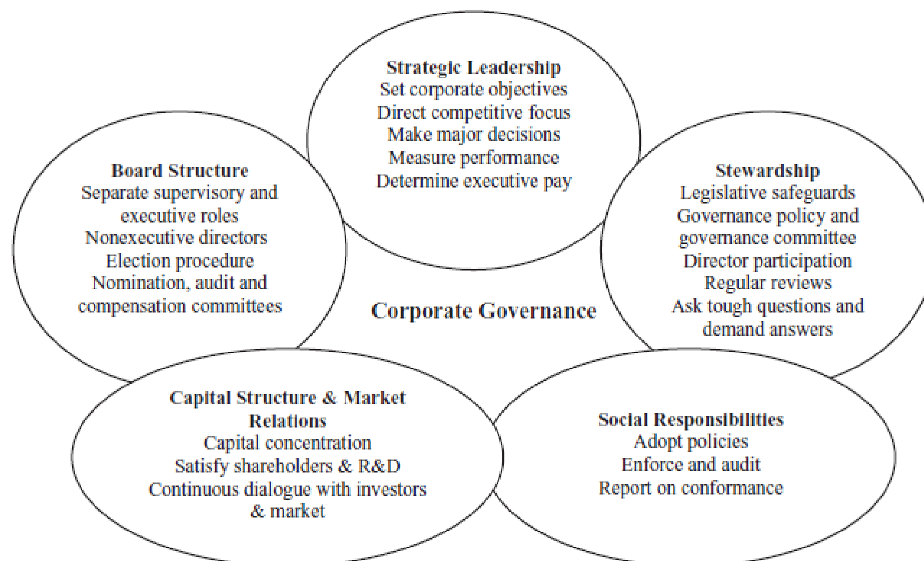

Figure 5. Corporate Social Responsibility Embedded in Corporate Governance

2.5. Business Ethics

Business ethics is a form of applied ethics. It aims at inculcating a sense within a company's employee population of how to conduct business responsibly. Because the term "ethics" can pose problems in an international context, i.e., the term does not translate well and it can be difficult to find a common understanding of the term, some organizations choose to recast the concept of business ethics through such other terms as integrity, business practices or responsible business conduct.

Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment, including fields like Medical ethics. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

Business ethics has both normative and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporations promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against

the public, or in some contrivance to raise prices." Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

Lawrence Kohlber described three main levels of moral development with two stages in each level.

Preconventional (1. Level): Punishment-Obedience Orientation. Personal reward orientation.
Conventional (2. Level): Good boy-nice girl orientation. Law and order orientation.
Postconventional (3. Level): Social contract orientation. Universal ethical principle orientation.
Traditionally, there have been two broad schools of thought in modern ethics, which have developed over the years:

Teleological Ethics : Primarily focuses on the ends. The results of the decision rather than the method of getting to that result. A typical teleological view might be that the ends justify the means.

Deontological Ethics: Focuses on the means of getting to the result. How you get there is as important as to where you get. Deontology considers such factors as morals, rules and justice.

Related fields are moral psychology, descriptive ethics, and value theory. Ethics seeks to resolve questions dealing with human morality—concepts such as good and evil, right and wrong, virtue and vice, justice and crime.

2.5.1. Moral Psychology

Moral psychology is a field of study that began as an issue in philosophy and that is now properly considered part of the discipline of psychology. Some use the term "moral psychology" relatively narrowly to refer to the study of moral development. However, others tend to use the term more broadly to include any topics at the intersection of ethics and psychology (and philosophy of mind). Such topics are ones that involve the mind and are relevant to moral issues. Some of the main topics of the field are moral responsibility, moral development, moral character (especially as related to virtue ethics), altruism, psychological egoism, moral luck, and moral disagreement.

2.5.2. Codes of Ethics

In the present context the subject of organizational ethics has assumed a particular importance. The numerous researches developed under this thematic to demonstrate the importance of this subject. Because corporations establish a dependent relationship with the society where they belong to, their image toward their stakeholders can be seen as an imperative matter. There is a growing public interest on this subject, since the recognition that the lack of ethics often deteriorates performance and capabilities in many organizations (Cleek & Leonard, 1998). Cleek & Leonard (1998) have developed a research on this issue. Based on a survey instrument applied to graduate and undergraduate students they concluded that "codes of ethics are not powerful enough tools to affect ethical decision-making behaviour" (Cleek & Leonard, 1998, p. 627). The authors also explain that the underlying reason might be on the fact that the creation of CE is not enough. CE is just a way of communicating an ethical culture to corporate employees. The accent should be put on "how the codes are communicated, enforced and used as a basis for strengthening the culture of the organization" (Cleek & Leonard, 1998, p. 627).

Some of the issues related to business ethics, law and regulation can be summarized within three different approaches17, namely relativism, subjectivism and objectivism:

Relativism is the idea that ethics depend upon the time and place. The main perspective within the context of relativism is that what is obligatory in one country or time can be seen as immoral in another (e.g. bribery, free markets, monopoly, slavery; hire-and-fire working relationships).

Subjectivism is concerned with the idea that values are a matter of individual taste and preferences.

In **Objectivism** the predominant idea is that there are at least some values that are not dependent upon time and place or individual whims. These values include keeping promises, telling the truth, doing good and not harm, treating people as you would want them to treat you, just to mention a few.

The issues raised in the above-mentioned approaches have been the subjects of long-running debates for millennia.

2.5.3. The Nature Of Business Ethics

There is no consensus as to the nature of business ethics. In fact the business and-society literature shows a great disparity of opinions. The opponents of business ethics assume that they have sufficient grounds for rejecting it. Some typical views are:

- "Ethics and business don't mix - business is a technical, not an ethical matter"
- "It is naive to think that business will let ethics get in the way of making profits"
- "There are no ethical companies, because they all break the ethical rules from time to time".

3. CRITICAL ANALYSIS

Corporate governance is a matter of enforcing accountability. In the modern world, companies have many shareholders who do not play a managerial role in the company. Additionally, today the economic activities of companies are interconnected with the general economy of the world. Thus, managers running companies have to be more accountable than in the past. In terms of modern management, the origin of the social responsibility concept goes back to the 1950s. Avoiding philosophical and linguistic discussions, social responsibility can be defined as voluntary efforts by companies to take on responsibility in order to eliminate - or at least reduce - the negative impacts of their business activities on the stakeholders. As stated, in the modern world, companies have been given more freedom but they are also expected to play social roles, such as mitigating climate change or protecting human rights.

It is clear in this definition that business ethics is related to moral norms and values. At this point, it is necessary to ask if companies have moral norms and values as individuals do. Argued that companies do have moral duties in a secondary sense. By saying that, it is implied that the accumulation of the ethical and unethical behaviors of company's workers constitute the business ethics of that company. This is why companies now provide ethical codes or codes of conduct and expect workers of all levels to obey these codes when they make a decision as a part of their jobs.

By taking the definitions above into consideration, it can be argued that corporate governance, social responsibility and business ethics concepts have some shared characteristics and that all these three concepts are interrelated. Corporate governance demands that executives make their companies more transparent and accountable; social responsibility demands that companies support society with their activities, and business ethics clarifies moral norms for employees. Business ethics can help a manager make his/her company more accountable and transparent. Similarly, when a company adopts corporate governance principles, it also has to

meet the expectations of its stakeholders. As a matter of fact, corporate governance principles include principles related to business ethics and social responsibility.

However, some scholars believe a coherent theory of CSR cannot be created without corporate governance. In any case, it is logical to conclude that all these three concepts are interrelated and they are imposed upon companies by shareholders and stakeholders. Thus, we simply argue that companies take corporate governance, social responsibility and business ethics concepts into consideration in order to gain legitimacy though they do not care about their potential impact on corporate performance or strategy. From this point, these concepts can be dealt with as institutional pressures which force companies to isomorphism. Obviously, companies have to adapt to their institutional environments in order to gain legitimacy and to survive even if this adaption harms corporate performance.

4. CONCLUSION

The basis of corporate responsibility has transitioned from why companies must be socially responsible to how they can become socially responsible. CSR is now a major component of new business and CG models for long-term sustainability. It has converged with the new trend of CG and contributed to the shifting of the traditional notion of CG to a vehicle for pushing corporate management to consider broader social issues. CSR defines corporate responsibilities to society as follows: firstly, that companies have a responsibility for their impact on society and the natural environment, which on occasion goes beyond legal compliance and the liability of individuals; secondly, that companies have a responsibility for the behaviour of others with whom they do business; and thirdly, that business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society. With the rise of sensitive consumerism, as well as increasing competition for market share, this convergence has made companies more attuned to public, environmental and social needs. Global companies have integrated the ethos of this convergence into their core policy objectives. They tend to ensure that CSR practices are implemented within their supply chains; a demonstrated commitment to CSR helps global companies to secure their long-term profits, brand images and managerial efficiencies.

Discussions of corporate social responsibility, corporate governance and business ethics have yielded many reports, and created many networks of organizations dedicated to improvement of thought and practice in the areas. There has been much survey research administered through questionnaires on how the top *managers* view many issues of the day, and on whether

they think that codes of practice would be useful. There is much research on consumers' buying habits, and on whether consumers would buy proposed new products, including service products, and some is addressed to managers. Despite all the above, public cynicism on the operation of codes of practice and of corporate governance is clearly visible. In an imperfect world there is always a gap between the aspirations expressed in codes and their practical operation, but the gap could be reduced by detailed research into their formation, monitoring and reception by their intended beneficiaries. Many processes intervene between aspiration and reality. Some of the processes are internal to particular businesses; other are "fed in" by government, the law, pressure groups and much else. There appear to have been few studies of how these processes work.

Global warming, pollution, corruption and employee burnout stemming from a competitive work environment are just the most visible examples of this situation. In fact, today there are some start-ups whose reason for existence relies on social issues, and these companies create company policies and execute strategies in accordance with corporate governance, social responsibility and business ethics. Perhaps they are not corporate giants, but they indicate the values of the next generation of companies. Thus, we believe that corporate giants that follow traditional methods will have to transform their strategies, and scholars should support this transformation with their research. It is also surprising not to see research that explains how companies integrate their strategies with corporate governance or social responsibility in order to get resources.

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