**Corporate Social Responsibility and Managing Ethical Cultures**

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**Abstract: Corporate Social Responsibility and Managing Ethical Culture.** This essay argues that the promotion of Corporate Social Responsibility (CSR) and ethical business conduct is very important. CSR nowadays has become a crucial issue as major companies are expected to demonstrate their commitment to society's values through actions. The current article explains, evaluates, and applies to relevant examples of the narrow, broader socio-economic, as well as broad maximal view of CSR. It also critically describes how organizations can develop ethical cultures and corporate ethics programs for CSR.

**Keywords:** Corporate Social Responsibility, narrow view, broader socio-economic view, broad maximal view.

Corporate Social Responsibility (CSR) can be simply defined as doing no harm and solving the problems of society. The issue of enhancing the implementation of CSR itself has been attracting attention, both at the domestic and international level and it can be seen in the result of millennium poll on CSR (Carroll and Buchholtz 2006). Based on this background, this essay will argue that the promotion of CSR and ethical business conduct is very important. It will explain, evaluate, and apply to relevant examples of the narrow, broader socio-economic, as well as broad maximal view of CSR. It will also critically describe how organizations can develop ethical cultures and corporate ethics programs for CSR.

One explanation of the classic view of CSR is based on Milton Friedman’s paradigm (1970, cited in Mulligan 1986). He describes a manager who chooses to implement socially responsible actions as a person who is a legislator, executive, and jurist simultaneously. This means that the manager does not pay attention to the ideas and the existence of other stakeholders so that the manager is perceived to be unfair as CSR can imposes taxation without the agreement from the shareholders. It may also be undemocratic as the implementation of CSR initially is the obligation of government, and it is unwise as there is no monitoring from a governmental body. It also violates the trust as the manager is the agent who only has obligation to serve the principal. At last, it is futile as the manager will not be able to predict the future consequences (Mulligan 1986). Friedman gives
arguments to support his paradigm that a manager as a decision-maker in a company should only focus on making money to maximize the profits in order to increase the wealth of the owners or shareholders. If the manager takes CSR into account, he or she is judged to use other parties' money for purposes other than increasing the wealth of the shareholders. Moreover, Milton Friedman argues that CSR is a socialist doctrine not supporting the principle of capitalism in the free market economic system (Mulligan 1986).

The arguments given by Milton Friedman above seem too narrow to be accepted as the premises used are false. A company is a business unit that has missions, objectives, goals, and strategic plans, all of which are implemented by all related parties within it, using management principles of planning, organizing, actuating, and controlling. This means that all stakeholders in a company are involved from the starting point up to the very end process to reach what has been targeted. Therefore, the activities of CSR are not only the decision of manager, but they are the result of the mutual consents between all parts of the company. CSR will not then impose unauthorized tax on both stakeholders and stockholders (Mulligan 1986). Furthermore, as the manager has knowledge and ability to do business, he or she will be able to act in uncertain conditions. The manager is trained to make decisions by using the available information and the measurement of risk in taking a wrong action. Thereby, there is no reason not to support the act of CSR as the manager has already predicted the future consequences of doing so. Finally, according to Mulligan, the doctrine of socialist for CSR is not true because Friedman does not give strong arguments of characteristics of socialism in his essay.

The arguments against the classical view of CSR can be seen in a real business case of Astra International, Inc., a major public listed automotive company in Indonesia which publishes its CSR report inside the 2008 Annual Report. Both the board of commissioners as the legislator and the board of directors as the executives state that they jointly work with full support from the employees to implement CSR by placing CSR as a strategic long-term goal and comprehensive program within the company. Additionally, they commit to sharing part of the profit to the community, especially during the financial crisis. CSR in Astra International is also viewed by the boards as the result of an agreement among related parties inside the company to make long-term investment that should be implemented through short-term activities (Astra International 2008).

The next view of CSR is a broader-socio economic perspective. Simon, Powers and Gunneman (1972) describe this view by firstly making a distinction between negative injunctions and affirmative duties. The former relates to not injuring others and a duty to do good activities and the latter is the relationship between human beings with God and parents and it sets out about what should not be done. Secondly, Simon, Powers and Gunneman (1972) argue that all human beings have at least the moral minimum obligation not to impose social injury and human beings should go beyond the moral minimum to prevent harm, avoid damage, and commit to promoting public welfare. Thirdly, they suggest the four “Kew Garden Principles” as the guidance of how to act morally when the injury is not clearly self-caused. These principles are need, proximity, capability, and last resort. This broader-socio economic view means the responsibility of business involves more than profit maximizing, but it also includes not doing activities that will be dangerous and create instability for the stakeholders, preventing something that will hurt the society, and promoting activities that will be useful for every party. The reason for doing this is because the more needs that are expected by the community, the more responsibility there is for the company to fulfill these needs. As the company operates within the society, it is therefore should notice that it needs to meet the social expectations. Moreover, the company has the capability to give a hand as it earns profits from doing business and has resources to be partly distributed to the society.

Nowadays, the society expects business to accomplish a variety of social goals, and it must accomplish these goals if it expects to create long term profits and remain viable. In addition, by enhancing CSR, the company will create a good society and in turn, good society will produce good environment for business activities. In the long term, the company will be able to create a good image so that it may gain more customers, better employees, and other benefits. However, according to Milton Friedman (1972), the activities regarding CSR are costly, therefore someone must pay for them (Davis, 1973). Furthermore, as
CSR spends resources and the resources are not self-renewable. Friedman suggests that it is a not appropriate decision to do it. In addition, business already has enough social power, so it should not take any steps which would give it more power by doing something good for the society, rather it should let the government to do the good (Davis, 1973). An example of broader socio-economic view is a joint work of Novozymes China with local government to develop environmental protection projects to ensure that production and new projects are in accordance with the law and the norm of the local community (Buhmann 2005). This indicates that the company tries to prevent harm to the surrounding society from the effect of pollution by utilizing its resources, as the society needs this action. The company also manages not to injure the trust from the community to operate business and conducts its duty to protect the society from dangerous chemical pollutants.

The last CSR perspective is the broad maximal view. According to Mulligan (1993), the moral mission of a company is to do business to make the world better. The company has a moral obligation to provide products that can be morally useful to solve the community’s problems and to avoid the production of goods and services that are unworthy. These actions should be done although they are not required by the law and even if they are not in accordance with the company’s profitability target. Mulligan (1993) claims that the true function of a company is not only obeying the law, paying attention to the market, and responding to public expectations. However, the moral mission of business has some features beyond these functions. First, it places the focus of business morality at the core of business function, which is producing goods and services. Second, the morality of business is to facilitate the integration of moral conduct within effective strategic management. Third, business ought to produce products which will contribute to create world betterment in its own special way.

The descriptions given by Mulligan (1993) above can be explained that actually corporations have a significant role to enhance the quality of life. Corporations ought to create benefits for the society (Shaw 1988), and it means that corporations have an obligation to solve social problems as well as doing the moral minimum such as staying within laws and avoiding deception. It can be further explained that the corporations can shape the society awareness by producing ethical goods and services and enhancing its ability to maintain and develop a better world to live in while minimizing the negative effects caused by the production process. These actions currently also mean preserving the company’s going concern and avoiding regulation by government as it is costly and restrict company’s flexibility in making decisions (Tsukamoto, 2007). Nevertheless, some contra arguments could be pointed against this broad maximal view. These are that the company’s involvement in social matters might dilute its emphasis on economic productivity, divide the focus and interests of its leaders, and weaken business in the marketplace, which will result in poor both economic and social roles.

An example of the broad maximal view is the action taken by Shell China when it prepared a new area for oil extraction (Buhmann 2005). To minimize the negative impact, Shell resettled 8,000 people away from their villages near the extraction area to a newly built town. This effort also meant giving respect to human rights to ensure adequate living and shelter. Shell additionally established some projects to provide employment for the village people such as building bicycle lanes or putting up traffic lights. This example clearly identifies that the obligation of a corporation is not only fulfilling basic ethical norms, but also to solve social problems such as unemployment.

Meanwhile, corporations should operationalize ethics and CSR within the strategic managerial process. Specifically, company has to establish the corporate culture and corporate ethics programs for the basis of CSR implementation. A generic diagram that gives an overview of how to achieve CSR in corporate culture is presented below.

To develop the ethical culture, successful ethics programs, and implemented CSR, firstly, executive leadership has to personify the organization’s corporate values by giving opportunities to employees to take responsibility for their mistakes. The ethical leadership here will guide ethical behaviour to show that the leaders stand out as ethical figures. Of course, top management has a crucial role in establishing ethical culture within an organization by being models of ethical behaviour (Hunt et al 1989, cited in Shih and Chen 2006), and ethical culture will be able to be developed after a code of ethics is es-
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Established and strongly enforced (Singhapakdi and Vitell 1990, cited in Shih and Chen 2006; Kranacher 2006). Secondly, the ethical values have to be communicated frequently and honestly so that employees will feel the responsibility to maintain the ethical culture, for example, by providing training with real-life ethical situations to experience and enhance managers’ outcome expectancies and furthermore, outcome expectancies will influence cognitive moral development in making ethical decision. Thirdly, the company have to provide mechanisms to monitor, evaluate, control, report and investigate fractions by collecting information through anonymous resources to be more effective in improving its ethical compliance efforts. An example is issuing Corporate Responsibility Report to communicate company’s efforts in manufacturing ethically and meeting government laws. And fourthly, the company must give feedback using rewards and punishments to demonstrate to employees that it takes seriously the betterment of corporate culture and the implementation of corporate ethics programs (Ashkanasy, Windsor and Trevino 2006; Gebler 2006; Verschoor 2005; Trevino, Brown and Hartman 2003; and Youngblood and Trevino 1990).

Additionally, there are some other significant points that should be considered in developing the ethical culture and corporate ethics programs. First, the corporation should not give attention only on formalized ethics programs. The company should consider about the support from other organiza-

Figure 1
Steps to Develop Ethical Cultures and Corporate Ethics Programs to Enhance the Implementation of CSR

- Ethical culture
- Organization goals, vision and mission
- Organization structures and systems
- Individual characteristics and past experiences of top management to create ethical leadership
  - ...
  - ...
  - ...
  - ...

Ethical values
Create ethics programs
Communicate to employees, including giving ethics training
Implementation and consistent enforcement
Periodic monitoring, evaluating, controlling, and reporting
Give feedback by establishing rewards and punishments
CSR
tional systems, informal norms and practices (Weaver, Trevino and Cochran 1999). Second, a multinational company which operate in many different areas with different cultures has to vary the ethics approach as practices which are appropriate in one cultural setting may violate the established understanding or organizational and social life in another cultural context (Weaver 2001). Third, as the result of implementing ethics programs, ethics programs will not only develop the company’s ethical culture, but also its attention to CSR (Valentine and Fleischman 2008), and company’s internal and external communications explicitly make the connection between ethics and CSR (Rowe 2006). This idea is also strengthened by Perrini and Minoja (2008) that the entrepreneur’s beliefs, value system, vision and mission, as well as his past experience, appear to have a fundamental role in shaping CSR within the corporate strategy.

In conclusion, CSR nowadays has become crucial issue as major companies will be expected to demonstrate their commitment to society’s values through actions. Especially as the result of current global financial crisis, companies are proposed to share part of the business profit to stakeholders as well as protect society from negative impacts of company operations and their products and services. The broad maximal view is believed to have sufficient arguments for companies to do good while trying to solve social problem, although its implementation needs very detail and coherent steps within strategic managerial process. Finally, it is unarguable that the promotion of CSR and ethical business conduct at the domestic and international level is both essential and challenging, as the implementation of CSR is not as easy as blinking eyes.

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