SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY FROM BUSINESS ETHICS PERSPECTIVE

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Abstract

Sustainability or sustainable development has become commonplace in the economic literature and become increasingly relevant to the academic literature and widely discussed by numerous of the researchers into social and environmental responsibility or corporate social responsibility (CSR), both from an economic and moral perspective. However, the thorough discussion of CSR under business ethics perspective in a broad view from the international or global context, to the organisational responses, and to individual attitudes does not exist in the current literature. This paper attempts to discover ethical responses to CSR from international organisations, companies, and individuals. Especially, each response is explained by different ethical theory.

Keywords: Corporate Social Responsibility, Business Ethics, Corporate Governance

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Introduction

Although the idea of sustainable development or sustainability has become commonplace in the economic literature, it is worth noting that there is no clear definition of sustainable development or sustainability in the literature. In fact, the meaning or definition of sustainability that has been commonly cited in the literature was stated in the report entitled *Our Common Future* by the World Commission on Environment and Development (1987), that is 'meets the needs of the present without compromising the ability of future generations to meet their own needs' (p.24). This concept of sustainability has become increasingly relevant to the academic literature and widely discussed by many of the researchers into social and environmental responsibility or corporate social responsibility (CSR), both from an economic and moral perspective. This essay discusses sustainability from a business ethics perspective by examining the concept of sustainability on three levels: the international or global context, the organizational context or responses, and individual attitudes.

1. Sustainability in the global context

1.1. Underpinning theory

Economic theory suggests that globalisation associated with increased transnational competition can be a critical element for effective markets because companies pursue competitive strategies on a global basis (Edwards & Rees 2006). This process also has serious effects on business ethical behaviour, both favourable and negative. This section, firstly, outlines theory underpinning the sustainability concept and then discusses business ethical behaviour in a global context in relation to sustainability.

As already mentioned, the concept of sustainability, unfortunately, has not been clearly defined. Nonetheless, the academic literature has converged on a three dimensional definition of sustainability: economic performance, social performance, and environmental performance. Because pursuing success in economic performance is the nature of companies, corporate social responsibility could be a good proxy for discovering business ethics in the international context, organisational responses, and individual attitudes towards sustainability.

In terms of CSR, the academic literature, again, has offered numerous definitions. As discussed in Carroll's 1999 paper, around twenty five definitions of CSR can be found in the literature from the 1950s to 1990s. This work indicates that the CSR definition has evolved from an ambiguous level (which was referred to as social responsibility) to a specific concept (which has been framed by three main theories: stakeholder theory, business ethics theory, and corporate social performance (CSP). More specifically, Gray, Kouhy, and Lavers (1995b) summarize four main themes of CSR existing in the literature, including the natural environment, employees, communities, and customers. Concerning the theoretical framework, it is based on thoroughly examining the CSR practices of the top 100 U.K companies for a period of 13 years from 1979 to 1991. Gray, Kouhy, and Lavers (1995a) conclude that legitimacy theory and stakeholder theory are more appropriate for explaining cases of companies' tendency towards CSR practices.

A number of researchers apply legitimacy theory to explain the reason why companies adopt disclosure practices which are considered as means of satisfying society's expectations. Milne and Pattern (2002) suggest that the additional and positive environmental disclosures of companies served as devices for achieving their organizational legitimacy. Similarly, by interpreting data obtained from interviews with managers of the selected Australian companies about choices of environmental disclosures, O'Donovan (2002) notes that companies adopt a particular disclosure approach so as to become more legitimate. More recently, Deegan and Blomquist (2006) assert that legitimising their activities is likely to induce the nine Australian selected minerals companies to follow the Australian Minerals Industry Code for Environmental Management, given that relevant environmental and social issues were clearly outlined in their environmental reports while WWF-Australia's assessment of those reports showed their were inadequacies in addressing the requirement of the Code.

One the other hand, stewardship theory and stakeholder theory have been also applied to predict and explain the phenomenon of CSR through the lens of business ethics. Based on stewardship theory, Donaldson and Davis (1991) assert that firms' managers are forced to 'do the right thing' regardless its detrimental effects to firms' economic performance, whilst Donaldson and Preston (1995), by thoroughly analysing stakeholder theory, strongly emphasised the moral and ethical dimensions of stakeholder theory, which is widely known as the normative case and opposite to the business case.

1.2. CSR and business ethics

When it comes to the linkages between CSR and business ethics, the normative case advises that companies should assume socially responsibilities since it is morally correct to do so (Branco & Rodrigues 2006). Jones (1995) concludes that the firm whose businesses heavily depends on trust and cooperation between firms and their stakeholders have incentives to behave trustingly, reliably, and cooperatively so as to achieve a competitive advantage over those that do not. Jones and Wicks (1999) analyse in depth stakeholder theory's applications existing in the latent literature and propose a convergent stakeholder theory that integrates both normative and supporting instrumental theory. With reference to Jones' 1995 work, the authors further discuss ethical theories underpinning a moral commitment to trust, trustworthiness, and cooperation in corporate stakeholder relations. Under deontological theory, firms pursue behaving trustingly and reliably because stakeholders should be treated as ends rather than merely as means to firms' ends. Employing virtue theory, firms should behave according to trust standard because trust is a virtue. Applying utilitarian theory, trust and cooperation will facilitate a firm to gain a competitive advantage.

Apart from a theoretical perspective, CSR is also related to ethical and moral issues because of the common belief that companies will perform or desist from activities depending whether those actions are beneficial or harmful to society (Branco & Rodrigues 2006). In addition, it is equally important to acknowledge that companies deliberately take CSR partly because of the link between CSR and corporate financial performance (CFP). Examining a CSP of a sample made up by 469 U.S companies, Waddock and Graves (1997) suggest that companies with available resources may chose to spend those resources on 'doing good by doing well' and those expenses, in turn, lead to improve CSP. The authors also report the positive association between CSP and CFP. More specifically, the findings show that the CSP of a company is positively associated with its return on assets and returns on sales as well, but negatively associated with debt-to-asset ratio. Analysing 524 U.S companies in the same data-setting with Waddock and Graves' 1997 research, McWilliams and Siegel (2000) find the evidence supporting the contention that CSP is positively related to research and development (R&D) investment. Given that R&D has a positive impact on a CFP, the work of McWilliams and Siegel implies the positive association between CSP and CFP. More recently, by analysing a sample of 63 Italian small and medium-sized enterprises, Mariolina, Matteo, and Alessandra (2005) conclude that, in the majority of the cases, enterprises have social responsibility not only because of the moral and ethical reasons for doing so, but also because of maintaining social responsibility contributing to the enterprises' growth thanks to improving the company image, maintaining customer loyalty, and strengthening employee and local community relationships.

1.3. Non-government organisation (NGO) responses to CSR

Currently, there are a variety of guidelines and principles which can serve as vehicles for implementing CSR or assessing CSP. However, because of the constraints of space, this paper does not attempt to discuss all of these, but rather focuses on the two universal voluntary frameworks: the United Nations Global Compact and the Global Reporting Initiatives (GRI) sustainability reporting guidelines.

The United Nations Global Compact that is established for the purpose of promoting responsible corporate citizenship is widely regarded as the most universal set of principles addressing CSR. Its principles are considered as catalysts for translating key corporate social responsibility commitments into organizational vision and mission. According to the Global Impact (2007), there are now around three thousand companies from more than 100 countries as signatories to the Global Compact.

Unlike the Global Compact that mainly provides a practical means for achieving CSR, the GRI provides guidance on how organisations can disclose their sustainability performance. The GRI framework is also considered as the most relevant institution in the sustainability context, given that the increased number of sustainability reporting prepared is based on GRI sustainability reporting guidelines (Moneva, Archel & Correa 2006). Nowadays, nearly one thousand organisations from sixty countries around the world have officially declared their use of GRI sustainability reporting guidelines (The Global Compact & The Global Reporting Initiatives 2007). Basically, GRI guidelines (2006) provide six sets of performance indicators on which reporting preparers base their creation of sustainability reporting. Beyond economic performance indicators, the remaining indicators completely cover an organization's responsibility towards its stakeholders that is reflected in such aspects as society, environment, product responsibility, labour practices and decent work, and human rights. Given this, GRI sustainability reporting is considered synonymous with triple bottom line reporting and CSR.

Given that the Global Compact offers principles for implementing CSR, while the GRI provides a means for assessing CSR progress, those frameworks well complement each other. That could be the reason why the Global Compact and the GRI are now working together and provide shared guidelines for preparing sustainability reporting under the GRI framework as well as for preparing a United Nations Global Compact Communication on Progress (known as COP).

Under business ethics paradigm, the responses of NGOs to CSR can be justified by employing utilitarian theory, which is developed based on an account of Mill (a nineteenth century thinker) in his book entitled *Utilitarianism* (Mill 1806-1873) According to Mill's theory, action is judged to be ethical if it brings the greatest happiness of the greatest number. As was discussed earlier, the literature has documented the association of CSR and CFP. However, it is worth noting that this association is not definitely proved, but rather mixed results are widely acknowledged. Given this, rigid regulations or requirements on CSR do benefit the majority of companies' stakeholders rather than companies' shareholders. In other words, the responses of NGOs fit well into utilitarian theory of business ethics.

2. Sustainability at the organizational level

It could be argued that there are two alternative ways that can be used for assessing organization's responses to the sustainability issue. Organizational responses to sustainability issues can be reflected by an organization's compliance with available sustainability reporting guidelines, for example GRI sustainability reporting guidelines, United Nations Global compact principles, or OECD Guidelines for Multinational Enterprises[44], and so on. On the other hand, the extent to which organizations address sustainability concerns can also be reflected in the organizations' own codes of conduct (and ethics) because it is widely recognised that codes of conduct served as a vehicle to guide organizational behaviour in which moral impacts of business decisions are taken into consideration. As stated by Murphy (1995), the institution of codes of ethics is viewed as a clear signal that companies are committed to ethical practices. Especially, Adams, Tashchian, and Shore (2001) provide empirical evidence proving that employees working in companies where codes of ethics exist tend to behave more ethically than those working in companies that do not have formal codes.

From a theoretical aspect, as mentioned earlier, what CSR exactly means to organisations and how organisations, consequently, bear this responsibility is not easy to absorb. In this context, the contribution of Schouten and Remmé's 2006 paper could be a deserving work. The authors employ theory of sensemaking to make sense of CSR. Based on Weick's account of sensemaking, which can be understood both as obtaining an understating of particular situations by the use of language and as using it as a springboard for actions, the authors clarify several main reasons for having CSR in an organizational context. Firstly, the organization, as a member of society, should share CSR because it has an impact on the community and environment in which its operations are conducted. Further, as profit-making organizations play a significant role in society, they have a responsibility for taking into consideration their role in decision-making processes. Besides, since business organizations are expanded and grown in an interdependent system built up by a number of stakeholders, a moral

[44] The full text of United Nations Global Compact Principles can be assessed at www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html, and that of OECD Guidelines for Multinational Enterprises can be downloaded at www.oecd.org/dataoecd/56/36/1922428.pdf

nature should be thoroughly considered when making decisions.

Turning to stakeholder theory, as was mentioned previously, stakeholder accountability or CSR can be established only when other normatively legitimate stakeholders are clearly recognised rather than merely shareholders (Phillips, Freeman & Wicks 2003). The legitimate reason for that is, as indicated by Collison (2003), company managers naturally assume their enforceable duties to only the shareholders which is equivalently stated in an typical form as 'the business of business is business' (Friedman 1970). Further, different perceptions of sustainability or sustainable development also result in the diverse CSR definitions. Societal actors have defined sustainability as the intersection of the economic, social-equity, and environmental principles, whilst organizations' perceptions of sustainability are primarily about economic priorities (Bansal 2002). Hence, a clear definition of CSR, or making sense of CSR, is needed to achieve CSP.

Regrading voluntary guidelines about CSR, the increase in the number of organizations applying those guidelines has been recorded. For instance, only around seven hundred reporters from 43 countries stuck to GRI guidelines in 2005 (Moneva, Archel & Correa 2006). Impressively, the number of organizations adopting GRI guidelines has rapidly grown; in early 2007, roughly one thousand organizations from sixty countries have adopted GRI guidelines for preparing CSR (The Global Compact & The Global Reporting Initiatives 2007). Besides, organizations also adopt ISO 14001 - the international standard for environment management system to deal with the issues of CSR.

As for the mechanism for supervising CSR, TBL is one of the most common tools used for assessing CSR progress. In essence, TBL is now regarded as a base for sustainability accounting (Lamberton 2005; Moneva, Archel & Correa 2006). In addition to the general concept of TBL, corporations also may self-discipline TBL to their own situation which is perfectly suited to their business goals. In this sense, ShoreBank Enterprise Cascadia's (SBEC) disciplined approach to TBL is noteworthy. With the aim of supporting sustainable practices, SBEC has advanced TBL theory by creating its own metrics methodology that aligns with its business strategy and goals (Gable 2007)[45].

As for codes of ethics (conduct), companies formulating their own codes of ethics (conduct) and polices have been increasing in number since the 1970s, as was well documented in business ethics literature. More recently, Murphy (1995) reports that almost all 253 responding companies in the author's 1992 survey conducted in the U.S setting have a written codes of ethics. Further information about the prevalence of ethics codes from 1980 to 1992 in U.S, European, and Canadian data-settings can be found in Weaver's 1993 paper. As far as ethics codes' content is concerned, the common themes do not only focus on company-specific issues (e.g. creating and maintaining company's value and culture, building trust and confidence within a company, deterring unethical behaviour, and so on), but also on employees' issues (e.g. improving their morale, providing moral guidance to them and regulating their behaviours, expressing their obligations, and so on), as well as on environmental issues (satisfying external stakeholders, building trust and confidence with external group and organizations - suppliers, customers, competitors, and union, and so on) (Weaver 1993). Importantly, the implementation of company's codes makes it possible for people in the company to consider seriously their mission and their obligations to their clients, customers, and society as a whole (George 1999).

Given the increasing trend of organizations adopting voluntary guidelines to CSR and increased willingness of companies to promulgate ethics codes, as well as the relevance and the importance of company's codes to CSR, it can be reasonable to conclude that companies are increasingly responsive to the issues and concerns of CSR.

Based on the comprehensive picture presenting an organization's responses to the issues and concerns of CSR as outlined above, this section arrives at the conclusion as to which ethical theories can be appropriate for explaining responses to CSR from organizations perspective. Apart from theory of sensemaking applied to the reasoning of CSR at organizational level, deontology and utilitarianism are also convincing for explaining organizational responses to CSR.

Applying deontological theory, it can be understood that if a company considers that it belongs to society as a whole, it then must deter or refrain from any activities that harm its whole body. Because the company itself is a component of an interdependent system, it would treat the other components of this system as ends rather than only as means to its own ends. As a result, a company is not allowed to make profits as the expenses of the other society's members. In this case, CSR reporting and codes of ethics (conducts) of the company is properly regarded as substantive management techniques, according to Ashforth and Gibbs (1990), which reflects actual changes in the organizational mechanisms and goals, as well as operational and social activities.

On the other hand, it is also important to note that companies actively respond to, and accept,

[45] According to SBEC's methodology, sustainable development or CSR is measured by three metrics including economic metrics, environmental metrics, and social equity metrics. Because of space constraint of this essay, more detail about SBEC's methodology and its application can be found in Gable's 2007 paper.

CSR could be motivated by their economic performance. The economic literature has documented the association between a company' stakeholder satisfaction, and its increased share value. Ogden and Watson (1999) provide empirical evidence as to the positive relation between customer service satisfaction and shareholder return. Mc Williams and Siegel (2001) suggest that maintaining an appropriate level of CSR, which can be determined based on cost-benefit analysis, will maximise profits. Chatterjee (1998) notes that a good ethical reputation is a company's competitive advantage which leads to attract business opportunities and potential qualified employees as well. Additionally, legitimacy theorists argue that companies may use social and environmental disclosure and other similar techniques, so-called symbolic management techniques, as vehicles for legitimising their activities so that their behaviours seem consistent with society's expectation (Ashforth & Gibbs 1990; Mitchell, Agle & Wood 1997). Legitimacy theory also emphasizes on the potential consequences that companies may suffer if they fail to meet societal expectations, such as the imposition of sanctions from society, the limitation of resources being provided, and the reduction of demand for their products. In this sense, one could argue that utilitarian approach based on balancing the costs and benefits of taking CSR is more appropriate for explaining companies' responses to CSR.

3. Sustainability – individual responses

In terms of individual responses to ethical issues with respect to sustainability, this section mainly discusses the attitudes of managers, investors, employees, and customers towards CSR.

As for the responses of companies' manager to CSR, the literature has documented the two main reasons behind managers' promotion of CSR, either for their own benefits or for the company's benefits. Friedman (1970) argues that the corporate executive may spend the company's money on promoting CSR in his own interest at the expense of company's shareholders. The work of Frye, Nelling and Webb (2006) indicates that socially responsive firms pay their executives higher annual salaries on average than do non-socially responsive firms as a means of retaining highly skilled employees. Given this, one may argue that managers are motivated to promote CSR so as to receive higher compensation. Besides, based on the theory of the firm or strategic perspective which hold that the ultimate objectives of the firm is maximizing its profits by balancing a supply and demand, McWilliams and Siegel (2001) argue that there is a optimal level of CSR investment at which the firm can maximise its profits and simultaneously satisfy stakeholders' demand for CSR.

Research into CSR shows that social responsibility issues, from standpoint of investors and customers, have been greatly taken into account when making investment and purchase decision (DeTienne & Lewis 2005). More specifically, in a national consumer survey conducted in 1996, McCabe (2000) notes that the majority of shoppers avoid purchasing garments that were made in sweatshops. In the same vein, Branco and Rodrigues (2006) state that consumers commonly prefer socially responsive firms to non-socially responsive ones. Epstein and Freedman (1994) reveal that individual investors expect more CSR information than is currently supplied. In addition, Klassen and McLaughlin (1999) confirm that public announcements of environmental awards had a positive influence on the firms' market valuation while environmental crises, for instance, oil-spills, had immediately significant negative impacts on their stock value. Taken together, companies are induced to provide more detailed and attractive CSR reporting.

Concerning employees' attitudes towards CSR, Branco and Rodrigues (2006) argue that firms with a good social reputation may attract better employees and strengthen current employee's motivation, morale, commitment, and loyalty to the firm. This argument can be reasonably supported by the view that employee commitment is contingent on the ethicality of the organization itself (Collier & Esteban 2007). Moreover, Collier and Esteban (2007) emphasise only employees whose values and vision are aligned with those of organization will be committed to the effective delivery of CSR practices.

Considering ethical theories, virtue ethics appears to be the best for explaining individual responses to sustainability, except in the case of managers or executives. Because managers or executives are the agents who act in the interests of the firm, i.e. shareholders, ethical theories applied for explaining their responses to CSR could be in line with those explaining organizational responses to CSR, as was earlier discussed. The encouraging responses of investors, customers, and employees to CSR could be stemming from their own virtues, such as fairness or equality. Accordingly, firms with substantial CSR investment deserve to receive support from its community.

4. Conclusion

There is no doubt that the concept of sustainability and CSR has become increasingly relevant to the economic literature. At the global level, numerous NGOs have promulgated voluntary guidelines for CSR reporting whose motivation properly emanates from a utilitarian perspective. When it comes to an organizational level, it seems that both utilitarian theory and deontological theory can be appropriate for explaining organizations' handling of CSR issues, which depends on the actual motivation of organization behind their responses. At the individual level, the utilitarian approach, not surprisingly, appears logical to explain managers' attitudes towards the issues and concerns of CSR, given that the manager is the agent of the firm or shareholders; while the virtue approach could be more useful for seeking the reasons why investors, customers, and other employees have a favourable attitude towards adoption of CSR. Given the divergent approaches to CSR issues, as a typical example, it is strongly recommended that companies should have practical initiatives on ethical issues in their business environment. The initiatives should balance the global view on business ethics issues, the company-specific factors, and the attitudes of companies' stakeholders towards business ethics issues.

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