

## **ETHICAL AND PHILANTHROPIC RESPONSIBILITIES IN PRACTICE**

**GEORGETA GRIGORE \***

**ABSTRACT:** *Along the time, enterprises were created as economic entities meant to supply goods and services to the members of society. Profit is the main incentive for entrepreneurs. First, the enterprise was the basic economic unit form for our society. Therefore, its main role was to produce the goods and services necessary to consumers and to achieve an acceptable profit along that process. At some point, the profit seen as incentive changed into the concept of maximum profits, the one that lasted until now. But my crucial question is: to what extent should a company pursue the profit? This paper aims to provide a short overview on this issue.*

**KEY WORDS:** *corporate social responsibility; ethical responsibility; philanthropy; performance indicator; profits*

**JEL CLASSIFICATION:** *M14*

### **1. HISTORICAL PERSPECTIVE ON CSR**

The concept of social responsibility that prevailed in the US during most of the history was fashioned after the traditional or classical economic model. The classical view held that a society could best determine its needs and wants through the marketplace. If the business is awarded on this ability to respond to the demands of the market the self interested pursuit of that reward would result in society getting what it wants. Thus, the invisible hand of the market transforms self-interested into societal interest.

Years later, when laws constraining business behaviour began to proliferate it might be said that a legal model emerged. Society's expectations of business changed from being strictly economic in nature to encompassing issues that have been

---

\* *Assist. Prof., Ph.D., "Constantin Brâncoveanu" University of Pitești, Romania,*  
[georgeta\\_grig@yahoo.com](mailto:georgeta_grig@yahoo.com)

previously at business's discretion. Over time, a social model or stakeholder model has evolved.

A modification of the classical economic model was seen in practice in at least three areas: philanthropy – contributions to charity and other worthy causes, voluntary community obligations and paternalism – appeared in many forms and one of the most visible was the company town.

The emergence of large corporations during the late 1800's played a major role in hastening movement away from the classical economic view. As society grew from the economic structure of small, powerless firms governed primarily by the marketplace to large corporations in which power was more concentrated questions of responsibility of business to society surfaced.

Neil J Mitchell in his book, "*The generous Corporation*" presents an interesting thesis regarding how CSR evolved. His view is that the ideology of CSR particularly philanthropy was developed by the American business leaders as a strategic response to anti-business fervour that was beginning in the late 1800's and early 1900's. The anti-business reaction was the result of specific business actions such as railroad price gouging and public resentment of the emerging gigantic fortunes being made by late nineteenth century moguls such as Andrew Carnegie and John D Rockefeller.

The business leaders realized that that the government had the power to intervene in the economy and there was a need for a philosophy that promoted large corporations as a force for social good. Therefore, they attempted to persuade those affected by business power that such power was used appropriately. Therefore, philanthropy became the most efficient means of using corporate wealth for public benefit.

The period from the 1950's to the present may be considered the modern era in which the concept of corporate social responsibility gained considerable acceptance and broadening of meaning. During this time, the emphasis has moved from little more than a general awareness of social and moral concerns to a period in which specific issues such as product safety, honesty in advertising, employee rights, affirmative action, environmental sustainability, ethical behaviour and global CSR have been emphasized.

CSR refers to the corporation's effort to make positive social change; actually, CSR has the role of an NGO in the society. The main goal of a business is to obtain profit but, more than that, the company is searching for ways of survival, trying to stay in business. And here comes an interesting question: why the companies should change behaviour if they have profit? There might be three hypothesis: globalisation of business (the case of Nike), the Seattle hypothesis (WTO meeting widespread discontent with corporate (responsibilities) and global polity.

## **2. APPLICATION OF ETHIC RESPONSIBILITIES**

One of the great advantages of Carroll's definition (Carroll, 1979) is the extension of the components of the responsibility pyramid, that McGuire referred to in 1963, and who said: "The idea of company responsibilities supposes that the

corporation not only has economic and legal obligations, but also certain responsibilities towards society extending beyond these obligations” (McGuire, 1963).

By identifying and distinguishing the ethical and discretionary/philanthropic categories, Carroll clearly explains what McGuire called responsibilities extending beyond the economic and legal responsibilities. Practically, the economic and legal responsibilities are “requested”, the ethical responsibilities are “expected”, and the discretionary/philanthropic ones are “wanted”.

Although the economic and legal responsibilities include ethical norms regarding correctness and justice, ethical responsibilities those activities and practices considered to be forbidden by the society, whereas they are not coded by law. Ethical responsibilities include those standards, norms or expectations which reflect the concern towards what the consumers, employees, shareholders and the community consider to be correct, fair and in compliance with the respect or protection of the moral rights of stakeholders.

In some way, ethics and values come before establishing the laws, because they become the reason itself for creating laws and regulations. For instance, the changes of environment, of civil rights or of consumers reflect the basic modifications of the society values and that is why they have to be regarded as ethical tendencies foreseeing and later on constituting the legislation.

On the other hand, ethical responsibilities can be considered as those responsibilities including the new values and norms that the society expects to be fulfilled by the enterprise, even if such values and norms can reflect higher performance standards than those provided by law.

In this regard, ethical responsibilities are often defined wrongly and they are permanently in a public debate due to their legitimacy and therefore to the frequent difficulties that the enterprise has to face. Besides those demarches related to ethical expectations coming from the groups of enterprises, there are the inferred levels of *ethical performance* imposed by the great ethical principles of moral philosophy. These can include principles, such as: justice, rights and utilitarianism. The ethical changes within the enterprise during the last decade clearly established that ethical responsibility is a legitimate component of corporate responsibility.

The ethical component should be considered in a dynamic interaction with legal responsibilities. In other words, the ethical responsibility permanently makes the legal responsibility to extend and at the same time imposes even higher expectations to businessmen in order to act at an even higher level than the one imposed by the law.

In Table 1 there are synthetically presented some characteristics of ethical and philanthropic responsibilities regarding laws and regulations, obeying ethical and moral norms, the esthetical sense, projects aiming at improving the quality of life.

In essence, ethical responsibilities refer to the corporate voluntary actions to promote and to pursue social goals extending their legal responsibilities. These goals are important for the society and for the different stakeholders in the society, but their promotion and pursue are beyond the immediate financial interest of the corporation.

**Table 1. Ethical components of corporate responsibility**

<b>Ethical (responsibility) components</b>
1. It is important to act consistently according to the expectations of the members of the society and of ethical norms. 2. It is important to admit and to respect the new moral or ethical norms adopted by the society. 3. It is important to prevent that ethical norms be compromised to achieve the corporate goals. 4. It is important that a good corporate behaviour be defined as that behaviour which does what it is moral or ethical. 5. It is important to admit that corporate integrity and ethical behaviour are even beyond laws.

*Source: Carroll A. The Pyramid of CSR in „Corporate Social Responsibility. Readings and cases in a global context” (eds.) (2008), Rutledge, Taylor & Francis Group, London, p.65.*

The importance of these goals for the society can be seen from the presence of an interest to identify them, to measure and report the corporate performance towards them. The best-known and accepted corporate performance measure is the **performance indicator** (KLD Research Analytics). The KLD indicator covers the corporate performance regarding environmental and governmental issues. Furthermore, the indicator also includes measures for controversial commercial issues. The environmental issues include the climate change, products and services, operations and management; the social issues include the community, diversity, relations between employees, human rights and the product; the governing issues include reporting and structure; and finally, the controversial commercial issues include the ways of entertainment for adults, alcohol, fire guns, gambling, military and nuclear power, cigarettes.

### **3. PHILANTHROPIC RESPONSIBILITIES**

The philanthropic responsibilities are the voluntary responsibilities of the enterprise. They reflect the current expectations of the public towards the enterprise.

These volunteering activities are animated only by the desire of the enterprise to involve itself in community activities which are not imposed or requested by law and which generally are not to be expected from an enterprise, in an ethical way.

The public expects that an enterprise should involve in philanthropic actions and thus this category became a part of the social agreement between the enterprise and the society. Such activities can include donations of goods and services, volunteering activity, the involvement of the enterprise or of its employees in the community or of the stakeholders. Philanthropy includes those corporate actions which answer to the society's expectations according to which the enterprises are good corporate citizens. This includes the efficient commitment in actions or programmes of promoting the welfare or the human good will (Table 2).

The distinctive characteristic between the ethical and the philanthropic responsibility is that the expectations for the latter one are not regarded ethically or

morally. Communities want that the companies contribute with money, facilities and time of their employees to humanitarian activities, but they do not consider those companies as non-ethical if they do not offer the above mentioned to the required level. That is why philanthropy is the voluntary part of an enterprise, even if there are always some expectations from the society in this regard.

**Table 2. Philanthropic responsibility components**

<b>Philanthropic (responsibility) components</b>
1. It is important to act according to philanthropic and charitable society expectations.
2. It is important to participate in fine arts.
3. It is important that managers and employees participate voluntarily to charitable activities in the local community.
4. It is important to participate to the activities of public or private education institutions.
5. It is important to participate voluntarily to projects improving the quality of community life.

*Source: Carroll A. The Pyramid of CSR in „Corporate Social Responsibility. Readings and cases in a global context” (eds.) (2008), Routledge, Taylor & Francis Group, London, p.65.*

One reason to make the distinction between the philanthropic responsibility and the ethical one is that some companies feel that they are socially responsible if they are good community citizens, too. This distinction is the most important idea according to which CSR includes the philanthropic contributions, but it is not limited to them. As a matter of fact, one could discuss about the fact that philanthropy is very much desired and cherished, but in fact it is less important than the other three categories of corporate responsibility. A suggestive way of representing graphically the four parts of the definition is the four-component pyramid. The pyramid shows that the whole responsibility of the company is made up of distinct elements forming together a whole, without excluding one another.

Archie Carroll presents the four components of CSR (Carroll, 2008), starting with the economic performances which are the basis of the others. At the same time, the enterprise is expected to obey the law, as the law represents the code of the society regarding the acceptable behaviour or, if any, unacceptable.

Although the components were treated as separate concepts in order to be well explained, they do not exclude one another and do not juxtapose over the economic responsibilities of an enterprise. At the same time, treating the components separately helps the manager notice that the different types of obligations are tightly and dynamically linked. The most powerful connections are of course between the economic and the legal ones, the economic and ethical ones, ethical and philanthropic ones. The traditional supporters could interpret this as a conflict between the company's interest for profit and the company's concern towards society.

The CSR perspective is that the stakeholders recognize these tight relations as organizational realities and focus their attention to the pyramid seen as a whole and to the way in which the company can commit in making decisions, actions and programmes satisfying simultaneously all its components. The Global Reporting

Initiative (GRI) offers an alternative assessment framework of social performance. Besides the economic and environmental indicators, the *Sustainability Reporting Guideline* (Global Reporting Initiative 2006) identifies four categories of social performance indicators: labour and decent labour practices, human rights, responsibility of the society and of the product. Both the KLD index and the GRI sustainability reporting guideline indicate the presence of the society concerns and of the stakeholders' regarding corporate performance related to the social-economic and environment purposes.

As an answer to the rising concerns of the society and of the stakeholders, many companies adopt initiatives and programmes oriented toward the ethical responsibilities of the commercial activity. For instance, Antalis paper the British producer seeks to reduce the negative impact of its operations on the natural environment by adopting a "green" (Printing World, 2005) philosophy. Antalis became "the first paper trader in Great Britain" certified both by the Council of Forest Administration and by the *Programme for the Endorsement of Forest Certification (PEFC)*. Furthermore, Antalis supports the suppliers whose operations meet the environmental standards established by international organizations whose purpose is to improve the environmental performance of the commercial activity.

Another example of a programme oriented to the fulfilment of the ethical responsibility of the commercial activity is *Starbucks* participation on the *fair-trade* coffee market (fair commerce). The coffee is labelled *Fairtrade* when it is certified by *TransFair USA* (Starbucks, 2009), which is an American subsidiary of *Fairtrade Labelling organization (FLO)*. "Within the FLO policies, farmers are offered credit and are ensured a minimum of USD1.26 per ½ kg". *Starbucks* announced that it would "double the purchase of *Fairtrade* labelled coffee to 40 billion of pounds in 2009". The *Starbucks* participation to the *Fairtrade* system dates from April 2000 when they first signed an agreement with *TransFair USA* to sell *Fairtrade* certified coffee in more than 2000 shops starting with the autumn of 2009.

The *Starbucks programme*, similar to the green philosophy of Antalis, is voluntary and its purpose is fulfilling an ethical responsibility of the commercial activity. *Starbucks* is an organisation acting to reduce poverty and promoting the international cooperation. In July 2002, *Starbucks* announce a pilot project in collaboration with a big *Fairtrade* cooperative in Oaxaca, Mexico. The purpose of this project is to increase the existing quantity of high quality coffee, *Fairtrade*<sup>TM</sup> certified coffee, and the chance that the 16,000 participating growers earn premium prices for their crops. Since April 2007, *Starbucks* has been present in Romania, too.

The positive relation of the responsible companies with their clients urges them to grant more energy and resources for responsible programmes. The corporate responsibility initiatives have also a positive impact *in attracting investors*. Corporate philanthropy can appear *when it is justified and relies on an economic reason*. Porter and Kramer (Porter & Kramer, 2002, p. 59) offer some premises for such an argument. The authors claim that a commercial activity can gain a competitive advantage through philanthropic activities, too, when these activities are oriented towards causes where there is a "*convergence of interests*" between the economic earnings and the social benefits.

The companies use philanthropy to increase their competitive advantage through combinations of (external) markets and (internal) orientations of competences. Through market orientation, the companies design their philanthropic activities to match the external demands and to meet the requests of the stakeholders. Therefore, the companies improve their competitive advantage through an “improved marketing, through selling abilities, a greater attractiveness as an employer or better relations with governmental and non-governmental organizations.

Deutsche Lufthansa AG, for example, enhances its relations with the communities in which it works by operating a programme of involvement in the community. Through competence orientation, companies can align their philanthropic activities with their key abilities and competences. By doing this, they avoid being distracted from their basic commercial activities, they enhance the efficiency of their charitable activities and ensure the creation of unique values for beneficiaries (Bruch, 2005).

Strategic philanthropy, defined as “the process by which the contributions are meant to directly serve the interests of commercial activities, at the same time serving the beneficiary organisations”, helps the companies gain a competitive advantage and, in exchange, enhances the main activity. In this case, the corporate philanthropy is used as a means of promoting the company’s interests.

The corporate social responsibility initiatives increase the competitive advantage of a company and come to influence the decisions of the company shareholders in its favour. The company develops a competitive advantage by involving those initiatives which meet the requests demanded by the stakeholders.

In other words, one or more stakeholders *would prefer* the company to its competitors, more precisely due to the company involvement in such responsible initiatives.

#### **4. CONCLUSIONS**

The perceptions of a company concern for the society shows the fact that the company can develop mutual relations suggesting that the company can operate and at the same time meet the expectations of the different groups of stakeholders. Reputation and legitimacy make the company operate efficiently on the market. Responsible activities increase the ability of a company to attract clients. Many consumers are influenced in their purchasing decisions by the reputation of such company. Even some employees express their preference to work for companies which are economically responsible.

The examples presented above show how companies can emphasize the fact that pursuing financial earnings are not in contradiction with the community. Moreover, companies can show that both purposes can be pursued at the same time. As a consequence, companies succeed in transmitting that pursuing financial earnings represents a legitimate purpose which is not fulfilled on the expenses of social care.

**REFERENCES:**

- [1]. **Bruch, H.; Walter, F.** (2005) *The keys to rethinking corporate philanthropy*, MIT Sloan Management Review, p.50
- [2]. **Carroll, A.B.** (1979) *A three dimensional conceptual model of Corporate Social Performance*, Academy of Management Review, 4, pp. 497-505
- [3]. **Grigore, G.** (2008) *The benefits of socially responsible practices*, Annals of the University of Petroșani - Economics, 8(1), 2008, pp. 243-246
- [4]. **Porter, M.E.; Kramer, M.R.** (2002) *The competitive advantage of corporate philanthropy*, Harvard Business Review, 80
- [5]. **Porter, M.E.; Kramer, M.R.** (2006) *Strategy & society: the link between competitive advantage and corporate social responsibility*, Harvard Business Review, 84, pp. 78-92
- [6]. **Prahalad, H.A.** (2002) *Serving the World's Poor, Profitably*, Harvard Business Review, pp.1-14, Cambridge Massachusetts
- [9]. **KLD Research and Analytics, Inc. Socrates ratings indicators** <http://www.kld.com/research/socrates/indicators>, (accessed on December 15, 2009).
- [7]. **Starbucks** (2009) *Transfair USA and Fairtrade labeling organizations*, <http://www.starbucks.com/aboutus> (accessed on 10.01.2010)