

PROFIT MAXIMIZATION, SOCIAL WELFARE AND CREATING OPPORTUNITIES FOR CORPORATE SOCIAL RESPONSIBILITY IN SLOVAKIA

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Abstract:

The efficiency argument for profit maximization says that corporations and their managers should maximize profits because this is the course of action that will lead to an 'economically efficient' or 'welfare maximizing' outcome (see e.g. Jensen 2001, 2002). However, economic activity unilaterally focused on maximizing profits for the owners respectively a disproportionate distribution of constructed value among the participants of its creation caused in the economy and society conditions of imbalance and social inequality. Income inequalities result in inequalities in consumption and retroactively rise the pressure on the economic sphere in the form of insufficient demand. Strong unilateral focus on profit maximization and maximization of market value for owners neglects thorough identification of all entities involved in the formation of values in the company and follows their interests in the process of distribution of constructed values is contrary to the idea of corporate social responsibility and causes of socio-economic inequality.

Keywords: social welfare, social responsibility, sustainable development profit maximizing

1. INTRODUCTION

Nowadays, it appears that it is necessary in wide level to focus on philosophy with the orientation on the sustainability of economic growth, which necessarily requires new trends in corporate governance. Focus on profit maximization disregarding questions thorough identification of all entities involved in the formation of values and monitoring their interests is in contrast with the idea of corporate social responsibility and causes the socioeconomic inequalities in the society.

2. THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

Pre-industrial society was characterized by inequality in the origin i.e. the inequality of wealth and income. The onset of industrialization has unleashed human dependence on its origin and draws it to reach success in the process of work, production and trade. It has created a strong asymmetry of power between the capital and labour.

Social inequality was an expression for unequal access to resources, where minority controlled the means of production and the majority only their workforce, which resulted in a conflict of classes. For culprit of social inequalities have been denoted private property rights (Šnircová, 2014).

Post-industrial society caused by a fundamental transformation of the global economy, particularly by the phenomenon of globalization. It has also brought new concepts of equality respectively inequality in society. Sharp contrast of the globalization of economic and state structures is individualization of destiny of a man. Individuals are pulled out of the classes bonds; thereby they lost the support of their traditional social networks. This creates sort of capitalism without classes with individualized social inequalities (Mareš, 1999).

At the present, excessive focus on maximizing profits and economic aspects of development, whether at the level of individual or national companies or the global economy, caused stated socio-economic inequalities. It has hit its limits and has proven to be unsustainable, what has led in recent years to the obvious global economic crisis, which only confirmed the devastating impact on the economy and society and immense need for orientation to the questions thorough identification of all entities involved in the formation of values in the transformation process of the company and monitoring their interests in the process of distribution generated values (Šnircová, 2014).

Although value maximization is a normative requirement, it is not necessarily the principle that managers should use to guide and justify their decisions. For example, communicating with and motivating employees, suppliers and partners is a difficult task that requires paying attention to the sensitivity of the various parties. Since people are often moved by ideas of reciprocity and good personal relations, it turns out that 'if we tell all participants in an organization that its sole purpose is to maximize value, we would not get maximum value for the organization' (Jensen 2002: p. 245).

In many cases, then it would be most profitable for managers to adopt the strategy and language of a managerial theory such as stakeholder theory. In these cases, value maximization would require that managers think and act as stakeholder that theorists recommend, since this is the course of conduct that will, in fact, lead to the highest profits. Jensen refers to this as 'enlightened value maximization' (Jensen 2002: p. 245–246).

A central question to rise is why value maximization? Why the company focuses only on maximizing profit and not on its role in society being aware of the connection between its profitability, ethical and environmental standards of the company in the long term?

Corporate social responsibility brings a new perspective to the societal role of enterprise, while recognizing the relationship between profitability, ethical and environmental standards of the company. The position of companies in society is a subject of constant change.

People today do not perceive the company only as producers or suppliers of the products that reach only for maximizing profits, but they assume that the company will meet the requirements of the other areas as well, such as the legal environment and that it will support development of other activities beneficial for the society.

Promoting the corporate social responsibility principles will improve the relationship between businesses, public authorities and companies, non-governmental organizations, as well as representatives of citizens and the citizens themselves. This is reflected in the cooperation with the government and non-governmental organizations, where this effect does not depend on the authority of the relationships on the market.

There is a certain principle of solidarity based on shared interests and values (the existence of cross-sector partnerships). It leads to engagement in public policy, and to shared management and implementation of projects in the society.

The concept of social responsibility means thus accepting responsibility of enterprise for all of its economic, legal and ethical activities. Corporate social responsibility expresses a complex (economic, legal and ethical) responsibility of a particular enterprise for its actions that will affect all of its stakeholders but other people as well. Enterprise cannot completely predict all the consequences of their acts, because it always operates in an environment of limited information sources. Program of social responsibility does not require impossible things from businesses, but it calls to consider the consequences of their actions on the basis of current technology, science, humanities and knowledge relevant to a given procedure.

Through corporate social responsibility, businesses reaffirm their principles and values, both in their processes and operations and in their interaction with other social actors. Corporate social responsibility is generally voluntary in nature and refers to activities that exceed a mere compliance with the law. The social and environmental responsibilities of enterprises may reflect the changing expectations of society. For example, what enterprises consider convenient practices today may become indispensable ones tomorrow.

In addition, it is expected that different social actors interested in the activities of a certain enterprise will prioritize different social and environmental demands, which may contradict or compete with one another at times. (Babalola, Yisau Abiodun 2012)

From a welfare point of view, promoting corporate social responsibility can be an alternative or complementary way for regulation to confront market failures. Regulation is costly; it has limitations originating from asymmetric information and political constraints. It also has a limited impact over global public goods (global warming, Amazon deforestation, biodiversity loss, or child labour). Corporate social responsibility can reach where national regulations fall short and have a great impact on our wellbeing. (Ganuza, 2012)

Since there is a great heterogeneity of theories and approaches of corporate social responsibility, in the following picture, there is a brief summary of theories and related approaches to discussion of the corporate social responsibility.

Table 1: Corporate Social Responsibilities Theories and Related Approaches

Types of Theory	Approaches	Short Description
Instrumental theories (focusing on achieving economic objectives through social activities)	Maximization of shareholder value	Long term value of maximization Social investment in a competitive context
	Strategies for competitive advantage	Firm's view on natural resources and its dynamic capabilities
	Cause-related marketing	Altruistic activities socially recognized as marketing tool
Political theories (focusing on a responsible use of business power in the political arena)	Corporate constitutionalism	Social responsibilities of businesses arise from the social power the firms have
	Integrative social contract	Assumes that a social contract between business and society exists
	Corporate citizenship	The firm is understood as being like a citizen with certain involvement in the community
Integrative theories	Management issues	Corporate response to social and political issues
	Public responsibility	Law and the existing public policy process are taken as a reference for social performance
	Stakeholder management	Balances the interests of firm's stakeholders
	Corporate social performance	Searches for social legitimacy and processes to give appropriate responses to social issues
Ethical theories (focusing on the right thing to achieve a good society)	Stakeholder normative theory	Consider fiduciary duties towards stakeholders of the firm.
	Universal rights Sustainable development	This requires some moral theories Based on human rights, labour rights and respect for environment Aimed at achieving human development considering present and future generation
	The common good	Oriented towards the common good of society

Source: Babalola, Yisau Abiodun (2012) The Impact of Corporate Social Responsibility on Firms' Profitability in Nigeria In *European Journal of Economics, Finance and Administrative Sciences*, Issue 45, Retrieved from <http://www.eurojournals.com/EJEFAS.htm>

3. CORPORATE SOCIAL RESPONSIBILITY DEVELOPED IN SLOVAKIA

The idea of corporate social responsibility began to spread to the Slovakia and Czech Republic, along with the arrival of multinational corporations in the nineties of the 20th century. In 1992, in the former Czechoslovakia an Association of Business Leaders Forum was established. Since 1993, its responsibility was restricted only to the Czech Republic and currently brings together representatives of Czech and International industry, and other major institutions. Its aim is to be a role model and a guarantor of socially responsible management, and helps to create partnerships between businesses, governments, schools and local communities in order to achieve improvement in the social and economic environment.

In Slovakia, several non-governmental organizations were dedicated for building awareness of socially responsible business since the mid-nineties. The most important of them are the Centre for Philanthropy, PANTEM, Integra Foundation, Pontis Foundation and the Institute for Economic and Social Reforms (INEKO). Each of these organizations is confined to a particular topic, which falls under the broad notion of corporate social responsibility (Bussard, A., Marček E., Markuš, M., Bunčák M., 2005).

In 2001 the Business Alliance of Slovakia (PAS) was established, which is a professional membership association of entrepreneurs and employers based on ethical principles, openness and principles of solidarity and legality. Its main objective is the improvement of formal and informal rules of the business environment in the Slovak Republic in the context of overall social development.

In 2004, the Pontis Foundation initiated the creation of an informal association Business Leaders Forum, which brings together companies subscribing to the principles of corporate social responsibility in Slovakia. Its aim is to motivate and inspire companies operating in Slovakia to social responsibility by raising awareness and providing the necessary know-how.

By PAS corporate social responsibility reflects a comprehensive liability which concerns three spheres: In the economic sphere the responsible business is represented by analysing and process improvements, by which businesses contribute to the development of the economic environment and try to minimize any negative activity in this area. In the economic area, from the company is expects transparent business and creation of positive relationships with investors, customers and business partners. Monitor the impact of the economy on local, national and global level, for example through the development of employment and fight against corruption.

The environmental sector represents responsible business by monitoring and eliminating the negative impacts of the organization on the environment. Efforts of company that tries to minimize the negative impact on the environment can bring new business opportunities. Enterprise, which is active in the environmental field, has opportunity to apply for tenders of large corporations and public administration or get clients from the environmentally aware consumers.

A Green way of doing business also brings savings. Careful use of energy, pollution prevention, waste minimization and recycling can deliver enterprise streamline operations, significant reduction of costs and benefits.

In the social sphere, corporate responsibility manifests by monitoring and minimizing the negative impacts of activities on a social system in which it operates. It represents a particular care for the health and safety of employees, compliance with labour standards, human capital development, recruitment of minorities and vulnerable groups, sponsorship, corporate philanthropy and volunteering, employment policy, protection and respect for human rights and work-life balance (balancing personal and working lives of employees).

Corporate social responsibility is a concept that pushes the country towards a sustainable development, and is linking its economic development with social inclusion, environmental capacity and institutional quality. More recently, it is getting more and more attention not only from individual companies, but also from the entire countries, and it is becoming a strategic priority for many governments.

Evaluation of corporate social responsibility, not only at the firm level, but also at the level of whole country is in advanced economies an integral part of the evaluation of the success of socio-economic development. The various aspects of corporate social responsibility are communicated not only with experts, but become a subject of interest of the whole society. Mastering all the principles of corporate social responsibility by citizens of the country is seen as a crucial starting point, which will increase the growth of quality of life.

Evaluation of creating the conditions for CSR and achieved level of CSR in Slovakia has been carried out in 2010 for the first time.

At the present time it is an essential starting point in the evaluation process of achieved level of individual areas of CSR, efforts to obtain an objective view on the current state of CSR in Slovakia, in

particular, whether there is a positive qualitative shift, respectively whether and to what extent the conditions are created so that that qualitative shifts might occur.

In accordance to the manual for monitoring and evaluating of CSR there is a baseline created by the administration and implementation of policies, which assesses in particular the creation of institutional conditions for corporate social responsibility and sustainable development. There were evaluated basic parameters that frame the institutional conditions of socially responsible business, not only in terms of their achieved current level but also in terms of their shifts in the recent period. Picture 2 shows an overview of the various indicators and their results in what extent the CSR becomes an integral part of the decision-making processes to ensure the economic prosperity of Slovakia at the level of national economy.

Table 2: Slovakia's success in creating opportunities for corporate social responsibility in 2014

Implementing policies	Existence of published national strategy for sustainable development and strategy for CSR The existence of a designated government department or other governmental authority responsible leadership in CSR issues The existence of specific legislation to support the widespread adoption of best practices in CSR Percentage of green procurement as part of the overall public sector procurement	17 out of 25
Involvement, participation and communication of interested parties	The percentage of active members of the UN Global Compact and other networks Percentage of business associations which have introduced sectorial activities and / or instruments relating to CSR Percentage of companies that conduct regular structured reporting of information relating to CSR / sustainable development (the first 100 by reference to turnover)	10 out of 15
Civil society	Percentage of higher education institutions offering specific programs and / or courses in CSR / sustainable development and / or ethics Number of references of the concept of CSR in the public media per year	10 out of 15
Environment	Percentage of listed companies using environmental management systems Greenhouse gas emissions and use of renewable energy Total expenditure for the protection of the environment	9 out of 15
Working conditions	Percentage of listed companies using management control systems work Percentage of employees who are covered by collective bargaining agreements Gender equality in business and government Fatalities per 100,000 workers	10,5 out of 15
Transparency and business environment	The level of corruption (according to Transparency International) The existence of activities in the field of socially responsible investment at country level	3 out of 15

Source: Fifeková, E., Karabínoš, S., Lábaj M., (2014) Úspešnosť Slovenska vo vytváraní podmienok pre spoločensky zodpovedné podnikanie, Retrieved from <http://www.employment.gov.sk/files/slovensky/ministerstvo/spolocenska-zodpovednost/sprava-o-vytvarani-pomienok-pre-szp-na-slovensku.pdf>

Despite the well-recognized institutional framework which has created conditions for corporate social responsibility (Constitution of the SR, Government Program Declaration and other legislative norms) cannot be the current period evaluated as the period during which were the basic social and

environmental parameters of corporate social responsibility equivalent to economic parameters of sustainable development.

CSR and sustainable development are often perceived as the only option for a particular course of conduct and not as a rule of conduct. CSR is seen more as an extension to ensure the economic goals and not as a part of them. This has the consequence that the realization of objectives of the CSR is reassessed from the point of development of public finances, and evaluates the potential economic impacts of the development of different areas of CSR, which may result in and generally also leads to postponement of strategic priorities for CSR.

Therefore, the principal point in the process of forming a socially responsible company in the Slovak Republic shall be:

- raise of the awareness of all citizens of CSR,
- create an agenda of CSR, which will be in charge of independent institution with its own competences,
- removing sectorial approach to the implementation of CSR principles,
- incorporate various matters of CSR and sustainable development in the educational process whereas it is important that the issue of CSR and sustainable development was in a suitable form introduced already in pre-primary education,
- introducing objects which content is the issue of CSR and sustainable development into educational curricula for different levels of education,
- incorporation of sustainable development and CSR issues in all subjects - the issue of sustainable development and CSR should gradually become an integral part of all subjects,
- encourage businesses to participate in the UNO Global Compact and other networks supporting CSR,
- increase public awareness of sustainable development and CSR through the media,
- periodically review progress on CSR at both levels, the national economy and the individual private companies,
- encourage companies to use environmental management systems (ISO 14001, EMAS and others)
- promote the use of renewable sources in electricity,
- increase spending on environmental protection,
- start a forum of socially responsible investors.

Therefore, without improvements in the creation of CSR in Slovakia, the true sense of concept of CSR cannot be achieved and thus shift of the perception of the owners of companies from the objective of the profit maximization to objective of a sustainable and stable growth of the company, which takes into account environmental and social aspects of business and thereby contribute the growth of the overall social welfare.

4. CONCLUSION

Promoting corporate responsibility can be called as a struggle between the profit maximization of business and aspects of the social and environmental responsibility. It is understood that for the entrepreneurs a priority is the profit maximisation, otherwise they would lose their intrinsic motivation, but responsible business represents an equal footing and coordination of all mentioned attributes in business.

This contribution offers a new perspective. We did not dispute the legitimate requirement that the business activities bring in a profit but the new paradigm of thinking with the orientation on sustainable economic growth requires finding answers to questions about the terms of generating profit in the company and its manner of division between the parties of his creation as well as to find ways how governments could positively influenced the creation of social responsible corporations and thus increase the social welfare.

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