



**Ph.D. program
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THESIS SUMMARY

for

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CSR and beyond

Ph.D. thesis

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I. Aims and structure of the thesis

The title of my thesis may sound slightly riddling. This is why I would like to explain the topic and methodology choice at the beginning. Namely that I am presenting two researches. The first one examines the commonly accepted business concept and practice of CSR – I introduce what is CSR. The second one construes – to my belief – the more truthful and more serious realization of business ethics’ principles. It goes beyond CSR.

My thesis has 10 chapters. In the first chapter I am introducing the basic problem: the divergence of CSR practice from the core principles of business ethics, and the adaptation of the theoretical background. I am summarizing the problem in 7 findings. The first three criticize the business, profit-aiming usage of CSR. The last finding returns here: it is about the potential reality and the absence of the frequently professed business case. This is very important as the existence of the business case was and is one of the main reasons for diverging from the original conception of corporate responsibility. Corporate Social Responsibility became a good business instead of ethical obligation, because companies and experts found that stakeholders appreciated responsibility and its communication, and it could be demonstrable in profit as well. So CSR gained a “superior” goal (increasing profit) and reason for existence. The mainstream economics first attacked Corporate Social Responsibility, but afterwards degraded it to be a tool, a way of making more profit. This is the CSR’s “story of success”.

Finding 4 defines an alternative way, the values-driven business, where the principles of responsibility, the interests of stakeholders appear in the total operation – and not just as a profit making tool. In my thesis I name such an approach “real or true responsibility” or “genuine ethics” while I criticize the business-purpose usage of corporate responsibility, the present CSR practice. In finding 6 I link genuine ethics to the idea of business case by right of Frank (2004). I claim that the sincere care for stakeholders - based on true commitment - means competitive edge, and fosters the success and sustainability of a company. The realization of the business case has preconditions that should be created and sustained by the social actors.

Finding 5 deals with one of these preconditions. As the economy, the business is just one – beyond question a significant – sub-system of the society and the environment, its actors should accept the limitations and the laws of the system. The business sub-system is not omnipotent and is not without limitations. If we forget this, we cause unforeseeable social and ecological dangers. I claim that the product or service of the company is one of the most important factors, the fundament of corporate responsibility. As long as the products or services are socially or environmentally harmful, the impact of the company cannot be positive, responsible. If we are not categorical enough in this question, we get into such mistakes of CSR practice as “greenwashing” (covering of unethical business practice with environmental projects), “doing at least some good” (responsibility is just simple sponsorship or donation, independently from core business, with small budget), or the unconditional acceptance and expression of the business case.

In Chapter II. I am defining CSR. As CSR still does not have a common definition (Crane et al, 2008), I try to enumerate, analyse and compare the definitions of the most prominent experts and institutions to give a more complete picture of the nature of CSR.

Although there is no common definition or a set of core principles, the attention has grown to the subject both in theory and practice. As a mutual point of different definitions, business actors are responsible for public welfare. Each definition accentuates other elements of it.

In Europe the EU’s definition is the most accepted: “CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” (EC, 2001, p 6.)

We can find some misleading definitions as well. By David Kotler’s and Nancy Lee’s (2005) definition: “Corporate Social Responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.” (Kotler-Lee, 2005, p 3.). To go further CSR means corporate activity that exceeds legal or moral obligations, and its essence “to do good for the corporation as well as the cause” (Kotler-Lee, 2005, p 2.). In my opinion this interpretation leads astray the fundamental idea. Such interpretations have made “CSR”

from “corporate responsibility”, a management - marketing, PR or HR – tool which can be used for improving competitiveness according to the strategy and self-interest of the corporation.

In chapter III, I am presenting the theoretical development of corporate responsibility, using Goodpaster’s and Matthews’ (1982) epoch-making article as a starting point. Corporate social responsibility had already shown up in theory and in practice before, however we consider this work prominently important. At that time the mainstream economics queried the reason for existence of business ethics and the authors gave a scientifically established and striking response for the criticisms. They responded with a definite “yes” to the question “Can a Corporation Have a Conscience?”. Corporations can and should have a conscience: they live in the society just as individuals do; moreover they are groups of individuals. The moral responsibility of individuals is the fundament of corporate responsibility; the companies cannot be dispensed from any aspects of that – not even for profit as a superior goal.

In my opinion the potentially highest respect for the stakeholders’ interest is the base of genuine ethics; that is why I am presenting the stakeholder-theory. Then the review of the theory of business case, the explanation of the potential corporate advantages of CSR is following. I am touching on the limitations and preconditions for realization of these advantages. I am introducing researches for proving that ethicality does not mean a disadvantage, but there is no evidence for the unconditional business case.

According to several authors (Carroll, 1991 Jeucken-Bouma, 2001, Goodpaster 2007) we can differentiate various levels of corporate social responsibility, I am presenting these categorizations as well. These theories suppose that becoming responsible is an incremental procedure. Although this is a potential way as well, it is more typical that values-driven businesses have been values-driven from the beginning. CSR could be added later on if business case and trends make it reasonable; but values determine the fundament of the activity. For illustrating this I am describing my own categorization.

Before reviewing the practical realization, I am presenting the broader theoretical framework of business ethics for supporting the criticisms and the alternative way, the practice of genuine ethics. In this part I am explaining that the business-purpose usage

of ethics has damaging side-effects for the whole society. It staggers, undermines the trust among social actors.

In Chapter IV, I am separately handling the European and American way of practical manifestation (CSR). The different social and economic systems justify that and support the categorization of later delineated criticisms. The American critics primarily judge the large corporations' CSR practice. On the contrary the European criticisms query the European Union's CSR-conception and its technocrat, pragmatic approach – next to the practice. It is difficult to decide which is more dangerous: the independency and self-regulation of American corporations or the fact that the European ones use ethics for business purpose with the licence, the incentive of the EU.

Then I am reviewing the criticisms on the conception and on its practical spread. The short summary of the criticisms – which in my intention justifies the necessity of the alternative way, the values-driven business – is as follows: as most of the companies instrumentally use CSR tools, corporate responsibility loses its original meaning, significance and possibility to contribute to the solution of global problems and achievement of sustainability. Moreover, it lulls the suspicion of society towards the companies and makes wider-than-ever way for self-interest at others' expense. Business ethics should not emphasize why it is good to be ethical. It must emphasize why it needs to be ethical.

I consider the 2008 crisis as a sort of evidence of my claims, my criticisms on CSR. CSR is far from being the only cause of the crisis, but to the best of my belief irresponsibility and misconceived responsibility (CSR) were among the many causes of the crisis.

In Chapter VII, I am introducing the potential alternatives of CSR. In the first part of the chapter I am defining values-driven business and its elements. In the following part I am construing the theoretical fundamentals of values-driven business, from environmental ethics to the role of spirituality. I consider it to be important as values-driven leaders have and had different motivations for taking responsibility according to the surveys. Some of them emphasize the respect for stakeholders; others deduce their ethical principles and beliefs from the state of the environment as a prominent stakeholder.

Some of them try to return to the original meaning of entrepreneurship and hope to get back their physical and spiritual balance with the values-driven activity.

II. Methodology of the researches

In the empirical part, I present the two types of responsibility concept by the help of two researches. First one was carried out for the UNDP in 2007. We examined specifically the measurable, 'CSR' interpretation. Its purpose was mapping the main actors and activities on CSR in Hungary, and finding its drivers and obstacles.

For mapping CSR situation in Hungary I collected the research reports, conference lectures, non-profit and company information on CSR and legal regulations of the previous two years. That is how I tried to describe the historical development of CSR in Hungary. We interviewed the representatives of 40 companies (nine of them as examples of good practice) and 15 governmental and non-governmental organizations (stakeholders). Examples of good practice were singled out based on companies' prominent CSR activities now and in the past, other companies were randomly selected.

Questions of the oral interviews were divided into six categories: Strategy, Stakeholder Engagement, Governance, Performance Management, Public Disclosure and Assurance.

For me the most important finding is that the instrumental use of CSR – additionally with indifferent stakeholders – cannot cause a radical change in neither economic, nor environmental, social development.

This is why we have looked for the deeper motivation of companies and the secret of real corporate responsibility or value-based business (Chapter IX) during the other research that started in 2008. The respondents of the judgement sample were asked with mainly open questions during 1,5-2 hour interviews. They sincerely profess their own intentions, aims and ways; and why they consider responsibility to be important in business. We asked them about the company's ethics, concrete activities and the connections of ethics and competitiveness. (We used partly open questions at this part, respondents placed their answers on a 1-5 scale, but they had the opportunity to explain their opinions.)¹ Although the respondents emphasized that behaving responsibly was not an aim or a cause, ethics supports the trust between the company and its

¹ Hypotheses of the second research are the sub-hypotheses of thesis 6.

stakeholders; it means a competitive edge on the long run. It is especially true if we measure the return of business activity multi-dimensionally, not just in financial sense.

These are the hypotheses of the second research (can be considered as the sub-hypotheses of finding 6):

According to Frank (2004) real responsibility generates advantages even the present competitive situation for companies, as:

1. opportunistic intentions of managers decrease, and so the conflicts of interests of managers and owners become more treatable;
2. performance of engaged employees improves, they even work for the company for lower wage than the market average;
3. company becomes more attractive for potential employees and managers;
4. consumers become more loyal and faithful for the company and its products;
5. trust increases, transaction costs decrease, relationship with contractual partners and suppliers improves.

These two researches, which are complementing each other, show a more complete picture of corporate responsibility in Hungary. The first one maps the situation of CSR, the second one explores the way to get beyond it.

III. Main findings of the thesis

F1: Friedman narrows ethics to economic rationality, to be ethical is rational according to marketing purpose CSR. According to the enlightened friedmanite companies should take responsibility because it pays.

In the Hungarian version of my thesis I used the idiom of “CSR” instead of the Hungarian translation or the complete term “Corporate Social Responsibility”. Namely as I see, the recently built industry of CSR does not equal to the original concept of social responsibility.

The concept of Corporate Social Responsibility is the story of success in business ethics. Last decades CSR has become the matter of political and economical practice and dialogue. However, a heavy price will have to be paid to reach the biggest success of business ethics. Truly, some of the companies have recognized their responsibility for the social and environmental situation. Moreover, stakeholders have come and are coming home how to exercise their interest. But truly, the pace of social and environmental degradation has not decreased. And truly, many companies have made CSR as part of opportunistic neoclassical economic calculation – leaving out the very meaning of business ethics from the leastwise seemingly responsible activity.

Regrettably companies use corporate responsibility not for the original aim, and sometimes it is difficult to catch them. In most cases, the usage of CSR instruments and the communication of it have become more important than the principal of CSR theory. Namely the company has power and responsibility for the social and environmental stakeholders. That is how they have discredited the idea. Therefore, I feel necessary to present a new concept of corporate ethical responsibility: the value-based business. So we can draw a distinction between the CSR aiming reputation and responsibility based on real commitment and alternative economics.

F2: The term and vocabulary of CSR does generally not mean genuine ethics, CSR instruments usually aim at improving image and reputation.

- F3: The convergence of CSR instruments and core competences is necessary, but not sufficient condition for effective CSR. The responsible attitude that is far from core activities rather serves PR and marketing aims.
- F4: Values-driven management is the practical realization of alternative economics' principles without a revolutionary, radical change of the present economic system. Companies lead the change for incremental improvement of social and environmental state as a final objective.
- F5: In some socially and environmentally harming industries values-driven management is impossible to achieve as main activity influences the social impact of a company on a large scale.
- F6: Ethical activities of genuinely value-based enterprises mean a competitive edge in the short and long run too, only if ethicality is based on a real commitment and not on this expectation. The commitment sustains moral values even in the case of temporary decreasing profitability. Competitive edge is measurable or more specifically perceptible if we measure performance in more dimensions. We have to take into account psychical, social and environmental effects beside financial ones. In this way we break with traditional cost-benefit terms. This is the fundament of long-term cooperation which brings economic gains as well.
- F7: There is no evidence for the frequently stressed "business case", the statement that CSR always pays financially. Here are the causes:
- The cause and effect relation is questionable in researches: CSR causes increasing profit or profitable companies can afford CSR?
 - Pure CSR-profit relationship is impossible to measure because of the complex and mutual interplay of economic and social variables.
 - CSR is just one factor of business success; other factors can either help or set back it. "CSR is only as sustainable as the companies that practice it." (Financial Times, cited by Vogel, 2006, p 43.) So the remuneration of responsibility depends on the company and specific situation. Both ethical

and unethical activities could be done efficiently or inefficiently, there is no univocal functional correlation between financial and non-financial earnings.

- Researching for a business case raises methodological questions and is not fruitful – nobody could get consistent results. Moreover it is good-for-nothing and redundant because it expects from CSR something that is not expected from other business tools. For example advertisement is not always remunerative still nobody questions its importance and right to exist.

For me one important value, virtue stood out: consciousness. It is possible to be ethical and values-driven in present system, but we need consciousness, awareness, watchfulness and ability for permanent learning and reformation. CSR could be a first stage – see also at the levels of responsibility – but it cannot become practical business ethics, values-driven business without consciousness and a critical approach of the present context.

Potential starting points for further researches

During a following research it worth mapping the leader's different motivations to make values-driven businesses. By coming to know, we can foster and support them. With these results – and with presenting the best practice examples - we can get ideas for making economy to be more ethical.

It would be also interesting to test one of the raisings of our respondents. They claimed that in some years ethics will not mean competitive edge, but the lack of ethics will be a disadvantage in the competition. According to Szlávik (2009, p 47.) taking responsibility will not be a matter of choice, but “indispensable for coping with the competitors”.

“If economic actors believed that ethical behaviour returns and is not a disadvantageous passion, there would be a great leap forward. This kind of researches and the publication of their results plays important part in that.”²

² dr. Dávid Gazdag, executive manager of Klímafa Ltd.

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