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REVIEW ARTICLE

Debates on Corporate Social Responsibility are Becoming Similar to the Philanthropy

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Abstract: The author deals with different definitions of Corporate Social Responsibility (*CSR*) and discusses their weaknesses that are obstacles to its broader implementation. The main emphasis is placed on the profit that is in practice still recognized as ultimate corporates' goal, despite numerous authors and scholars, which have serious doubt about it. As far as the income statement is not supplemented by the value-added statement in accounting standards, the principles of *CSR* will not become a part of business world. Until then, all discussions about *CSR* will remain at the level of philanthropy that diminish the role of employees and individuals, which create value added and contribute to social well-being.

Keywords: *Corporate social responsibility, Value added, Value-added law, Stakeholders.*

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Introduction

Understanding and addressing the corporate social responsibility (*CSR*) is one of the conditions for shaping and establishing economic democracy toward a sustainable development. The basic justification for the need for economic democracy is already rooted in the fundamental principles of *CSR*. Today, there is probably no more need to justify the importance and the usefulness of corporate social responsibility paradigm. However, the authors, as well as international institutions, still define *CSR* in different ways [1-5]. These definitions have several shortcomings. They will be discussed below.

Corporate Social Responsibility

The most common definition is [6]: "Corporate social responsibility is the obligation of corporations to make decisions and take actions to contribute to both the firm's interests and the welfare of society." The same author cited also a broader definition, stated by The World Business Council for Sustainable Development (2000): Corporate social responsibility has been defined as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (Vargas-Hernandez, ibidem). Vargas-Hernandez continues: "Corporate social responsibility reflects the firm's relationships to its internal and external environment, meaning to be a good corporate citizen." The above statements are consistent at first glance, but the very following definition contradicts them: "The corporate social responsibility concept implies the reintegration of firms into a social contract that allows the stockholders to make profits while contributing to the well-being of the stakeholders and the society as a whole" (Vargas-Hernandez, ibidem).

Profit-making and contribution to the well-being of stakeholders at the same time is undefined situation with opposite interests. In this way, the notion of social responsibility remains at the abstract level of an idealistic wish and without a base in a real life. Namely, a corporations' contribution to the society can be made only through the creation of the value added and not with their profit orientation. The recommendations like "profit maximization must be balanced with environmental and social objectives" and "the firms that must grasp the interdependence between stakeholders, natural resources, and society" [7], are really just pious desires.

Nevertheless, Boatright claims that "the *ultimate* objective of the firm is not shareholders' wealth maximization but maximization of wealth for the whole society" [8]. The most common recommendation of the authors of corporate responsibility is to improve the information in terms of completeness, transparency and accuracy that should reflect the accountability of companies [2].

The authors mostly find the rationale for CSR that is based on a moral argument, on a rational argument, or on an economic argument [1]. Different authors and research still try to highlight these arguments [3-4-5].

There is a Number of Reasons that Authors use to justify the Socially Responsible Behavior of Corporations. For Example

- Financial performance,
- Opportunity for competitive edge,
- Corporate's reputation and prestige,
- Transparency,
- Stakeholders' trust,
- Ethics,
- Corporate's citizenship,
- Ecological reasons,
- Social reasons, etc.

As a rule, such and similar statements and/or recommendations have (and will have also in future) a relatively small effect, so they lack decisive arguments for a change in behavior and action. Adizes states that critics (for example World Economic Forum in Davos in 2020) of corporate policy that is directed to shareholder's value are not able to make changes that are needed. Therefore, "new eco-political theories of social responsibility will remain on paper because the power structure- the dynamics of the economic system-has not changed" [9].

He even named coronavirus pandemic as a missed opportunity to make strategic changes that humanity needs to survive [10]. Unfortunately, the accounting standards consistently require profit & loss statement (income statement) as a basis information of company's performance. International accounting standards (*I*AS) are a political consensus that aims to provide the world's capital markets with a common language for financial reporting. International Financial Reporting Standards (*IFRSs*) form the basis of accounting in numerous countries. Only *GRI* Standards, which in the context of economic disclosures [11]speak about *created economic value,* represent a milder requirement. Created economic value is namely intended for distribution among employees, equity investors, payments to the state, community investment, and retained value.

However, *GRI* standards remain at the level of recommendations for *additional* disclosures to official accounting standards. It should be clear that all the recommendations and theoretical findings are not enough for decisive changes in defining the basic criteria for business performance. This means that talking today about social responsibility remains still at the level of declarations and recommendations that do not have the decisive force to implement the changes.

This will continue until it is generally accepted that profit is not and cannot be fundamental information about an organization's performance. Further, the recognition of value added as fundamental information of organization's performance is not enough. The value-added law has to be considered.

It means that a proper system of distributing value added among all stakeholders, which bear a risk, should be established. Otherwise, the entropy of all organizational systems will grow uncontrollably because of the value-added law, which says [12].

- Value added is the net outcome of the organizational system in managing the risk inherent to the system and belonging to risk holders in proportion to their contributions to the functioning of the organizational system (*the aspect of creating value added*).
- The disproportionately high or disproportionately low participation of individual risk carriers in the value added (according to their work contribution) increases the entropy of the organizational system and threatens the realization of its sustainable development (*the aspect of value-added guidance*).

The value-added law is *a general law* because of its validation in *all* socio-economic systems (past, present and future ones), which are oriented towards sustainable development and all human associations, including families. *It is valid and operates also for only two people and through the entire human history. The value-added law operates regardless of the wishes or activities of the people and regardless of the normative organization of the organizational system or its environment. It is, therefore, totally independent of the human will.* Of course, the definition of profit or value added is not the only problem in understanding the CSR. According to Cadbury [13-14] corporations must strike a balance between individual and communal goals.

It means also that corporate unethical behavior occurs when the corporation gains *at the expense* of the whole society or other stakeholders. Therefore, the relationship between corporate ethical and social responsiveness to financial performance is highly contestable [6]. It is understandable to recognize the importance of corporate social responsibility, regarding its impact on profitability and market share of companies. Galbreath said: "Business firms are the wealth creators in society" [7].

Therefore, there is less attention given to the individuals within the company (employees), overlooking not only their individual interests and needs, but also the fact that they really create the value added. As a result, there is a slower development of social responsibility in other areas of society, e. g. governmental bodies and administration, associations, communities, and individual citizens.

It should be noted that all the recommendations and theoretical findings are not enough for decisive changes in defining the basic criteria for business performance. This means that talking today about social responsibility remains still at the level of declarations and recommendations that do not have the decisive force to implement the changes. This will continue until it is generally accepted that profit is not and cannot be fundamental information about an organization's performance. Already in 1979, Carroll conceptualized *CSR* as encompassing economic (profit), legal, ethical and philanthropic responsibilities. Carroll and other scholars ultimately suggest that firms have responsibilities to society beyond profit maximization [7]. A modern view suggests that the economic function should be supplemented to include environmental and social dimensions as well [7]. It means that there should be a harmony, a symbiotic and dynamic relationship within economic, environmental, and social dimensions in a corporation. These dimensions represent *"sustainability trias",* which is named the "triple bottom line" in business context. Firms need to consider their environmental and social dimensions to sustain their economic function as well. Unfortunately, it can be argued that the modern *CSR* concept has so far been unable to challenge the entrenched mindset with dominant economic rationalities.

Today, it must be confessed: *CSR* rhetoric is still stronger comparing the reality. Therefore, there is still a potential to improve the reality. But it is not possible to implement the necessary changes without the support of individual countries, which must first implement changes in their operations and thus set an appropriate example. One of these changes is the recognition that the state is also an important stakeholder in companies, due to three aspects:

- The state bears the risk in the operations of companies, as their poorer performance reduces the tax contribution to the state treasury.
- At the same time, the state creates the conditions for the operation of companies and thus contributes to their better functioning and reduction of their own tax risk.
- The state is the most important guardian of the social well-being of all citizens in its broadest sense.

Therefore, the state should not be indifferent to the corporations that do not contribute to social well-being. These are companies that do not create surplus added value, as this lowers the overall level of social well-being. The role of the stakeholder gives the state *the right and the duty* to protect the level of social welfare. Therefore, it can and must intervene in the case of loss-making or negative value added. The state must therefore have the right to demand appropriate explanations from the management and owners of such corporations and the preparation of appropriate rehabilitation programs. This does not mean an implementation of a state capitalism, but the timely cessation of negative effects on the level of social welfare.

Of course, the state should require the same measures from public companies and other organizations owned by it. All this, of course, requires appropriate changes in legislation and a lot of political will. However, only in this way can important steps be taken towards the introduction of social responsibility and contribution to a sustainable future.

Conclusion

It must be acknowledged that changes begin with individuals who can and should also influence public policy. The role of science and education is therefore most important for raising their awareness, so the academic sphere cannot escape its responsibility. Therefore, concerning the value-added law, social responsibility can be defined as *the responsibility of individuals and organizational systems of all forms and levels in the creation and distribution of value added, that is, in increasing the welfare of the whole society.*

An important role of social responsibility is therefore a criterion for appropriate behavior of organizations or individuals. Corporates and business firms are the necessary but not the only mechanism for the wealth creation in society. *CSR* should be addressed accordingly. It means that CSR should not be represented as a set of recommendations and illusions. For example, the idea to distribute a part of corporate's profit to employees is more harmful than useful, because it must be discussion of value-added and not of profit distribution.

Almost the same shortcomings as above, can be found in the stakeholder theory as far as the stakeholders will be taken as beneficiaries of the part of the profit. Such a direction of thinking deteriorates the role of CSR and stakeholder theory to the level of philanthropy, and individual persons to the level of slaves. All the necessary changes will happen, if someone else's problem will be recognized as everybody's problem. And here, we really should be a little bit idealistic.

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