

‘DOING THE RIGHT THING WHEN NO ONE IS LOOKING’¹ CORPORATE GOVERNMENT MECHANISMS AND EMPLOYEE- FOCUSED CSR

Réka Polák-Weldon
University of Pannonia, Hungary
rekapolak@gtk.uni-pannon.hu

Ágnes Balogh
University of Pannonia, Hungary
gigi@almos.vein.hu

Eszter Bogdány
University of Pannonia, Hungary
eszter.bogdany@gtk.uni-pannon.hu

Tibor Csizmadia
University of Pannonia, Hungary
Csizi@gtk.uni-pannon.hu

Abstract:

There was a strong case to develop better understanding of how employees fit into the wider CSR agenda in the Central and Eastern Europe region and especially in Hungary. Employees' growing importance to businesses is self-evident, and as a result corporate policies and actions regarding company responsibility towards employees have been placed under intense scrutiny in recent years. One of the areas of criticism for Hungarian companies within the issue of CSR is that their employee-focused CSR initiatives are weak, often *ad hoc* leading to the lack of strategic focus. There certainly is a wide array of possible reasons to support accusation however in current research we look at only one possible explanation. The lack of strategic CSR focus may partly result from *corporate governance mechanisms* which have their impacts on all areas of operation at all levels within the organisation. Company owners are more concerned with performance targets which results in decreasing CSR expenditures (Coffey & Fryxell, 1991).

Keywords: *employee-focused CSR, strategic CSR, corporate governance, case study method*

¹ Anonymous 2006, cited by Thomas and Nowak, 2006, p. 17.

1. INTRODUCTION

As a result of employees' growing importance to businesses, corporate policies and actions regarding company responsibility towards employees have been placed under intense scrutiny in recent years. Since there is a shortage in researches concentrating on responsible behaviour towards employees the central research question underpinning this paper stems from the desire to develop better understanding of how employees fit into the diverse subject of Corporate Social Responsibility. Several studies have shown that the CSR concept hardly took roots in the CEE (Central and Eastern Europe) countries. As the UNDP (2007) study on CSR puts it: 'Due to the socialist heritage, there is a general perception, both in the business community and the public at large, that social responsibility and social caring is primarily a government role'. Most companies consider their social responsibility to operate in compliance with the legal and regulatory environment. One of the areas of criticism for Hungarian companies within the concept of CSR is that their employee-focused initiatives are generally weak, often *ad hoc* which leads to the lack of strategic focus. This resonates with the traditional, narrow view of concerning the purpose of companies which focuses on short-term profit maximisation. What we would like to find evidence for in our research is that the lack of strategic CSR partly results from divergent corporate governance mechanisms which have their impacts on all areas of company operation at all levels within the organisation. Divergent corporate government mechanisms can originate from the fact that company owners are more concerned with performance targets which results in decreasing CSR expenditures (Coffey & Fryxell, 1991).

2. CORPORATE SOCIAL RESPONSIBILITY

Although there is an – often divergent – abundance of definitions associated with the social responsibility of corporations, the slight ambiguity surrounding the notion allows us to look at corporate social responsibility from various perspectives. First, it can be used to answer some questions about *the role of business in society*. Between the advantages brought out by companies and the harm they cause lies concern about what the proper role corporations within today's society. Second, CSR can also be used as *a method of regulating business activities*.

As far as the social role of businesses is concerned a new definition of the purpose of businesses within society can be defined through CSR. In recent decades businesses have been increasingly viewed as the root causes of many economic, societal and environmental issues which results in a call for an increased role for businesses in social and environmental affairs. Falling legitimacy of companies especially those providing financial services led to disappearing trust and continuous external pressure on companies. The traditional also called narrow view regarding the purpose of an organisation is that 'what is measured is what counts' (Handy 2002). One of the main supporters of this view of profit maximisation or shareholder value expressed by share price as the main purpose of the organisation was Milton Friedman (1970). He claims that only individuals can have responsibilities. A 'corporation is an artificial person ... may have artificial responsibilities' (Friedman 1970). He suggests that pursuing the economic objective should be the main concern for companies and not exercising 'social responsibility'. He also added that social responsibility '...undermine the very foundations of our free society...' The only acceptable reason for engaging in responding to societal concerns is if it is 'motivated by self-interest and for the purpose of promoting the company's interest'. CSR became the answer to growing pressure on organisations resulting from their narrow view of their societal role. Through a much more broad view businesses and the society at large can be brought closer together.

How can the CSR phenomenon be used as a method of regulating business activities? Back in 2001 the European Union defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" which clearly puts an emphasis on companies' self-imposed regulations as far as their social responsibility is concerned. After carrying out a content analysis of existing CSR definitions Dahlsrud (2008) also identified the 'voluntariness' dimension typical of a large number of CSR definitions. Several different expressions were found as synonyms to describe the importance of CSR being self-imposed by companies. These are 'actions not prescribed by law'; 'based on ethical values'; 'beyond legal obligations'. A proof that CSR initiatives and the resulting reporting system companies use are voluntary is that there are numerous guidelines (not standards) available for organisations to verify their social performance. The purpose of these guidelines (Global Reporting Initiative; OECD Guidelines for Multinational Enterprises; UNDP CSR Self-assessment Handbook for companies; UN

Global Compact; Investors in People CSR guidance etc.) is to support companies in their quest to continually assess their social performance and make improvements. The countless CSR awards such as the European CSR Award are also great examples of the fact that the social responsibility of companies is not yet a government or EU regulated field. Clearly, the CSR phenomenon as a self-imposed method of regulating business activities aims at maximising positive impacts and minimising negative impacts or companies on communities.

When the CSR phenomena is understood as a corporate response to societal pressure, the concept can be looked as a voluntary one and they are supposed to go beyond legal compliance.

In business practice, socially responsible corporation behaviour involves making an efficient contribution to the attainment of social goals (Bowen, 1953; Davis, 1960; Frederick, 1960; Carroll, 1999; Pelozo, 2009; Waddock, 2004; Aguinis, Glavas, 2012). There are not many other characteristics of CSR researchers would agree on. Consequently CSR remains highly fragmented and lacks a universal definition (Carroll, 1999; Garriga and Melé, 2004; Van Marrewijk, 2003). As Waddock stated, "Parallel and sometimes confusing universes exist" (2004: 5). There is one fact most of us agree on though and that is the lack of trust in organisations that has been increased especially since the scandals of the early 2000s.

CSR is also regarded as a concept originating from the TBL (Triple Bottom Line) concept defined by Elkington. It basically adds social and environmental considerations to the bottom line of all businesses which is profit maximisation (Elkington, 1998).

What can be stated with certainty about the notion of CSR is that it is a strongly *ethical concept*. Responsibility means that one is 'legally or morally liable for carrying out a duty, for the care of something or somebody' (Angyal, 2009). In case of the social responsibility of companies responsibility is a moral category which suggests that it is appropriate for a company to evaluate their actions morally. This idea can be supported by the fact that organisations are made of people and there has never been a debate whether individuals can be held liable for their actions (Goodpaster & Mathews, 1982). The stem of CSR is 'doing the right things' which are manifested in a wide range of possible policies and initiatives (Zwetsloot, 2003). Argandona and Hoivik (2003) identify four aspects of responsibility:

1. *Responsibility as attribution*
 - a. an action and all its consequences can be attributed to a person on the basis of being 'moral agents'
2. *Responsibility as a duty*
 - a. an action should be looked at as something that might have long lasting negative effects on individuals as well as possessions; *a priori* responsibility
3. *Responsibility as responsiveness*
 - a. the 'moral agent' has sensitivity and willingness to respond to the needs and demands of others
4. *Responsibility as accountability*
 - a. the 'moral agent' accepts and considers carefully the possible consequences of actions; also considering the moral reasons that justify them

Responsibility as a duty, as responsiveness and as accountability presupposes responsibility as attribution, with other words they are the consequences of attribution.

The business case for CSR

The business case for CSR implies that by being engaged in socially responsible activities above regulation organisations will see a suitably significant return to justify their expenditure. It means that a company can perform better financially by contributing to social causes (Kurucz *et al.*, 2008). It is self-understood that CSR must be translated into organisational settings (Argandona & Hoivik, 2009) to demonstrate its utility such as:

- reducing risks
- reducing potential liabilities
- showing due diligence to various stakeholder groups
- achieve organisational goals

In a meta-analysis Orlitzky (2003) and other researchers (Preston, O'Bannon, 1997) as well found evidence that there is a positive relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP). Other researchers claim that the lack of a consistent system of evidence for business case can be proved as well (McWilliams, Siegel, 2001; Hart, 2005). In our view business case for CSR can only be backed by research results if we follow a broad definition of CSR business case. This view suggests that there should be a shift from purely economic and ethical considerations of the business case to a focus on 'other than financial' value creation. These can be related to a wide variety of societal needs such as:

- environmental protection
 - reducing packaging, lowering emissions (e.g. cutting delivery routes), recycling
- support of local communities
 - volunteering, providing consultancy, improving communication, philanthropy
- fair competition
 - regarding the factors of price, quality, service
- stakeholder engagement
 - involving and supporting employees, customers, suppliers and investors.

The real benefit of using the CSR phenomenon as a form of value creation is that it has the power to reconnect businesses and society in a way that ultimately leads to the next wave of global growth (Porter & Kramer, 2011).

Employee-oriented CSR

According to the stakeholder view of CSR employees – among other constituencies – are legitimate stakeholder groups of a firm since to a large extent they both affect and are affected by the actions of the firm (Van Buren, 2005).

Here, employee-focused CSR practices are defined as 'obligations to other constituent groups than stockholders and beyond that prescribed by law or union contract' (Jones, 1980). Internal CSR practices are often directly related to the physical and psychological working environment of employees (Turker, 2009). Internal CSR policies and initiatives provide employees with tangible or intangible benefits over and above what laws or the market mechanisms would allow. Yields on employee-oriented practices are great for both employees and companies (positive impact on overall company performance), manifested mainly in a positive employee attitude and behaviour such as:

- greater commitment
- lower absenteeism
- lower voluntary turnover rate
- higher employee productivity
- higher employee satisfaction
- employee motivation
- closer 'bond' between employees and the organisation.
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There are two significant reasons why employee-focused CSR policies and practices are in the forefront of current research. One is a worldwide phenomenon which suggests that employees have a growing importance to any businesses. The other is a specifically national challenge which is that Hungarian small and medium sized businesses play a major role in the national economy and as a result it is important to find out as much as we can about their employee-related CSR practices. The criticism of companies not devoting enough attention and resources to their employees partly results from *corporate governance mechanisms* which have their impacts on all areas of operation at all levels within the organisation. Company owners are more concerned with performance targets which results in decreasing CSR expenditures (Coffey & Fryxell, 1991).

Strategic employee-centred CSR

Ideally, CSR should be integrated into the corporate strategy which reflects on the one hand the voluntary nature of the CSR phenomenon and on the other hand its multi-stakeholder approach. This latter one enables firms to respond to the changing needs of various societal groups (Werther & Chandler, 2011). Central to firm level strategic orientation of CSR is the commitment of senior management who are able to give the company a strategic direction through for example the mission

statement. In order to place CSR at a strategic level it is essential for company owners and leaders to upkeep an ongoing dialogue with key stakeholders, among which employees are probably the most important ones.

3. CORPORATE GOVERNANCE AND CSR

Corporations are directed and controlled by a system of rules and processes with the aim of finding the right balance between the interests of various stakeholders. It can also be interpreted as a method of creating equilibrium between economic and social goals of a company. Good governance addresses many issues (e.g. creating shared value, providing all necessary information for stakeholders etc.) and it is essential to a high level of social performance. As a result it is inevitable to list what the main principles of corporate governance are. It is also evident that the aims of corporate governance can only be achieved through long-term or sustained commitment. The four principles are all directly related to CSR we can probably say that they are the theoretical cornerstones of social responsibility (Aras & Crowther, 2009). These principles are:

- Transparency
 - freely available information to all constituencies
- accountability
 - recognising the possible consequences of corporate actions
- responsibility
 - a duty towards a wider group of stakeholder to 'do the right thing even if no one is looking'
- fairness
 - all company stakeholders must feel included in what happens with them, around them.

4. METHODOLOGY

As we have discussed it earlier the concept of CSR lacks consistency and remains debated. Expectations about CSR appear different in regions, countries and of course industries. Therefore, investigating individual companies are useful to reveal how the CSR concept is elevated to a strategic level and translated into everyday practice. We chose a case study research because it provides the opportunity to have a deeper understanding of corporate governance mechanisms and their impacts on employee-focused CSR activities. It also allows us to add strength to previous research results revealed through a thorough literary review. The case study research method also allows us to explore the theoretical issue of corporate governance and employee-focused CSR activities in their real-life context (Yin, 1984). We set ourselves the task to reveal some evidence whether the roles of company owners

Case study

Company history

The financial service provider company – established in 1992 – is specialised in providing long-term car lease. In addition to the long-term lease contracts the company offers various financial and other services such as car insurance or regular car service etc. The company employs 53 and today three of the original five owners are still holding their ownership position representing a 67% share. The three original owners have mainly financial and strategic responsibilities. One is the director of sales, one manages the car park and the third one is responsible for the operation. Two new owners entered the company in 1998 and they have accounting and auditing responsibilities. As we can see company owners form the leadership of the company actively forming policies, setting direction.

The owner who is responsible for the operation acts as the managing director of the company. Relying on the expertise of the rest of the top management he sets the strategic direction for the company. He believes that 'it is of utmost importance to continuously work towards organisational efficiency to ensure growth which is impossible without the commitment of top management to a responsible behaviour towards employees based on ethics.'

Based on the findings of our literature review, social responsibility standards and guidelines we carried out a semi-structured interview with the three original owners of the company to see where and how responsibility towards employees appears among owner tasks. **Table 1** shows the results of the semi

structured interview and our suggestions regarding how employee-focused CSR practices could be improved.

Table 1: Interview results regarding employee-focused CSR practices at a medium sized Hungarian financial service provider – Improvement recommendations

CORPORATE GOVERNANCE (specific owner-leader decisions/tasks at a particular company)	IMPROVEMENT RECOMMENDATIONS
<ul style="list-style-type: none"> ■ Mission statement: set by owners who are also leaders based on discussions with lower level management 	-
<ul style="list-style-type: none"> ■ Code of Ethics: it was created in 2008 but have not been revised since then 	<p><i>A revision is due; check whether employees are aware of the contents of the Code of Ethics.</i></p>
<ul style="list-style-type: none"> ■ Non-Financial Reporting: every two years the company publishes a Sustainability Report online 	-
<ul style="list-style-type: none"> ■ Corporate Social Responsibility (fair and equal treatment of employees) <ul style="list-style-type: none"> ■ Employment <ul style="list-style-type: none"> ■ the <i>reward system</i> including non-wage compensation (e.g. Cafeteria) is continuously reviewed and improved in order to stay competitive; it is also linked to employee performance (regular performance assessment) ■ <i>flexible working arrangements</i> such as work from home, part-time jobs, are available for a limited group of employees (e.g. new mums); the leaders intend to <i>moral reward</i> is granted to those exceptional employees who have done something ethically remarkable; there is an employee appreciation award each year ■ Employee-management relationship <ul style="list-style-type: none"> ■ communication is <i>asymmetrical</i>: top-management have ‘a paternalist attitude towards employees’ in terms of what CSR related initiatives are available. ■ <i>continuous flow of two-way information</i>: employee feedback through many channels (Intranet: weekly newsletters; open-door policy; meetings with employees) ■ communicating change and involving employees in change: employees are not involved in the planning phase of organisational change; ■ Employee training and development <ul style="list-style-type: none"> ■ creating awareness of issues influencing employees’ lives in the fields of health prevention, environmental consciousness, effective communication with colleagues etc. ■ supporting employees’ training and development tangibly and morally in areas not directly beneficial to the company financially (e.g. language courses) ■ conscious career management planning methods are not in place; choices are ad hoc and follow the current need of certain areas within the organisation instead of focusing on individuals ■ Health and Wellbeing <ul style="list-style-type: none"> ■ creating healthy and attractive <i>working environment</i> by taking preventative measures: ergonomic furniture, offering free fruit, inside gym ■ Supporting Work-Life Balance ■ Volunteering: <i>ad hoc</i> ■ Workplace inclusion <ul style="list-style-type: none"> ■ providing equal treatment starting from recruitment: no recorded case of unequal treatment ■ treating employees with respect and supporting them regardless of age, gender or ethnic background: no recorded case of disrespectful treatment ■ integration of new entries: mentoring, induction ■ providing internship opportunities 	<p><i>The extent of flexible working arrangements should be extended, reduced overtime, job-sharing, outplacement.</i></p> <p><i>Employees should be involved in determining for example the list of fringe benefits.</i></p> <p><i>If the company manages to involve employees from an early stage of a planned change process.</i></p> <p><i>Career management tools should be extended to lower management levels as well. Organisational and individual interests should be matched in the long run.</i></p> <p><i>Creating and regularly revising a Health Plan for Employees. Making an eco-map of all offices, Child-friendly policies.</i></p> <p><i>Creating and regularly revising an Equal Opportunities Plan and processes to regulate how to handle possible situations of inequality or disrespect. Re-integration of returning employees.</i></p>

5. CONCLUSIONS

We began our article by claiming that companies of all sizes and activities are under intense pressure to act socially responsible towards all of their presumed stakeholders. Current research focuses on employees as salient stakeholders. It means that employees are among the legitimate stakeholder groups of a firm since – to a large extent – they both affect and are affected by the actions of the firm. Several researches claim that despite the growing pressure companies do not invest enough energy and resources into social responsibility practices in the CEE region in Europe. By carrying out a semi-structured interview with three of the owners of a Hungarian medium-sized company we intended to make a list of employee-centered CSR practices so we can argue for or against earlier research claims. It could also be supported that employee-centred CSR and ethical business conduct partly belong to strategic level but the owners themselves felt that ethical company behaviour should play an even more important role in strategy formation.

We found evidence that the company we interviewed does have many ethical considerations at strategic level. In all areas of socially responsible business conduct the company shows initiatives and practices. They introduced a performance based reward system and some colleagues can work in flexible arrangements. What really needs to be improved is the active engagement of employees when creating benefit packages for employees.

Communication between employees and the management is asymmetrical because – as we explained it above – the management fails to involve employees in many decision-making and some of the planned change processes in which employees could be and should be involved. Although there is an active two-way communication regarding information provision for employees via Intranet or other more traditional forms of internal communication. There are no career management programs as such instead some *ad hoc* decisions are made without any particular strategic intention. In order to improve in that area a well-based career management plan should be put in place that matches the needs of the organisation and individuals.

Despite the fact that there are some practices aiming at improved health and general wellbeing for employees it also lacks strategic aspect. By creating and regularly revising a Health Plan for Employees health and wellbeing could be elevated to strategic level. Employee volunteering is useful for so many reasons for everyone being involved but it only adds value to the company and its stakeholders if it relates to the core activities of the organisation.

In regards to workplace inclusion there are no reported cases of any unfair or unequal treatment of vulnerable employees. Still in order to spread the firm's stand on the importance of fairness, equality and inclusion it would be advisable to create and regularly revise an Equal Opportunities Plan. All in all it is fair to say that by improving and aligning corporate governance mechanisms and strengthening strategic focus of ethical corporate behaviour and social responsibility the *ad hoc* nature of employee-focused CSR practices could be changed and brought to the main focus of business.

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