Is Corporate Social Responsibility Always A Function Of Good Management?: An Ethical Relativism Perspective

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ABSTRACT

The debate on the relationship between business and society is an issue of practical importance and theoretical interest. This paper discusses the perspectives on the social responsibilities of organisations to indicate the diversity of approaches to the legitimacy and the boundaries of corporate social responsibility (CSR) practices. Classical Theories of Social Responsibility, The Stakeholder Theory, The Social Demandingness Theory, and The Social Activist Theory are critiqued. Finally, major arguments behind the social responsibility theories are discussed and an ethical relativism framework is proposed to assess the morality and the legitimacy of CSR practices.

Keywords:

Corporate social responsibility; philantrophy; relativism; management; stakeholder

INTRODUCTION

Over the past several decades, the debate on the relationship between business and society has focused on the topic of corporate social responsibility (CSR, thereafter). The stage was set for this debate by Keith Davis, who proposed two challenging questions in the 1960s: "What does the businessperson owe society?" and "Can business afford to ignore its social responsibilities?" (Schwartz and Carroll, 2003). We argue that the morality and the legitimacy of CSR are relative to individual moral norms and beliefs, and strongly depend on the context. Therefore, one shall approach to corporate social performance from an 'ethical relativism perspective' in order to assess whether a particular CSR practice is a function of 'good management' or not.

In this paper, we discuss different perspectives on the social responsibilities of organisations to point out the diversity of approaches to the legitimacy and the boundaries of CSR acts. In order of presentation, Classical Theories of Social Responsibility, The Stakeholder Theory, The Social Demandingness Theory, and The Social Activist Theory are critiqued. Following the critique, by taking into consideration Carroll's CSR Pyramid, we illustrate the core arguments behind the social responsibility theories and propose an ethical relativism framework to evaluate the morality and the legitimacy of CSR practices.

CLASSICAL THEORIES OF SOCIAL RESPONSIBILITY

According to Brummer (1991), a manager's primary obligation is to the shareholders and this relationship defines the principal sphere of the manager's legitimate activity. In general, classical theorists argue that economic performance can best be accomplished when the top management responds only to the economic interests of the company's stockholders and this ensures production efficiency and productivity in the marketplace (Karake, 1999). Furthermore, classical theorists indicate that when managers use corporate funds for social causes that are not directly linked to their primary economic mission, they impose an undue cost upon their shareholders, workers, customers, and fellow citizens (Brummer, 1991).

Adam Smith and the Foundations of the Classical Theories

The eighteenth-century economist Adam Smith's theory of the "invisible hand" is the foundation of classical theories of corporate social responsibility. Smith insisted that the motive to maximize self-interest in the market place can lead to significant benefits for society as a free market exhibits a spontaneous order with the existence of an external natural force which directs self-interest towards the common good (Donaldson, 1982). "It is not from the benevolence of the butcher, the brewer, or the baker that we receive our dinner, Smith said, but from their regard of their own self-interest" (Donaldson, 1982: 62). Pioneers of the classical theories of CSR like Carr and Friedman justified their arguments based on Smith's "invisible hand" theory. Three major views in the classical theory of corporate responsibility have identified in the business ethics literature, namely pure profit-maximising, constrained profit-maximizing, and structural restraint views. In the following sections, we review these main approaches in the classical theory of corporate responsibility.

The Pure Profit Maximising View Perhaps the most extreme position on economic responsibility is taken by Carr (1996) in his classic article "Is business bluffing ethical?". Carr (1996) argued that business has lower standards of ethics than society and no social responsibility other than obedience to law and business has the impersonal nature of an isolated 'game', like poker, in which anything goes within the accepted rules of the game. However, according to Lantos (2001), almost all commentators agree that game metaphor is weak since games are isolated from the rest of our lives. Business is an integral part of the society and competition is not always voluntary since there are other involuntary players such as the stakeholders (Lantos, 2001).

The Constrained Profit-Maximising View Milton Friedman, recipient of the 1976 Nobel Memorial Prize for economic science, is one of the strongest supporters of the 'constrained profit-maximizing view' of corporate responsibility. According to Friedman, the primary responsibility of the business is to do business, to produce, and to be a productive enterprise (Karake, 1999). Donaldson (1982) states that Friedman even specifies the moral rules that corporations should follow: they must compete openly, they must not deceive, and they must not engage in fraudulent activity. Beyond these, presumably, anything goes. Like Carr, Friedman criticises CSR practices since he felt that solving social problems is the responsibility of the government and the social agencies, not the role of business (Lantos, 2002).

Another proponent of constrained profit-maximising view, Manne, contends that corporate executives have little discretionary funding available for them with which to carry out non-economic programs (Manne, 1972). Classical theorists such as Lantos (2002) asserts that philanthropic (i.e. altruistic) CSR is unethical for publicly held companies since it breaches shareholder property rights, unfairly confiscating stockholder wealth, and it spends money for the general welfare at the possible expense of those for whom the firm should be caring, notably employees and customers. Lantos further argues that altruistic CSR is only ethical for privately owned firms.

Donaldson (1982) considers the case of General Motors as an example that supports the argument of classical theorists. During late 1960s, considerable number of stockholders challenged General Motors with a list of demands. Specifically, the stockholders demanded that General Motors should devote as much money to pollution control as to advertising. The head executives of General Motors were probably correct when they stated that the demands would price the company out of market, and the consumers were unwilling to accept the larger price tags that social responsibility brought (Donaldson, 1982). Nevertheless, this example might be a weak one to support the classical theories since the context of consumer responsiveness have changed dramatically since 1960s and a great number of today's scholars believe that consumers are currently much more sensitive to environmental issues and market externalities. We further discuss this argument in the following sections of this paper.

Structural Restraint View The structural restraint view on the other hand emphasises the fact that corporations are controlled by their components and are thus frequently incapable of exercising moral freedom (Donaldson, 1982). Hence, this view denies moral agency of any kind to all corporate organisations; the corporation cannot be blamed for its actions, since its actions are merely outputs of its structure.

Criticisms of the Classical Theories of Corporate Responsibility

Opponents of classical theory reject the idea that “the invisible hand” and free market economy ideas lead to the most fair and effective social system. Velasquez, for example, tells us that markets have often led to unchecked negative externalities or social costs and harms to otherwise innocent third parties, poor product quality, excessively high prices, and inferior working conditions (Velasquez, 1982). Likewise, Donaldson (1982) contends that the invisible hand should no longer be counted upon to perform society’s dirty work.

Second, it can be argued that classical theorists such as Carr and Freidman could not see the potential benefits of philanthropic CSR in terms of sustainable profits and corporate reputation. Porter and Kramer (2003) argue that a handful of companies have begun to use context-focused philanthropy to achieve both social and economic gains by for instance, allocating funds for the education of the youth. It was stated that investing on education in the long run, may lead to the improvement of the local workforce. Recruiting such educated employees may eventually affect the company's potential competitiveness in the long run Companies do not function in isolation from the society around them. In fact, their ability to compete depends heavily on the circumstances of the locations where they operate. Improving education, for example, is generally seen as a social issue, but the educational level of the local workforce substantially affects a company's potential competitiveness. Another example of the benefits of philanthropic CSR on stakeholder wealth was provided by Godfrey (2005). Godfrey argues that corporate philanthropy can generate positive moral capital among stakeholders. He further argues that this moral capital can provide shareholders with protection for a firm's relationship-based intangible assets and this protection contributes to shareholder wealth in the long run.

Moreover, Margolis and Walsh (2001) reviewed the empirical studies about the link between financial performance and corporate social performance and stated that corporate social performance is positively correlated with financial performance. Furthermore, as Hilton and Gibbons (2002) argue, altruistic (i.e. philanthropic) corporate social responsibility is deeply connected with brand reputation and the emotional component of a brand's strength, and therefore cannot be ignored.

Another criticism focuses on the basic belief of classical theorists that the financial interests of the stockholders are best served when the management concerns primarily on economic matters. Opponents argue that a more extensive involvement in socially responsible projects may result in better performance for the corporations (Brummer, 1991). Moreover, Handy (2003) criticises the assumption of Manne (1972) that corporate executives have little discretionary funding available for them to carry out socially responsible programs.

Last but not least, opponents of classical theories, such as Freeman, question Friedman's argument that stockholders have the power to remove current managers and replace them with a new management team. According to Freeman, the idea that power of replacement is an overriding consideration in determining the responsibilities of managers and many groups of constituents have the power to affect the security, reputation, and well-being of a company and its managers (Brummer, 1991). A stakeholder approach that promotes CSR practices has emerged as a response to the arguments of classical approaches to corporate responsibilities (Lantos, 2001; Cooper, 2004).

THE STAKEHOLDER THEORY, SOCIAL DEMANDINGNESS, AND SOCIAL ACTIVIST THEORIES

The Stakeholder Theory

The term "stakeholder" is a powerful one due to its conceptual broadness (Phillips, Freeman, & Wicks, 2003). Contrary to the arguments of classical theorists, Sethi (1977) and Block (1979) contend that there are constituents other than shareholders to whom corporate managers are directly responsible. The central claim of the stakeholder theory is that corporations are operated or ought to be operated for the benefit of all those who have a ‘stake’ in the enterprise, including employees, customers, suppliers, and the local community. The stakeholder theory not only identify existing situations or predict cause-effect relations; but also recommends attitudes, structures, and practices that, taken together, constitute stakeholder management (Donaldson & Preston, 1995).

The stakeholder theory differs from the classical theory since it holds that there are groups of individuals other than shareholders of a corporation to whom corporate managers are directly responsible (Sethi, 1977; Block, 1979). Moreover, proponents of the stakeholder approach state that business organisations are social institutions in that they cannot exist except in relation to the society in which they operate (Rosenthal & Bulcholz, 1997; Cooper, 2004). Ackoff, one of the most significant supporters of the stakeholder theory, believes that the long-term survival of a firm is enhanced when the firm responds to stakeholder interests as a major part of the corporate strategy (Karake, 1999). Therefore, supporters of the stakeholder approach contend that philanthropic CSR is a function of good management since CSR fosters responding to stakeholder interests.

Criticisms of the Stakeholder Theory

One of the limitations of stakeholder theory is the ambiguous definition of the stakeholders. Theorists such as Ackoff (1981) contend that only those who are directly or primarily affected by the actions of a corporation can be considered as stakeholders. However, scholars such as Freeman (1984) state that a stakeholder can be anyone who directly affects the corporation (Karake, 1999). In addition, some scholars reject the stakeholder model in its normative use on the ground that the interests of all groups other than shareholders constitute 'constraints' on corporate activities rather than constitute 'goals' (Boatright, 2003).

At the other extreme are the ones who consider corporate social responsibility as an excuse for 'managerial opportunism' (Phillips et al., 2003). Some scholars even argued that corporate social responsibility practices are utilised as public relations ploys designed to legitimize the role of corporations in present day society and to divert attention away from the market externalities (Boatright, 2003). Some scholars indicated that stakeholder theory provides corrupted managers with a ready excuse to act in their own self-interest thus resurrecting the agency problem that the shareholder wealth maximization imperative was designed to overcome (Phillips et al., 2003). Opportunistic and corrupted managers can more easily maximise their self-interest by claiming that their practices actually benefit several stakeholder groups. (Jensen, 2000; Marcoux, 2000).

Another criticism points the ambiguity of the legitimate stakeholders (Donaldson & Preston, 1995). It was stated by scholars that the responses to the identification of legitimate stakeholders are either too narrow or too broad (Donaldson & Preston, 1995).

Social Demandingness and Social Activist Theories

The idea behind the social demandingness approach is that corporations are responsible for carrying out those activities that are expected or demanded by society (Brummer, 1991). This theory is based on the premise that both the market and moral and social forces of society supply the normative or ethical side of corporate decision-making. As a result, this approach differs from the stakeholder theory in maintaining that managers are in some way directly responsible to society or the general public, even to those who are indirectly affected by their decisions (Karake, 1999). Corporate social responsibility practices may entail embodying the product with socially responsible attributes, such as toxic-free ingredients. It may also involve the use of signals, such as the ‘fair trade’ labels in imported groceries, that convey to the consumer that the company is concerned about certain social issues (McWilliams & Siegel, 2001). This results in the belief that, by using these products and services, customers are indirectly supporting a cause and rewarding companies that devote resources to socially responsible activities (McWilliams & Siegel, 2001).

Social activist theorists, on the other hand, believe that a universal standard exists for determining responsible corporate conduct that is independent of the interests and claims of the stakeholders (Karake, 1999). Furthermore, according to Brummer (1991), social activist theorists argue that the universal standard often demands greater social or moral activism from corporate leaders than has been provided in the past.

The major criticism of social demandingness and social activist theories are centred around public spending. Specifically, some scholars argue that CSR may lead to less government spending, as some elites may be confident that corporations can fill the ensuing gap (Hilton & Gibbons, 2002).

ETHICAL RELATIVISM FRAMEWORK FOR THE EVALUATION OF CSR PRACTICES

Carroll's Social Performance Model as the Theoretical Foundation for Ethical Relativism Framework

One of the most popular constructs of CSR, Carroll's pyramid was first published in 1991 and perhaps remains as the most well-known framework in the literature. As seen in Fig. 1, Carroll (1991) argues that four kinds of social responsibility, namely economic, legal, ethical, and philanthropic, constitute total social responsibility.

Insert Figure 1 about here

Carroll (1991) argues that all of these corporate responsibility components should exist in organisational practices to some extent. According to Carroll (1991), the first level of the pyramid consists of the economic responsibility of businesses, having a social responsibility to remain profitable and benefit their shareholders, which is a crucial obligation for every business. Furthermore, Carroll emphasises that businesses must make profits while obeying the rules of the game set by the law and the government- their legal responsibility. However, Carroll highlights that while obeying the law is necessary, it is not sufficient in that businesses also have an ethical responsibility to conduct in ways that is consistent with the norms of the society. Assessing the morality of organisations' CSR initiatives entails considering policies and practices that many scholars perceive as residing at a higher level of expectation than the minimums required by law (Carroll, 2016). "Minimally speaking, law might be seen as passive compliance. Ethics, by contrast, suggests a level of conduct that might anticipate future laws and in any event strive to do that which is considered above most laws, that which is driven by rectitude." (Carroll, 2016: 5). Carroll further states that philanthropic responsibilities, such as contributing to non-profit institutions are not legally required or even demanded by ethics, but corporations accept them in order to meet society's expectations (Boatright, 2003). Carroll refers to each of the above four-part definitions of CSR as four categories of responsibilities, which are ''the expectations placed on the corporation by corporate stakeholders and society as a whole'' (Carroll & Shabana, 2010: 91). In reviewing the construct in 2016, Carroll emphasises that businesses must attempt to fulfil all 4 social responsibilities at the same time, rather than assuming a hierarchy in the pyramid. And, ethics cuts through all 4 categories as the capitalist society expects businesses to pursue profits and the existing legal framework they operate in is the result of extant ethical issues, such as consumer and employee safety. Carroll (2016) argues that even philanthropic responsibilities are often ethically motivated as companies attempt to do the right thing.

Table 1 summarises the perspectives on the appropriate role of business in society and illustrates the type of CSR that each theory's correspondent CSR type in Carroll's pyramid of social responsibility. Carr (1996) is at the one end of the spectrum who argues that firms merely have an economic responsibility to make profit while obeying the law (the pure profit-making view / economic CSR). At the other end of the spectrum is Carroll (1991) who considers corporations as entities that actively involve in programs that can ameliorate various social problems, even if it costs the shareholders money (the community service view / altruistic CSR) (Lantos, 2001).

Insert Table 1 about here

Furthermore, Carroll and Shabana (2010: 86) make a 'business case' for CSR, arguing and documenting the reasons for why the business community must not only accept, but also develop the CSR cause. A bottom-line perspective, the business case approach is primary concerned with the tangible profits that businesses engaging in CSR activities will gain. Highlighting the 'responsibility-profitability connection', the authors illustrate both the immediate cost savings of CSR initiatives, but also the broader and long term benefits (Carroll & Shabana, 2010). Some of these include strengthening legitimacy and reputation by meeting various needs of stakeholders while operating profitably, and building competitive advantage that allows the firm to form strong ties with the stakeholders, which will further benefit the organisation by reducing employee turnover and enhancing customer loyalty (Carroll & Shabana, 2010).

The authors make explicit that the success of such perspective and the appropriateness of CSR practices are depending on mediating variables (Pivato, Misani, & Tencati, 2008) and situational contingencies (Barnett, 2007). The contingency perspective is therefore fundamental in deciding on the CSR practices to adopt, and studying the success or failure of the existing once. This is specifically useful when adopting a 'business case' viewpoint as it can explain the instances of negative relationship between the CSR activities and organisations' financial performance (Carroll & Shabana, 2010).

Above indicates issues that may exist with global applicability of not only notion of the 'business case' of CSR, but also Carroll's construct in different organisational context- both geographically and size and industry wise (Carroll, 2016). The next section of this paper further discusses the contingent nature of just and expected CSR initiatives by introducing the ethical relativism framework.

Ethical Relativism Framework

The review of the theories of social responsibility in this paper has shown that there is a significant diversity in arguments on the conceptualisation of fair management, and the boundaries and the legitimacy of CSR. Each theory has its own rationale for their arguments. Hence, we argue that there is no one best way to agree on whether CSR is always a function of good management or not. As discussed in the previous section, Carroll's pyramid indicates that businesses will not only be responsive to the 'spirit' of the law, but will also operate in a 'fair and objective fashion even in those cases when the laws do not provide guidance or dictate course of action' (2016: 3). Ethical considerations in Carroll's pyramid are present in each of responsibility categories (Carroll, 2016). As the management's interpretation of the law and society's expectation is crucial in their selection of the CSR initiatives (Eger, Miller, & Scarles, 2017), we further argue that the morality and the legitimacy of CSR are relative to one's moral norms and beliefs, and heavily depend on the context. Therefore, one should approach corporate social responsibility activities from "ethical relativism" perspective to evaluate whether a particular CSR practice is a function of "good management" or not.

Ethical relativism states that there is no absolute ethical rule that determine what is good and bad, and insists that ethical rules depend on cultural differences or personal beliefs (Lewis & Unerman, 1999). Culture of a society affects what is practical and what is moral (Langlois & Schlegelmilch, 1990). Empirical studies have shown that the extent and content of firms' communications about CSR show differences across countries as well as continents (see Chen & Bouvain, 2009; Halme & Huse, 1997; Maignan & Ralston, 2002). For instance, in their content analysis on media articles, Maignan & Ralston (2002) found that firms in France, the Netherlands, the UK, and the USA display different eagerness to appear as socially responsible and employ diverse means to convey social responsibility. Specifically, they found that most companies in the US introduced CSR practices as a reflection of their organizational culture whereas European companies often present CSR activities as means to strengthen the company's success and survival (Maignan & Ralston, 2002). They also showed that UK firms usually favour the performance-driven approach in CSR whereas French and Dutch companies often use stakeholder-driven approaches (Maignan & Ralston, 2002).

The contextual nature of CSR thus may make the rule of conduct that applies in one organisation not applicable in another organisational setting. We argue that each approach to the morality and the legitimacy of CSR has its own merits in stating the principles for ethical behaviours. For this reason, we propose a framework that combines the core arguments of the theories of corporate responsibility to evaluate the morality and the legitimacy of CSR. That is to say, a socially responsible corporate activity can be considered as a just, proper and ethical practice in a particular cultural context if it at least fulfils any of the conditions below:

- *The CSR activity generates an adequate financial return for their stakeholders (Economic CSR).* The strategically selected business activities for an organisation could benefit its shareholders, for instance, in terms of profit and dividend share. In particular national cultures and contexts, such activities can be perceived as sufficient good management functions. For instance, in a highly capitalistic society, the motivation of profit making is viewed as a legitimate and moral expectation (Carroll, 2016). In such an economic system which thinks of it as being ethically appropriate that shareholders merit a return on their investments, we can argue that economic CSR would be seen as a sufficient good management function.

- *The CSR activity provides substantial benefits to a large number of people (Economic and Philanthropic CSR).* At the core of every business lies the responsibility it holds to the stakeholders to remain profitable. Adopting the ‘business case’ perspective for CSR initiatives (Carroll and Shabana, 2010), we argue that management must assure there are tangible benefits for engaging in CSR activities. Selection of such initiatives that give back not only to the stakeholders, but to the society as a whole, lies at the discretion of top management. And, the process entails continual negotiations and tensions that are contingent on the managements' own norms and beliefs within their cultural contexts.

- *The CSR activity is just in terms of increasing the potential for social cooperation (Philanthropic CSR).* Allocation of organisational resources for philanthropic initiatives is a key decision made by top management (Eger et al., 2017) and executed by middle managers and employees. Top management's responsibility is to continually assess the cultural and organisational contexts to assure that the selected initiative is not only enhancing social well-being, but also the managers' own belief systems is communicated well and accepted by the implementers at various organisational levels. The expected social value is contextually dependent and reflects the norms of the society and the decision makers.

While the above ethical relativism framework offers a tool to assess the morality and legitimacy of CSR, it makes explicit the difficulties that exist with the transfer of CSR initiatives from one context to another. The context specificity of the policies and practices provide significant challenges for multinational enterprises and necessitates an in-depth understanding of not only the local society's social needs, but also the prevalent expectations and perspectives on what constitutes just and ethical practices. Hence, the initiated CSR practice can be perceived as a function of good management if the management is able to assess the context and decide *in situ* which of the above three condition(s) must be met.

CONCLUSION

In this paper, we have reviewed various approaches to the responsibilities of business to indicate the variety of arguments about the legitimacy and boundaries of CSR acts. For this purpose, we have critiqued the classical, the stakeholder, the social demandingness, and the social activist theories of corporate social responsibility. Finally, we have proposed an ethical relativism framework for the evaluation of the morality and the legitimacy of CSR practices.

The paper has shown the diversity of views on firms' responsibilities. Each theory of corporate responsibility has its own rationale and limitations in explaining the legitimacy of a firm's responsibilities. Hence, one's answer to the question whether a CSR practice is always a function of good management or not will probably depend on their own experience and own views about business and society, and this leads to a disagreement on what CSR means and makes CSR such a problematic concept.

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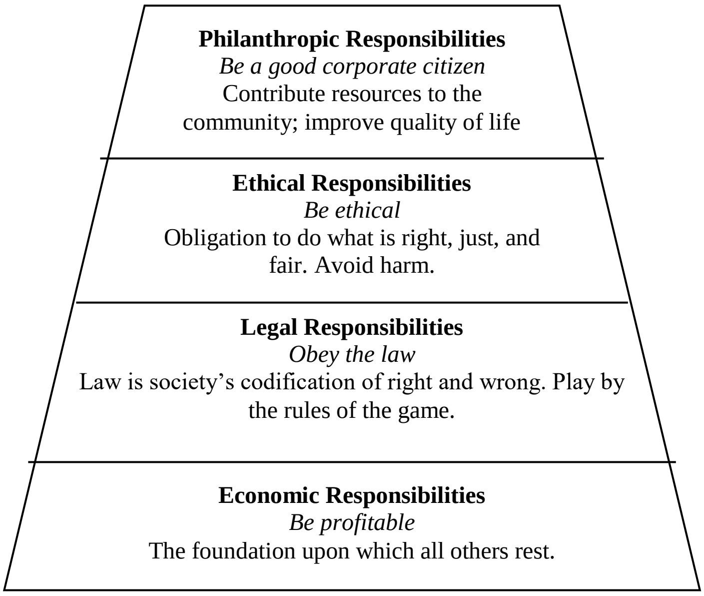
FIGURE 1

The Pyramid of Corporate Social Responsibility



Adapted from Carroll, 1991: 42

TABLE 1

Spectrum of Viewpoints on the Role of Business in Society

Author	**Theory**	**Position on business' role in society**	**Type of CSR**
Carr	Classical Theory	Pure profit-making view: business has lower standards of ethics than society and no social responsibility	Economic CSR
Friedman	Classical Theory	Constrained profit-making view: business should maximize shareholder wealth, obey the law, and be ethical	Economic CSR
Freeman	Stakeholder Theory	Socially aware view: Business should be sensitive to potential harms of its actions on various stakeholder groups	Ethical and Philanthropic CSR
Carroll	Social Activism	Community service view: business must use its vast resources for social goof	Philanthropic CSR