

CHALLENGES OF THE CORPORATE SOCIAL RESPONSIBILITY

**Ph.D. Candidate Oana Popa
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania**

Abstract: : The objective of the article is to highlight the limits of social responsibility organizations both by the specialitatae literature and in practice. Collateral opinions on the weaknesses of the CSR are reflected in a series of negative practices examples of international organizations that currently promote CSR policies. The barriers that stay in the way of organisations to implement a CSR strategy are the result of multiple causes. Therefore, the present critical analysis offers solutions to help remove barriers and motivate organizations to increase community interest and to promote sustainable development in their operations.

JEL classification: M14, Q01

Key words: CSR; CSR limits; sustainable development; transparency; code of ethics; social performance;

1. INTRODUCTION

The growing changes that occurred in the business world in recent years, development of international organizations, economic power and impact that they have acquired on society and the environment have contributed to a new consumers conscience and based on stakeholders influence gave way to the emergence of a new concept: corporate social responsibility (CSR).

The contributions made by organizations to the community adopting CSR policies led to different reactions and criticism, not only from literature but also from organizations such as Greenpeace. Beyond the many advantages that CSR can bring to organisations, there may be situations in which CSR can develop an ambiguous role, raising doubts.

The purpose of this article is to provide an overview of the notion of CSR, both in terms of theoretical literature and in practice, based on negative examples that have become internationally famous. The research conducted emphasizes the following aspects:

1. The challenges and the barriers for implementation of CSR, according to the literature
2. Case studies about bad practice concluded with practical solutions necessary for organisations to avoid them

2. CHALLENGES AND ISSUES REGARDING CSR. A LITERATURE REVIEW

Milton Friedman (1970) is one of the authors acknowledged in the literature that strongly criticized the influence and role of social responsibility in organizations. In his book, *The Social Responsibility of Business is to Increase its Profits*, 1970,

Friedman challenges the reform of the social role of business, explaining that organizations have the sole purpose of maximizing profits for shareholders. The author sharply criticizes proponents of social responsibility, accusing them of socialism, pointing out the lack of rigor and analysis in building a doctrine that provides a social aspect of organizations.

Arguing that only managers can take responsibility and their role is to serve the interests of the shareholders direct, Friedman believes that CSR is the safe way of governments to avoid their responsibility in reducing poverty and solving other social problems. He believes that the vision adopted by some managers, that the pursuit of profit is immoral and misleading, is a weakness of the business environment manipulated by the state.

In his book *Capitalism and Freedom*, Friedman (2002) believes that the CSR is a subversive doctrine in a free society, because it endangers the foundations of capitalism, in particular the property and the only responsibility that organizations must use resources to maximize profits, respecting free competition without deception or fraud.

There are many followers of this theory today. Laffer (2005) called CSR to be, in fact, due to irresponsible organizations and managers that worry about social concerns instead of ways to bring wealth to its shareholders. Laffer understand social responsibility as a form of redistribution of wealth due to the increasing pressures of NGOs and international organizations that force managers to allocate specific CSR budgets to avoid scandals.

The research was presented at a conference organized by the Manhattan Institute, Washington in 2005, showed that organizations that invest in CSR strategy do not have higher profits than those using conventional investments. Laffer does not deny the usefulness of environmental protection organizations, despite the reservations that have on their involvement in social responsibility activities.

Another important contribution of the limits of social responsibility is that of Vogel (2005). In his book, *The Market for Virtue: the potential and limits of Corporate Social Responsibility*, the author highlights a number of critics to CSR at both conceptual and practical level. The author shows that CSR be taken too seriously by some more conservative critics, is not given due importance. Vogel (2005) explains the need for CSR, stressing on the fact that the community involvement and policy can not have the same importance with getting profits, because such a decision could contribute to lower stock prices.

There are researchers (Aupperle et al., 1985, McWilliams and Siegel, 2000) who tried to demonstrate, through studies, if there is a link between the financial performance of organisations and their social involvement. Research has pointed out errors of ideological difficulties in measuring the degree of social involvement organizations and various limitations in applying the methodology, including the most common that is the lack of transparency in the organization.

Aupperle et al. (1985) study have shown that there is no direct link between the CSR and profitability and there was no connection recorded between different social orientations correlated with economic performance.

McWilliams and Siegel (2000) have established that the CSR has a neutral impact on the financial performance of organizations. Research authors assumed that the level of CSR that organizations establish depends on the size, the diversity of the

organizations, the research and development, the advertising, the consumer income, the market conditions and the stage of the industry's life cycle.

CSR strategy issues involve a number of elements related to how organizations are able to maintain a balance between environmental benefits and the organization and stakeholders. For example, there are certain issues that CSR involves, which are hard to measure, such as building a better image and attract the best employees.

Andrew W. Markley (2008) has a substantial contribution to CSR limits. Through his work, "The Limits of Corporate Social Responsibility," Markley explains the role and importance of CSR, showing its limits. A first problem assigned CSR strategies concerns the extent to which organizations can maintain a balance between the benefits achieved by an organization, such as a better image or attract performance of employees, and the benefits obtained from involvement in the environment and the dialogue with the stakeholders. The author stresses that there is an obvious difficulty in measuring these benefits.

Newell (2005), in his work entitled *Citizenship, accountability and community: the limits of the CSR agenda*, offers a series of arguments about the conditions under which CSR applies to and who addresses social responsibility policies. Newell believes that the tools to implement social and environmental responsibility, targeting poor communities have questionable effectiveness if organizations operating in extremely poor areas that employ people living at a subsistence level. The lack of effectiveness of national and international standards in the private sector and the lack of confidence in the organization creates an uncertainty framework for CSR policy implementation.

CSR practices can not be applied everywhere in the same way. Conditions vary from one community to another, as in developed countries in Europe or North America in contrast with the ones in Africa; they can not be generalized and require different implementation strategies and tools, folding local realities. Also, Newell (2005) believes that the poor countries are often not considered in the implementation of certain standards, even when they are named as beneficiaries. A motivation in this regard would be that their lack of power make them invisible for social concerns.

Newell (2005) believes that poor countries can easily become victims of irresponsible investment, due to the effects and nature of industrial activities of mining sector. Organization in fields like farm forestry, mining or oil extraction, often perform, activities with strong negative impact on the environment, and may face many barriers in developed countries, establish their strategic objectives in such poor and geographically isolated communities.

CSR policy must be carefully considered, if organizations are willing to demonstrate a serious commitment to the community, compared to how he worked in the past or are about to lose their reputation or investing and doing business in a poor community that has a more permissive laws, cheap labor and abundant resources and whose work has strong environmental and social implications (Newell, 2005).

CSR limits are enforced by other side views, such as Christian Aid, an organization that provides assistance to reduce global poverty. Behind the mask: The Real Face of Corporate Social Responsibility (Christian Aid, 2004) highlights the challenges of CSR, also shown by the literature. Offering a series of examples of organizations that adopt CSR policies to mask the negative impact they have on society and environment, such as British American Tobacco, Shell and Coca-Cola, Christian Aid believes that the solution to overcome the limits of CSR is to develop standards and legislation in this regard. Christian Aid request a greater involvement of the authorities,

governments and the UN, in order to create the necessary framework to develop a true favorable implementation of CSR policy, that is not based on appearance.

3. THE ROLE OF CSR. A CASE STUDY APPROACH

The main limit of social responsibility is the lack of morality which interests behind seemingly made for the community. Beyond the benefits of a policy of CSR well set up for those interested, some organizations may hide a number of unethical actions, even fraud and scams.

Regarded only as a marketing tool that can achieve competitive advantages, the role of CSR becomes questionable in the emergence of financial problems in organizations.

The case studies presented below provide a conclusive picture of the limits of CSR achieved by large organizations, internationally recognized.

3.1. Shell Case Study

Shell is the first large organization that has published a social report in 1998, just three years after the events that led to the shattering of its reputation. In 1995, Shell was accused of complicity in the execution of Ken Saro Wiwa and eight other activists in Nigeria. Since 1958, Shell produced oil in Nigeria and was strongly supported by the Nigerian Government. To prevent movement of environmentalists, at the request of the organization, Nigerian soldiers used deadly powerful attacks and raids in the early 90s, which sparked the interest of several international organizations and recognized attorneys by the Center for Constitutional Rights (CCR) and co-counsel from EarthRights International (eg. Paul Hoffman of Schonbrun, DeSimon, Seplow, Harris & Hoffman) who sued Shell for human rights organization in Nigeria: execution, crimes against humanity, torture, inhuman treatment, arbitrary arrest and detention against Royal Dutch Shell and Brian Anderson, the director responsible for business in Nigeria.

In June 2009, the process ended with the payment of a sum of \$ 15.5milions for the 10 complaints and the establishment of Kiisi Trust, led by independent directors that aims to develop various initiatives for the Ogoni people in areas like education, programs for women, adult training and support small organizations.

Another event that led to the destruction of Shell's reputation especially in Europe was the decision of Shell UK Brent Spar oil tank store in the North Sea. Despite the support provided by the Government of Great Britain appeared strong reactions from Greenpeace, which led to the withdrawal initiative (Greenpace, 2007).

Despite many accusations it was charged for, Shell has a strong CSR policy based on sustainable development. The official site presents sustainability annual reports, indicating its interest in the environment, society, stressing on its responsible and safety operations around the world.

3.2. McDonalds Case Study

McDonalds is the largest chain restaurants in the world, recognized in over 100 countries. Many McDonalds are franchises of the company's headquarters to have independence in terms of food supplies, equipment and other goods.

During more than 60 years, McDonalds has been involved in many lawsuits that have led to partial loss of reputation among some consumers (Reuters).

In 1996, McDonald's was sued by British adult magazine, VIZ, for plagiarism in an advertising campaign. The conflict was resolved in particular, through a grant awarded to a British-philanthropic institution, Comic Relief.

The organization was also accused of offering beef-flavored fries to vegetarian consumers. Although the organisation denied the allegations, McDonald lost the lawsuit which led to payment of \$10 million to vegetarians and religious groups. The organization was involved in other processes related to the ingredients used for its products in the years that followed. Another example of this kind is the inclusion of gluten in the fried potatoes that led to numerous cases of intestinal illness among children. As an answer to this problem, McDonalds published a list of ingredients used in more complex products, and built a CSR policy on matters of nutrition and consumer welfare.

McDonalds organization's ethical issues is not only to dissatisfaction among consumers, but also include negative reactions from the employees and collaborators. In 2001, McDonald's faced a campaign to increase wages, made by a group of farmers in South Florida, Immokalee Workers Coalition. The social program of accounting used by McDonald's farm contains no core labor standards, such as claims increase salaries, support workers, freedom of association and transparency for buyers.

The organization has embraced sometimes inappropriate behavior and advertising by complaints about deception in the campaign to promote "McMatch & Win Monopoly" in Australia. Also, the Advertising Standards Authority showed, in 2003, the disparity between the stages of preparation of fried potatoes promoted in advertisements, and how the actual production was done.

In another case regarding health and safety, known as Liebeck v. McDonald's, an elderly woman sued the organization for having suffered third degree burns because of coffee sold by McDonald's. The organization has faced and processes for marketed products, which are considered unhealthy and lead to obesity and health problems, but these allegations have not found the truth in court. In 2003, Judge Robert Sweet justified that individual choices and excess in food made by some people can not be avoided by justice.

Starting from the harmful effects that eating fast food has on the body, appeared in 2004 documentary "Super Size Me", directed by Morgan Spurlock. The film was based on an unscientific experiment conducted by the director: a system based on thirty-day McDonald's products. The results of the experiment consisted in an increase in weight around 11 kg, body mass increased by 13%, a cholesterol level of 230, increased liver fat, mood swings and accused of sexual dysfunction and weight loss gained from experience it lasted fourteen months.

Currently, McDonald's has a strong policy of CSR presented on the official site, which shows various information concerning the organization, supply chain sustainability, nutrition and welfare, environmental responsibility, employee and community experience.

Despite myriad problems faced by the management organization believes that guidance on achieving best practice, both at restaurants and in the supply chain has positive implications on business growth. In this respect, the organization created the Global Best of Green (2009) and the Global Best of Sustainable Supply (2010), aimed to detect and recognise eth best practices in all of McDonald's business system. The organisation provides social reports with information on their involvement on the most

important markets: Australia, Brazil, Canada, China, France, Germany, Japan, UK and USA, using the GRI platform in social recommendations.

3.3. Enron Case Study

Enron was one of the largest global organizations in the field of electricity, gas and communications, based in Houston, Texas. In 2001, the organization went bankrupt as a result of unethical behavior manifested through corruption and fraud in accounting operations. The implications of the scandal have been recognized internationally and led to the abolition of one of the five largest audit and accounting organizations in the world, Arthur Anderson, and the establishment of Sarbanes Oxley Act in 2002. Bankruptcy organization involved loss of assets worthing around \$63.4 billion, representing the largest damage at the time, being surpassed by WorldCom bankruptcy (Benston; 2003).

Paradoxically, to the great collapse which remains recognized both in the business world as well as academic, Enron had an ethics code based on respect, integrity, communication and excellence.

The situations described above are a common reality in the business world, which raises doubts about the morality of the CSR concept.

Reinforcing the view of other authors who have analyzed CSR, a solution to eliminate suspicion in such cases may be the evaluation of the codes of conduct by independent bodies and implementing specific standards for the environment. The level of implementation of CSR policies by organizations can be achieved much more easily in a democratic state with a heavily industrialized and developed economy (Newell, 2005).

However, the growing power that large, multinational organizations acquired raised concerns about the danger of organisational impact they can have. Thus, behind the small accomplishments for the community in which it operates, or sound policy of social responsibility and sustainable development, some organizations may hide their true interests, to achieve maximization of profits, unscrupulous.

CSR can be used, therefore, as a tool that facilitates distraction from the negative impact that some organizations have, a series of mandatory standards without well developed without a clear definition and implementation of rules without social obligation in absolutely all places in which organizations operate, even in the poorest parts of the world.

4. CONCLUSIONS

Negative publicity created by the various complaints from the stakeholder and made known to the general public, often embodied in the processes or actions and with strong reactions from international organizations, is the main element that leads to destruction of the reputation of organizations. Good practice and an activity based on a code of ethics are currently used instruments for large organizations towards sustainable development.

Transparency and honesty are ways in which organizations can build credibility with stakeholders. However, as highlighted in previous case studies, there are various organizations that hide inappropriate actions that adversely affect communities in which they operate behind an intense policy of social responsibility.

Organizations instead of remedying the problems, to avoid trouble from the various stakeholders and hide them or deny them, get to pay dearly this unethical behavior, in the short term, following processes and in terms of reputation built. Ethical issues faced by organizations range from how they treat their employees, job security, the nature of products produced and the impact they have in the community.

For organizations in Romania, the analysis of the social responsibility of organizations is still at an early stage, but with major development potential, due to socio-economic context. Many social problems offers a new perspective for organizations premises management, so an increase in research in this regard will have significant effects to a greater awareness of the importance of economic practices for business.

Based on theoretical approaches and case studies analyzed above, we propose to extend the research to a practical level, setting out the main barriers and reasons that may encourage the implementation of CSR policies for romanian organisations.

The key to sustainable development and also for organizations to maintain their profits is to implement codes of conduct and compliance, develop a CSR policy and build a sustainable business without covering the problems that might occur in their activity.

REFERENCES

1. Aupperle et all. An Empirical Examination of the relationship between Corporate Social Responsibility and profitability, The Academy of Management Journal, Vol. 28, No. 2, Jun., 1985
2. Benston, G. J. "The Quality of Corporate Financial Statements and Their Auditors Before and After Enron" (PDF). *Policy Analysis* (Washington D.C.: Cato Institute) (497): 12. Archived from the original on 2010-10-17. Retrieved 2010-10-17, November 6, 2003.
3. Friedman, M. Capitalism and Freedom, The University of Chicago Press, Chicago and London, 2002
4. Friedman, M. The Social Responsibility of Business is to Increase its Profits, The New York Times Magazine, 13 Sept., 1970
5. Newell, P. Citizenship, accountability and community: the limits of the CSR agenda, *International Affairs* 81, 3, 2005, p. 541-557
6. McWilliams A., Siegel D. Corporate social responsibility and financial performance: correlation or misspecification? *Strategic Manage, J* 21(5):603-609, 2000
7. Vogel D. The market for virtue: the potential and limits of corporate social responsibility, 2005
<http://www.google.com/books?hl=ro&lr=&id=yXRSpkxxlawC&oi=fnd&pg=PR7&dq=The+market+for+virtue:+the+potential+and+limits+of+corporate+social+responsibility+vogel&ots=x6VxKbolGE&sig=ayCla4ZH8C1Y-J5Gf8B4Gz1-vac#v=onepage&q&f=false>
8. Halpern, D.F. Thought and Knowledge: An Introduction to Critical Thinking, Mahwah, NJ: Lawrence Erlbaum Associates, Publishers, 1996
9. * * *
10. * * *
11. * * *

12. * * * <http://www.nysun.com/business/arthur-laffer-corporate-social-responsibility/7944/>
13. * * * <http://www.reuters.com/finance/stocks/companyProfile?symbol=MC>
D

This work was partially supported by the strategic grant POSDRU/88/1.5/S/49516, Project ID 49516 (2009), co-financed by the European Social Fund- Investing in People, within the Sectoral Operational Programme Human Resources Development 2007-2013.