

ETHICS AND PHILANTHROPY IN THE FIELD OF CORPORATE SOCIAL RESPONSIBILITY PYRAMID

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Abstract

Corporate social responsibility (CSR) is a concept which is based on the orientation of economic subjects for the benefit of the community. CSR has a long and rich tradition of existence and activities but in the Republic of Croatia CSR is still developing. In this article, CSR is seen through Carroll's pyramid of social responsibility which includes economic, legal, ethical and philanthropic responsibilities of business subjects. Economic and legal responsibilities which are core responsibilities of each business subject are standardized and prescribed/regulated, while the ethical and philanthropic activities are optional and voluntary. The article focuses on the last two components that are lately becoming increasingly important and represent a new philosophy in the modern business. Apart from the importance of applying these newer, less explored responsibilities, the article points to the need of rearranging priorities within the pyramid for the purpose of better implementation of CSR.

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CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility was developed by globalization and emergence of multinational companies. It is a type of business in which economic subjects integrate their concern about employees but also the environment in which they work, on voluntary basis. Ekonomski leksikon (2011, 140) defines social responsibility as an obligation of organization and manager to make decisions which both promotes interests of an organization and improves interests of the society as a whole. It is a concept of managing company which reflects the balance between economic and social goals, in other words, activities that are beyond making a profit.

Greater importance of corporate social responsibility highlights Žunić-Kovačević, who states that there are reports about social responsibility in developed market economy. These reports are called social reports and they are seen as part of modern corporate management. Thus, there is a so called Triple Bottom Line Reporting, which is a reporting model that covers three reports on: management, influence on society and influence on environment. Report on management deals with indicators of economic effect (benefit to cost ratio). Report on the influence of society deals with indicators of social effect, meaning in which amount a company fulfills its obligations towards society. It involves the following: human resources, science and education, care for the employees, donations and sponsorships, responsibility for a product, as well as healthcare and security. A report on environmental impact demonstrates the data such as environmental protection, energent resource management, water resource management, aerial emissions, and waste disposal management. This way of reporting is a proof of developed and modern management which should be even more developed and promoted among companies in the Republic of Croatia.

Companies which work by the concept of corporate social responsibility, achieve a number of benefits. Kotler and Lee (2009) state the following:

- increase in sale and market share
- strengthening the position of the brand
- strengthening the corporate image and influence
- strengthening the possibility of attracting, motivating and keeping employees
- decrease operating costs

- increase the attractiveness for investors and financial analysts

“It is not enough for companies just to develop and implement social responsibility initiative, but to promote it efficiently and effectively” (Đurović & Randić; 2011, 92).

First step in corporate social responsibility (CSR) promotion in the Republic of Croatia is Index CSR, award given to the companies who made corporate social responsibility a part of their management and work according to these principles. Criteria based on which the Index CSR is awarded are: economic sustainability, CSR in business strategy, working environment, environmental protection, market relations and community relations.

CARROLL'S PYRAMID

In order for a company to be socially responsible, four levels of responsibility must be met. These levels refer to economic, legal, ethical and philanthropic responsibility. First two are general and the same for every company, these are prescribed ways of how companies should work, while the other two refer to voluntarism and are not prescribed as obligatory for the company. It is possible to say that first two are required minimums, while ethics and philanthropy are responsibilities which are expected. This is known as Carroll's pyramid of corporate social responsibility which had a major influence on accepting and spreading of corporate social responsibility.

Figure 1 Carroll's CSR Pyramid



Source: Carroll, A. B., (1991: 45).

According to Carroll, the foundation on which all other levels are built is economic because the profit is considered the most important and it is a basis for all other responsibilities. Second level is legal responsibility which emphasizes legal and official minimum which is regulated through different laws and regulations. Ethical responsibility refers to voluntary coordinating management with moral and ethical principles of society and community. The company fulfills its philanthropic responsibility by contributing to community through investment of the company's goods. In recent times, it is not enough to implement just the first two levels. It is expected that the company behaves in ethically and philanthropically responsible way. "To be socially responsible means not only to fulfill legal obligations but to go one step further and invest 'something more' in social development and protection of human environment" (Đurović & Randić; 2011, 92).

Conducting these responsibilities, companies make competitive advantage on the market. Most companies think that only by maximizing profit they could be competitive. According to Figar & Figar (2011) modern firms can achieve competitive position, not just through profit, but also through ethical and philanthropic behaviour towards employees and environment. Responsibilities on the top of the pyramid are based on the voluntarism of the company. Depending on the development of such voluntarism, companies can build their identity which will be recognizable and have advantage in competitive environment. After that, basic mission which is making a profit can be achieved.

Cerjan-Letica (2010) studies this same pyramid in the domain of dentistry. According to her, corporate social responsibility levels in dentistry are not ranked the same as in Carroll's pyramid. Given that we talk about health domain where the concern for people is the most important, Cerjan-Letica establish the pyramid of social responsibility where ethical responsibility is on the first place and presents fundamental level of responsibility. "...we firmly believe that the basis of overall professional and social responsibility must be the imperative "Be Ethical!". Behaving in line with the written and unwritten ethical norms, according to our beliefs, must be a precondition and the starting point for overall behavior and for making all (professional) decisions by dentists" (Cerjan-Letica; 2010, 105). After that, there is legal, economic and philanthropic responsibility.

ETHICAL RESPONSIBILITY

In order for management to be successful, the company has to know what employees, consumers, government, competition and society as a whole expect from it. Trends and social values are changing rapidly so management has to adjust to the situation. Managers encounter a number of obstacles while making decisions, but ethics should be part of every business decision. Carroll through his pyramid shows the direction of management which is based on decision making. According to the pyramid, ethics is on the third place. Company first has to fulfill economic (profit) and legal (law) level and then comes the ethical level. This span of values is not always good. Ethics is neglected in decision making. Everyone who makes decisions has to bear in mind the responsibilities that come along. John C. Maxwell (2003) in his book tried to give answers to why ethics is in such bad position. He thinks that there are three reasons:

1. We do things we are comfortable with- e.g. we lie to conceal fear or weakness. If we didn't lie, we would have to face fear, which is not pleasant. The lie will be discovered sooner or later, but at the moment of lying people don't think about long term consequences.

2. We do what we have to do to win - business people achieve victory through success and improvement. Most of them still consider they have to choose between being ethical and winning. They don't step out of their comfort zone so they resort to bribe, corruption and financial fraud. Our society and recent events are the best indicators of such cases. In the end, this current comfort turns into public contempt and prison sentence because ethics was disregarded in decision making and because of the attitude that it is impossible to be ethical and win at the same time. Some consider that ethics is necessary but only at a specific time and place. They agree with Harvard history professor Henry Adams, who stated: "Morality is a private and costly luxury. Ironically, in today's culture of high debt and me-first living, ethics may be the only luxury some people are choosing to live without" (Maxwell; 2003, 7).

3. We rationalize our choices with relativism- problem here is that every individual makes their own ethical standards which can be completely different from the standards of other people. Individual forms and adjusts them to the situation in a way that best suits them in the situation. It all results in ethical chaos.

Most people discuss ethics only when something unethical happens. But then it is too late, because certain event turns into legal case. The court should deal with it. Business ethics is a relatively young discipline. There are different opinions of different authors about when it originated. Some say it started to develop in theory and practice in 1970s in the USA and Western Europe (Dujanić; 2003), others say it all started in Europe when the first department for business ethics was opened in Netherlands in 1984 and when The European Business Ethics Network (EBEN) was established in 1987 (Krkač; 2007, 466). Later it was institutionalized, but until this day it was not established in all companies. Main ethical guidelines in Croatian economy are provided by Croatian chamber of economy in 2005 through Code of ethics: "Encouraging ethical behaviour in an organization is achieved by defining and publishing the rules of behaviour, manager's positive example, detecting and solving potential ethical problems in an early phase and sanctioning unethical behavior" (HGK Official Website, 2015). Our society belongs to the group in which business ethics is just starting to apply. In the beginning, business ethics serves as a way of avoiding punishment, but with constant and systematical implementation it will fulfill its purpose. Economy should acquire ethical behaviour through different documents from the day the company is established, not only on theoretical level but practically conduct ethics on all levels of management in all times. There is no wrong place or time for ethical management.

PHILANTHROPY IN CORPORATE SOCIAL RESPONSIBILITY

Philanthropy (from Greek *philos*- friendship or *phileo*- the one I love and *anthropos*- human; *philanthropia* - love of humanity) is a term connected with American tradition of charitable giving. At first it was associated with a person- philanthropist, while today the term corporate philanthropy is more developed, meaning business sector's voluntary giving. In Croatian spoken setting it is identified with social corporate business, which is not true. Corporate philanthropy is a part of social corporate business in which business subjects have responsibility towards employees, shareholders, suppliers and environment in which they work.

"By corporate philanthropy we talk about direct non-refundable providing of money, goods or services, taking time of employees in order to support some

humanitarian action or to achieve some social aim" (Bruch & Walter; 2005, 51). According to this definition, corporate philanthropy deals with company's voluntary giving, but also voluntary work of the employees, their contribution to achievement of social aim. Sometimes it is called positive or proactive social responsibility which implies maximal engagement of the company in resolving social problems.

"In an effort to contribute to the community in which they work, it is very important for the company to join in resolving some social problems... and offer suitable contribution through investment in the protection of the community.... building socially needed objects, grant scholarships for individuals and groups..." (Đurović & Randić; 2011, 9).

State has a very important role in stimulating philanthropy by business sector. Establishing stimulating tax measures, state can encourage the business sector to invest more funds in general beneficial purpose. Two main forms of business sector's investment are donations and sponsorships. Bežovan (2002) and Žunić-Kovačević (2008) observe these two forms of investment in the framework of policy of socially responsible economy as crucial for solving problems in the community and society in which the company works. In order for the practice of socially responsible economy to develop, it is necessary to have stimulating tax policy.

Figar & Figar (2011) states that establishing philanthropy as company's strategic activity in the framework of socially responsible economy gives valuable, immaterial importance and contributes to competitive advantage. Every company should include philanthropy in their business policy as part of responsible behaviour towards community. With these activities companies can built their identity and image (McAlister & Ferrell; 2002, Hall; 2006, Fahy et. al.; 2004), which insures competitive position (Porter & Kramer; 2002).

DISCUSSION

Ethics and philanthropy as parts of company's social responsibility are still in progress and insufficiently explored in the Republic of Croatia. It is recommended to explore this field even more in order to promote this aspect of responsibility and contribute to include ethics and philanthropy in company's business policy. World trends show that socially responsible economy indeed increases

profit. People buy product which is not tested on animals or they choose to buy a product from company which operates in socially responsible way. Companies with this policy become desirable place for employment. These are just some of the reasons why ethics and philanthropy should be included in business. Still in 1991, Carroll made a conceptual framework of corporate social responsibility to which every business subject should comply. In his pyramid, foundation of all responsibilities is economic responsibility whose imperative is - to be profitable. After that, there is legal, ethical and philanthropic responsibility.

Concerning specifics of work, Cerjan Letica (2010) ethical responsibility presents basis for overall behaviour and making dentist's professional decisions. Accordingly, ethics in the pyramid of corporate social responsibility does not always follow the fulfillment of economical and legal responsibility, but it becomes the basis for all other responsibilities. Most authors agree that ethics in business should be on the first place (Ardichvili et. al., Paine) while philanthropy, as in original corporate social responsibility scheme, is on the top of the pyramid as the last responsibility of the company.

Therefore, it is important to mention that Carroll's pyramid is not universal hierarchy for all professions. Depending on profession and business aim, responsibilities within the pyramid can be differently arranged. In any case, regardless of ranking, it is necessary to cover all levels of corporate responsibility, because by applying all levels we make business in socially responsible way.

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